FitchRatings

Banks
Retail & Consumer Banks
Germany

Genossenschaftliche FinanzGruppe

Ratings

Genossenschaftliche FinanzGruppe

Long-Term IDR	AA-
Short-Term IDR	F1+
Viability Rating	aa-
Government Support Rating	ns

Sovereign Risk (Germany)

Long-Term IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term IDR	Stable
Sovereign Long-Term IDR	Stable

Key Rating Drivers

Leading German Retail and Commercial Group: Genossenschaftliche FinanzGruppe's (GFG) ratings reflect the group's leading and highly diversified business profile, strong risk-adjusted capitalisation and low leverage, sound asset quality, a record of profitability that is considerably better than most German peers, as well as its outstanding funding profile, by international standards. GFG's Viability Rating (VR) is one notch above the implied VR, reflecting the high importance for GFG's ratings of its strong business profile.

Mutual Support Mechanism: GFG is not a legal entity, but a cooperative banking network whose cohesion is ensured by an institutional protection scheme (IPS) managed by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR). GFG's Issuer Default Ratings (IDRs) are group ratings that apply to each member bank, including its central institution DZ BANK AG Deutsche Zentral-Genossenschaftsbank 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 supported by DZ BANK's product suppliers. These include domestic market leaders in the insurance, asset-management and real-estate businesses. The business model benefits from a strong strategic alignment of DZ BANK and the local banks with intensified cooperation and cross-selling across GFG.

High Interest-Rate Risk Exposure: Interest-rate risk is high in the local banks' loan books and securities portfolios due to their asset/liability duration mismatches, a high share of fixed-rate lending, and the absence of widespread use of interest-rate hedging derivatives. This led to high unrealised valuation losses in 2022 in the local banks' securities portfolios. However, Fitch Ratings views the banks' strong deposit franchise, liquidity and earnings as sufficient mitigating factors to prevent a forced sale of securities.

Sound Asset Quality: GFG's asset quality remained resilient in 2022, despite macro-economic and geopolitical risks. We expect impaired loans to modestly increase in the next two years, to about 2% of gross loans due to higher interest rates and inflation, which are likely to drive rising insolvencies in the group's SME and commercial real estate portfolios.

Resilient Average Profitability: GFG's profits have been more stable than the German banking sector's historically. Operating profit declined significantly in 2022 due to temporary write-downs in the local banks' securities portfolios and DZ BANK's insurance subsidiary, driven by the sharp increase of interest rates during 2022. We expect profitability to recover in 2023, but to remain below 2021, as loan growth subsides and loan impairment charges normalise upward.

Strong Capitalisation: The local banks and DZ BANK are both well-capitalised, and GFG's leverage ratio is high by international standards. We expect GFG's common equity Tier 1 (CET1) ratio to remain close to the current 15% in the medium term, supported by slower loan growth than in previous years.

Very Stable Funding: The local banks are predominantly funded by granular, mostly price-inelastic domestic retail deposits, and their structurally large excess liquidity covers most of DZ BANK's short-term funding needs. As a frequent issuer of unsecured debt and the largest German covered bond issuer to an established and geographically diversified investor base, DZ BANK provides GFG with reliable access to the wholesale markets.

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms German Cooperative Banks and DZ BANK at 'AA-'; Outlook Stable (April 2023)

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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 loan ratio durably rises above 3%, its average operating profit/risk-weighted assets (RWAs) ratio declines below 1%, or its regulatory CET1 ratio falls durably below 13%. A downgrade 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 and in light of the increased economic and financial uncertainties. 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 a protracted streamlining of the group's structure, especially at the local banks.

Other Debt and Issuer Ratings

	Rating
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	
Long-term deposit rating[a]	AA
Short-term deposit rating[a]	F1+
Long-term senior preferred debt[a, b]	AA
Short-term senior preferred debt[a, b]	F1+
Long-term senior non-preferred debt[a]	AA-
Tier 2 subordinated debt	A
Additional Tier 1 notes	BBB+(EXP)
Deutsche Apotheker- und Aerztebank eG	
Long-term deposit rating	AA-
Short-term deposit rating	F1+
Muenchener Hypothekenbank eG	
Long-term deposit rating	AA
Short-term deposit rating	F1+
Local cooperative banks	
Long-term deposit rating	AA-
Short-term deposit rating	F1+

[a] Also applies to DZ BANK's subsidiary DZ HYP AG
[b] Also applies to DZ BANK's subsidiary DZ PRIVATBANK S.A.
Source: Fitch Ratings

The long-term deposit ratings and long-term senior preferred debt ratings of DZ BANK and its banking subsidiaries, DZ BANK's Derivative Counterparty Rating (DCR), and the long-term deposit rating of Muenchener Hypothekenbank are one notch above their respective Long-Term IDRs because of the protection provided by senior non-preferred and more junior debt buffers to preferred creditors.

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 senior non-preferred and more junior debt buffers at these entities.

A preferred bail-in resolution strategy with a single-point-of-entry approach is applicable for DZ BANK group, which is directly under the authority of the European Single Resolution Board.

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, and the predominantly deposit-funded local banks have no incentive to build up resolution buffers. Deutsche Apotheker- und Aerztebank and Muenchener Hypothekenbank's preferred resolution strategy also consists of standard insolvency procedures, but Muenchener Hypothekenbank has a very large stock of legacy senior non-preferred debt outstanding, which we expect to remain well in excess of 10% of RWAs.

The ratings of the subordinated Tier 2 and additional Tier 1 notes 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 the VR as the anchor rating as we believe that GFG, by protecting the viability of DZ BANK and its subsidiaries, increases the likelihood that all due payments on these notes will continue to be met.

Ratings Navigator

Genossenschaftliche FinanzGruppe

ESG Relevance:

Banks
Ratings Navigator

			Financial Profile							
	Operating Environment	Business Profile	Risk Profile	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Implied Viability Rating	Viability Rating	Government Support Rating	Issuer Default Rating
		20%	10%	20%	15%	25%	10%				

	Implied Viability Rating	Viability Rating	Government Support Rating	Issuer Default Rating
aaa	aaa	aaa	aaa	AAA
aa+	aa+	aa+	aa+	AA+
aa	aa	aa	aa	AA
aa-	aa-	aa-	aa-	AA- Sta
a+	a+	a+	a+	A+
a	a	a	a	A
a-	a-	a-	a-	A-
bbb+	bbb+	bbb+	bbb+	BBB+
bbb	bbb	bbb	bbb	BBB
bbb-	bbb-	bbb-	bbb-	BBB-
bb+	bb+	bb+	bb+	BB+
bb	bb	bb	bb	BB
bb-	bb-	bb-	bb-	BB-
b+	b+	b+	b+	B+
b	b	b	b	B
b-	b-	b-	b-	B-
ccc+	ccc+	ccc+	ccc+	CCC+
ccc	ccc	ccc	ccc	CCC
ccc-	ccc-	ccc-	ccc-	CCC-
cc	cc	cc	cc	CC
c	c	c	c	C
f	f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

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

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

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

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

Company Summary and Key Qualitative Factors

Business Profile

GFG Is the German Cooperative Banking Group

GFG comprised more than 700 local cooperative banks as of end-1Q23, which focus on retail and small SME banking, and also included their central institution DZ BANK, which also consolidates GFG's banking product suppliers. DZ BANK is large – making up about 35% of GFG's aggregated assets at end-2022 – and more exposed to riskier asset classes such as commercial real estate (CRE) than the local banks are. However, stable and low-risk retail businesses dominate DZ BANK's revenue mix, similar to the local banks.

GFG's domestic market shares are close to 20% in most deposit and loan segments, second only to the savings banks (Sparkassen-Finanzgruppe, SFG). Like SFG, GFG is particularly strong in retail and small business banking. It has steadily increased its market shares in most core products over the past decade, gradually reducing the gap with SFG, and still has some potential to improve its penetration of the large German mid-sized SME market. Moreover, about 60% of the group's 30 million clients are also the local banks' owners. This significantly enhances the stability of GFG's client base, as does the local banks' strong commitment to their home regions.

The local banks and DZ BANK's product suppliers have also intensified their cooperation and cross-selling over the past decade, strengthening GFG's cohesion. This is evidenced by a consistently high level of fees paid by the product suppliers owned by DZ BANK to the local banks and the strong intra-group cooperation on digitalisation and IT harmonisation.

In our view, GFG is well equipped to manage the transition of its clients' banking behaviour (notably toward rising acceptance and more extensive use of digital services), while maintaining the local proximity that underpins its franchise. In doing so, the group is helped by the marked inertia that characterises its predominantly older German retail clients, including a fairly slow adoption of digitalisation trends and a high degree of loyalty to long-standing main banking relationships.

Successfully combining GFG's traditional and innovative banking channels, including the development of digital onboarding, is crucial to attract younger customers. GFG aims to diversify its long-term diversify its revenues by leveraging the primary banks' strong ties to their local communities to create local digital platforms offering services beyond traditional banking. We view this as plausible.

Decentralised Structure Strengthens Franchise but Complicates Regulation

GFG's local banks collectively own DZ BANK, control its supervisory board, and define its strategic orientations in cooperation with DZ BANK's management. The local banks operate much more autonomously than in most European cooperative banking groups. This is because each local bank is legally independent, with its own management team and supervisory board, and the BVR has limited powers to influence their governance. In our view, this highly decentralised structure results in looser corporate governance at group level compared to a single bank architecture.

We believe that this autonomy and the fact that DZ BANK has no authority over the local banks explain the absence of regulatory requirements at GFG's level, with the exception of consolidated COREP and FINREP reporting. The ECB's formal direct supervision applies to the domestically systemically important DZ BANK, apoBank and Muenchener Hyp. The Bundesbank and BaFin supervise each local bank individually.

In our view, this regulatory fragmentation prevents considerable efficiency gains, as each local bank must maintain extensive regulatory reporting and back office functions. We consider that the absence of comprehensive direct group supervision also fails to fully accommodate GFG's operational cohesion. Each local bank must fulfil regulatory requirements, such as SREP and liquidity coverage ratios, individually, although the mutual support scheme and DZ BANK's central liquidity pooling ensure intragroup fungibility of capital and funding.

The ECB has increasingly turned its supervisory attention to less significant European institutions (of which GFG and SFG's local banks account for the vast majority) over the past couple of years. In the long term, we believe this could eventually result in GFG being increasingly subject to comprehensive supervisory provisions at a consolidated level.

Cost-cutting-driven mergers among local banks are likely to continue at a sustained pace, but at the same time we expect GFG to remain strongly committed to its costly decentralised structure as long as the benefits from the local franchises prevail. GFG's decentralised setup also has positive risk implications as it limits risk correlations, drives granularity and promotes a cautious risk culture locally.

The continuous development of BVR's monitoring tools enables increasingly effective checks and balances. BVR's responsibilities notably include GFG's risk monitoring, the coordination of product development by the group's specialised product providers, and the management of the dual mutual support scheme.

Risk Profile

Risk Management Decentralised but Adequate Risk Controls

Each local bank defines its risk appetite independently and underwriting decisions are not subject to GFG-wide centralised approvals or limits. However, BVR's monitoring system indirectly influences the banks' risk-taking, because their individual contributions to GFG's mutual support fund BVR-Sicherungseinrichtung (BVR-SE) depend on BVR-SE's assessment of each bank's risk profile. The BVR will propose to its members changes to the statues of the group's IPS during its annual meeting in June 2023. The proposed changes aim to discipline members' risk appetite and increase the IPS's tools and speed of intervention.

The local banks also use a shared internal credit rating system for retail and SME loans and a synthetic risk-diversification tool, both managed by BVR and DZ BANK. The local banks' typically low risk appetite and their diversified and granular exposures adequately mitigate GFG's credit risk. The banks' strong focus on owner-occupied housing loans, which account for over one third of GFG's total loans, as well as their good knowledge of their local areas of operation and close client proximity, are also important risk-mitigating factors.

High Structural Interest Rate Risk in the Banking Books

The banking books of GFG's local banks are exposed to high and mostly unhedged structural interest-rate risk due to their asset/liability duration mismatches and a high share of fixed-rate lending.

Similar to SFG, a majority of cooperative banks have not hedged their securities portfolios against rising interest rates. The increase in euro interest rates accounted for the vast majority of the EUR4.5 billion valuation losses reported by the local cooperative banks under German GAAP in 2022. In the long term, we believe that virtually all valuation losses will gradually be reversed by the pull-to-par effect. This is because the cooperative banks' strong liquidity and large retail deposit base make fire sales of securities holdings highly unlikely, allowing for securities to be held to maturity. Moreover, only a negligible portion of bonds was bought above par. We also expect valuation losses triggered by widening credit spreads, as well as actual losses driven by bond issuers' defaults, to be low, due to the predominantly high quality of the banks' securities portfolios.

To limit the impact of their securities holdings' decreasing market values on their profits, the local banks reclassified some of their holdings from their marked to market liquidity portfolios to their held-to-collect securities investment portfolios under local GAAP during 2022.

GFG's insurance segment headed by DZ BANK's subsidiary R+V Versicherung AG, also reported a loss in 2022 driven by interest-rate-induced fair-value losses in its liquidity portfolio.

Financial Profile

Asset Quality

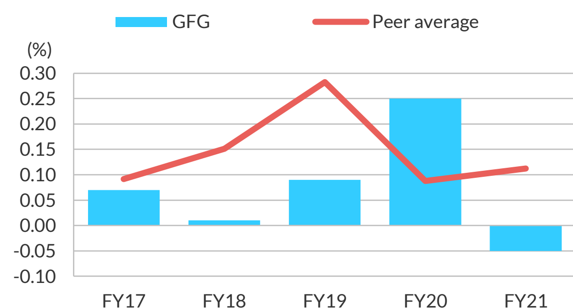
GFG's asset quality remained sound in 2022. Its focus on domestic lending is rating positive given the size and strength of the German economy. Its loan quality also benefits from a dominant focus on granular retail housing, small SMEs and professionals, high collateralisation levels in secured lending, and low single-name and sector concentrations.

The local banks' coverage of impaired loans is lower than international peers', but has remained stable in recent years and should be assessed in the context of the local banks' large proportion of retail mortgage loans. Including collateral, total coverage is reasonably close to 100%. Low unemployment and long fixed-rate maturities in the local banks' mortgage loan books will also protect their loan books from rising interest rates for the next few years.

GFG's corporate and SME portfolio is less sensitive to the high energy prices than domestic peers with larger exposures to the manufacturing sector. However, we expect impaired loans to rise moderately in 2023 and 2024, in line with corporate insolvencies in Germany increasing again after their record lows during the pandemic. GFG's exposure to CRE is mostly concentrated at DZ BANK's subsidiary DZ HYP AG, and at Muenchner Hyp, two of Germany's leading CRE lenders. The combined CRE loan volume is around EUR60 billion, with the majority backed by residential and office properties in Germany. The local banks' CRE exposure includes a large portion of SME loans secured with commercial property and apartment buildings. Predominantly long-term interest-rate fixes and adequate loan/value ratios should protect GFG's CRE loan books from rising refinancing risks and falling market valuations.

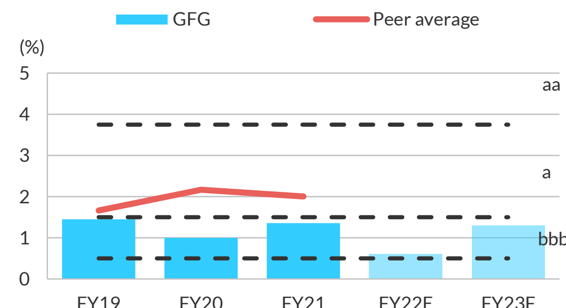
DZ BANK's asset quality benefits from conservative underwriting, risk diversification and years of run-down of the bank's shipping portfolio. DZ BANK's net direct exposure to Russia, Belarus and Ukraine is minimal, at about EUR139 million.

Loan Impairment Charges/Average Gross Loans



Source: Fitch Ratings, Fitch Solutions, GFG

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, GFG

Earnings and Profitability

GFG, together with the savings banks, has been the most profitable and resilient large German banking group by a wide margin over the past decade. The very high diversification of its business model results in stable earnings through the cycle.

In recent years, the group was able to offset the pressure on its net interest margins by growing its real estate loan book at a higher rate than peers and by also growing its asset-management business. This has increased the proportion of net commission income in GFG's revenue mix. We estimate that GFG's operating profit/RWAs fell to 0.6% in 2022 (2021: 1.4%), driven by the sizeable temporary valuation losses in the bond portfolios of the subsidiaries of the local banks and DZ BANK. This has more than offset a strong improvement in net interest margin on new business on the back of higher interest rates and extremely slow repricing of retail deposits.

Higher loan-impairment charges, only modest loan growth and cost inflation are likely to weigh on profitability in 2023. We expect higher interest rates to continue sustaining net interest income, but the repricing of the loan book will be only gradual, and demand for new housing loans, which drove loan growth in the past decade, is likely to continue declining in 2023 and remain low in 2024. Net commission income is also likely to remain flat as savings accounts increase in popularity again as interest rates rise and in the volatile market environment, thus reducing income from asset-management products.

Capital and Leverage

GFG's capitalisation and leverage are strong by international standards. Our assessment of the group's capitalisation considers the standardised approach used by GFG's local banks to measure credit risk for all asset classes. We believe

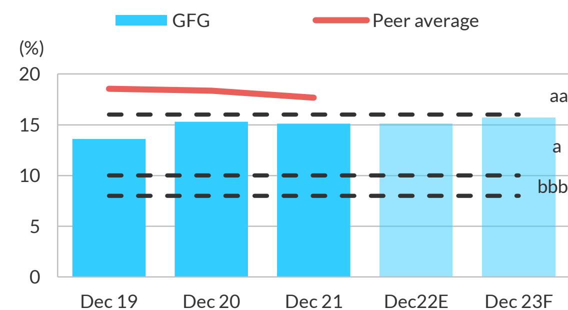
the use of the standardised approach considerably overstates the riskiness of GFG's balance sheet compared with similar European peers, which mostly use the internal-rating-based approach.

Paid-in capital accounts for only 12% of the group's IFRS equity, which predominantly consists of retained earnings accumulated during the group's long and steady record of strong organic capital generation, with a payout ratio of below 10% of GFG's net income.

GFG changed its consolidated regulatory capital reporting to IFRS from local GAAP in 2021, which resulted in yoy increases in the CET1 and leverage ratios at end-2021. We estimate that both ratios remained broadly unchanged at end-2022, as sustained loan growth at the local cooperative banks in 2022 (+6.5% yoy) should have offset profit retention and lower RWAs at DZ BANK.

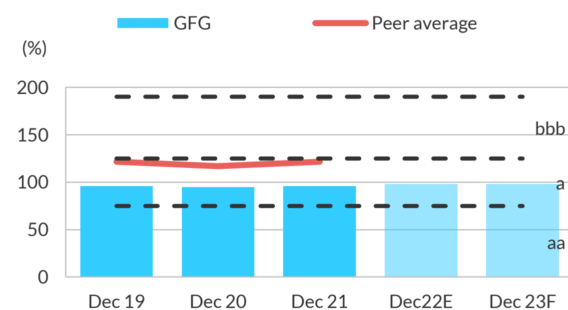
Losses in DZ BANK's insurance subsidiary's bond portfolio booked at fair value through other comprehensive income resulted in a decline in DZ BANK's CET1 ratio to 13.7% at end-2022 (end-2021: 15.3%) after falling to 12.01% at end-3Q22. In 2023 DZ BANK's CET1 ratio will benefit from the implementation of IFRS 17 at its insurance subsidiary, which should result in a CET1 ratio well above 14%. DZ BANK also announced it will strengthen its Tier 1 capital by issuing AT1 instruments to other members of GFG in 2023.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, GFG

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, GFG

Funding and Liquidity

The local banks are predominantly funded by granular domestic retail deposits. GFG has demonstrated the above-average stickiness of its deposit base through various interest-rate cycles by marginally increasing its deposit market shares (the second-largest in Germany behind SFG), fending off aggressive competitors during phases of higher interest rates and steeper yield curves, when competition for cheap retail deposits is particularly strong. Moreover, the local cooperative banks are perceived as safe havens during periods of banking sector turmoil.

GFG meets the majority of its external wholesale funding needs with covered bonds. Its members (mainly its mortgage lenders DZ HYP and Muenchener Hyp) are collectively, and by a wide margin, the largest issuers of German covered bonds, with EUR76 billion outstanding at end-2022. However, a material share of this aggregated volume is placed within GFG. Structural subordination of senior unsecured creditors is high at GFG's large covered bond issuing entities but moderate at the group's level, with only 5% of GFG's total assets encumbered by covered bonds. We do not view structural subordination at individual members as meaningful given the mutual support scheme, which protects their viability.

DZ BANK pools the local banks' excess deposits in its capacity as GFG's central institution, and some of its subsidiaries (especially its housing lender Bausparkasse Schwaebisch Hall) are large deposit-takers. Therefore, its wholesale funding needs are limited relative to its size, even though it is a frequent issuer of unsecured debt. DZ BANK places a significant share of its senior unsecured debt at GFG's local banks. Most of its external unsecured issuance is in the form of small private placements, often as reverse enquiries, to a diversified pool of international investors. This limits the bank's exposure to funding market volatility.

The local banks and DZ BANK have large liquidity portfolios, held in cash or invested in adequately diversified investment-grade bonds. In addition, local banks also run held to collect investment portfolios. However, we believe that a sale of bonds, both in the liquidity and investment portfolios, is very unlikely given the superior stability of the group's funding. GFG's members had already repaid about half of their outstanding central bank tenders (TLTRO) at end-2022.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level

and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Sparkassen-Finanzgruppe (Sparkassen) (VR: a+), Sparkassen-Finanzgruppe Hessen-Thueringen (a+), Desjardins Group (aa-), Groupe BPCE (a+), Credit Mutuel Alliance Federale (a+), Svenska Handelsbanken AB (aa), Skandinaviska Enskilda Banken AB (publ) (aa-), Cooperatieve Rabobank U.A. (a+).

Financials

Financial Statements

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
Summary income statement					
Net interest and dividend income	20,620	18,232	18,272	18,185	18,368
Net fees and commissions	9,811	8,675	7,439	7,092	6,816
Other operating income	1,821	1,610	1,709	3,665	817
Total operating income	32,253	28,517	27,420	28,942	26,001
Operating costs	21,011	18,577	18,036	18,142	18,079
Pre-impairment operating profit	11,242	9,940	9,384	10,800	7,922
Loan and other impairment charges	-381	-337	2,327	832	151
Operating profit	11,623	10,277	7,057	9,968	7,771
Other non-operating items (net)	277	245	159	211	n.a.
Tax	3,412	3,017	2,189	3,133	2,369
Net income	8,488	7,505	5,027	7,046	5,402
Other comprehensive income	150	133	377	1,055	-453
Fitch comprehensive income	8,639	7,638	5,404	8,101	4,949
Summary balance sheet					
Assets					
Gross loans	1,067,696	944,028	890,576	844,552	794,916
Loan loss allowances	10,371	9,170	9,830	9,119	8,988
Net loans	1,057,325	934,858	880,746	835,433	785,928
Interbank	17,863	15,794	19,651	22,439	18,800
Derivatives	22,275	19,695	29,443	25,232	20,530
Other securities and earning assets	465,798	411,846	399,375	390,104	371,554
Total earning assets	1,563,261	1,382,193	1,329,215	1,273,208	1,196,812
Cash and due from banks	177,537	156,973	120,961	87,421	75,169
Other assets	30,859	27,285	25,715	23,459	21,196
Total assets	1,771,657	1,566,451	1,475,891	1,384,088	1,293,177
Liabilities					
Customer deposits	1,113,952	984,926	937,876	880,398	842,420
Interbank and other short-term funding	234,153	207,032	170,802	156,316	119,300
Other long-term funding	87,404	77,280	75,071	46,793	58,677
Trading liabilities and derivatives	24,805	21,932	32,589	54,896	48,742
Total funding and derivatives	1,460,314	1,291,170	1,216,338	1,138,403	1,069,139
Other liabilities	164,809	145,720	137,725	129,525	116,160
Preference shares and hybrid capital	199	176	246	204	243
Total equity	146,334	129,385	121,582	115,956	107,635
Total liabilities and equity	1,771,657	1,566,451	1,475,891	1,384,088	1,293,177
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, Genossenschaftliche FinanzGruppe

Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Profitability				
Operating profit/risk-weighted assets	1.4	1.0	1.5	1.2
Net interest income/average earning assets	1.3	1.4	1.5	1.5
Non-interest expense/gross revenue	65.1	65.8	63.2	69.9
Net income/average equity	6.0	4.2	6.3	5.1
Asset quality				
Growth in gross loans	6.0	5.5	6.2	4.3
Loan impairment charges/average gross loans	-0.1	0.3	0.1	0.0
Capitalisation				
Common equity Tier 1 ratio	15.1	14.4	13.6	13.5
Tangible common equity/tangible assets	8.2	8.2	8.2	8.3
Basel leverage ratio	8.0	7.5	7.0	6.9
Funding and liquidity				
Gross loans/customer deposits	95.9	95.0	95.9	94.4
Liquidity coverage ratio	160.1	177.6	174.3	166.0
Customer deposits/total non-equity funding	77.4	78.9	79.0	80.5

Source: Fitch Ratings, Fitch Solutions, Genossenschaftliche FinanzGruppe

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	**ns**
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

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.

Subsidiaries and Affiliates

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

Environmental, Social and Governance Considerations

FitchRatings **Genossenschaftliche FinanzGruppe** — Banks Ratings Navigator

Credit-Relevant ESG Derivation

Genossenschaftliche FinanzGruppe has 5 ESG potential rating drivers

- Genossenschaftliche FinanzGruppe has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

Score	Description
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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