FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms German Cooperative Banks and DZ BANK at 'AA-'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 26 Mar 2025: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDR) of Genossenschaftliche FinanzGruppe (GFG), its central institution DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) and about 670 primary bank members of GFG's mutual support scheme, at 'AA-' with Stable Outlooks. GFG's Viability Rating (VR) has been affirmed at 'aa-'.

A full list of rating actions for all rated members of GFG is below.

Fitch has withdrawn the ratings of 25 local cooperative banks because they no longer exist as separate entities following their merger with other members of the group.

KEY RATING DRIVERS

Leading German Retail, Commercial Group: GFG's ratings reflect the group's leading and highly diversified business profile, strong risk-adjusted capitalisation, low leverage, sound asset quality despite headwinds and a record of stable profitability, as well as its outstanding funding profile by international standards. GFG's VR is one notch above the implied VR, reflecting the high importance of its strong business profile for the rating.

Mutual Support Mechanism: GFG is a cooperative banking network and not a legal entity. Its cohesion is ensured by an institutional protection scheme (IPS) managed by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR). GFG's IDRs are group ratings that apply to each member bank, including its central institution DZ BANK and its subsidiaries

Diversified Business Model: GFG's domestically focused, stable universal banking business model has delivered stable profits over several economic cycles. It is based on its local banks' strong domestic retail and small SME banking franchise, interlinked with and supported by DZ BANK group's product providers. These include leaders in insurance, asset management, real estate, as well as DZ BANK's capital market business.

There is a strong strategic alignment between DZ BANK and the local banks, with intensified cooperation and cross-selling across GFG.

Conservative Risk Appetite: GFG's risk profile largely reflects the group's cooperative nature with a contained risk appetite. It is underpinned by granular credit exposures based on sound underwriting standards at primary banks, conservative securities portfolios and the benefit of liquidity pooling and transmission through DZ BANK. However, local banks on average have notably higher interest rate risk in their banking books.

Moderate Asset Quality Deterioration: GFG's asset quality remained resilient overall in 2024 despite a moderate rise in the volume of its non-performing loan portfolio. It primarily reflects Germany's weak economic performance and real estate developer defaults in the housing sector. We estimate a further moderate increase of the impaired loans ratio to around 2.5% in 2025 before economic recovery is likely to stabilise GFG's loan quality.

Resilient Underlying Profitability: We expect GFG's earnings to have been resilient in 2024 with a solid contribution from DZ BANK, and an operating profit/risk-weighted asset ratio of about 1.5% (2023: 1.8%). The slightly lower expected 2024 result is mainly due to increased loan impairment charges and cost inflation. In 2025 we expect another small decline in profits but a good result above the group's long-term average.

Strong Capitalisation: The local banks and DZ BANK are both well-capitalised with strong buffers over their respective regulatory requirements. GFG's leverage ratio is high by international standards. We expect GFG's common equity Tier 1 (CET1) ratio to remain above 15% in the medium term, supported by traditionally high profit retention and slower loan growth than in previous years.

Stable Funding, Strong Liquidity: GFG's funding profile is stable and superior to most peers, reflecting local banks' granular retail deposits supplemented by DZ BANK's deep market access and wholesale funding capacity, including covered bond issuance. GFG has strong liquidity, underpinned by an effective pooling mechanism of local banks' excess savings at its central institution. We expect GFG to defend its leading deposit market share in 2025.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We could downgrade GFG's and its members' ratings if GFG's impaired loans ratio rises above 3% on a sustained basis, its average operating profit declines to below 1% of risk-weighted assets (RWA), or its regulatory CET1 ratio falls durably below 13%. A downward revision of our operating environment score for GFG (aa-/stable) would also put pressure on its ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of GFG's and of its members' ratings is unlikely given the already high ratings. In addition to a domestic environment that would allow higher lending margins, an upgrade would also require greater cost efficiency, which is likely to necessitate further streamlining of the group's structure, especially at the local banks, beyond the current merger activity, as well as better asset quality and higher capitalisation.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

GFG's and its members' Short-Term IDRs of 'F1+' map to their Long-Term IDRs of 'AA-'.

The long-term deposit ratings and long-term senior preferred debt ratings of DZ BANK and its banking subsidiaries, the long-term deposit rating of Muenchener Hypothekenbank, and DZ BANK's Derivative Counterparty Rating (DCR) are one notch above their respective Long-Term IDRs because of the protection provided by resolution buffers to preferred creditors. In our view, resolution would only occur in the extremely unlikely event that GFG's mutual support scheme fails to protect group members' viability.

The deposit ratings of Deutsche Apotheker- und Aerztebank and of the local cooperative banks are aligned with GFG's IDRs due to the absence of sustainable significant resolution debt buffers at these entities. Each local bank is regulated individually as a less significant institution. Consequently, the German regulator's preferred resolution strategy for these banks consists of standard insolvency procedures, as opposed to the preferred bail-in resolution strategy for the DZ BANK group and Muenchener Hypothekenbank, each of which is directly under the authority of the European Single Resolution Board (SRB) and follows a single-point-of-entry approach. Consequently, the predominantly deposit-funded local banks have no incentive to build up resolution buffers.

This is also the case for Deutsche Apotheker- und Aerztebank, which is directly under the authority of the SRB, but is currently not required to maintain resolution buffers in excess of its capital requirements.

The ratings of the subordinated Tier 2 and additional Tier 1 notes (AT1) issued by DZ BANK and its subsidiaries are two and four notches below GFG's VR, respectively, which is the standard notching for this type of instruments under Fitch's criteria. We use GFG's

VR as the anchor rating as we believe that by protecting the viability of DZ BANK and its subsidiaries, GFG increases the likelihood that all due payments on these notes will continue to be met.

GFG's Government Support Rating (GSR) of 'no support' reflects our view that extraordinary sovereign support for EU banks is possible but cannot be relied on due to the Bank Recovery and Resolution Directive and the Single Resolution Mechanism's resolution tools and mechanisms. It is likely that senior creditors will be required to participate in losses, if necessary, instead of, or ahead of, the group receiving sovereign support.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

GFG's members' long-term debt and deposit ratings are sensitive to a change in GFG's Long-Term IDR. We could also downgrade DZ BANK's DCR and DZ BANK's and its subsidiaries' long-term senior preferred debt and deposit ratings and Muenchener Hypothekenbank's long-term deposit rating if we no longer expect them to maintain senior non-preferred and junior debt buffers above 10% of the banks' respective RWAs on a sustained basis.

The ratings of the subordinated Tier 2 notes issued by DZ BANK and its subsidiaries are sensitive to a change in GFG's VR.

DZ BANK'S AT1 notes' rating would be downgraded if GFG's VR was downgraded. In addition, the notes could be downgraded if non-performance risk increases relative to the risk captured in GFG's VR, for example if the BVR rules out the possibility of coupon payments if DZ BANK receives extraordinary support from the mutual support scheme, or if DZ BANK's buffer over coupon omission triggers declines below 100bp. An upgrade of the AT1 notes would require an upgrade of GFG's VR.

We would upgrade GFG's GSR only if we see rising propensity from the sovereign to support systemically important banks, which is highly unlikely in the current regulatory environment.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

DZ BANK's subsidiaries' DZ HYP AG and DZ PRIVAT BANK S.A.'s issuer and debt ratings are aligned with those of DZ Bank.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

DZ BANK subsidiaries' issuer and debt ratings are sensitive to a change in DZ BANK's issuer or debt ratings.

VR ADJUSTMENTS

The business profile score of 'aa-' is above the 'a' implied category score ore due to the following adjustment reason: business model (positive).

The earnings and profitability score of 'a' is above the 'bbb' implied category score due to the following adjustment reason: earnings stability (positive).

The capitalisation and leverage score of 'aa-' is above the 'a' implied category score due to the following adjustment reason: leverage and risk-weight calculation (positive).

The funding and liquidity score of 'aa' is above the 'a' implied category score due to the following adjustment reason: deposit structure (positive).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 21 Mar 2025) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Aachener Bank eG	EU Issued, UK End
Abtsgmuender Bank -Raiffeisen- eG	EU Issued, UK End
Aktivbank AG	EU Issued, UK End
Allgaeuer Volksbank eG Kempten-Sonthofen	EU Issued, UK End
Alxing-Brucker Genossenschaftsbank eG	EU Issued, UK End
BAG Bankaktiengesellschaft	EU Issued, UK End
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Bank Im Bistum Essen eG	EU Issued, UK End
Bankhaus RSA eG	EU Issued, UK End
Bausparkasse Schwaebisch Hall AG	EU Issued, UK End
Bayerische BodenseeBank -Raiffeisen- eG	EU Issued, UK End
BBBank eG	EU Issued, UK End
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