



## Fitch Rates DZ HYP's Senior Preferred Debt 'AA-/F1+'

Fitch Ratings-Frankfurt/London-10 January 2019: Fitch Ratings has assigned DZ HYP AG's (AA-/Stable) debt issuance programme long- and short-term senior preferred debt ratings of 'AA-' and 'F1+', respectively. Fitch has also assigned DZ HYP's EUR55 million senior preferred note due 2027 (ISIN DE000A2G9HH7) issued under the programme a 'AA-' rating.

### KEY RATING DRIVERS

#### SENIOR PREFERRED DEBT

DZ HYP's debt issuance programme ratings for senior preferred notes are equalised with the bank's Issuer Default Ratings (IDRs). DZ HYP's IDRs are aligned with those of the German cooperative banking group, Genossenschaftliche FinanzGruppe (GFG; AA-/Stable/F1+), of which the bank is a member. GFG is not a legal entity but a banking network, whose cohesion is ensured by a mutual support scheme. Therefore, Fitch rates GFG's members based on its approach to rating mutual banking groups backed by mutual support mechanisms.

Senior preferred is a class of senior unsecured debt introduced on 21 July 2018 by amendments to the German resolution regime. This new regime implements the reform of the Bank Resolution and Recovery Directive agreed at EU level at end-2017, which aims at harmonising the ranking of senior debt in resolution and insolvency across the EU. The new regime defines senior preferred debt as the new reference senior debt class and gives German banks the possibility (by specifying so in each note's issuance documentation) to issue senior non-preferred debt that ranks between senior preferred and subordinated Tier 2 debt.

Under our Bank Rating Criteria, senior preferred debt ratings can benefit from a one-notch uplift above a bank's IDRs if we assess that the bank has sufficient buffers of qualifying junior and senior non-preferred debt to provide its senior preferred creditors with additional protection in a resolution scenario. However, we have not given any uplift to DZ HYP's senior preferred debt rating, as in our opinion, GFG's consolidated layer of junior and senior non-preferred debt is not large enough to provide senior preferred creditors with additional protection.

This is primarily driven by the fact that DZ BANK AG, GFG's dominant senior debt issuer and DZ HYP's parent, traditionally places a large share of its senior debt issuance within GFG. It also reflects DZ BANK's limited debt issuance needs due to the modest size of its wholesale business relative to the predominantly retail deposit-funded GFG.

### RATING SENSITIVITIES

#### SENIOR PREFERRED DEBT

DZ HYP's senior preferred debt and issuance programme ratings are primarily sensitive to a change in the bank's IDRs.

DZ HYP is GFG's largest real-estate lender and Germany's largest covered-bond issuer. It focuses on commercial real-estate, housing, public-sector and household clients.

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## **SOLICITATION STATUS**

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