

Rating Action: Moody's downgrades DZ BANK AG's long-term senior unsecured debt and deposit ratings to Aa2 from Aa1

01 Oct 2021

Outlook changed to stable from negative

Frankfurt am Main, October 01, 2021 -- Moody's Investors Service (Moody's) has today downgraded the long-term deposit, senior unsecured debt and issuer ratings of DZ BANK AG (DZ BANK) and -- where applicable -- for its rated subsidiaries DZ HYP AG (DZ HYP) and Bausparkasse Schwaebisch Hall AG (BSH) to Aa2 from Aa1. At the same time, the rating agency changed the outlook on these ratings to stable from negative. Moody's also downgraded the Adjusted Baseline Credit Assessment (Adjusted BCA) of all three entities to a3 from a2.

For a list of all affected ratings, please refer to the end of this press release.

RATINGS RATIONALE

The rating action reflects a downward revision of Moody's assessment of the financial strength of Germany's cooperative banking sector, Genossenschaftliche FinanzGruppe (G-Finanzgruppe), which, despite the reassessment, remains among the strongest universal banking group's globally. The rating agency believes G-Finanzgruppe's financial profile remains supported by the sector's very strong capitalization and high asset quality as well as by a strong funding profile based on a large, retail-focused deposit base and its good level of liquid assets. At the same time, Moody's expects in particular the primary banks of the sector to be exposed to continued interest margin pressure amid an adverse interest rate environment in Germany. Despite a temporary recovery in profitability in 2021, this margin pressure will moderately reduce the still very strong resilience of G-Finanzgruppe's financial profile going forward.

In Moody's view, the sustainable profitability of the sector will provide a less comprehensive buffer against unexpected losses than it did historically as a result of the pressure from declining net interest margins of the sector's retail banks. Whereas the rating agency believes the sector will make further progress in cost management and non-interest income generation, its profitability as a percentage of its growing tangible assets base will overall remain challenged, in particular as cost of risk will begin to normalize from 2022 on.

As a result of the reassessment of G-Finanzgruppe's financial strength, Moody's downgraded the Adjusted BCAs of DZ BANK and its subsidiaries to a3 from a2, which now incorporate two notches of rating uplift from the bank's BCAs instead of three for DZ BANK and BSH and four notches instead of five for DZ HYP.

G-Finanzgruppe and its member banks operate a regulated and supervised institutional protection scheme and Moody's has maintained its assessment that the likelihood of member banks supporting each other is very high, resulting in an Adjusted BCA that benefits from the overall financial creditworthiness of the group.

The one-notch downgrade of DZ BANK's and its subsidiaries' long-term ratings reflects the downgrade of the Adjusted BCA to a3 from a2 and unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis as well as unchanged results from the rating agency's assumption for government support.

Moody's expects DZ BANK and its domestic banking subsidiaries to form a joint resolution perimeter in case of failure. Moody's therefore applies the results of DZ BANK's LGF analysis to the rated instruments of the group and of its subsidiaries DZ HYP and BSH, considering the risks faced by the different debt and deposit classes across the group's liability structure at failure.

CHANGE IN OUTLOOK TO STABLE FROM NEGATIVE

Moody's views G-Finanzgruppe's financial profile to be highly resilient at its new level. The rating agency also expects the intrinsic strength of DZ BANK to remain broadly unchanged over the 12 to 18 months outlook horizon. These considerations, in combination with no anticipated change in the liability structure of DZ BANK and the outcome of the rating agency's Advanced LGF analysis led to a change in outlook to stable from negative on the long-term deposit, issuer and senior unsecured debt ratings.

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

An upgrade of DZ BANK's and its rated subsidiaries' ratings could be triggered by an upgrade of the bank's BCA, or by an improvement in the cooperative sector's financial strength. Additional rating uplift from Moody's Advanced LGF analysis could occur for junior senior unsecured debt and lower ranking instruments if DZ BANK significantly increase the volume of instruments designed to absorb losses in resolution relative to its tangible banking assets.

An upgrade of DZ BANK's BCA could be prompted by a meaningful reduction in higher-risk asset concentrations, in combination with a sustainable improvement in its profitability and a further improvement in its capitalisation. An upgrade of BSH's BCA would be subject to an upgrade of DZ BANK's BCA, which caps BSH's BCA and at the same time to BSH at least maintaining its own financial profile. DZ HYP's BCA could be upgraded as a result of a combined improvement in the bank's solvency and liquidity metrics.

A downgrade of DZ BANK's and its subsidiaries' ratings could result from a joint weakening of the financial strength of G-Finanzgruppe and DZ BANK, or if the bank issued less debt designed to absorb losses in bail-in compared with its tangible banking assets than the rating agency currently anticipates.

DZ BANK's BCA could be downgraded if substantial unexpected risks were to emerge from its commercial banking activities, or if the group's loss-absorption capacity through capital and profits were to materially decrease. BSH's BCA could be downgraded in the case of a downgrade of DZ BANK's BCA, because it is capped by DZ BANK's BCA. DZ HYP's BCA could be downgraded in case of a sustainably higher dependence on market funding, as a result of a significant weakening of DZ BANK's capitalisation, or if asset losses were to rise and weaken asset quality beyond the rating agency's current expectations.

LIST OF AFFECTED RATINGS

Issuer: DZ BANK AG

..Downgrades:

-Long-term Counterparty Risk Ratings, downgraded to Aa2 from Aa1
-Long-term Bank Deposits, downgraded to Aa2 from Aa1, outlook changed to Stable from Negative
-Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)
-Long-term Issuer Ratings, downgraded to Aa2 from Aa1, outlook changed to Stable from Negative
-Adjusted Baseline Credit Assessment, downgraded to a3 from a2
-Senior Unsecured Regular Bond/Debenture, downgraded to Aa2 from Aa1, outlook changed to Stable from Negative
-Senior Unsecured Medium-Term Note Program, downgraded to (P)Aa2 from (P)Aa1
-Junior Senior Unsecured Regular Bond/Debenture, downgraded to A3 from A2
-Junior Senior Unsecured Medium-Term Note Program, downgraded to (P)A3 from (P)A2
-Subordinate Regular Bond/Debenture, downgraded to Baa1 from A3
-Subordinate Medium-Term Note Program, downgraded to (P)Baa1 from (P)A3

..Affirmations:

-Short-term Counterparty Risk Ratings, affirmed P-1
-Short-term Bank Deposits, affirmed P-1
-Short-term Counterparty Risk Assessment, affirmed P-1(cr)
-Short-term Issuer Ratings, affirmed P-1

...Commercial Paper, affirmed P-1

...Other Short Term, affirmed (P)P-1

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: DZ Bank AG, New York Branch

..Affirmation:

...Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: Bausparkasse Schwaebisch Hall AG

..Downgrades:

...Long-term Counterparty Risk Ratings, downgraded to Aa2 from Aa1

...Long-term Bank Deposits, downgraded to Aa2 from Aa1, outlook changed to Stable from Negative

...Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)

...Long-term Issuer Ratings, downgraded to Aa2 from Aa1, outlook changed to Stable from Negative

...Adjusted Baseline Credit Assessment, downgraded to a3 from a2

..Affirmations:

...Short-term Counterparty Risk Ratings, affirmed P-1

...Short-term Bank Deposits, affirmed P-1

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Short-term Issuer Ratings, affirmed P-1

..Outlook Action:

...Outlook changed to Stable from Negative

Issuer: DZ HYP AG

..Downgrades:

...Long-term Counterparty Risk Ratings, downgraded to Aa2 from Aa1

...Long-term Bank Deposits, downgraded to Aa2 from Aa1, outlook changed to Stable from Negative

...Long-term Counterparty Risk Assessment, downgraded to Aa2(cr) from Aa1(cr)

...Long-term Issuer Ratings, downgraded to Aa2 from Aa1, outlook changed to Stable from Negative

...Adjusted Baseline Credit Assessment, downgraded to a3 from a2

...Senior Unsecured Regular Bond/Debenture, downgraded to Aa2 from Aa1, outlook changed to Stable from Negative

...Senior Unsecured Medium-Term Note Program, downgraded to (P)Aa2 from (P)Aa1

...Junior Senior Unsecured Regular Bond/Debenture, downgraded to A3 from A2

...Junior Senior Unsecured Medium-Term Note Program, downgraded to (P)A3 from (P)A2

..Affirmations:

...Short-term Counterparty Risk Ratings, affirmed P-1

...Short-term Bank Deposits, affirmed P-1

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Short-term Issuer Ratings, affirmed P-1

..Outlook Action:

...Outlook changed to Stable from Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moody.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 at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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