DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	AA-
Short-Term IDR	F1+
Support Rating	5
Support Rating Floor	NF
Derivative Counterparty Rating	AA-(dcr)
Long-Term Deposit Rating	AA-
Short-Term Deposit Rating	F1+

Sovereign Risk

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

Outlooks

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

Financial Data

DZ BANK AG Deutsche Zentral-Genossenschaftsbank

	2018	2017
Total assets (USDbn)	594	606
Total assets (EURbn)	519	506
Total equity (EURbn)	20.9	20.7
Pre-tax profit (EURm)	1,370	1,810
Operating profit/RWA (%)	1.3	1.5
Operating ROAA (%)	0.3	0.4
Return on equity (%)	4.4	5.4
CET1 ratio (%)	13.7	14.0
NPL ratio (%)	2.4	3.2
NPL coverage ratio (%)	53	50
Loan/deposit ratio (%)	132	138

Source: Fitch Ratings, Fitch Solutions

This report supplements the Full Rating Report on Genossenschaftliche FinanzGruppe published in March 2019 and available at www.fitchratings.com

Related Research

Genossenschaftliche FinanzGruppe (March 2019)

Genossenschaftliche FinanzGruppe – Ratings Navigator (February 2019)

Analysts

Patrick Rioual
+49 69 768 076 123
patrick.rioual@fitchratings.com

Marco Diamantini
+49 69 768 076 114
marco.diamantini@fitchratings.com

Key Rating Drivers

Mutual Support Underpins Ratings: The Issuer Default Ratings (IDRs) of DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) and its banking subsidiaries are aligned with those of the German cooperative banking network (Genossenschaftliche FinanzGruppe, GFG; AA−/Stable/aa−), based on their membership in GFG's mutual support scheme. Fitch Ratings applies GFG's IDRs, which reflect the group's financial strength, to all members of the scheme, based on the agency's approach to rating banking groups backed by mutual support.

GFG's Central Institution: DZ BANK provides GFG's about 900 local cooperative banks with liquidity pooling, 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 does not have any statutory authority over the local banks, unlike central bodies at other European mutual banking groups.

Diversified, Resilient Profits: Pre-tax profits towards the lower end of management's EUR1.5-EUR2.0 billion target range appear attainable in the medium term. This is despite persistent erosion of net interest income (NII) and likely upward normalisation of loan impairment charges (LICs) amid the weakening economic outlook. DZ BANK's 2018 profit suffered from losses at two subsidiaries undergoing restructuring. However, the bank remains one of the most resilient and profitable large German banks, helped by solid insurance and asset management revenue.

Clean Domestic Portfolio: DZ BANK's asset quality has improved to a solid level in recent years owing to the strong German economy. Its sizeable retail banking assets adequately mitigate its troubled shipping loan book in wind-down and its large, inherently cyclical commercial real estate (CRE) loan book. DZ BANK has reduced its exposure to asset-backed securities (ABS) and eurozone's periphery bonds by around 80% over the last decade.

Shipping Loans Wind-Down: DZ BANK's shipping lender DVB BANK has generated the vast majority of GFG's LICs in recent years. Since 4Q18, DZ BANK has progressed with the sale of DVB BANK's profitable assets and the orderly wind-down of its non-performing shipping loans. The unwinding of DVB BANK, a non-core business for GFG, will improve and better align DZ BANK's risk profile with the local banks' strategic focus on low-risk domestic retail banking.

Adequate Capitalisation: DZ BANK's capitalisation is in line with large European peers and offers sufficient flexibility above its Pillar 2 regulatory requirements owing to its resilient profits and low dividend pay-outs in recent years. Reliable and timely access to GFG's large excess capital shields DZ BANK's capitalisation from severe market dislocations or regulatory inflation.

Stable and Diversified Funding: DZ BANK has a large deposit base, including at its retail banking subsidiaries. It has well-established and diversified access to the international capital markets, notably as the largest German covered bond issuer and as a frequent issuer of fairly granular unsecured notes to institutional investors. As GFG's central pooling institution, DZ BANK also has privileged access to the local banks' large and stable excess retail deposits.

Rating Sensitivities

GFG's Viability Rating (VR): In line with GFG, DZ BANK's IDRs are primarily vulnerable to a weakening of the German economy, earnings erosion at the local banks from low interest rates or unexpected regulatory changes undermining GFG's cohesion. An upgrade is currently unlikely as it would require reduced interest-rate sensitivity and better cost efficiency at the local banks, and further significant streamlining of GFG's structure.

Operating Environment

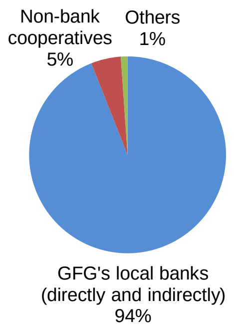
German Banks' Profitability under Pressure as Economic Outlook Worsens

Germany's GDP growth decelerated sharply in 3Q18 and fell to 1.4% in 2018, the weakest growth rate since 2013. Fitch forecasts a further deceleration to 0.9% in 2019, mainly due to cooling world trade and uncertainty – in particular for German manufacturers – around future trading arrangements with the UK, potential US tariffs on cars and weak Chinese growth.

However, Germany's record low unemployment rate, nominal wage growth and solid consumer confidence underpinned by sound domestic fundamentals, continue to fuel vigorous demand for loans from SME corporates. Demand for housing loans has been particularly buoyant over the last decade, strongly inflating house prices in large cities. The resulting risk of late-cycle imbalances has prompted the German authorities to activate the counter-cyclical capital buffer for domestic exposures in mid-2020, although to a low level of 25bp.

German banks' funding, liquidity and capitalisation are sound, and the sector's non-performing loan (NPL) ratio of less than 2% is one of the lowest in the eurozone. However, intense competition, low interest rates and slow progress in reviving revenue generation and addressing high cost bases are depressing banks' profits ahead of the next cyclical downturn.

DZ BANK's Shareholders



Source: Fitch Ratings, DZ BANK

Company Profile

GFG's Central Institution and One of the Largest German Universal Banks

As GFG's central institution, DZ BANK provides the local banks with liquidity management and comprehensive services such as transaction banking. DZ BANK is also a diversified universal bank in its own right and the second-largest German commercial banking group by assets. It offers a wide range of retail and corporate banking products, primarily to the cooperative banks' domestic clients. We do not assign a VR to DZ BANK as its strong integration within GFG and its reliance on the group for new business generation prevent a meaningful stand-alone analysis. The bank's specialised subsidiaries have leading market positions in various domestic retail segments. However, they largely rely on the local banks' client base and sales network.

DZ BANK's Main Operating Entities

At end-2018	Main activities	DZ BANK's stake (%)
DZ BANK AG (parent bank)	Central bank functions for GFG's local banks; DZ BANK Group's holding functions; capital market, corporate and SME banking	n.a.
Bausparkasse Schwaebisch-Hall AG (BSH)	Mortgage lending and home savings	97
DZ HYP AG	Domestic CRE and public-sector lending	96
R+V Versicherung AG (R+V)	Life and non-life insurance	92
DVB Bank SE	International transportation finance (in run-off)	100
VR Smart Finanz AG	Restructuring from leasing to digital financing provider for small businesses	100
Union Asset Management Holding AG (UMH)	Asset management	97
TeamBank AG	Consumer finance	92
DZ PRIVATBANK S.A.	Private banking, FX lending, custody	91

All entities have Long-Term IDRs of AA-/Stable and are members of the sector's mutual support mechanism, except for R+V, which has an Insurer Financial Strength rating of AA/Stable, and VR Smart Finanz and UMH, which are both not rated.
Source: Fitch Ratings, DZ BANK

As a domestically systemically important institution, DZ BANK is subject to the ECB's direct supervision, while the national regulators still supervise each of GFG's local banks individually. Similarly, DZ BANK must also produce stand-alone recovery and resolution plans, while no such requirement applies to GFG as a whole. However, we believe that a resolution would only occur upon an unlikely failure by GFG's mutual support scheme to protect DZ BANK's viability.

Related Criteria

Bank Rating Criteria (October 2018)
Short-Term Ratings Criteria (May 2019)

Consolidation and Deepening Cooperation with GFG's Local Banks

DZ BANK's subsidiaries WL BANK and DG HYP merged in 2018 to form DZ HYP, GFG's main CRE and public-sector lender and the largest German covered bond issuer. The merger was part of a broader streamlining of DZ BANK, which merged with GFG's smaller central institution WGZ BANK in 2016, and GFG (dozens of local banks merge each year). BSH also focuses on housing loans but remains a distinct entity as stipulated by the law on Bausparkassen.

DZ BANK is also intensifying its cooperation with the local banks to improve the revenue generation of some underperforming, but core, businesses that trail GFG's natural market shares. This includes VR Smart Finanz' ongoing transformation into GFG's digital provider of finance for self-employed and small businesses, and initiatives to address DZ PRIVATBANK's underdeveloped share of private banking revenue from the local banks' clients.

DVB BANK's ongoing wind-down is also improving DZ BANK's alignment with the local banks' domestic retail banking focus. DZ BANK is winding down DVB BANK's shipping and offshore loans, EUR1.5 billion of which were non-performing at end-2018, following recent agreements to sell the well-performing aviation and land transport finance businesses. DVB BANK has strongly reduced its new business in shipping and ceased it in its particularly weak offshore segment.

DVB BANK's ratings remain aligned with those of GFG to reflect its membership in the mutual support scheme, which provides for a grandfathering of DVB BANK's debt, should the bank ever leave the scheme. DZ BANK fully owns and shares a profit-and-loss transfer agreement with DVB BANK. DZ BANK expects – in line with its record of restructuring failed subsidiaries internally – not to sell the residual, exclusively shipping-focused DVB BANK. This is because the shipping sector's weak outlook and asset valuations could trigger large haircuts on NPL sales.

Management and Strategy

GFG's local banks collectively own 94% of DZ BANK, control its supervisory board and define its strategic orientations in cooperation with DZ BANK's management. The high stability, strong integration within GFG and the common values of DZ BANK and WGZ BANK's management teams have enabled a smooth integration of the two banks since their merger and significantly limited execution risk. The post-merger data migration was completed in 2018 and the planned cost synergies and staff cuts have been achieved.

The former president of Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR, the umbrella association that notably manages GFG's mutual support scheme) became DZ BANK's co-chief executive in January 2019. We view this unprecedented move as a further step toward a deeper cooperation of DZ BANK's product providers with the local banks.

DZ BANK's subsidiaries individually devise their business, financial, capital and risk strategies. These are then coordinated and monitored by the parent (DZ BANK AG), which controls the subsidiaries' supervisory boards. In our view, the successive crises suffered by DZ HYP, VR Smart Finanz and DVB BANK, and the subsequent large support received from DZ BANK, have revealed the need to materially strengthen DZ BANK's control over its wholesale subsidiaries. This is especially the case when these are exposed to cyclical, volatile or foreign asset classes.

More robust intragroup corporate governance has emerged from these crises, but the strongest and predominantly retail-focused subsidiaries retain a level of autonomy that can, at times, slow down the group's decision-making processes. These processes are largely consensus-driven, although execution generally follows in a timely manner once consensus is reached.

The group's decision-making processes should also benefit from management's plans to adapt DZ BANK AG's financial reporting by segregating transparently the performance contributions of its holding (i.e. steering and clearing) functions from its commercial banking activities. This should support enhanced capital allocation within the DZ BANK group and GFG's cohesion by strengthening the local banks' influence on, and monitoring of, DZ BANK's strategy.

Risk Appetite

DZ BANK's trading book of EUR38 billion (of which EUR20 billion securities) accounts for only 7% of its total assets despite its role as GFG's central clearer. The large majority of its market risk arises from its banking book, particularly from credit spread risk in its EUR2.6 billion Italian sovereign bond portfolio, two thirds of which is booked at DZ HYP. The vulnerability of DZ BANK's performance to valuation swings driven by market volatility has declined in line with its sovereign exposure over the past years, but it remains substantial as these assets mature very slowly. In addition, the pressure from low interest rates on the insurance and housing lending businesses, two of DZ BANK's main profit contributors, are major long-term challenges.

DZ BANK's stock of client loans remained stable through 2018 as the robust growth of domestic loans (+4% yoy, in line with the German banking sector and driven by residential and commercial mortgages) matched the continuous reduction of the bank's foreign exposures. We expect domestic loan growth to remain solid in 2019, especially in the corporate segment.

We view DZ BANK's underwriting standards as reasonably conservative. Its appetite for riskier asset classes in corporate banking is low, as evidenced by its modest leveraged finance exposure, which comprises only senior tranches. Over 70% of the bank's loan portfolio was rated investment grade at end-2018, and about a third was secured by real estate.

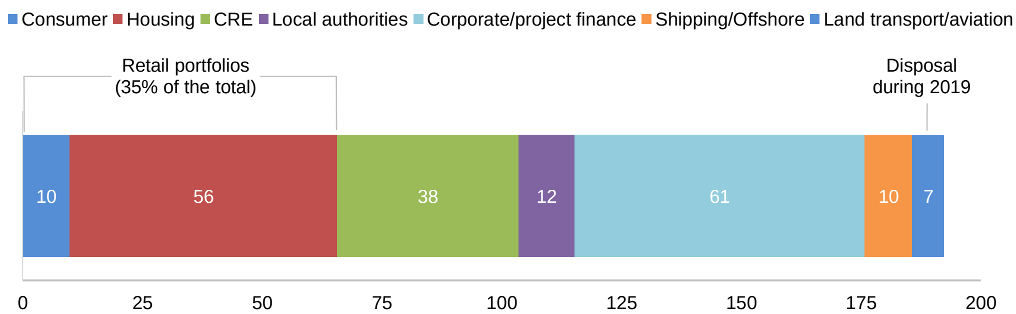
Asset Quality

DVB BANK's Restructuring Rapidly Progressing After Large Losses

DVB BANK's LICs almost doubled to EUR728 million in 2017 from already high EUR381 million in 2016. Until 2016, it had suffered less from the shipping crisis than its German peers, notably owing to its limited exposure to weak limited partnership ship financing vehicles. However, its stronger focus on offshore shipping exposed it to that market's rapid deterioration from 2017.

DZ BANK subsequently closed DVB BANK's offshore finance division and initiated a wind-down of its shipping loans. DVB BANK's LICs normalised to EUR80 million in 2018 and are unlikely to revert to the extraordinary levels of the previous years. The low provisioning ratio of DVB BANK's shipping NPLs could trigger significant write-downs in case of large NPL sales. However, the reduced shipping and offshore exposure (about EUR10 billion at end-2018) is manageable given DZ BANK's diversified and resilient sources of earnings.

Customer Loan Exposure
In EURbn at end-2018



Source: Fitch Ratings, DZ BANK

Reduced Exposure to Vulnerable Asset Classes

DZ BANK's exposure to ABS, leveraged and project finance and EU periphery assets has more than halved relative to its Fitch Core Capital since 2009 and is still declining, except for its moderate project finance book. Low-risk assets (e.g. GFG's members, domestic retail loans, insurance, covered bonds and German (sub-)sovereign) account for about half of total assets.

The ABS portfolio could still cause earnings volatility or credit deterioration, but its size (fair value of EUR2.6 billion at end-2018) makes these manageable. More than half (EUR1.4 billion, predominantly European residential mortgage-backed securities purchased before 2007) is in run-off. The remaining EUR1.2 billion is mostly held for short-term trading or selected warehousing.

Low Impaired Loans across All Other Asset Classes

DZ BANK's NPLs (IFRS 9 Stage 3 assets booked at amortised costs) declined to a moderate 2.4% of gross loans (from 3.2% yoy) owing to the benign German economy. Its NPL provisioning ratio improved to 53%, which is reasonable given the bank's domestic focus and high share of secured lending (especially real estate and trade finance). The bank's pro-forma NPL ratio excluding the shipping loans is slightly lower than German banks' average.

Similarly to peers, DZ BANK's single-name concentrations in the financial and public sectors are high. However, its interbank exposures mostly pertain to GFG due to its role as central clearer.

Earnings and Profitability

Broadly Resilient Profitability despite Weak 4Q18

DZ BANK's declining but still reasonable performance in 2018 narrowly missed its pre-tax profit target range of EUR1.5-EUR2 billion, largely due to weak market developments in 4Q18. Credit spread widening triggered valuation losses in DZ BANK AG's trading book, R+V's large fixed income investments and DZ HYP's sizeable portfolio of legacy European periphery bonds. The weak markets also burdened UMH's net commission income (NCI) linked to the performance of its assets under management. DZ BANK's profit also suffered from impairment of goodwill and of intangible assets related to customer relationships of EUR169 million at DZ PRIVATBANK. The subsidiary's recurring underperformance suggests that significant efforts are still needed to strengthen its franchise to an acceptable level, especially in private banking, where it is far from exploiting the potential available within GFG.

Divisional Pre-Tax Profits

(EURm)	2018	2017
DZ BANK AG	522	752
BSH	295	334
DZ HYP	232	637
DVB BANK	-130	-774
DZ PRIVATBANK	-151	20
R+V	413	795
TeamBank	145	148
UMH	502	610
VR Smart Finanz	1	-17
Other/consolidation	-459	-695
DZ BANK Group	**1,370**	**1,810**

Source: Fitch Ratings, DZ Bank

Lower End of Management's Profit Target Range Achievable

A return of DZ BANK's pre-tax profit to the lower end of its EUR1.5-EUR2 billion target appears achievable in the short term despite the weakening economic outlook. The EUR1.8 billion and EUR2.2 billion achieved in 2017 and 2016, respectively, will be more challenging to replicate. Both years benefitted from a conjunction of exceptionally strong earnings in asset management and insurance, one-off securities valuation gains and LIC reversals that more than offset DVB BANK's outsized LICs and led to the group's unsustainably low LICs of EUR21 million in 2018.

Medium-Term Savings Targets Achievable

After one-off merger costs of EUR350 million, DZ BANK expects EUR130 million annual mid-term savings from WGZ BANK's integration, mainly by cutting about 700 staff at DZ BANK AG. Further 500 staff (out of a total of about 5,300 at end-2018) will be reduced by 2023 at DZ BANK AG as part of a cost saving programme. DZ HYP's formation cost only about EUR50 million and should generate additional low double-digit savings. DZ BANK plans to cut its cost/income ratio to a level more in line with international peers by roughly halving the cost of external consultants and providers.

Revenue Diversification Alleviates Margin Pressure in Real Estate Lending

NII, DZ BANK's main source of revenue, fell by 5% in 2018. This was notably driven by BSH and DZ HYP, where NII declined by 8% and 4% despite 10% and 3% loan growth, respectively. We expect the pressure on the already low margins to remain intense as interest-rate increases are now an unlikely prospect. DZ BANK will continue to benefit from GFG's strengthening franchise and consistently increasing market shares in the main product groups. However, this cannot fully mitigate the intense price competition, notably in the corporate and CRE segments.

Higher NCI at the stronger subsidiaries (especially UMH and R+V) will be critical to stabilise the group's revenue. With an NCI of EUR1.4 billion in 2018, UMH remains one of the most reliable contributors to group profits. UMH ranks second in Germany, with assets under management at an all-time high of EUR331 billion at end-2018. However, increasingly uncertain capital markets could add pressure on net new money in 2019 after a decline to EUR15 billion in 2018.

R+V's insurance premiums rose by 5% to almost EUR16 billion in 2018, and Fitch expects R+V's growth strategy to increase premiums in the non-life segments and to maintain high levels in life and health insurance in 2019.

BSH, the undisputed leader in the German Bauspar market, has been historically DZ BANK's third main pillar of reliable earnings beside UMH and R+V. It still clearly outperforms its peers owing to its cooperation with GFG's local banks. However, the pressure on its performance should grow, due to the German Bauspar model's lack of flexibility and heavy vulnerability to low interest rates. This will be partly offset by the increasingly significant contribution of TeamBank's high-growth, high-margin consumer finance business to DZ BANK's bottom line.

Capitalisation and Leverage

Adequate Stand-Alone Capital Base Protected by GFG's Strong Capitalisation

DZ BANK's fully loaded common equity Tier 1 (CET1) ratio of 13.7% at end-2018 is well in line with large European banks and with management's guidance of 13.5%. It offers adequate flexibility above the bank's Pillar 2 CET1 requirement of 9.75% for 2019. So far, the regulatory leverage ratio has been relatively weaker because non-loan assets account for two thirds of the bank's balance sheet. However, the regulators' recent decision to exclude the bank's exposure to GFG members and pass-through development loans from the denominator will increase its leverage ratio by about 100bp from end-2019 and align the calculation with the practice in place for risk-adjusted regulatory ratios.

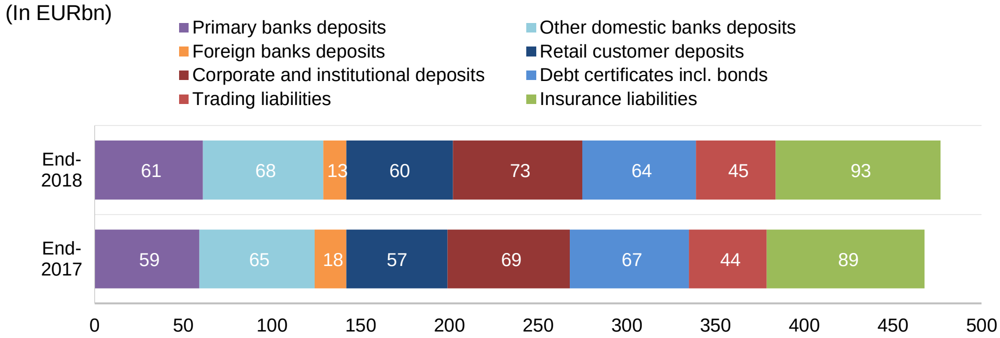
The CET1 and leverage ratios fell slightly in 2018 as retained profits and lower regulatory capital deductions almost matched the growth of risk-weighted assets (RWAs) and leverage exposures. Unlike other large European banks, DZ BANK's capital slightly benefitted from the adoption of IFRS 9 in 2018, mostly due to financial assets reclassified to fair value and cautious risk cost assessment. The bank's long-term RWA inflation from the revised Basel III rules should be manageable and close to regulators' estimated average for large European banks.

Management plans to leave its dividend pay-out at EUR322 million for 2019, unchanged from 2017 and 2018. We generally expect future pay-out ratios to remain moderate as they are constrained by the solo net income of the group's parent (DZ BANK AG), which accounted for only about 30% to 40% of the DZ BANK group's consolidated pre-tax profits in recent years.

Funding and Liquidity

Resilient, Diversified Funding in Addition to Role as GFG's Central Clearer

Funding Breakdown
(In EURbn)



Source: Fitch Ratings, DZ BANK

DZ BANK covers a significant share of its short-term funding needs by pooling the majority of GFG's local banks' excess liquidity that arises from their stable surplus (about EUR100 billion) of highly stable client deposits over their client loans. DZ BANK shares the costs, of placing GFG's excess liquidity at the ECB, evenly with the local banks (currently 40bp a year). In total, the local banks provide about a quarter of DZ BANK's funding and over a third of its unsecured needs, mostly via short-term deposits equivalent to at least a high single-digit percentage of their own corporate deposits, and by buying a large share of DZ BANK's debt issuance.

DZ BANK is also the largest German covered bond issuer, with EUR55 billion outstanding at end-2018, mostly at DZ HYP. Its rising volume of mortgage covered bonds should continue to almost offset the shrinkage of its stock of public-sector Pfandbriefe, whose cover pool is only being partly replenished. The importance of mortgage covered bonds as a funding source will also moderately increase owing to a regulatory amendment in place since 2015 that allows Bausparkassen to issue Pfandbriefe and prompted BSH's debut issuance in 2019. BSH's EUR45 billion housing loans at end-2018 represent a large pool of eligible assets.

DZ BANK also collects a large volume of deposits directly from its own clients. Almost half of the total of EUR133 billion at end-2018 is from BSH's retail clients.

Frequent Unsecured Debt Issuer and Large Covered Bond Issuer

These three pillars cover two thirds of DZ BANK's funding needs and limit its reliance on the unsecured debt market. However, it is one of the most frequent issuers of unsecured debt among German banks, focusing on small tickets, often based on institutional investors' reverse enquiries. German banks' stock of non-structured senior unsecured notes with over one year residual maturities became retroactively non-preferred by law at end-2016. Fitch estimates that this provides DZ BANK with large regulatory capital, junior and non-preferred debt buffers of around 40% of its RWAs. As a result, the bank already comfortably fulfils its MREL requirements. Consequently, it has focused its unsecured issuance almost exclusively on cheaper, central-bank eligible senior preferred debt since Germany introduced this new debt class in 3Q18.

The bank's regulatory liquidity coverage ratio and liquid assets averaged 148% and EUR87 billion, respectively, through 2018. This compares well with that of peers and offers sufficient flexibility over management's floor of 110% to accommodate seasonal swings.

Derivative Counterparty, Deposit and Unsecured Debt Ratings

We equalise DZ BANK's derivative counterparty, deposit, senior non-preferred and senior preferred debt ratings with its IDRs. In our view, GFG's consolidated layer of junior and senior non-preferred debt is insufficient to ensure lower probability of default for preferred obligations upon GFG's resolution or above-average recoveries in a default scenario to merit rating uplift. This is because the modest size of DZ BANK's wholesale business and its large deposit pool limit its debt issuance needs relative to the predominantly deposit-funded GFG. In addition, DZ BANK places a large share of its senior debt issuance within GFG, therefore, further limiting the stock of bail-inable debt. In our opinion, a resolution of GFG would only occur upon its mutual support scheme's unlikely failure to protect its members' viability.

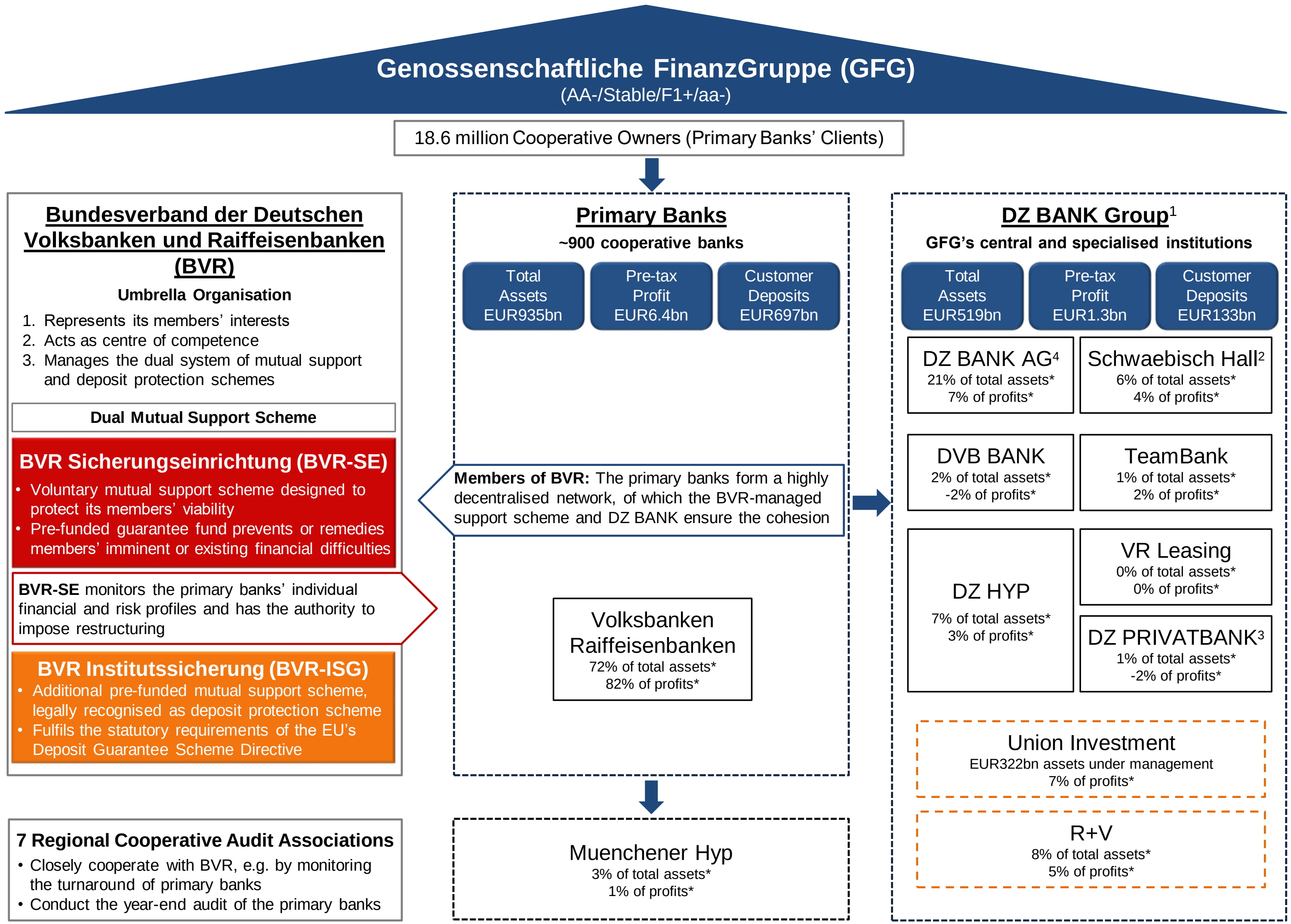
We notch DZ BANK's subordinated Tier 2 and hybrid notes from GFG's VR as we believe that GFG will ensure the issuers' ability to meet their payments on these instruments at all times. The notes' ratings are sensitive to changes in GFG's VR and to the notes' notching, should we reassess their loss severity or relative non-performance risk.

We rate the non-CRR compliant hybrid notes issued by DZ Bank Capital Funding Trust I four notches below GFG's VR, i.e. two notches each for loss severity and incremental non-performance risk. This reflects our view that their distribution trigger is less likely to be activated than those of the other non-CRR compliant hybrids issued by DZ Bank Capital Funding Trust II and DZ Bank Perpetual Funding Issuer (Jersey) Limited. We notch these five times from GFG's VR, i.e. twice for loss severity and three times for incremental non-performance risk.

ESG Considerations

We assign ESG Relevance Scores to GFG as a whole, not to DZ BANK specifically. GFG's highest level of ESG credit relevance is a score of 3. This means that ESG issues are credit neutral or have only a minimal credit impact on GFG, either due to their nature or the way in which they are being managed by the group. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix 1: GFG Simplified Organisational Structure



All data at end-2018

* In % of GFG's consolidated pre-tax profit and total assets

100% Ownership/Control
Non-Members of BVR - SE / ISG
GFG's scope of consolidation

[1] IFRS consolidated
[2] Bausparkasse Schwaebisch Hall (BSH)
[3] Part of BVR-SE, not of BVR-ISG
[4] Parent of DZ BANK Group

DZ BANK AG Deutsche Zentral-Genossenschaftsbank
Income Statement

	31 Dec 2018 Year End EURm Audited - Unqualified	31 Dec 2017 Year End EURm Audited - Unqualified	31 Dec 2016 Year End EURm Audited - Unqualified	31 Dec 2015 Year End EURm Audited - Unqualified
1. Interest Income on Loans	6,150	6,802	6,464	6,199
2. Other Interest Income	(365)	(131)	225	338
3. Dividend Income	73	21	122	248
4. Gross Interest and Dividend Income	**5,858**	**6,692**	**6,811**	**6,785**
5. Interest Expense on Customer Deposits	n.a.	n.a.	n.a.	n.a.
6. Other Interest Expense	3,059	3,751	4,151	3,797
7. Total Interest Expense	**3,059**	**3,751**	**4,151**	**3,797**
8. Net Interest Income	**2,799**	**2,941**	**2,660**	**2,988**
9. Net Fees and Commissions	1,955	1,864	1,698	1,514
10. Net Gains (Losses) on Trading and Derivatives	211	795	831	669
11. Net Gains (Losses) on Assets and Liabilities at FV	(35)	n.a.	n.a.	n.a.
12. Net Gains (Losses) on Other Securities	119	46	46	35
13. Net Insurance Income	490	907	760	676
14. Other Operating Income	177	132	87	25
15. Total Non-Interest Operating Income	**2,917**	**3,744**	**3,422**	**2,919**
16. Total Operating Income	**5,716**	**6,685**	**6,082**	**5,907**
17. Personnel Expenses	1,875	1,808	1,760	1,610
18. Other Operating Expenses	2,193	2,060	1,840	1,642
19. Total Non-Interest Expenses	**4,068**	**3,868**	**3,600**	**3,252**
20. Equity-accounted Profit/ Loss - Operating	20	(36)	(17)	(41)
21. Pre-Impairment Operating Profit	**1,668**	**2,781**	**2,465**	**2,614**
22. Loan Impairment Charge	144	827	485	164
23. Securities and Other Credit Impairment Charges	(123)	(41)	84	(11)
24. Operating Profit	**1,647**	**1,995**	**1,896**	**2,461**
25. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	n.a.	n.a.
26. Goodwill Impairment	128	n.a.	n.a.	n.a.
27. Non-recurring Income	13	n.a.	356	65
28. Non-recurring Expense	162	185	55	73
29. Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.
30. Other Non-operating Income and Expenses	n.a.	n.a.	n.a.	n.a.
31. Pre-tax Profit	**1,370**	**1,810**	**2,197**	**2,453**
32. Tax expense	452	712	591	657
33. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.
34. Net Income	**918**	**1,098**	**1,606**	**1,796**
35. Change in Value of AFS Investments	(8)	28	329	(116)
36. Revaluation of Fixed Assets	n.a.	n.a.	n.a.	n.a.
37. Currency Translation Differences	24	(43)	17	45
38. Remaining OCI Gains/(losses)	(499)	38	(161)	186
39. Fitch Comprehensive Income	**435**	**1,121**	**1,791**	**1,911**
40. Memo: Profit Allocation to Non-controlling Interests	94	141	138	380
41. Memo: Net Income after Allocation to Non-controlling Interests	824	957	1,468	1,416
42. Memo: Common Dividends Relating to the Period	372	409	367	362
43. Memo: Preferred Dividends and Interest on Hybrid Capital Accounted for as Equity Related to the Period	n.a.	n.a.	n.a.	n.a.

DZ BANK AG Deutsche Zentral-Genossenschaftsbank
Balance Sheet

	31 Dec 2018 Year End EURm	31 Dec 2017 Year End EURm	31 Dec 2016 Year End EURm	31 Dec 2015 Year End EURm
Assets				
A. Loans				
1. Residential Mortgage Loans	45,454	41,005	37,253	33,659
2. Other Mortgage Loans	46,826	45,980	48,166	21,373
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	82,158	87,391	91,113	71,818
6. Less: Loan Loss Allowances	2,231	2,775	2,358	2,021
7. Net Loans	**172,207**	**171,601**	**174,174**	**124,829**
8. Gross Loans	**174,438**	**174,376**	**176,532**	**126,850**
9. Memo: Impaired Loans included above	4,238	5,511	5,187	4,269
10. Memo: Specific Loan Loss Allowances	n.a.	n.a.	n.a.	n.a.
B. Other Earning Assets				
1. Loans and Advances to Banks	91,615	120,470	107,217	80,683
2. Reverse Repos and Securities Borrowing	n.a.	n.a.	n.a.	n.a.
3. Derivatives	17,063	17,922	25,110	22,353
4. Trading Securities and at FV through Income	30,778	21,609	25,694	27,837
5. Securities at FV through OCI / Available for Sale	20,076	56,312	68,993	53,053
6. Securities at Amortised Cost / Held to Maturity	18,570	n.a.	n.a.	n.a.
7. Other Securities	n.a.	n.a.	n.a.	n.a.
8. Total Securities	**69,424**	**77,921**	**94,687**	**80,890**
9. Memo: Government Securities included Above	n.a.	27,913	33,992	28,735
10. Memo: Total Securities Pledged	n.a.	n.a.	n.a.	n.a.
11. Equity Investments in Associates	1,071	1,174	1,187	1,252
12. Investments in Property	258	254	253	263
13. Insurance Assets	104,212	99,506	94,092	87,926
14. Other Earning Assets	n.a.	n.a.	n.a.	n.a.
15. Total Earning Assets	**455,850**	**488,848**	**496,720**	**398,196**
C. Non-Earning Assets				
1. Cash and Due From Banks	51,845	12,835	8,515	6,542
2. Memo: Mandatory Reserves included above	n.a.	n.a.	n.a.	n.a.
3. Foreclosed Assets	n.a.	n.a.	n.a.	n.a.
4. Fixed Assets	1,165	1,244	1,499	1,447
5. Goodwill	41	169	169	169
6. Other Intangibles	436	466	462	406
7. Current Tax Assets	401	494	432	371
8. Deferred Tax Assets	1,056	633	848	531
9. Discontinued Operations	7,133	84	182	166
10. Other Assets	806	821	620	513
11. Total Assets	**518,733**	**505,594**	**509,447**	**408,341**
Liabilities and Equity				
D. Interest-Bearing Liabilities				
1. Total Customer Deposits	132,548	126,319	124,425	96,186
2. Deposits from Banks	142,486	136,122	129,280	97,227
3. Repos and Securities Lending	n.a.	n.a.	n.a.	n.a.
4. Commercial Paper and Short-term Borrowings	12,951	16,718	33,719	27,503
5. Customer Deposits and Short-term Funding	**287,985**	**279,159**	**287,424**	**220,916**
6. Senior Unsecured Debt	29,188	30,291	44,519	27,448
7. Subordinated Borrowing	2,891	3,899	4,723	4,142
8. Covered Bonds	21,770	20,318	n.a.	n.a.
9. Other Long-term Funding	n.a.	n.a.	n.a.	n.a.
10. Total LT Funding	**53,849**	**54,508**	**49,242**	**31,590**
11. Memo: o/w matures in less than 1 year	n.a.	n.a.	n.a.	n.a.
12. Trading Liabilities	28,900	27,467	25,081	21,650
13. Total Funding	**370,734**	**361,134**	**361,747**	**274,156**
14. Derivatives	18,729	19,888	29,177	25,625
15. Total Funding and Derivatives	**389,463**	**381,022**	**390,924**	**299,781**
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	3,380	3,372	4,041	3,081
4. Current Tax Liabilities	384	290	297	408
5. Deferred Tax Liabilities	536	558	483	367
6. Other Deferred Liabilities	n.a.	n.a.	n.a.	n.a.
7. Discontinued Operations	281	0	n.a.	n.a.
8. Insurance Liabilities	99,058	94,788	89,073	83,184
9. Other Liabilities	2,113	2,059	1,739	1,791
10. Total Liabilities	**495,215**	**482,089**	**486,557**	**388,612**
F. Hybrid Capital				
1. Pref. Shares and Hybrid Capital accounted for as Debt	6	n.a.	n.a.	n.a.
2. Pref. Shares and Hybrid Capital accounted for as Equity	2,581	2,830	2,160	2,160
G. Equity				
1. Common Equity	19,485	18,398	18,557	13,740
2. Non-controlling Interest	1,001	833	666	2,562
3. Securities Revaluation Reserves	361	1,396	1,448	1,228
4. Foreign Exchange Revaluation Reserves	84	43	70	46
5. Fixed Asset Revaluations and Other Accumulated OCI	0	5	-11	-7
6. Total Equity	**20,931**	**20,675**	**20,730**	**17,569**
7. Memo: Equity plus Pref. Shares and Hybrid Capital accounted for as E	23,512	23,505	22,890	19,729
8. Total Liabilities and Equity	**518,733**	**505,594**	**509,447**	**408,341**
9. Memo: Fitch Core Capital	14,672	14,413	13,365	10,885

DZ BANK AG Deutsche Zentral-Genossenschaftsbank
Summary Analytics

	31 Dec 2018 Year End	31 Dec 2017 Year End	31 Dec 2016 Year End	31 Dec 2015 Year End
A. Interest Ratios				
1. Interest Income/ Average Earning Assets	1.3	1.4	1.5	1.7
2. Interest Income on Loans/ Average Gross Loans	3.5	3.9	4.1	5.0
3. Interest Expense on Customer Deposits/ Average Customer Deposits	n.a.	n.a.	n.a.	n.a.
4. Interest Expense/ Average Interest-bearing Liabilities	0.8	1.0	1.1	1.3
5. Net Interest Income/ Average Earning Assets	0.6	0.6	0.6	0.8
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	0.6	0.4	0.5	0.7
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	0.6	0.6	0.6	0.8
B. Other Operating Profitability Ratios				
1. Operating Profit/ Risk Weighted Assets	1.3	1.5	1.6	2.5
2. Non-Interest Expense/ Gross Revenues	71.2	57.9	59.2	55.1
3. Loans and securities impairment charges/ Pre-impairment Op. Profit	1.3	28.3	23.1	5.9
4. Operating Profit/ Average Total Assets	0.3	0.4	0.4	0.6
5. Non-Interest Income/ Gross Revenues	51.0	56.0	56.3	49.4
6. Non-Interest Expense/ Average Total Assets	0.8	0.8	0.8	0.8
7. Pre-impairment Op. Profit/ Average Equity	8.0	13.6	12.7	16.3
8. Pre-impairment Op. Profit/ Average Total Assets	0.3	0.6	0.5	0.6
9. Operating Profit/ Average Equity	7.9	9.8	9.7	15.3
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	4.4	5.4	8.3	11.2
2. Net Income/ Average Total Assets	0.2	0.2	0.3	0.4
3. Fitch Comprehensive Income/ Average Total Equity	2.1	5.5	9.2	11.9
4. Fitch Comprehensive Income/ Average Total Assets	0.1	0.2	0.4	0.5
5. Taxes/ Pre-tax Profit	33.0	39.3	26.9	26.8
6. Net Income/ Risk Weighted Assets	0.7	0.8	1.4	1.8
D. Capitalization				
1. FCC/ FCC-Adjusted Risk Weighted Assets	13.1	13.1	11.3	11.1
2. Tangible Common Equity/ Tangible Assets	3.9	4.0	3.9	4.2
3. Equity/ Total Assets	4.0	4.1	4.1	4.3
4. Basel Leverage Ratio	4.3	4.6	4.4	4.5
5. Common Equity Tier 1 Capital Ratio	13.7	14.0	14.5	13.9
6. Fully Loaded Common Equity Tier 1 Capital Ratio	13.7	13.9	14.5	13.0
7. Tier 1 Capital Ratio	14.3	15.3	16.0	15.6
8. Total Capital Ratio	16.8	17.4	18.6	18.8
9. Impaired Loans less Loan Loss Allowances/ Fitch Core Capital	13.7	19.0	21.2	20.7
10. Impaired Loans less Loan Loss Allowances/ Equity	9.6	13.2	13.7	12.8
11. Cash Dividends Paid & Declared/ Net Income	40.5	37.3	22.9	20.2
12. Risk Weighted Assets/ Total Assets	25.5	25.8	23.3	24.0
13. Risk Weighted Assets - Standardised/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
14. Risk Weighted Assets - Advanced Method/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
E. Loan Quality				
1. Impaired Loans/ Gross Loans	2.4	3.2	2.9	3.4
2. Growth of Gross Loans	0.0	(1.2)	39.2	3.6
3. Loan Loss Allowances/ Impaired Loans	52.6	50.4	45.5	47.3
4. Loan Impairment Charges/ Average Gross Loans	0.1	0.5	0.3	0.1
5. Growth of Total Assets	2.6	(0.8)	24.8	1.4
6. Loan Loss Allowances/ Gross Loans	1.3	1.6	1.3	1.6
7. Net Charge-offs/ Average Gross Loans	0.4	0.1	0.1	0.3
8. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	2.4	3.2	2.9	3.4
F. Funding and Liquidity				
1. Loans/ Customer Deposits	131.6	138.0	141.9	131.9
2. Liquidity Coverage Ratio	141.4	161.7	151.0	125.7
3. Customer Deposits/ Total Funding (including Pref. Shares & Hybrids)	35.5	34.7	34.2	34.8
4. Interbank Assets/ Interbank Liabilities	64.3	88.5	82.9	83.0
5. Net Stable Funding Ratio	n.a.	n.a.	n.a.	99.0
6. Growth of Total Customer Deposits	4.9	1.5	29.4	(0.3)

DZ BANK AG Deutsche Zentral-Genossenschaftsbank
Reference Data

	31 Dec 2018 Year End EURm	31 Dec 2017 Year End EURm	31 Dec 2016 Year End EURm	31 Dec 2015 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	7,136	6,996	7,157	6,417
4. Acceptances and documentary credits reported off-balance sheet	466	n.a.	n.a.	n.a.
5. Committed Credit Lines	54,269	33,509	33,130	24,876
6. Other Contingent Liabilities	n.a.	n.a.	n.a.	n.a.
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				
1. Average Loans	175,472	175,652	158,825	125,141
2. Average Earning Assets	469,930	494,045	467,749	398,197
3. Average Total Assets	520,854	509,466	479,714	406,615
4. Average Managed Securitized Assets (OBS)	n.a.	n.a.	n.a.	n.a.
5. Average Interest-Bearing Liabilities	393,195	388,061	365,420	300,799
6. Average Common equity	19,349	18,263	16,785	12,578
7. Average Equity	20,950	20,457	19,463	16,064
8. Average Customer Deposits	132,155	126,606	116,041	97,814
C. Maturities				
Asset Maturities:				
Loans & Advances < 3 months	n.a.	n.a.	20,833	20,847
Loans & Advances 3 - 12 Months	n.a.	n.a.	16,826	14,624
Loans and Advances 1 - 5 Years	n.a.	n.a.	65,008	57,110
Loans & Advances > 5 years	n.a.	n.a.	73,865	34,269
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	n.a.	n.a.	34,526	19,972
Loans & Advances to Banks 3 - 12 Months	n.a.	n.a.	8,412	7,674
Loans & Advances to Banks 1 - 5 Years	n.a.	n.a.	29,655	31,379
Loans & Advances to Banks > 5 Years	n.a.	n.a.	34,624	21,658
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	n.a.	n.a.	27,679	20,938
Other Deposits 3 - 12 Months	n.a.	n.a.	5,245	2,642
Other Deposits 1 - 5 Years	n.a.	n.a.	10,923	8,312
Other Deposits > 5 Years	n.a.	n.a.	80,578	64,294
Deposits from Banks < 3 Months	n.a.	n.a.	51,355	45,151
Deposits from Banks 3 - 12 Months	n.a.	n.a.	8,761	7,478
Deposits from Banks 1 - 5 Years	n.a.	n.a.	28,744	24,304
Deposits from Banks > 5 Years	n.a.	n.a.	40,420	20,294
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	**2,891**	**3,899**	**4,723**	**4,142**
Fair Value Portion of Subordinated Debt	n.a.	n.a.	n.a.	n.a.
D. Risk Weighted Assets				
1. Risk Weighted Assets	132,152	130,621	118,462	98,090
2. Fitch Core Capital Adjustments for Insurance and Securitisation Risk Weighted Asse	(20,333)	(20,440)	n.a.	n.a.
3. Fitch Core Capital Adjusted Risk Weighted Assets	**111,819**	**110,181**	**118,462**	**98,090**
4. Other Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
5. Fitch Adjusted Risk Weighted Assets	**111,819**	**110,181**	**118,462**	**98,090**
E. Fitch Core Capital Reconciliation				
1. Total Equity as reported (including non-controlling interests)	20,931	20,675	20,730	17,569
2. Fair-value adjustments relating to own credit risk on debt issued	34	0	0	0
3. Non-loss-absorbing non-controlling interests	0	0	0	0
4. Goodwill	41	169	169	169
5. Other intangibles	436	466	462	406
6. Deferred tax assets deduction	39	103	59	35
7. Net asset value of insurance subsidiaries	5,495	5,524	6,675	6,074
8. First loss tranches of off-balance sheet securitizations	282	0	0	0
9. Fund for general banking risks if not already included and readily convertible into equi	0	0	0	0
10. Fitch Core Capital	**14,672**	**14,413**	**13,365**	**10,885**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.