MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms DZ BANK AG's Aa2 long-term deposit and issuer ratings, maintains stable outlook

29 May 2024

Baseline Credit Assessment affirmed at baa2

Frankfurt am Main, May 29, 2024 -- Moody's Ratings (Moody's) has today affirmed DZ BANK AG's (DZ BANK) long-term deposit, issuer, and senior unsecured ratings at Aa2 with a stable outlook. At the same time, the rating agency affirmed the bank's long-term Counterparty Risk Ratings (CRR) at Aa2, the senior unsecured MTN programme rating at (P)Aa2, the junior senior unsecured rating at A3, the junior senior unsecured MTN programme rating at (P)A3, the subordinate rating at Baa1, and the subordinate MTN programme rating at (P)Baa1. Concurrently Moody's affirmed the bank's short-term CRR, short-term deposit, Commercial Paper, short-term issuer ratings at P-1 and the Other Short Term Program ratings at (P)P-1.

In addition, Moody's affirmed DZ BANK's Baseline Credit Assessment (BCA) at baa2, affirmed its Adjusted BCA at a3, affirmed the long-term Counterparty Risk Assessment (CR Assessment) at Aa2(cr), and affirmed the short-term CR Assessment at P-1(cr).

Furthermore, Moody's affirmed the short-term Commercial Paper rating of DZ BANK AG, New York Branch at P-1.

RATINGS RATIONALE

-- AFFIRMATION OF THE BCA

Moody's affirmation of DZ BANK's baa2 BCA reflects the resilience of the bank's fundamental credit profile, supported by its diversified businesses, including retail and corporate banking, asset management and insurance operations, as well as its role as the central institution of primary cooperative banks (Volks- und Raiffeisenbanken) in Germany.

DZ BANK operates with solid capitalisation and benefits from improved profitability, which the rating agency expects to remain supported by higher interest rates. These mitigants will allow DZ BANK to cope with a moderate deterioration of its presently sound asset quality, which Moody's expects to materialise due to the German economy's sluggish growth outlook, and reflecting the bank's exposure to commercial real estate.

The BCA also takes into account DZ BANK's very high market funding dependence, which remains significant despite its access to funding from the domestic cooperative sector and development banks and that the bank's sizeable liquid resources continue to provide a strong mitigant against any potential funding challenges.

-- AFFIRMATION OF THE ADJUSTED BCA

The affirmation of DZ BANK's Adjusted BCA at a3 reflects the affirmation of the bank's baa2 BCA and the unchanged assumption of a very high probability of cross-sector support from Genossenschaftliche FinanzGruppe (G-Finanzgruppe) in case of need, which results in two notches of rating uplift from affiliate support. G-Finanzgruppe's member banks operate a regulated and supervised institutional protection scheme, resulting in an Adjusted BCA that benefits from the overall capacity and willingness of the group's members to support each other. In its assessment Moody's weighs the relative size of a member bank in relation to the overall group and the anticipated resulting cost-benefit effect.

-- AFFIRMATION OF LONG-TERM RATINGS

The affirmation of DZ BANK's long-term ratings follows the affirmation of its Adjusted BCA and incorporates unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis and unchanged assumptions for government support.

Moody's expects DZ BANK and its domestic banking subsidiaries to form a joint resolution perimeter in case of failure. Because of DZ BANK's high share of capital market funding and the resulting meaningful volume of bail-in-able debt instruments, the rating agency's Advanced LGF analysis continues to yield three notches of rating uplift for the CRR, the CR Assessment, deposits, and senior unsecured debt, and no rating uplift for junior senior unsecured liabilities. Because subordinate debts do not benefit from protection beyond equity and face a high loss severity, they are rated one notch below the Adjusted BCA.

The unchanged moderate government support assumption for liabilities ranking above junior senior unsecured debt and the resulting one notch of rating uplift reflects the bank's membership in the systemically important G-Finanzgruppe.

OUTLOOK

The stable outlook on DZ BANK's long-term deposit, issuer and senior unsecured debt ratings reflects Moody's expectation that G-Finanzgruppe's financial profile remains highly resilient despite Germany's weak economic outlook, that the intrinsic strength of DZ BANK remains broadly unchanged and incorporates Moody's expectation of a broadly unchanged liability structure of DZ BANK.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of DZ BANK's ratings could be triggered by an upgrade of the bank's BCA, or by an improvement in the cooperative sector's financial strength. DZ BANK's junior senior unsecured and subordinate ratings could potentially also be upgraded if the bank were to issue substantial additional volumes of capital instruments, such that it reduces the loss severity for these instrument classes.

An upgrade of DZ BANK's BCA could result from a sustainably strengthened financial profile, in particular due to a meaningful reduction in higher-risk asset concentrations, in combination with sustainably improved profitability and capital, as well as a significant reduction in market funding. However, an upgrade of DZ BANK's BCA could be offset by a reduction in the rating uplift from affiliate support.

DZ BANK's ratings would likely be downgraded following a downgrade of the Adjusted BCA, either as a result of a weakening of the financial strength of G-Finanzgruppe or caused by a significantly weaker BCA of DZ BANK. Furthermore, a shift in the bank's liability structure towards non-bail-in-able instruments, such that it increases the loss severity for a respective debt class and results in reduced rating uplift from Moody's Advanced LGF analysis, could result in a downgrade.

DZ BANK's BCA could be downgraded in case of a material weakening of its asset quality, for example if substantial unexpected risks were to emerge from its commercial banking activities, a concurrent decline in capitalisation and profitability, and a deterioration of the bank's combined liquidity profile.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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Swen Metzler, CFA
VP - Senior Credit Officer
Financial Institutions Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456

Client Service: 44 20 7772 5454

Alexander Hendricks, CFA
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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