FitchRatings

Genossenschaftliche FinanzGruppe

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, low leverage, sound asset quality, a record of profitability that is considerably better than most German peers', and its outstanding funding profile by international standards. GFG's Viability Rating (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 Issuer Default Ratings (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. There is 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. 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 was resilient in 2023, including at the group's central institution, despite macro-economic challenges. We expect impaired loans to increase slightly over the next two years, to up to 2% of gross loans, due to rising insolvencies in the group's SME and commercial real estate (CRE) portfolios.

Resilient Underlying Profitability: GFG's operating profit recovered to about 1.7% of its risk-weighted assets (RWAs) in 2023, driven by reversals of temporary valuation losses (in 2022 from higher interest rates) on the banks' securities portfolios. In addition, net interest margins were higher due to slow deposit repricing and healthy business volumes. We expect lower operating profit in 2024, 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. The 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.

Banks
Retail & Consumer Banks
Germany

Ratings

Foreign Currency	
Long-Term IDR	AA-
Short-Term IDR	F1+
Viability Rating	aa-
Government Support Rating	ns
Sovereign Risk (Germany)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Affirms German Cooperative Banks and DZ BANK at 'AA-'; Outlook Stable (April 2024)

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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 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.

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 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.

Other Debt and Issuer Ratings

Rating Level	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+
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

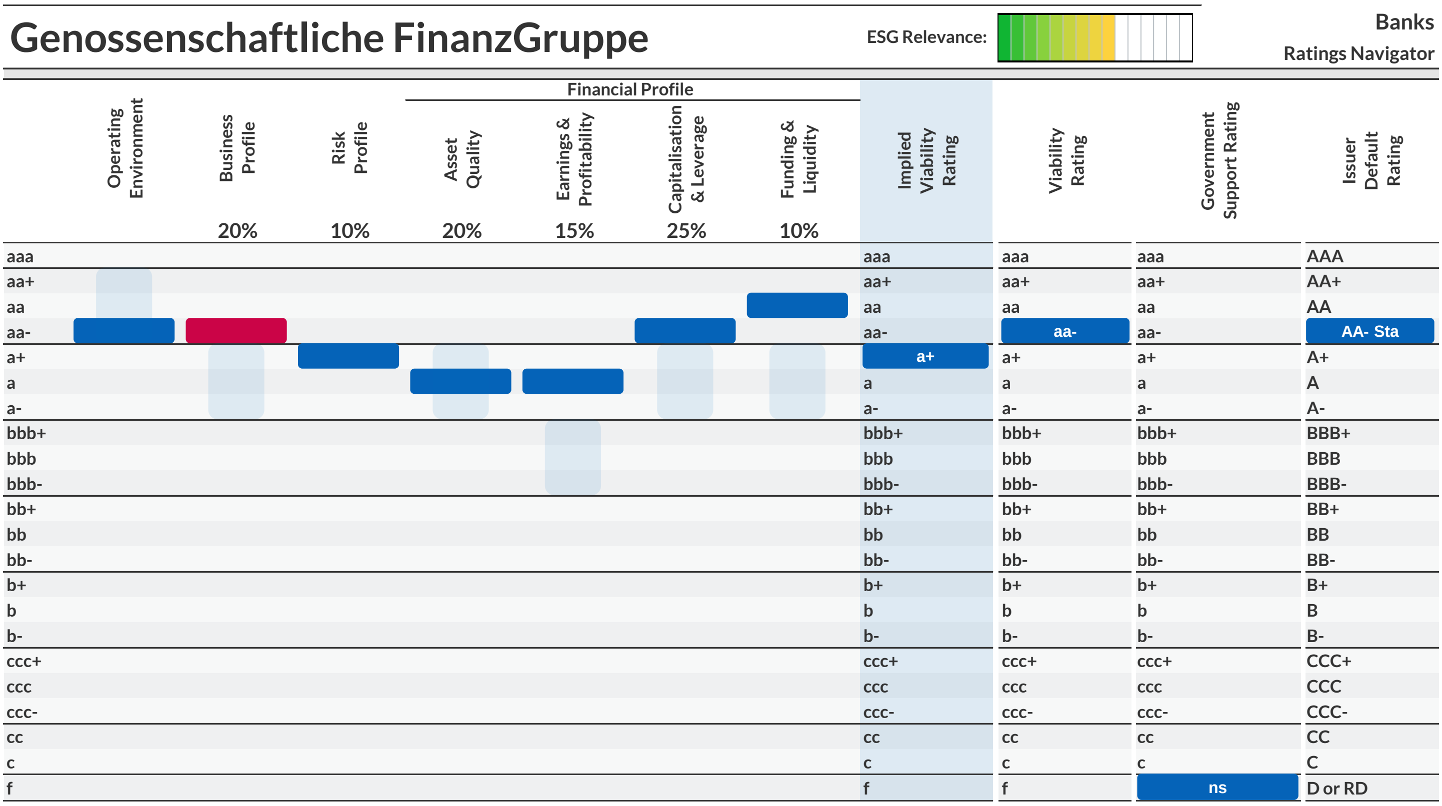
GFG's and its members' Short-Term IDRs of 'F1+' map to the Long-Term IDR of 'AA-'.

The long-term deposit ratings and long-term senior preferred debt ratings of DZ BANK and its banking subsidiaries, the long-term deposit rating of Muenchener Hypothekenbank, and DZ BANK's Derivative Counterparty Rating (DCR) are one notch above the banks' respective Long-Term IDRs because of the protection provided by resolution buffers to preferred creditors. In our view, resolution would only occur in the extremely unlikely event that GFG's mutual support scheme fails to protect group members' viability.

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 resolution debt buffers at these entities. 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, as opposed to the preferred bail-in resolution strategy for the DZ BANK group and Muenchener Hypothekenbank, each of which is directly under the authority of the European Single Resolution Board (SRB) and follows a single-point-of-entry approach. Therefore, the predominantly deposit-funded local banks have no incentive to build up resolution buffers. This is also the case for Deutsche Apotheker- und Aerztebank, which is directly under the authority of the SRB, but is not required to maintain resolution buffers in excess of its capital requirements.

The ratings of the subordinated Tier 2 and additional Tier 1 notes (AT1) issued by DZ BANK and its subsidiaries are two and four notches below GFG's VR, respectively, which is the standard notching for these type of instruments under Fitch's criteria. We use the VR of GFG 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



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' implied category score ore due to the following adjustment reason: business model (positive).

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

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

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

Company Summary and Key Qualitative Factors

Business Profile

Decentralised Structure

GFG is a large German financial network with a total operating income of almost EUR30 billion. It is also one of Europe's largest cooperative banking groups. Its domestic market shares are close to 20% in most deposit and loan segments, second only to the savings banks (Sparkassen-Finanzgruppe; SFG). GFG is particularly strong in retail and small business banking, where it has steadily increased its market shares in most core products over the past decade.

GFG comprised almost 700 local cooperative banks at end-2023, whose nationwide retail and small SME banking franchise is based on a deep knowledge of their respective local economic environment. Moreover, about 60% of the group's 30 million clients are also the local banks' owners. This relationship ensures strong loyalty among its client base and enhances the long-term stability of its business model, underpinning GFG's business profile.

GFG also includes the primary banks' central institution and commercial bank DZ BANK, which consolidates various of GFG's banking product providers, including mortgage lender DZ HYP, asset-management company Union Investment, and insurer R+V Insurance. DZ BANK accounts for about 40% of GFG's aggregated assets at end-2023. Group members, commonly referred to as 'Verbund', are DZ BANK's most important customer group, comprising 32% of its lending volume at end-2023.

DZ BANK offers a variety of wholesale and capital market products, including investment certificates and interest-rate hedging products. In its transaction business DZ Bank will also provide a trading and custody platform for crypto currencies, which is being rolled out to primary banks at a later stage. It underpins the group's commitment to digital banking payment solutions and services.

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 ECB's formal direct supervision applies to the domestically systemically important DZ BANK Group, apoBank, and Muenchener Hyp. The Bundesbank and BaFin supervise each local bank individually. 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.

Cohesion Underpins GFG's Business Profile

The local banks operate more autonomously than in most European cooperative banking groups, but they share a close relationship with DZ BANK based on intensive cooperation and cross-selling opportunities, thus strengthening GFG's cohesion, which we believe is very strong. GFG's cohesion is also underpinned by the group's IPS, which has an impeccable track record of protecting creditors and ensure viability of member institutions.

Moderate changes to the statutes of GFG's IPS were approved by GFG's members in June 2023. The changes increased the scope of the IPS's tools – such as early information rights and the speed of intervention – should it become necessary. The scheme also reviewed and adjusted its system of risk-based contributions.

Risk Profile

Conservative Risk Approach

GFG's overall risk appetite is conservative and keeps the group's risk profile at very reasonable levels, as demonstrated by a low impaired loan ratio through the cycle, both at the level of the primary banks and at that of DZ Bank group. 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, and close client proximity, are also important risk-mitigating factors.

We also consider DZ BANK's risk profile as adequate for a commercial bank of its size despite some sector concentration risks and exposure to more vulnerable asset classes, including CRE. However – more notably – DZ BANK has exited shipping, aviation and transport financing in recent years, and the group has no exposure to the US office property sector, which is under pressure. Both of GFG's CRE lenders (DZ HYP AG and Muenchner Hypothekenbank) were profitable in 2023.

Decentralised Risk Management with 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 individual banks' risk-taking, because their contributions to GFG's mutual support fund BVR-Sicherungseinrichtung (BVR-SE) depend on BVR-SE's assessment of each bank's risk profile. The continuous development of BVR's monitoring tools enables increasingly effective checks and balances. BVR's additional responsibilities include the coordination of product development by the group's specialised product providers, and the management of the IPS.

The local banks also use a shared internal credit rating system for retail and SME loans and a synthetic risk-diversification tool, both of which are managed by BVR and DZ BANK.

High Structural Interest Rate Risk in the Banking Books Is a Weakness

The banking books of GFG's local banks are exposed to mostly unhedged structural interest-rate risk due to their asset/liability duration mismatches and high share of fixed-rate lending, which we view as a rating weakness. This resulted in sizeable fair-value losses in the primary banks' bond portfolios following the steep interest rate rises in 2022, and was the main driver of GFG's 2022 net profit decline. We believe that primary banks have since lowered their interest rate risk in the banking book to reduce earnings volatility under BVR's monitoring.

We also believe that 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, which mitigates the realisation of accounting losses via the pull-to-par effect.

Financial Profile

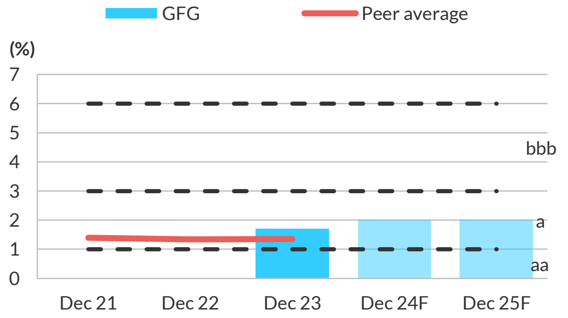
Asset Quality

GFG's asset quality was resilient in 2023 despite the recession in Germany. Its loan quality 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. Nevertheless, impaired loan ratios have started to move slightly upwards, both at the level of the primary banks and of DZ BANK. We expect this to continue in 2024 and 2025, in line with a rise in SMEs insolvencies, particularly in construction and real estate due to lower business activity and higher interest rates – although these should decline in 2H24, cushioning a material asset quality deterioration.

We believe that GFG's exposure to domestic and European CRE markets is manageable. DZ HYP AG and Muenchner Hyp, GFG's large CRE lenders, hold a combined CRE loan volume of around EUR60 billion at end-2023, the majority of which is backed by residential and office properties in Germany. Primary banks also hold CRE exposure which accounted for less than 10% of customer loans. We expect the predominantly long-term interest-rate fixes and adequate loan/value ratios to mitigate market pressure and falling market valuations in this segment, although this will result in some credit losses.

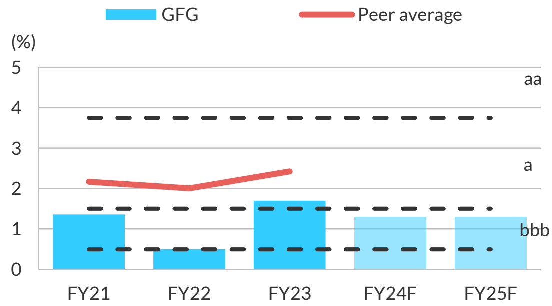
DZ BANK's asset quality also remained sound, with an NPL ratio below 2%, reflecting its conservative underwriting standards and good risk diversification despite strong growth in its corporate loan book in 2023.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks, *2023 estimate

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks, *2023 estimate

Earnings and Profitability

GFG, similar to the German savings banks, has a stable earnings profile through the cycle. The very high diversification of its business model and revenue sources, in combination with a strong contribution from its insurance and asset management businesses, have underpinned its longstanding reliable record of profitability.

We estimate that GFG's operating profit/RWAs ratio has recovered to 1.7% in 2023 (2022: 0.5%), driven by solid operating performances of the primary banks and DZ BANK group, despite a weak economic environment. The reversal of interest-rate-induced fair-value losses in liquidity portfolios in 2022 has been a key driver, together with a strong rise in net interest income. GFG's cost development is acceptable, but due to its decentralised structure the group lacks effective cost-reduction strategies.

Fitch expects GFG to generate stable profitability in 2024, albeit at a slightly lower level than in 2023. We believe GFG's net interest margins will benefit from good new lending margins and rising treasury income due to higher reinvestment yields, which are likely to offset the expected deposit repricing in 2024, in particular at the primary banks, in favour of higher-interest term deposits.

We believe that new lending volumes will likely remain below GFG's long-term trend due to continued macro-economic weakness. Higher loan impairment charges and cost inflation are also likely to weigh on profitability in 2024. Additionally, we expect the contribution of DZ BANK group to be lower in 2024 and in line with the group's profit target of EUR2.0 billion–2.5 billion.

Capital and Leverage

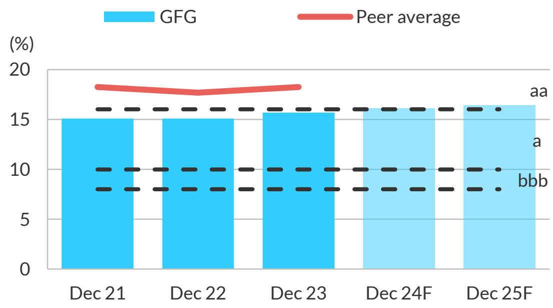
GFG's capitalisation and leverage ratios are strong by international standards. Our assessment of the group's capitalisation also considers the standardised approach used by GFG's local banks to measure credit risk for all asset classes. This considerably overstates the riskiness of GFG's balance sheet compared with similar European peers, which mostly use the internal-ratings-based approach.

Our assessment further considers the strong quality of GFG's capital. It predominantly consists of retained earnings accumulated during the group's long and steady record of strong organic capital generation, with a pay-out ratio of below 10% of GFG's net income.

We estimate that both GFG's CET1 ratio and total capital ratio increased at end-2023, as moderate loan growth at the local cooperative banks in 2023 (+2.6% yoy) and profit retention supported additional capital generation despite rising RWAs.

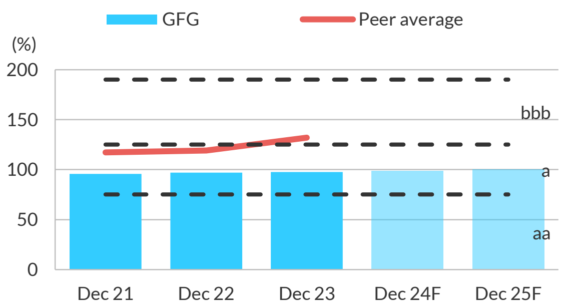
DZ BANK's capital ratios recovered in 2023, with a reported CET1 ratio of 15.5% as the application of different accounting standards on asset and liabilities at its insurance subsidiary in 2022 was resolved. DZ BANK also strengthened its Tier 1 capital by issuing AT1 instruments to other members of GFG in 2023.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks,*2023 estimate

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks, *2023 estimate

Funding and Liquidity

GFG's strong funding and liquidity score reflects its strong franchise, operating in one of Europe's largest deposit markets.

The local banks are predominantly funded by granular domestic retail deposits, which demonstrated above-average stickiness through various interest-rate cycles. GFG has a good ability to fend off aggressive competitors during periods of rising interest rates, such as in 2023, when competition for cheap retail deposits was particularly strong. Consequently, the overall deposit base at the primary banks was little changed, but, like most peers, underwent a notable shift towards time deposits, rising to 17% of total deposits end-2023 (end-2022: 7%).

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 a nominal volume of EUR81 billion of outstanding covered bonds at end-2023. A material share of this aggregated volume is placed within GFG.

DZ BANK pools the local banks' excess deposits in its central bank capacity and also 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 to the group and to a diversified pool of international investors.

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. GFG's members repaid the vast majority of outstanding central bank tenders (TLTRO) at end-2023.

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+). Financial year (FY) end is 31 December for all banks, unless otherwise stated. Data for SFG, SFG-HT, and GFG are based on 2022 figures.

Financials

Financial Statements

	31 Dec 22		31 Dec 21	31 Dec 20	31 Dec 19
	12 months (USDm)	12 months (EURm)	12 months (EURm)	12 months (EURm)	12 months (EURm)
Summary income statement					
Net interest and dividend income	21,914	20,546	18,232	18,272	18,185
Net fees and commissions	9,222	8,646	8,675	7,439	7,092
Other operating income	-5,182	-4,858	1,610	1,709	3,665
Total operating income	25,955	24,334	28,517	27,420	28,942
Operating costs	20,350	19,079	18,577	18,036	18,142
Pre-impairment operating profit	5,605	5,255	9,940	9,384	10,800
Loan and other impairment charges	1,454	1,363	-337	2,327	832
Operating profit	4,151	3,892	10,277	7,057	9,968
Other non-operating items (net)	—	—	245	159	211
Tax	1,909	1,790	3,017	2,189	3,133
Net income	2,242	2,102	7,505	5,027	7,046
Summary balance sheet					
Assets					
Gross loans	1,066,532	999,937	944,028	890,576	844,552
– Of which impaired	—	—	—	—	—
Loan loss allowances	10,517	9,860	9,170	9,830	9,119
Net loans	1,056,016	990,077	934,858	880,746	835,433
Interbank	48,100	45,097	15,794	19,651	22,439
Derivatives	20,137	18,880	19,695	29,443	25,232
Other securities and earning assets	401,981	376,881	411,846	399,375	390,104
Total earning assets	1,526,235	1,430,935	1,382,193	1,329,215	1,273,208
Cash and due from banks	125,820	117,964	156,973	120,961	87,421
Other assets	34,350	32,205	27,285	25,715	23,459
Total assets	1,686,405	1,581,104	1,566,451	1,475,891	1,384,088
Liabilities					
Customer deposits	1,101,649	1,032,861	984,926	937,876	880,398
Interbank and other short-term funding	192,434	180,418	207,032	170,802	156,316
Other long-term funding	88,377	82,859	77,280	75,071	46,793
Trading liabilities and derivatives	30,069	28,191	21,932	32,589	54,896
Total funding and derivatives	1,412,529	1,324,329	1,291,170	1,216,338	1,138,403
Other liabilities	137,794	129,190	145,720	137,725	129,525
Preference shares and hybrid capital	249	233	176	246	204
Total equity	135,834	127,352	129,385	121,582	115,956
Total liabilities and equity	1,686,405	1,581,104	1,566,451	1,475,891	1,384,088
Exchange rate		USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, GFG

Key Ratios

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.5	1.4	1.0	1.5
Net interest income/average earning assets	1.5	1.3	1.4	1.5
Non-interest expense/gross revenue	78.7	65.1	65.8	63.2
Net income/average equity	1.6	6.0	4.2	6.3
Asset quality				
Impaired loans ratio	—	—	—	—
Growth in gross loans	5.9	6.0	5.5	6.2
Loan loss allowances/impaired loans	—	—	—	—
Loan impairment charges/average gross loans	0.1	-0.1	0.3	0.1
Capitalisation				
Common equity Tier 1 ratio	15.1	15.1	15.3	13.6
Tangible common equity/tangible assets	8.0	8.2	8.2	8.2
Basel leverage ratio	7.4	8.0	8.0	7.0
Funding and liquidity				
Gross loans/customer deposits	96.8	95.9	95.0	95.9
Gross loans/customer deposits + covered bonds	92.2	91.2	90.5	91.7
Liquidity coverage ratio	158.5	160.1	177.6	174.3
Customer deposits/total non-equity funding	79.5	77.4	78.9	79.0

Source: Fitch Ratings, Fitch Solutions, GFG

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 aligned with those of DZ Bank.

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?

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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

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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