

# DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main

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# DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main

## Credit Highlights

**Issuer Credit Rating**  
A+/Stable/A-1

### Overview

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

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

In its role, DZ BANK provides core services to the sector such as liquidity management, funding, and wholesale banking products. We reflect this in our assessment of DZ BANK's core group status for the sector and equalize our long-term issuer credit rating on the bank with the group credit profile of 'a+' (see "Cooperative Banking Sector Germany," published on Jan. 9, 2024, on RatingsDirect). Based on the solidarity within the sector and its comprehensive protection scheme--administered by Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR)--we expect sector banks with core group status to support each other in all foreseeable circumstances.

## Services Provided By DZ BANK Group Strengthen The Sector's Overall Competitive Position

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

## **Capitalization Remains Weaker Than For The Overall Cooperative Banking Sector.**

With an estimated risk-adjusted capital (RAC) ratio of 10% as of year-end 2023, DZ BANK Group's capitalization is weaker than that of the consolidated cooperative banking sector, but in line with that of domestic and also corporate banking heavy peers Deutsche Bank AG and Commerzbank AG and largely on par with the average RAC ratio among the Top 50 European banks.

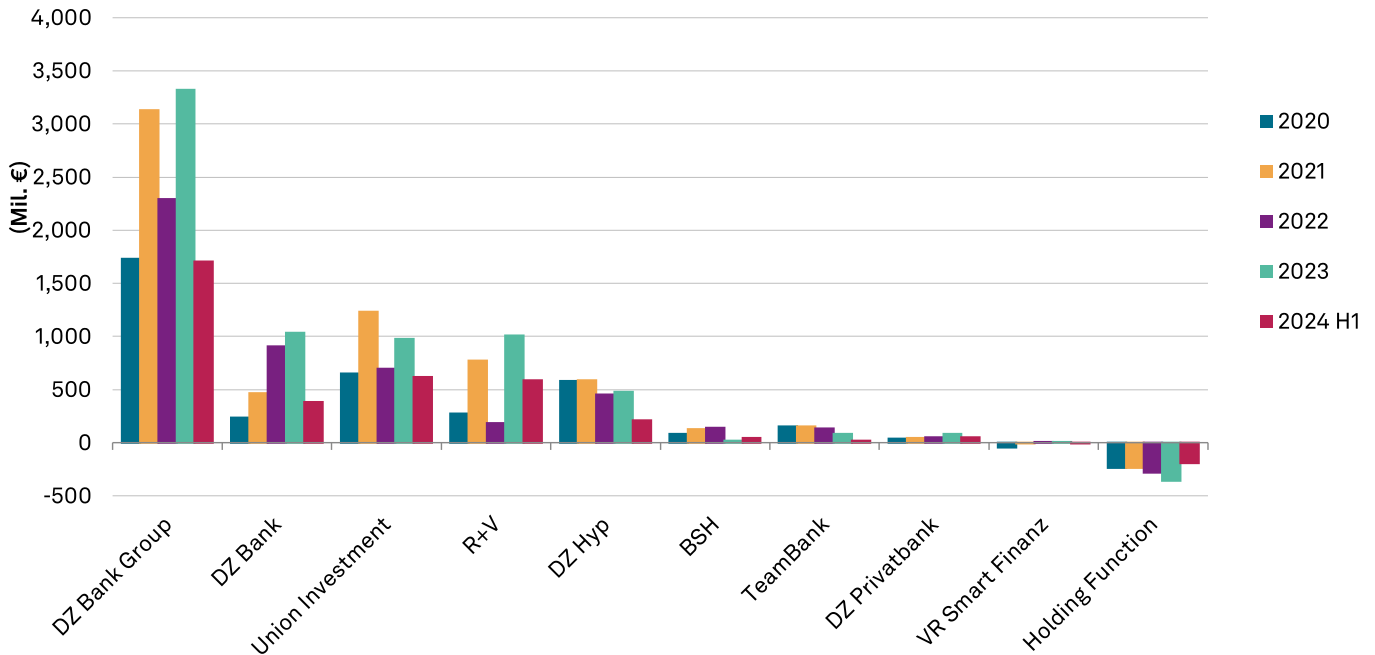
While DZ BANK Group's regulatory common equity Tier 1 (CET1) ratio of 15.7% at mid-year 2024 already signals solid capital buffers, we think additional capital would be available within the sector if needed. The further increase in the CET1 ratio compared with year-end 2022 is mainly attributable to higher profit retention in the context of stronger earnings and still modest payouts, as well as the positive impact of the introduction of International Financial Reporting Standard 17 at insurance subsidiary R+V Versicherung. In June 2023, DZ Bank placed €1.1 billion worth of additional Tier 1 (AT1) instruments within the sector to local cooperative banks, which further benefitted its stand-alone Tier 1 capital base and also exemplifies the strength and cohesion of the cooperative sector in Germany.

DZ BANK Group reported a solid pre-tax profit of 1.7 billion for the first six months in 2024, which translates into a pre-tax return on average equity of 9.1%, only slightly below its record profit of €1.9 billion for the same period in 2023, while confirming its long-term target range of €2.0 billion–€2.5 billion for 2024 and thereafter. Increasing activity and better margins in DZ Bank's corporate lending activities and ongoing strong earnings contribution from its asset management and insurance subsidiary contributed to ongoing strong revenue momentum. Despite challenging macroeconomic conditions in its home market Germany, asset quality has also held up well over the course of 2024, with only modest credit losses to date in more cyclical corporate segments or commercial real estate. For the full-year 2024, we project pre-tax profits will exceed its target range and to reach €2.7 billion. The main risk to our earnings forecast remains if the current economic environment translates into significantly higher credit losses or if market conditions perform adversely, affecting revenue from insurance and asset management activities.

Chart 1

**Solid half-year results confirm the group is on track to achieve its financial targets of €2.0 bil-€2.5 bil in pre-tax profits for 2024**

Pretax profits for the group and by segment between 2020-2024



BSH--Bausparkasse Schwäbisch Hall. R+V--R+V Versicherung. H1--First half. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

**Primary Banks' Excess Liquidity Supports DZ BANK's Funding Position**

The excess liquidity of the primary institutions is generally channeled to DZ BANK, enabling it to manage the sector's aggregate liquidity needs. Within DZ BANK Group, funding sources are well diversified, but DZ BANK and its subsidiaries largely rely on wholesale funding, particularly by issuing covered bonds through DZ HYP and other covered instruments (DZ Briefe). DZ BANK is entitled to include claims against the sector's members in its cover pool for these instruments. DZ BANK also has a \$15 billion commercial paper program in place and access to the U.S. Federal Reserve through its New York branch. At mid-year 2024, DZ Bank Group's regulatory liquidity coverage ratio amounted to 143%, and its net stable funding ratio to 125%.

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

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

solidarity within the sector. We therefore do not assign resolution counterparty ratings to DZ BANK.

## Outlook

Our stable outlook on the Cooperative Banking Sector Germany, including DZ BANK and all other core group members, reflects our expectation that the sector will maintain its robust capitalization and solid operating profitability. These provide a strong buffer to absorb potential further valuation and credit losses.

### Downside scenario

We could lower our ratings on the sector's core members if a sudden repricing of deposits depresses structural profitability or if credit costs rise substantially above our current expectations.

We could also lower the ratings if the sector's market position deteriorates materially, leading to financial difficulties for several cooperative banks and weakening BVR's capacity to support them.

### Upside scenario

We currently consider a positive rating action on the sector and DZ BANK as remote. A prerequisite is that we revise upward the anchor for German domestic banks to 'a-', highlighting that the economic environment has become more supportive and structural challenges in German retail and small and midsize enterprise banking have eased.

## Rated Subsidiaries

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

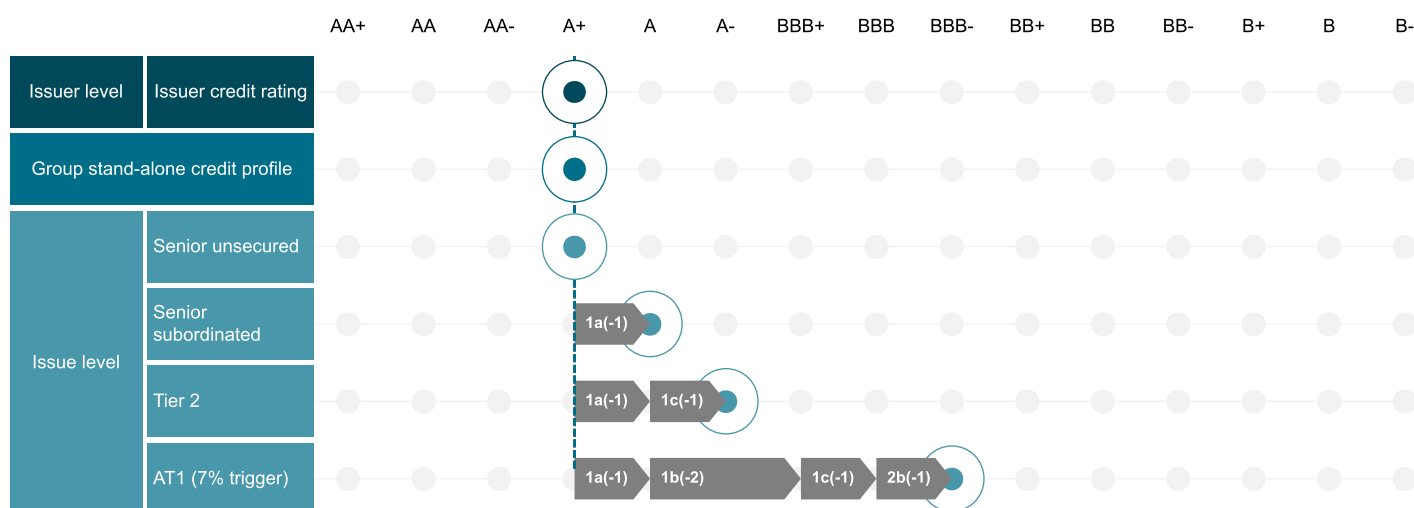
## Rated Hybrids

The protection scheme governing body and administrator, BVR, has introduced guidelines on member banks' AT1 issuance in 2023. It underlines that BVR does not seek to protect discretionary payments for AT1 investors and sets guidelines that require issuing banks to reconsider AT1 payments if they receive extraordinary support from the sector. We understand these guidelines are predominantly targeted toward local cooperative issuers but also apply to DZ BANK. We see this new BVR policy as increasing coupon nonpayment risk for DZ BANK's AT1s and apply an additional notch deduction beyond our four-notch standard minimum notching for AT1s from the issuer credit rating.

At the same time, we continue to see some circumstances in which DZ BANK would receive extraordinary support

from its affiliates and yet continue to pay its discretionary coupons. We therefore continue to use our 'A+' long-term issuer credit rating on DZ BANK as the appropriate starting point for our hybrid notching ("Ratings Affirmed On Germany-Based DZ Bank's AT1 Instruments Despite Revised Notching Approach," published on April 5, 2023).

### DZ BANK AG Deutsche Zentral-Genossenschaftsbank: Notching



#### Key to notching

- Issuer credit rating
- Group stand-alone credit profile
- 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
- 2b Other nonpayment or default risk not captured already

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

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

AT1--Additional Tier 1.

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## Key Statistics

Table 1

| DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main--Key figures |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
| --Year ended Dec. 31--   |         |         |         |         |         |
| (Mil. €)   | 2024*   | 2023    | 2022    | 2021    | 2020    |
| Adjusted assets  | 541,642 | 524,851 | 520,423 | 497,465 | 472,219 |
| Customer loans (gross)   | 207,681 | 204,776 | 203,646 | 195,665 | 190,294 |
| Adjusted common equity   | 20,540  | 19,284  | 20,905  | 16,788  | 15,534  |
| Operating revenues   | 4,193   | 8,137   | 6,513   | 7,241   | 6,163   |
| Noninterest expenses   | 2,276   | 4,597   | 4,447   | 4,265   | 4,036   |

**Table 1**

**DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main---Key figures (cont.)**

| (Mil. €)      | --Year ended Dec. 31-- |       |       |       |      |
|---------------|------------------------|-------|-------|-------|------|
|               | 2024*                  | 2023  | 2022  | 2021  | 2020 |
| Core earnings | 1,246                  | 2,226 | 1,052 | 2,176 | 976  |

\*Data as of June 30.

**Table 2**

**DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main--Business position**

| (%)   | --Year ended Dec. 31-- |         |         |         |         |
|---|------------------------|---------|---------|---------|---------|
|   | 2024*                  | 2023    | 2022    | 2021    | 2020    |
| Total revenues from business line (currency in millions)      | 4,193.0                | 8,148.0 | 6,548.0 | 7,241.0 | 6,169.0 |
| Commercial banking/total revenues from business line          | 38.9                   | 42.8    | 51.8    | 36.9    | 47.7    |
| Retail banking/total revenues from business line              | 17.8                   | 17.8    | 23.5    | 20.0    | 22.4    |
| Commercial & retail banking/total revenues from business line | 56.7                   | 60.6    | 75.2    | 56.9    | 70.1    |
| Insurance activities/total revenues from business line        | 14.0                   | 12.4    | (4.1)   | 10.7    | 4.5     |
| Asset management/total revenues from business line            | 29.3                   | 27.1    | 28.8    | 32.5    | 25.4    |
| Return on average common equity                               | 9.1                    | 9.3     | 4.6     | 8.2     | 3.8     |

\*Data as of June 30.

**Table 3**

**DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main--Capital and earnings**

| (%)  | --Year ended Dec. 31-- |      |      |      |      |
|--|------------------------|------|------|------|------|
|  | 2024*                  | 2023 | 2022 | 2021 | 2020 |
| Tier 1 capital ratio                                 | 17.8                   | 17.7 | 15.2 | 16.8 | 16.6 |
| S&P Global Ratings' RAC ratio before diversification | N/A                    | N/A  | 10.0 | 9.5  | 9.9  |
| S&P Global Ratings' RAC ratio after diversification  | N/A                    | N/A  | 10.8 | 10.3 | 10.8 |
| Adjusted common equity/total adjusted capital        | 86.2                   | 85.4 | 90.7 | 88.6 | 87.8 |
| Net interest income/operating revenues               | 55.6                   | 52.7 | 50.5 | 38.0 | 44.4 |
| Fee income/operating revenues                        | 37.3                   | 34.5 | 42.2 | 40.5 | 34.4 |
| Market-sensitive income/operating revenues           | (7.5)                  | 1.0  | 6.5  | 7.4  | 9.4  |
| Cost to income ratio                                 | 54.3                   | 56.5 | 68.3 | 58.9 | 65.5 |
| Preprovision operating income/average assets         | 0.6                    | 0.6  | 0.3  | 0.5  | 0.4  |
| Core earnings/average managed assets                 | 0.4                    | 0.4  | 0.2  | 0.4  | 0.2  |

\*Data as of June 30. N/A--Not applicable.



**Table 4**

| <b>DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main--Risk position</b> |                               |             |             |             |             |
|---|-------------------------------|-------------|-------------|-------------|-------------|
|   | <b>--Year ended Dec. 31--</b> |             |             |             |             |
| <b>(%)</b>  | <b>2024*</b>                  | <b>2023</b> | <b>2022</b> | <b>2021</b> | <b>2020</b> |
| Growth in customer loans  | 2.8                           | 0.6         | 4.1         | 2.8         | 2.2         |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification         | N/A                           | N/A         | (7.0)       | (7.2)       | (8.2)       |
| Total managed assets/adjusted common equity (x)   | 32.3                          | 33.4        | 30.0        | 37.4        | 38.3        |
| New loan loss provisions/average customer loans   | 0.2                           | 0.2         | 0.1         | (0.1)       | 0.4         |
| Gross nonperforming assets/customer loans + other real estate owned                     | 1.7                           | 1.6         | 1.3         | 1.5         | 2.0         |
| Loan loss reserves/gross nonperforming assets   | 67.5                          | 66.0        | 71.9        | 66.5        | 60.0        |

\*Data as of June 30. N/A--Not applicable.

**Table 5**

| <b>DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main--Funding and liquidity</b> |                               |             |             |             |             |
|---|-------------------------------|-------------|-------------|-------------|-------------|
|   | <b>--Year ended Dec. 31--</b> |             |             |             |             |
| <b>(%)</b>  | <b>2024*</b>                  | <b>2023</b> | <b>2022</b> | <b>2021</b> | <b>2020</b> |
| Core deposits/funding base  | 32.5                          | 33.8        | 34.7        | 31.1        | 32.1        |
| Customer loans (net)/customer deposits  | 128.4                         | 126.7       | 126.5       | 139.3       | 140.2       |
| Long-term funding ratio   | 70.6                          | 71.2        | 72.3        | 73.3        | 72.5        |
| Stable funding ratio  | 103.9                         | 105.2       | 107.0       | 109.0       | 104.1       |
| Short-term wholesale funding/funding base   | 31.3                          | 30.7        | 29.0        | 28.4        | 29.3        |
| Regulatory net stable funding ratio   | 125.4                         | 126.5       | 122.3       | 127.1       | N/A         |
| Broad liquid assets/short-term wholesale funding (x)  | 1.1                           | 1.2         | 1.3         | 1.3         | 1.2         |
| Broad liquid assets/total assets  | 26.2                          | 26.6        | 28.1        | 26.4        | 24.2        |
| Broad liquid assets/customer deposits   | 108.9                         | 107.2       | 110.3       | 119.2       | 107.4       |
| Net broad liquid assets/short-term customer deposits  | 26.8                          | 34.4        | 58.0        | 78.5        | 50.5        |
| Regulatory liquidity coverage ratio (LCR) (%)   | 142.9                         | 145.8       | 145.9       | 155.2       | N/A         |
| Short-term wholesale funding/total wholesale funding  | 45.8                          | 45.9        | 44.1        | 40.9        | 42.8        |
| Narrow liquid assets/3-month wholesale funding (x)  | 1.4                           | 1.5         | 1.5         | 1.4         | 1.3         |

\*Data as of June 30. N/A--Not applicable.

## Related Criteria

- Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Banking Industry Country Risk Assessment: Germany, Aug. 7, 2024
- German Banks In 2024: Rating Resilience Despite Economic Underperformance, Jan. 24, 2024
- Cooperative Banking Sector Germany, Jan. 9, 2024
- DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Aug. 10, 2023
- Ratings Affirmed On Germany-Based DZ Bank's AT1 Instruments Despite Revised Notching Approach, April 5, 2023

### Ratings Detail (As Of September 6, 2024)\*

#### DZ Bank AG Deutsche Zentral-Genossenschaftsbank Frankfurt am Main

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

#### Issuer Credit Ratings History

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

#### Sovereign Rating

|         |                 |
|---------|-----------------|
| Germany | AAA/Stable/A-1+ |
|---------|-----------------|

\*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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