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## DZ BANK AG Deutsche Zentral-Genossenschaftsbank

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# DZ BANK AG Deutsche Zentral-Genossenschaftsbank

## Major Rating Factors

### Issuer Credit Rating

AA-/Negative/A-1+

Strengths:	Weaknesses:
<ul style="list-style-type: none"><li>• 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.</li><li>• Benefits from mutual support within the sector and its comprehensive protection scheme.</li><li>• Good market position in German corporate banking.</li></ul>	<ul style="list-style-type: none"><li>• Weaker risk profile and capitalization than its owners, the local cooperative banks.</li><li>• Intense competition and margin pressure in German corporate banking.</li></ul>

## Outlook

S&P Global Ratings' negative outlook on DZ BANK AG mirrors our outlook on Cooperative Banking Sector Germany and reflects growing economic and industry risks for the German banking market, which the COVID-19 pandemic has accentuated. This puts continued pressure on the sector's risk exposures and risk-adjusted profitability, meaning that we could lower our ratings on DZ BANK within the next two years.

### Downside scenario

More specifically, if we revise our anchor for German banks downward to 'bbb+' from 'a-', we could lower our 'AA-' issuer credit rating (ICR) on the sector's core members, and our related issue ratings on the banks' senior preferred debt, senior subordinated debt, and regulatory capital instruments. This could occur, for example, if we conclude that the incumbent German banking groups will suffer increasingly from intensifying competition and a further deterioration in profitability. While it is a more remote prospect, we could, in time, also lower the ratings if the sector's market position deteriorates materially, weakening its risk-adjusted profitability.

### Upside scenario

We could revise our outlook on DZ BANK to stable over the next 24 months if downside risks stemming from the COVID-19 pandemic reduce, and the economic and industry risk trends for the German banking industry stabilize. The sector's business model and risk profile would have to remain robust and resilient relative to other German banks or similarly rated international peers. We believe that material progress in digitalization and addressing structural weaknesses, such as cost efficiency and below-average market positions in corporate and private banking, remain pivotal to the sector's creditworthiness.

## Rationale

We base our ratings on DZ BANK on our view of the bank's established role as the central institute of the German cooperative banking sector (see "Cooperative Banking Sector Germany," published Feb. 26, 2021, on RatingsDirect). In this role, DZ BANK remains integral to the sector's identity by providing liquidity management, funding, and wholesale banking services. We reflect these factors in our assessment of DZ BANK's core group status for the sector, and equalize our long-term ICR on the bank with the group credit profile of 'aa-'. 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.

The more than 800 local cooperative banks in the sector own 95% of DZ BANK, with the remainder owned by other cooperative entities. In turn, DZ BANK consolidates specialized institutions like Bausparkasse Schwäbisch Hall, DVB Bank, DZ HYP, DZ PRIVATBANK, R+V Versicherung, TeamBank, Union Investment, and VR Smart Finanz. These specialized entities provide products to local banks, and, together with DZ BANK, support the competitive position of the local cooperative banks and the sector in general. However, we regard these more wholesale-oriented activities and DZ BANK's own corporate banking activities as carrying higher risk than the activities of local banks, due to a combination of larger and more complex exposures. In addition, DZ BANK has full exposure to intense competition and margin pressure in Germany.

With a risk-adjusted capital ratio of 9.1% as of end-2019, DZ BANK's capitalization is weaker than the RAC ratio of 14.2% for the consolidated cooperative banking sector. This shows that capital is unevenly split among members. While DZ BANK's regulatory Common Equity Tier (CET) 1 ratio of 15.2% as of end-2020 indicates no particular capital need, we think such capital would be available if needed. Despite continued uncertainty about the full effect of the pandemic on the German economy, and ultimately, on banks' balance sheets, we expect DZ BANK to post solid profitability in 2021. The cost of risk could increase above the 2020 level of about 35 basis points (bps) of the average loan book.

In its role as the sector's central bank, local cooperative banks channel excess funding to DZ BANK. This allows DZ BANK to manage liquidity needs among the sector's banks and reinvest excess funds in higher-margin businesses. Within DZ BANK, funding sources are well diversified, but, despite funds from owner banks and customers, DZ BANK and its subsidiaries rely to a larger extent on wholesale funding, in particular, 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 Bank through its New York branch.

While DZ BANK is subject to the minimum requirement for own funds and eligible liabilities, we do not add any uplift to the rating for additional loss-absorbing capacity. 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.

### **Hybrid issue ratings**

We notch down the ratings on the hybrid instruments (Tier 1 and Tier 2 regulatory capital issues) issued by DZ BANK and related special-purpose entities from the ICR because the bank is a core subsidiary of the sector, and because we expect that the overall group will support these instruments. We believe that other sector members hold a material portion of these instruments, and see reputational risk associated with a default of the issuers of these instruments. In determining the specific issue ratings on all these instruments, we deduct:

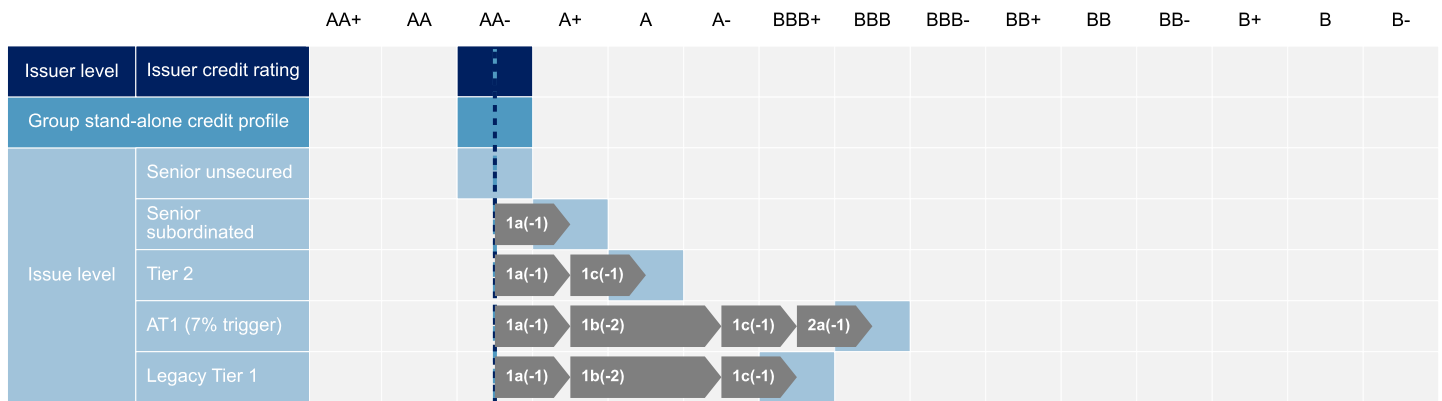
- One notch for subordination; and
- One notch because of explicit contingent capital clauses, or because we consider the German regulatory and legal framework to create such an equivalent.

For the additional Tier 1 instruments that DZ BANK issued in 2015, we deduct two further notches to reflect the instruments' Tier 1 regulatory capital status. We deduct an additional notch because we believe that the write-down clause could be triggered while DZ BANK is a going concern, and we project that the bank's regulatory capital ratios will stay within 301-700 bps above the trigger level. The trigger level is a CET1 capital ratio of 7% at the DZ BANK consolidated group and on a stand-alone basis. We view this as a going-concern trigger. The bank's consolidated CET1 ratio at end-2020 was exceptionally high, at 15.2%. We expect the CET1 ratio to decline below 14% in the coming years, but we might remove the one-notch adjustment if we thought that DZ BANK's regulatory ratios would remain above 14% on a sustainable basis.

In January 2021, DZ BANK called its other legacy AT1 instruments issued via special-purpose vehicles that would have lost regulatory capital recognition at the end of 2021.

Chart 1

**DZ Bank AG (Core Member Of The Cooperative Banking Sector Germany) Notching**



**Key to notching**

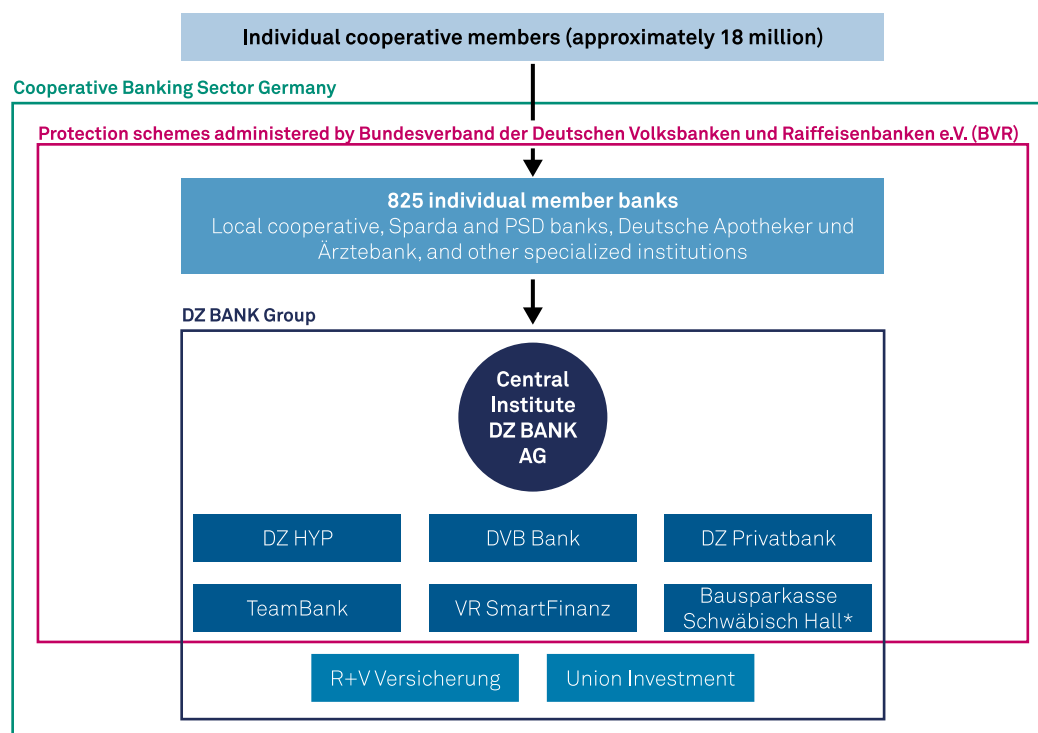
- Group stand-alone credit profile
- Issuer credit rating
- Group Group support
- 1a Contractual subordination
- 1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
- 1c Mandatory contingent capital clause or equivalent
- 2a Mandatory going-concern, regulatory capital-based trigger (either statutory or contractual)

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 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.  
 AT1--Additional Tier 1. Legacy Tier 1 are issued through DZ BANK Capital Funding Trusts I-III and DZ Bank Perpetual Funding Issuer (Jersey) Ltd.

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Chart 2

Cooperative Banking Sector Germany -- Organizational Structure



\*Not rated. Source: S&P Global Ratings.  
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Table 1

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Key Figures					
--Fiscal year ended Dec. 31--					
(Mil. €)	2020	2019	2018	2017	2016
Adjusted assets	488,269	445,327	417,416	408,543	508,816
Customer loans (gross)	190,097	186,224	174,438	174,376	176,532
Adjusted common equity	18,251	15,269	14,458	15,225	14,621
Operating revenues	3,095	7,116	5,567	6,555	6,110
Noninterest expenses	2,016	4,074	4,059	3,868	3,600
Core earnings	372	1,874	1,039	1,153	1,419

Table 2

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Business Position					
--Fiscal year ended Dec. 31--					
(%)	2020	2019	2018	2017	2016
Total revenues from business line (€ mil.)	3,095.00	7,115.00	5,578.00	6,555.00	6,366.00
Commercial banking/total revenues from business line	50.34	42.81	44.41	42.70	49.84
Retail banking/total revenues from business line	23.55	19.59	23.14	22.78	20.11
Commercial & retail banking/total revenues from business line	73.89	62.40	67.55	65.48	69.95

**Table 2**

<b>DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Business Position (cont.)</b>					
<b>--Fiscal year ended Dec. 31--</b>					
<b>(%)</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Insurance activities/total revenues from business line	3.30	15.70	7.40	12.13	10.70
Asset management/total revenues from business line	22.81	21.90	25.04	22.40	19.35
Return on average common equity	2.91	7.97	4.14	4.90	8.77

**Table 3**

<b>DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Capital And Earnings</b>					
<b>--Fiscal year ended Dec. 31--</b>					
<b>(%)</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Tier 1 capital ratio	15.40	15.90	14.30	15.30	16.00
S&P Global Ratings' RAC ratio before diversification	N/A	9.10	8.34	8.58	7.91
S&P Global Ratings' RAC ratio after diversification	N/A	9.85	9.01	9.30	8.58
Adjusted common equity/total adjusted capital	89.70	87.93	87.34	87.90	87.47
Net interest income/operating revenues	47.01	37.87	49.47	44.00	42.77
Fee income/operating revenues	33.99	27.75	35.12	28.44	27.79
Market-sensitive income/operating revenues	10.05	11.23	5.10	12.83	15.96
Cost to income ratio	65.14	57.25	72.91	59.01	58.92
Provision operating income/average assets	0.37	0.56	0.29	0.53	0.55
Core earnings/average managed assets	0.13	0.35	0.20	0.23	0.31

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

**Table 4**

<b>DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Risk-Adjusted Capital Framework Data</b>					
<b>(Mil. €)</b>	<b>Exposure*</b>	<b>Basel III RWA</b>	<b>Average Basel III RW(%)</b>	<b>S&amp;P Global Ratings RWA</b>	<b>Average S&amp;P Global Ratings RW (%)</b>
<b>Credit risk</b>					
Government and central banks	105,897.8	2,501.3	2.4	3,743.1	3.5
Of which regional governments and local authorities	24,689.7	286.3	1.2	1,200.4	4.9
Institutions and CCPs	141,548.2	9,557.3	6.8	24,931.0	17.6
Corporate	115,155.4	55,385.6	48.1	85,147.2	73.9
Retail	86,533.2	18,350.0	21.2	25,335.0	29.3
Of which mortgage	65,402.4	9,400.1	14.4	12,497.9	19.1
Securitization§	5,296.0	2,162.5	40.8	6,284.0	118.7
Other assets†	3,500.7	2,313.5	66.1	4,903.3	140.1
Total credit risk	457,931.2	90,270.3	19.7	150,343.5	32.8
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	1,107.6	--	8,191.7	--
<b>Market Risk</b>					
Equity in the banking book	3,682.6	3,298.2	89.6	6,235.3	169.3
Trading book market risk	--	8,349.9	--	13,861.1	--

**Table 4**

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Risk-Adjusted Capital Framework Data (cont.)					
Total market risk	--	11,648.1	--	20,096.4	--
<b>Operational risk</b>					
Total operational risk	--	10,716.0	--	12,233.9	--
	<b>Exposure</b>	<b>Basel III RWA</b>	<b>Average Basel II RW (%)</b>	<b>S&amp;P Global Ratings RWA</b>	<b>% of S&amp;P Global Ratings RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification	--	143,799.7	--	190,865.6	100.0
Total diversification/ concentration adjustments	--	--	--	(14,560.4)	(7.6)
RWA after diversification	--	143,799.7	--	176,305.2	92.4
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>S&amp;P Global Ratings RAC ratio (%)</b>
<b>Capital ratio</b>					
Capital ratio before adjustments		22,814.0	15.9	17,364.0	9.1
Capital ratio after adjustments†		22,814.0	15.9	17,364.0	9.8

\*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. CCP--Central counterparty. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2019, S&P Global Ratings.

**Table 5**

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Risk Position					
	--Fiscal year ended Dec. 31--				
(%)	2020	2019	2018	2017	2016
Growth in customer loans	4.16	6.76	0.04	(1.22)	39.88
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(7.63)	(7.50)	(7.74)	(7.80)
Total managed assets/adjusted common equity (x)	33.10	36.63	35.88	33.21	34.84
New loan loss provisions/average customer loans	0.54	0.18	0.02	0.46	0.38
Net charge-offs/average customer loans	(0.01)	(0.03)	(0.03)	(0.05)	(0.04)
Gross nonperforming assets/customer loans + other real estate owned	2.20	2.09	2.43	3.04	2.53
Loan loss reserves/gross nonperforming assets	60.70	56.96	52.64	52.32	52.89

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

**Table 6**

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Funding And Liquidity					
	--Fiscal year ended Dec. 31--				
(%)	2020	2019	2018	2017	2016
Core deposits/funding base	33.37	33.36	35.87	35.17	34.55
Customer loans (net)/customer deposits	130.60	139.77	129.46	135.05	139.32
Long-term funding ratio	68.13	67.98	71.34	71.55	72.45
Stable funding ratio	99.77	95.29	97.94	97.90	73.28
Short-term wholesale funding/funding base	33.91	34.11	30.43	30.24	29.23



Table 6

DZ BANK AG Deutsche Zentral-Genossenschaftsbank--Funding And Liquidity (cont.)					
(%)	--Fiscal year ended Dec. 31--				
	2020	2019	2018	2017	2016
Broad liquid assets/short-term wholesale funding (x)	1.07	0.96	1.04	1.02	1.00
Net broad liquid assets/short-term customer deposits	23.51	(13.57)	10.63	7.08	0.68
Short-term wholesale funding/total wholesale funding	50.52	50.78	47.03	46.23	44.27
Narrow liquid assets/three-month wholesale funding (x)	1.16	1.04	1.11	1.12	1.10

## Related Criteria

- 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: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- R+V Versicherung AG, Feb. 11, 2021
- Banking Industry Country Risk Assessment: Germany, Nov. 11, 2020
- European Cooperative Banking Groups' Historical Virtues Do Not Shield Them From Disruption, Sept. 14, 2020
- DZ HYP AG, April 3, 2020
- Outlooks On Various German Banks Revised To Negative On Rising Banking Sector Risks; Ratings Affirmed, Sept.

18, 2019

**Ratings Detail (As Of April 7, 2021)\*****DZ BANK AG Deutsche Zentral-Genossenschaftsbank**

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

**Issuer Credit Ratings History**

17-Sep-2019	AA-/Negative/A-1+
05-Dec-2011	AA-/Stable/A-1+
12-Dec-2006	A+/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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