

Navigator Date: 09 Apr 24

Sector Details:

Bank sector:	Retail
Region:	DM Europe
Jurisdiction:	Germany
Sovereign IDR:	AAA Stable
Last sovereign action:	15 Mar 24 Affirmed
Country Ceiling:	AAA
Macro-prudential indicator:	3
Bank systemic indicator:	a

Bank Rating History

Viability Rating (VR)		
09 Apr 24	aa-	Affirmed
18 Apr 23	aa-	Affirmed
15 Jun 22	aa-	Affirmed
Issuer Default Rating (IDR)		
09 Apr 24	AA- Stable	Affirmed
18 Apr 23	AA- Stable	Affirmed
15 Jun 22	AA- Stable	Affirmed

Legend:

**Main Chart:** 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.

**Support Assessment:** The colours indicate the weighting of each KRD in the assessment.

- Higher influence
- Moderate influence
- Lower influence
- Benchmark-implied score

Applicable Criteria & References

- [Bank Rating Criteria \(Mar 2024\)](#)
- [Macro-Prudential Risk Monitor \(Jul 2023\)](#)
- [Sovereign Data Comparator](#)

Analysts

- [Roger Schneider \(+49 69 768076 242\)](#)
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	Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support Rating	Issuer Default Rating
				Asset Quality	Earnings & Profitability	Capitalization & Leverage	Funding & Liquidity				
		20%	10%	20%	15%	25%	10%	aaa	aaa	aaa	AAA
								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-
								bbb+	bbb+	bbb+	BBB+
								bbb	bbb	bbb	BBB
								bbb-	bbb-	bbb-	BBB-
								bb+	bb+	bb+	BB+
								bb	bb	bb	BB
								bb-	bb-	bb-	BB-
								b+	b+	b+	B+
								b	b	b	B
								b-	b-	b-	B-
								ccc+	ccc+	ccc+	CCC+
								ccc	ccc	ccc	CCC
								ccc-	ccc-	ccc-	CCC-
								cc	cc	cc	CC
								c	c	c	C
								f	f	ns	D OR RD

Adjustments

The Viability Rating has been assigned above the implied Viability Rating due to the following adjustment reason(s): Business Profile (positive).

The Operating Environment score has been assigned in line with the implied score.

The Business Profile score has been assigned above the implied score due to the following adjustment reason(s): Business Model (positive).

The Asset Quality score has been assigned in line with the implied score.

The Earnings & Profitability score has been assigned above the implied score due to the following adjustment reason(s): Earnings Stability (positive).

The Capitalisation & Leverage score has been assigned above the implied score due to the following adjustment reason(s): Leverage and Risk-Weight Calculation (positive).

The Funding & Liquidity score has been assigned above the implied score due to the following adjustment reason(s): Deposit Structure (positive).

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
<b>Government Support Rating</b>	<b>ns</b>

Government's 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's propensity to support D-SIBs

Resolution legislation	Negative
Support stance	Negative

Government's propensity to support bank

Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

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**Key Rating Drivers**

**Leading German Retail and Commercial Group:** GFG's ratings reflect the group's leading and highly diversified business profile, strong risk-adjusted capitalisation, 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 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 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 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 and supported by DZ BANK group's product providers. The latter includes domestic market leaders in insurance, asset management, real estate, as well as DZ BANK's capital-market business. The business model benefits from 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.

DZ BANK's market risk is low and results from modest capital-market activities. GFG's decentralised risk- management structure provides adequate and effective risk controls. Unhedged interest-rate risk at the primary banks is high, resulting from asset/liability duration mismatches, which is a weakness.

**Sound Asset Quality; Deterioration Ahead:** GFG's sound asset quality remained resilient in 2023 including at the group's central institution despite macro-economic challenges. We expect impaired loans to modestly increase in the next two years, to up to 2% of gross loans due to rising insolvencies in the group's SME and commercial real-estate portfolios.

**Resilient Underlying Profitability:** GFG's operating profit recovered in 2023 to about 1.7% of its risk-weighted assets (RWAs), driven by reversals of temporary valuation losses (in 2022 from higher interest rates) on the banks' securities portfolios. In addition, the group benefited from higher net interest margins due to slow deposit repricing and healthy business volumes. In 2024 we expect lower operating profit, at about 1.3% of RWAs, due to primarily higher loan impairment charges, but also moderate credit growth and further deposit repricing.

**Sound 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 above 15% in the medium term, supported by traditionally high profit retention and slower loan growth than in previous years.

**Very Stable Funding:** The local banks are predominantly funded by granular, mostly price-insensitive domestic retail deposits, and their structurally large excess liquidity covers most of DZ BANK's short-term funding needs. Primary banks' customer deposit base was largely stable in 2023 despite a notable shift towards time deposits.

DZ BANK provides GFG with reliable access to wholesale markets as a frequent issuer of unsecured debt and the largest German covered bond issuer with an established and geographically diversified investor base.

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**Key Rating Sensitivities**

We could downgrade GFG's and its members' ratings if GFG's impaired loan ratio rises above 3% on a sustained basis, its average operating profit declines to below 1% of RWAs, 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.

An upgrade of GFG's and of its members' ratings is unlikely given the already high ratings and in light of significant 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 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.

See [Published RAC](#) for the full Key Rating Drivers, Sensitivities, Applicable Criteria and other Disclosures.

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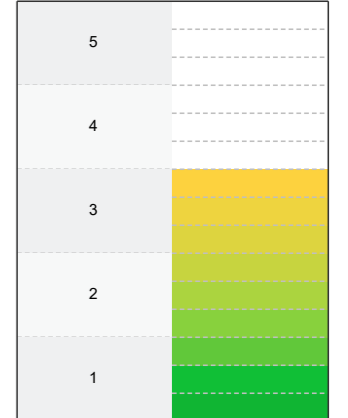
Credit-Relevant ESG derivation

Genossenschaftliche FinanzGruppe has 5 ESG potential 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.

key driver	0	Issues
driver	0	Issues
potential driver	5	Issues
not a rating driver	4	Issues
	5	Issues

ESG Relevance to Credit Rating



Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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

How to Read This Page

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.

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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

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.

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