



## Fitch Places German Coop Banks' Debt Ratings Under Criteria Observation

Fitch Ratings - Frankfurt am Main - 04 March 2020:

Fitch Ratings has placed various debt and Deposit Ratings of eight members of the German cooperative banking group, Genossenschaftliche FinanzGruppe (GFG, AA-/Stable) under criteria observation (UCO).

The eight GFG members are DZ BANK AG Deutsche Zentral Genossenschaftsbank (DZ Bank); Bausparkasse Schwaebisch Hall AG; DVB BANK SE; DZ PRIVATBANK S.A.; DZ HYP AG; TeamBank AG Nuernberg; Deutsche Apotheker- und Aerztebank eG (apoBank); and Muenchener Hypothekenbank eG (Muenchener Hyp).

The rating actions follow the publication on 28 February 2020 of Fitch's updated bank rating criteria that include changes to the way the agency notches senior and junior ratings from their Issuer Default Rating (IDR) or Viability Rating (VR) anchors.

The updated criteria better reflect continuing developments in bank resolution, notably developments in bank resolution plans, the build-up of 'bail-in' debt buffers that protect more senior creditors and their implication for default risk and recovery prospects for different senior and junior liability classes. Fitch has also reduced the base case notching for non-performance on additional tier 1 (AT1) instruments, narrowing the relative gap between Tier 2 and AT1 instruments where Fitch has reappraised its baseline treatment of non-performance risk.

Ratings designated as being UCO will be reviewed and resolved as soon as practical and in any case within six months.

### **Key Rating Drivers**

The UCO reflects the possibility that these ratings will be upgraded or downgraded as a result of the publication of our new Bank Rating Criteria on 28 February 2020, as outlined in more detail in the Rating Sensitivities section of this rating action commentary.

GFG is a cooperative banking network whose cohesion is ensured by a mutual support scheme. Its IDRs apply to its member banks listed above, in accordance with Annex 4 of Fitch's criteria for rating banking structures backed by mutual support schemes. The scheme has effectively protected its members' viability and averted losses by their creditors since its inception and we believe that its very strong propensity and ability to support its members remain unaffected by the recent developments in bank resolution. Consequently, the senior unsecured debt ratings, Derivative Counterparty Ratings (DCRs) and Deposit Ratings of GFG's member banks are equalised with GFG's IDRs, and the Tier 2 subordinated debt of member banks is notched down once from GFG's VR.

## **RATING SENSITIVITIES**

### **DCRS, LT SENIOR PREFERRED DEBT AND LT DEPOSIT RATINGS**

We have placed UCO DZ BANK's DCR as well as the LT Deposit Ratings and LT senior preferred debt ratings of the issuers listed above to reflect the potential for these ratings to be upgraded under the new criteria. DZ BANK and its consolidated banking subsidiaries form a resolution group segregated from GFG's other members and mutual support scheme. In addition, apoBank and Muenchener Hyp each form a standalone resolution group.

Under the previous Bank Rating Criteria, uplift of a bank's LT preferred ratings above the LT IDR required the IDRs to be driven by the VR. Therefore, under the previous criteria, we calculated the resolution debt buffers of GFG's members on GFG's consolidated basis and concluded that the buffers were not sufficient to warrant an uplift of LT preferred ratings.

To assess the relevant buffers under the new Bank Rating Criteria and determine whether the LT preferred debt ratings of DZ BANK (and its subsidiaries), apoBank and Muenchener Hyp are eligible for uplift, Fitch will consider risk-weighted assets that best reflect the resolution approach of each individual issuer, ie, by excluding GFG's members that are in different resolution groups and those that are not included in any resolution group. By doing so, analysts will take into account the latest relevant disclosure/representation as well as an estimate of the projected debt buffers and risk-weighted assets at the level of the single resolution groups of the entities listed above.

### **SENIOR UNSECURED DEBT**

DZ BANK's and DVB BANK's senior unsecured debt class contains senior unsecured instruments issued before 21 July 2018. Consequently, this debt class may contain non-structured senior unsecured debt and certain instruments with simple structures that in a resolution rank pari passu with senior non-preferred instruments issued after 21 July 2018, as well as structured notes that rank pari passu with senior preferred instruments issued after that date. Therefore, both banks' senior unsecured debt class is UCO to reflect the possibility that this debt class contains structured notes that may be upgraded under the new criteria.

### **TIER 2 SUBORDINATED DEBT**

We have placed the Tier 2 subordinated debt of DZ BANK, DVB BANK and DZ HYP UCO because it could be downgraded to reflect the switch to a baseline notching of two notches for loss severity from the anchor rating under the new criteria (from one notch under previous criteria) unless conditions under the new criteria for one notch prevail.

### **VIEW ADDITIONAL RATING DETAILS**

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **Applicable Criteria**

Bank Rating Criteria (pub. 28 Feb 2020)

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