

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings affirms DZ HYP AG's Aa2 long-term deposit and issuer ratings, maintains stable outlook**

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29 May 2024

#### **Baseline Credit Assessment affirmed at ba1**

Frankfurt am Main, May 29, 2024 -- Moody's Ratings (Moody's) has today affirmed DZ HYP AG's (DZ HYP) Aa2 long-term deposit, issuer, and senior unsecured ratings and maintained the stable outlook. At the same time, the rating agency affirmed the bank's Aa2 long-term Counterparty Risk Ratings (CRR), the (P)Aa2 senior unsecured MTN programme rating, the A3 junior senior unsecured rating, and the (P)A3 junior senior unsecured MTN programme rating. Concurrently Moody's affirmed the bank's P-1 short-term CRR, short-term deposit, and short-term issuer ratings.

In addition, Moody's affirmed DZ HYP's ba1 Baseline Credit Assessment (BCA), its a3 Adjusted BCA and its Aa2(cr)/P-1(cr) long and short-term Counterparty Risk Assessment (CR Assessment).

#### RATINGS RATIONALE

##### -- AFFIRMATION OF THE BCA

Moody's affirmation of DZ HYP's ba1 BCA reflects its resilient financial profile in light of a focused business model as a commercial real estate (CRE) lender which exposes the covered bond bank to considerable concentration risk. Moody's assessment takes into account a moderately weakened asset quality, reflecting the persistent challenges of CRE lending from higher interest rates, as well as moderate standalone capital and leverage. The rating agency's view is balanced by DZ HYP's largely domestic lending activities and close integration into DZ BANK AG (DZ BANK, deposits Aa2/senior unsecured Aa2 stable, BCA baa2), backed by a profit-and-loss transfer agreement with its parent, as well as regulatory capital and liquidity waivers for DZ HYP.

The affirmation further reflects DZ HYP's moderate profitability which constraints its ability to absorb larger loan loss provisions and satisfactory funding profile, which

benefits from its established standalone covered bond franchise as well as funding access to its parent bank and Germany's cooperative banking sector.

#### -- AFFIRMATION OF THE ADJUSTED BCA

The affirmation of DZ HYP's a3 Adjusted BCA reflects the affirmation of its ba1 BCA and Moody's unchanged assessment that the entity is affiliate-backed by DZ BANK. This assessment includes the implicit assumption of support from Germany's Genossenschaftliche Finanzgruppe (G-Finanzgruppe), which is embedded in the Adjusted BCA of DZ BANK, the reference for the rating agency's opinion on the financial strength of the supporting entity.

#### -- AFFIRMATION OF LONG-TERM RATINGS

The affirmation of DZ HYP's long-term ratings follows the affirmation of its Adjusted BCA and incorporates unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis and unchanged assumptions for government support.

Moody's continues to expect DZ HYP to form a resolution group with DZ BANK. Accordingly, the rating agency applies the outcome of its LGF analysis based on DZ BANK's resolution perimeter to DZ HYP, resulting in three notches of rating uplift for its CRR, CR Assessment, deposits, and senior unsecured debt, and no rating uplift for junior senior unsecured liabilities.

The unchanged moderate government support assumption for liabilities ranking above junior senior unsecured debt and the resulting one notch of rating uplift reflects DZ HYP's membership in G-Finanzgruppe, which Moody's considers systemically relevant to the German banking system.

#### OUTLOOK

The stable outlook on DZ HYP's long-term deposit, issuer and senior unsecured debt ratings reflects Moody's expectation that G-Finanzgruppe's financial profile remains highly resilient despite Germany's weak economic outlook, that the intrinsic strength of DZ BANK and DZ HYP remains broadly unchanged and incorporates Moody's expectation of an unchanged liability structure of DZ BANK.

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

An upgrade of DZ HYP's long-term ratings could be triggered by an improvement in the cooperative sector's financial strength, or by an upgrade of DZ BANK's BCA, which could result in a higher Adjusted BCA of DZ HYP.

DZ HYP's junior senior unsecured programme ratings could also be upgraded if DZ BANK or its subsidiary issues substantial additional volumes of capital instruments, such that it reduces the loss severity for this instrument class and results in additional

rating uplift from Moody's Advanced LGF analysis.

DZ HYP's BCA could be upgraded as a result of a sustained improvement in the bank's solvency and liquidity metrics. However, an upgrade of DZ HYP's BCA could be offset by a reduction in the rating uplift from affiliate support.

DZ HYP's ratings could be downgraded following a downgrade of the Adjusted BCA, which could result from a downgrade of its parent's Adjusted BCA, caused either by a deterioration in the cooperative sector's financial strength or a significant deterioration in the intrinsic strength of DZ BANK. Furthermore, a shift in the liability structure at the level of DZ BANK towards non-bail-in-able instruments, such that it increases the loss severity for a respective debt class and results in reduced rating uplift from Moody's Advanced LGF analysis, could result in a downgrade.

DZ HYP's BCA could be downgraded in case of a significant asset quality deterioration beyond the rating agency's current expectations, or a joint deterioration of its combined solvency and liquidity profile.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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 on <https://ratings.moodys.com/rating-definitions>.

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