Rating Report

DZ BANK AG Deutsche Zentral-Genossenschaftsbank

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DBRS
Insight beyond the rating.

Ratings

Issuer	Obligation	Rating	Rating Action	Trend
DZ Bank AG	Long-Term Issuer Rating	A (high)	Trend Changed May'18	Positive
DZ Bank AG	Short-Term Issuer Rating	R-1 (middle)	Confirmed May'18	Stable
DZ Bank AG	Intrinsic Assessment	A (high)	--	--

See back of report for complete rating list.

Rating Drivers

Factors with Positive Rating Implications

Improving the risk profile through further reducing exposure to non-core cyclical assets (e.g. shipping and off-shore exposures) which would also have the benefit of strengthening bottom line profitability could lead to positive rating pressure.

Factors with Negative Rating Implications

Given the Positive trend, a downgrade is unlikely. However, negative rating pressure could result from: i) a significant increase in DZ's risk profile and/or ii) any indication of reduced cohesion and mutual support among the members of CFSN or any form of weakening of the CFSN Protection Scheme.

Rating Considerations

Franchise Strength: Strong domestic franchise and stable business model of the cohesive Cooperative Financial Services Network (CFSN or the Network) in Germany provides solid cross-selling foundation for DZ Bank, which plays a central role within the Network. The DZ BANK Group is Germany's second largest bank by assets.	**Very Strong / Strong**
Earnings Power: Restored earnings generation supported by multi-divisional revenue streams, underpinned by sizable insurance franchise.	**Strong**
Risk Profile: Significant progress in de-risking from high-risk portfolios; strategy towards servicing the German Cooperative bank network with lower risk appetite.	**Strong**
Liquidity and Funding: Diversified funding profile benefiting from the access to retail liquidity through the Cooperative bank network.	**Very Strong / Strong**
Capitalization: Improved capitalisation and leverage; track record of capital support from the Cooperative bank network underpinned by good internal capital generation ability.	**Strong**

Financial Information

EUR Millions	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013
Total Assets	505,594	509,447	408,341	402,682	385,398
Equity	23,505	22,890	19,729	18,245	14,188
Pre-provision operating income (IBPT)	2,825	2,443	2,722	3,106	2,843
Net Income	957	1,468	1,416	1,730	1,169
Net Interest Income / Risk Weighted Assets (%)	2.25%	2.25%	2.93%	3.11%	3.65%
Risk-Weighted Earning Capacity (%)	2.27%	2.26%	2.78%	3.39%	3.25%
Post-provision Risk-Weighted Earning Capacity (%)	1.63%	1.76%	2.59%	3.23%	2.71%
Efficiency Ratio (%)	57.26%	59.39%	54.02%	49.47%	50.81%
Impaired Loans % Gross Loans	3.00%	2.48%	3.24%	3.76%	3.88%
Core Tier 1 (As-reported)	14.00%	14.48%	13.85%	12.15%	NA

Source: SNL Financial

Issuer Description

DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK Group or the Group) functions as both a holding company for DZ BANK Group's fully consolidated subsidiaries offering banking, insurance, leasing, asset management and other financial services and as the main operating lead bank (DZ BANK AG). The Cooperative Financial Services Network (CFSN or the Network), of which DZ BANK forms an essential part, and comprises around 900 local cooperative banks, is the second-largest provider of banking services to private customers and small-and medium-sized enterprises in Germany.

Rating Rationale

DBRS rates DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK Group, or DZ, or the Group) including the Long-Term Issuer rating at A (high) and Short-Term Issuer rating at R-1 (middle). DZ BANK Group's intrinsic assessment (IA) is A (high). The support assessment for the Group is SA3 and as such, the Senior Long-Term Debt and Deposits rating of DZ BANK Group is positioned in line with the Group's IA. The trend on the Long-Term ratings is Positive while the Trend on the Short-Term ratings is Stable.

The Positive trend reflects DZ's good track record in delivering solid profitability over the longer term, the Group's strong risk profile, and the Group's sound levels of capital retention. The change in trend also reflects DZ's considerable progress in the integration of WGZ Bank Group and the benefits this merger is expected to bring to the Group.

DZ BANK Group's ratings are driven by: i) the Group's stand-alone credit profile underpinned by diversified revenue streams, ii) the Group's role as a central clearing bank and service provider to the local Cooperative Banks in Germany, providing the Group with ample access to retail liquidity as a result of the strong market position of the Cooperative retail banking network, and iii) the strength and cohesion of the Cooperative Financial Network (CFSN), tying together the around 900 local Cooperative Banks and the Group in the CFSN Protection Scheme.

In DBRS's view, DZ has made significant progress in the integration of WGZ Bank. After the successful IT migration in October 2017, the Group completed its new organizational setup at end-2017. The merged group, which has become Germany's second largest bank by total assets, has kept its decentralised structure and business model unchanged. DBRS views the DZ BANK Group as comparatively well positioned to successfully face the rising costs from regulation and IT infrastructure over the medium term. Total income and cost synergies from the merger –from strategic, business management, and regulatory perspectives – are estimated at EUR 100–150 million per year. The Group's significant size, with the potential to deploy scale economies across its business, provide a significant cost advantage in the medium term and the opportunity to reap scale efficiencies.

DZ reported a FY2017 preliminary net profit of EUR 1,098 million under IFRS accounting rules down from EUR 1,606 million in FY2016. DBRS notes that the Group's results have been impacted by one-off merger related operating expenses and high loan impairment charges for DZ's specialized transportation finance subsidiary, DVB Bank.

In FY2017, DZ Group's loan impairments increased to EUR 786 million (compared to EUR 569 million in FY2016 and to EUR 153 million in FY2015) and were driven by the sizeable shipping finance portfolios. DBRS expects the risk content of the DVB Banks's exposures to remain manageable for the Group against the background of the Group's good underlying recurrent earnings and its sound regulatory capitalisation levels.

The Group's funding and liquidity remain strong. This is supported by the Group's diversified funding profile, benefiting from corporate deposits, Pfandbrief issuance and indirect access to retail liquidity, as a significant level of local Cooperative bank deposits are centrally placed with the Group.

DBRS views positively the Group's strong capital position. As of end-2017, DZ BANK Group reported a total capital ratio of 17.3% (FY2016: 18.6%) and a fully loaded Basel III Common Equity Tier 1 (CET1) ratio of 13.8% (FY2016: 14.5%). During 2017, DZ Group's regulatory capital ratios decreased around 70 bps impacted mainly by changes in risk-weighting exposure on the insurance business R+V. DZ Group's fully loaded leverage ratio improved considerably to 4.4% from 4.1%, due to a strong increase on the Group's core capital of around EUR 1.1 billion in 2017.

Franchise Strength

Grid Grade: Very Strong / Strong

Business Mix: DZ BANK Group's franchise strength is underpinned by its multi-divisional business model with main revenue streams from corporate finance, asset management, insurance, commercial and residential real estate finance, consumer finance, transport finance. The wide range of segments provides the Group with a significant degree of revenue diversification which is particularly underpinned by revenue contribution from less-cyclical revenue segments such as retail banking, asset management and insurance.

Market Position: DZ BANK Group is, with a balance sheet of EUR 506 billion (as of YE 2017), the second largest bank in Germany providing it with significant scale of operations and potential to deploy scale economies across its business and product lines by leveraging upon group wide systems, technology capabilities and optimizing costs for regulatory compliance. The Group's sound business model is enhanced, in DBRS's view, by its successful bancassurance in Germany.

Customer Relationships and importance of Cooperative network: DZ BANK Group, provides key products to the local cooperative banks, such as corporate finance, asset management, insurance and acts as a central platform for liquidity management. The Group's access to customers and distribution channels of the Cooperative network enhances significantly its franchise strength. It underpins the "stickiness" of its customer relationships, enabling it to leverage its franchise across businesses and client segments. The Group's critical role within Cooperative retail banking network with its solid intrinsic profile underpins the ratings.

DZ BANK Group's business activities*	
Retail and Asset Management Segment The segment comprises DZ BANK's retail-focused subsidiaries. DZ BANK's Retail segment includes its private banking activities. Via the Group's AKZENT brand, the Group is market leader in Germany for investment certificates. The Group's asset management subsidiary Union Investment ranks with EUR 324 billion of assets under management (as of 31 December 2017) among the top three German asset managers. **Related subsidiaries/ operations:** Bausparkasse Schwäbisch Hall (BSH) which is the leading home savings and loans institution with approximately 30% market share in Germany, DZ Bank AG, AKZENT Invest (investment certificates business), DZ PRIVATBANK, Team Bank (EasyCredit), Reise Bank, Union Investment	**Bank Segment** The Group's segment includes corporate finance, lending, capital markets activities, leasing, and transaction banking. The segment includes DZ BANK AG (the operating 'lead-bank' within the Group) and several subsidiaries, including leasing provider VR Leasing. DZ's investment banking functions as service provider to the Group's Corporate Banking activities linking product offerings across the Group. **Related subsidiaries:** DZ BANK, VR Equitypartner, VR Leasing Gruppe, CardProcess, dwp bank, EQUENS
Commercial Real Estate & Shipping Finance (cyclical) The Group has significant operations in the real estate finance segment. The segment comprises specialised entities, including the Group's subsidiaries DG HYP (commercial property finance) and transportation finance specialist DVB. **Related subsidiaries:** DZ BANK, DZ HYP**, DVB	**Insurance Segment** This segment mainly comprises R+V insurance, which offers life, health and personal property insurance, as well as pension products. R+V is a subsidiary of DZ BANK. **Related subsidiaries:** R+V Insurance

* Grouping and presentation of activities according to DBRS; ** DZ HYP is being created as a result of a merger between DG Hyp and WL Bank.

Strategy

The Group's post-crisis strategic focus has been guided after 2008 by the 'Verbund First' principle, focusing closely on the local cooperative banks, which are its customers and owners. The strategy reflects its significant progress in de-risking and DBRS views DZ BANK Group's diversified franchise as solid, illustrated by its much-improved performance over the past four years. Looking ahead, the strategic focus of DZ is centred on a three-pillar strategy of i) focus on network-based business in the group's home market, Germany, ii) concentration of business activities to reap the full benefit of cost and regulatory synergies, and iii) closer (digital) integration within the Group and between the Group and the network of local cooperative banks.

Centralisation of CRE activities

The merger of DG HYP (Deutsche Genossenschafts-Hypothekenbank) and WL BANK (Westfälische Landschaft Bodenkreditbank AG) to become DZ HYP reflects DZ Bank strategy to further bundle its business activities, which DBRS views as a positive further step towards more scale efficiency. DZ aims with this merger, beyond creating cost synergies, to pool existing expertise and eliminate the duplication of work, ensuring a single point of reference for its customers. The merger agreement was signed in March 2018 and is planned to become legally effective by the end of July 2018.

Additionally, DVB, the Bank's shipping lender (which DBRS views as a non-core business), was delisted at the mid-2017. DZ Bank is currently the sole shareholder of DVB (100% participation). Having full control allows DZ Bank to focus on better managing the existing stock of non-performing loans (NPL) and to further accelerate the deleveraging of its non-core shipping exposure through potential portfolio NPL sales or write-offs.

Earnings Power

Grid Grade: Strong

In DBRS's view DZ BANK Group's earnings power is supported by its multi-divisional revenue streams. Although net interest income forms the core of the Group's earnings generation ability, its overall financial performance benefits from other (non-interest income) sources such as growing fee income from Asset Management and Insurance which provide the Group with a significant degree of revenue diversification. DBRS views the revenue contribution from less-cyclical revenue segments such as retail banking (investment certificates issuance), asset management and insurance as a stabilizing factor in the Group's overall earnings profile.

In DBRS's view one of the main future earnings challenges for the Group arises from the current low yield environment, affecting several revenue streams and resulting mainly in margin pressure from traditional lending (Corporate and CRE lending). These pressures are generally balanced in the current environment by historically low loan impairment charges reflecting cyclically low corporate default rates.

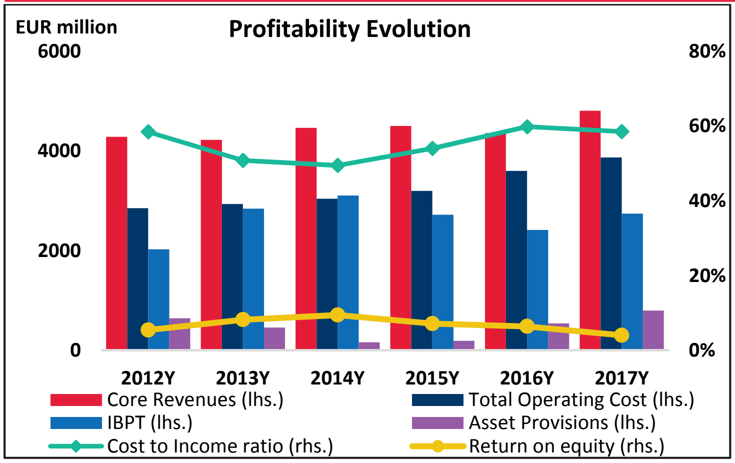
Group results

The FY2017 group results of DZ BANK Deutsche Zentral-Genossenschaftsbank AG (DZ or the Group) reflect the impact of the recent merger with WGZ BANK. DZ's multi-divisional business model continues in DBRS's view to provide significant revenue diversification benefits. DZ reported a FY2017 preliminary net profit of EUR 1,098 million under IFRS accounting rules down from EUR 1,606 million in FY2016. DBRS notes that the Group's results have been impacted by merger related operating expenses and high loan impairment charges for DZ's specialized transportation finance subsidiary, DVB Bank.

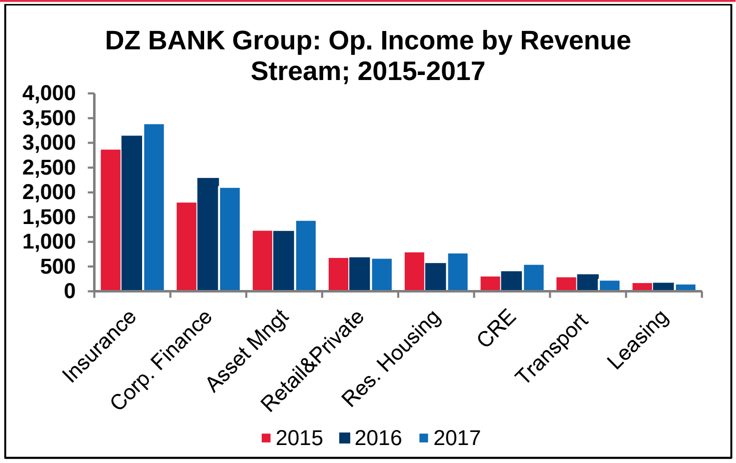
Overall for the Group, operating income before provisions and taxes (IBPT) stood at EUR 2.69 billion in FY2017 (excluding *Net income from the merger with WGZ BANK, see below*) compared with EUR 2.51 billion last year, noting however that the FY2017 results of the merged Group are not comparable with previous year numbers. The operating income was mainly driven by i) a 7.4% increase in operating expenses to EUR 3.87 billion from EUR 3.6 billion due to a number of regulatory projects and merger related items, ii) the swing of merger related income into a net expense of EUR -91 million (FY2016: merger related income of EUR 256 million, shown under *Net income from the merger with WGZ BANK)* and iii) 11% higher net interest income (NII) which stood at EUR 2.94 billion in FY2017 (compared to EUR 2.66 billion in FY2016) reflecting higher lending volumes and merger effects.

Additionally, results were impacted by higher loan impairment charges. In FY2017, DZ Group's loan impairments increased to EUR 786 million (compared to EUR 569 million in FY2016 and to EUR 153 million in FY2015) and were driven by high loan loss provisions for DVB Banks's sizable shipping finance portfolios. DBRS expects the risk content of the DVB Banks's exposures to remain manageable for the Group against the background of the Group's good underlying recurrent earnings and its sound regulatory capitalisation levels.

In FY2017 the Group reported a fully loaded Basel III Common Equity Tier 1 (CET1) ratio of 13.9% (FY2016: 14.5%), which was affected by changes in regulatory treatment for DZ's sizable insurance operations (R+V) in the calculation of regulatory capital under Basel III.



Source: Company reports



Source: Company reports

Segment results

Results at the main operating bank DZ BANK AG, one of the Group's main revenue contributors, benefited from a favourable domestic business environment. Despite increasing margin pressure from the low yield environment in the German banking system, DZ BANK AG reported EUR 752 million pretax profit in FY2017 helped by positive momentum in SME lending complemented by growing revenues from its corporate debt capital market business and transaction banking business. Major one-off items included the sale of Concardis GmbH (a payment service provider), causing a positive impact of EUR 126 million and merger related expenses of EUR 91 million.

DZ's commercial real estate lender, DG HYP, returned to solid pre-tax income of EUR 504 million in FY 2017 following negative valuation effects in 2016 from the wind-down of a Government Bonds portfolio. DVB Bank, a specialized transportation finance subsidiary, recorded a substantial pre-tax loss of EUR 774 million compared to EUR 278 million pre-tax loss last year driven by sizable loan loss provisions for its shipping finance segment. DVB's results had a major impact in the Group's financial performance.

The Group's insurance arm, R+V Versicherung, increased its significant profit contribution to EUR 795 million (pre-tax income) from EUR 681 million on the back of sustained net new business from property and re-insurance policies. The results were impacted by an extraordinary effect related to a reform of the 'German Investment Tax Act'. Union Investment, DZ's asset manager, recorded a pre-tax profit of EUR 610 million versus EUR 468 million last year reflecting inflows from both retail customers and institutional clients (including international customers).

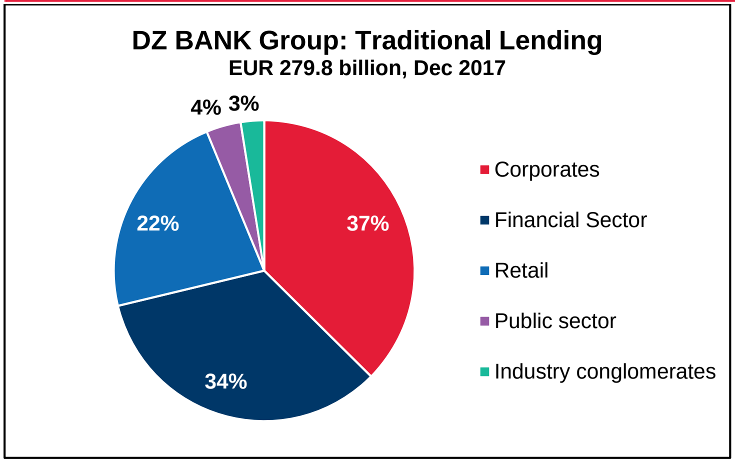
Risk Profile

Grid Grade: Strong

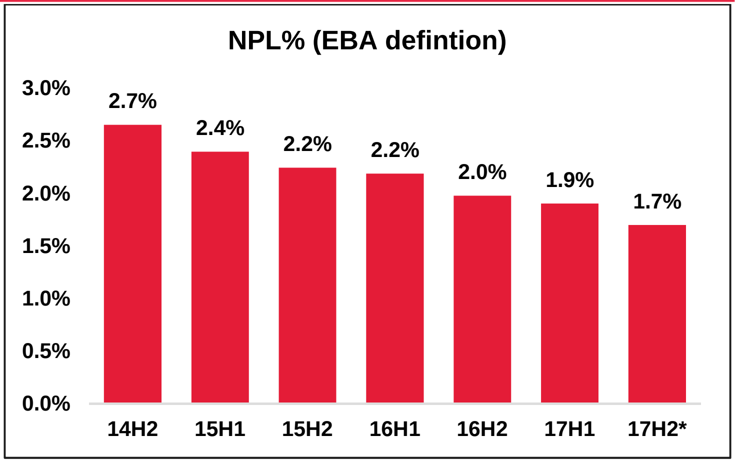
DBRS views the overall risk profile of the Group as sound and strengthened by risk reduction following the onset of the financial crisis. Nonetheless, DZ BANK Group's lending to large corporates and its capital markets-related activities add incremental risk to the Group's overall risk profile. The Group continues to make progress in lowering risks not directly supporting the cooperative sector business. DBRS views DZ's transportation finance arm, DVB Bank Group (DVB), as non-core for the Group. Its potential downsizing or sale, is in DBRS' view a positive step towards further de-risking (see further below). DZ has also significantly reduced its overall exposure to financial securities over the last five years.

Solid growth in the German economy, low interest rates and a resilient *Mittelstand* sector, helped to keep overall impaired loans in check during 2017. The level of non-performing loans (NPL) at the Group level as a proportion of total lending volume was 1.7% end-2017 (FY2016:1.5%). The stock of NPLs, although reduced, reflects the maritime shipping legacy portfolio at the transport unit, DVB.

At the DZ BANK Group level, larger-sized exposures in commercial real estate (CRE) also add to the credit risk profile beyond DZ's shipping exposures. The Group's specialist CRE subsidiary, Deutsche Genossenschafts-Hypothekenbank AG in Hamburg, (DG HYP), had EUR 20.5 billion in loans secured by commercial real estate at end-2017. In alignment with the Group's 'Verbund First' strategy, DZ re-focused DG HYP's business model away from international CRE exposures towards the German cooperative network with emphasis on local SMEs. This has been reflected in DG HYP's continuous wind down of legacy portfolios since 2007.



Source: Company reports



Source: EBA; *Data from company disclosures, NPL as a proportion of total lending

The Group's transportation finance subsidiary, DVB Bank Group (DVB), held EUR 9.5 billion of shipping loans at end-2017, a 20%, (or EUR 2.4 billion) reduction when compared to the previous year. DVB's exposures relate mainly to shipping and aviation and are diversified across sub segments and geographies. In FY2017 DVB did not remain unaffected from pressured market conditions in shipping, posting a sizable loss of EUR 774 million, mostly related to large impairment losses of EUR 728 million. Looking ahead, a global and synchronized macro recovery and benign adjustments on the supply side could, in DBRS' view, keep the deleveraging windows open for German shipping banks in 2018 (see also: *DBRS Comments: German Shipping Banks - Hopes of Bottoming Out*).

DZ BANK Group has reduced its exposure to peripheral Eurozone economies including Portugal, Italy and Spain by more than half since early 2011. Nonetheless, the total bond exposures remains significant at EUR 8.9 billion at end-2017, of which EUR 6.0 billion correspond to Italian bond exposures. The Group has no further exposure to Greece and Ireland. The total peripheral Eurozone economies exposure corresponds to 49% of DZ BANK's core equity of EUR 18.3 billion.

DZ remains exposed to a scenario of a sudden increase in interest rates. Sharply rising rates could potentially inflict pricing losses on DZ's fixed income securities holdings and make a re-measurement of low-interest long-term lending business necessary with negative impact on earnings. Furthermore, sharply rising rates represent the predominant risk factor for DZ's pension liabilities as the level of market interest rates determines the plan's discount rate affecting both the amount of pension obligations and the measurement of the plan assets. DZ's sensitivity due to a change in the present value of defined benefit pension obligations on a discount rate rise of 100 basis points amounted as of end-2017 amounted to -12.86% (-13.53% in 2016) or EUR -422 million (EUR -446 million in 2016).

Additionally, there remains further risk within the Group's securitisation portfolio, despite the fact that soon after the onset of the financial crisis all securitization activities were discontinued except for those in a few, clearly defined areas of business. Portfolios with Asset Backed Securities (ABS) have been reduced significantly in recent years. As at the end-2017, the Group's ABS portfolio, which is predominantly held by DZ BANK AG and DG HYP had a fair value of EUR 2.8 billion at end-2017. The numbers include the Group's ABS legacy portfolio dating back to the period before the financial crisis, which had a fair value of EUR 1.9 billion (in 2016: EUR 2.5 billion). In addition, DZ BANK acts as a sponsor in ABCP programs although investment in ABS has been halted.

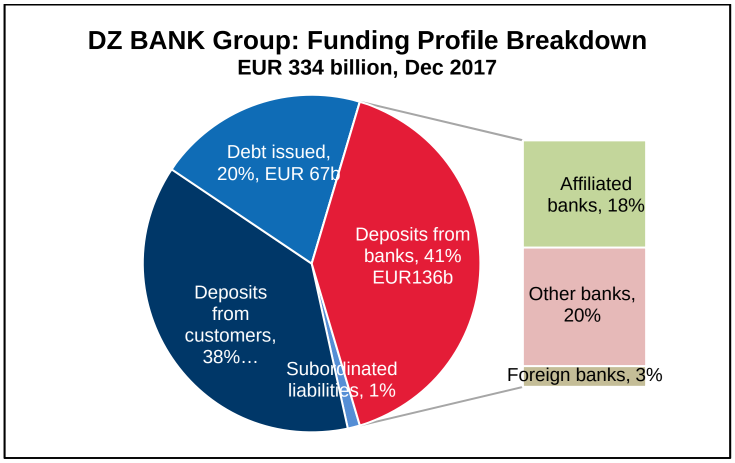
Funding and Liquidity

Grid Grade: Very Strong / Strong

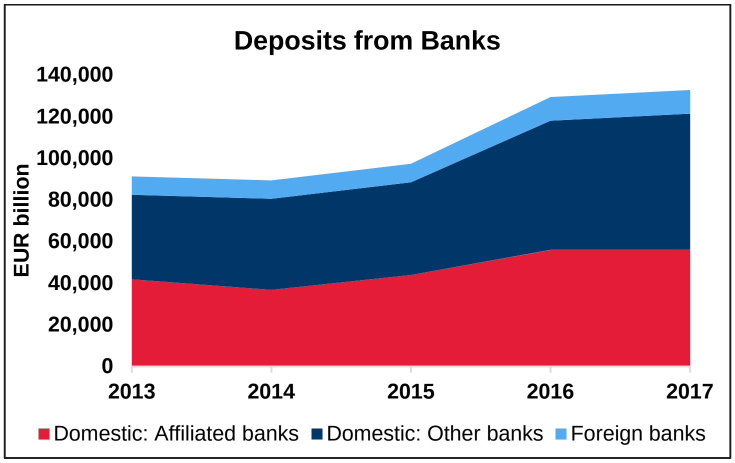
Reflecting its asset mix and its role as a central banking institution, DZ's diversified funding profile is geared towards a three main funding sources. Its funding mainly consists of i) wholesale funding and corporate deposits, ii) covered instruments (Pfandbrief funding), and iii) Bank deposits from affiliated cooperative banks and retail funding. DZ uses a wide range of funding instruments comprising of secured (covered) and unsecured instruments such as customer deposits, medium-term notes, interbank deposits, money market instruments, covered bonds and a range of other instruments.

Covered instruments (Pfandbrief funding) of approximately EUR 67 billion

Covered instruments are mainly issued in the form of Mortgage Pfandbriefe (approximately EUR 17.8 billion in 2017) and Public Sector Pfandbriefe (approximately EUR 2.5 billion in 2017) which are issued under the German Pfandbrief law and constitute in DBRS's view a more stable source of funding. These were primarily issued in 2017 through WL Bank and DG Hyp, WGZ's and DZ's former commercial real estate lenders, which will be merged into a single entity, DZ Hyp, creating Germany's largest Pfandbrief issuer. Additionally, the Group reduced its amount of commercial paper holding EUR 16.7 billion at end-2017 (EUR 25.6 billion at end-2016).



Source: DBRS, Company reports



Source: DBRS, Company reports

Reflective of the DZ's solid liquidity, at end-2017, both on Group level and on DZ BANK AG level, the Bank reported a Group liquidity coverage ratio (LCR) of 162% against a regulatory minimum of 80% for 2017[1] driven by a strong improvement in high quality liquid assets to EUR 77.5 billion (EUR 67.8 billion at end-2016). The Liquidity Coverage Ratio (LCR) has a short-term focus aiming to ensure adequate liquidity buffers for a hypothetical 30-day stress scenario and is defined as the ratio of available high-quality liquid assets (HQLA) to total net cash outflows in defined stress conditions over the next 30 days. DZ does currently not disclose its long-term focused Net Stable Funding Ratio (NSFR) where compliance - unlike the LCR - is expected to become mandatory after the 2019 financial year when CRR II comes into force.

Under stressed conditions, DZ internally estimated its minimum liquidity surplus for the Group at end-2017 of EUR 16.1 billion (EUR 11.2 billion as at December 31, 2016) against its internally set observation limit of EUR 4.0 billion and a minimum internal limit of EUR 1.0 billion where both thresholds remained unchanged compared to last year.

Capitalization

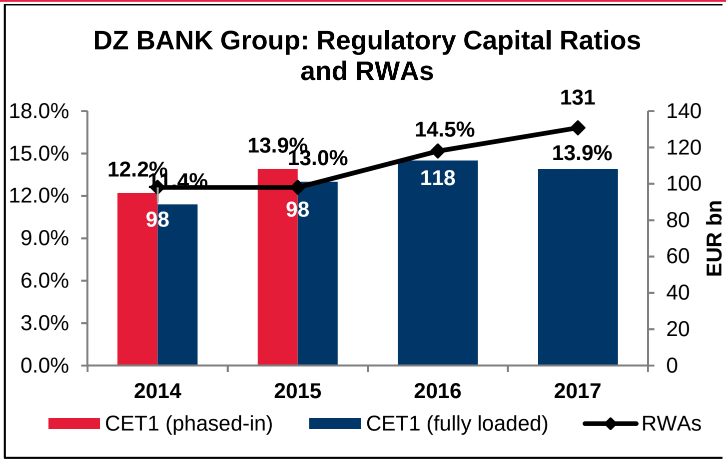
Grid Grade: Strong

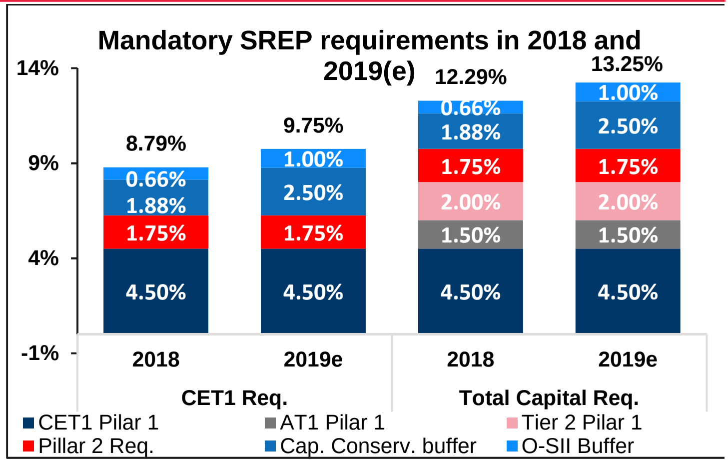
Regulated by the ECB, DZ BANK Group transitioned to IFRS/CRD IV based capital ratio in 2014 (see chart on Regulatory Capital Ratios below). Since its transition, the Group successfully demonstrated its commitment to strengthening capitalization over time. As of end-2017, DZ BANK Group reported a total capital ratio of 17.3% down from 18.6% at end-2016. The Bank manages to maintain a strong capital level through sustained internal capital generation together with its extensive profit retention policy. The Group issued a EUR 750 million AT1 in 2015, which was placed within the wider Cooperative retail banking network.

During 2017, DZ Group's regulatory capital ratios decreased around 60 bps impacted by changes in risk-weighting of its insurance business R+V. The Group reported a fully loaded Basel III Common Equity Tier 1 (CET1) ratio of 13.8%, comfortable above the minimum capital requirement of 8.79% for end-2018. DBRS notes DZ's commitment to strengthen its capitalization through internal capital formation given the Group's limitations as a cooperative institution to raise equity from the global capital markets. DZ Group's fully loaded leverage ratio improved considerable to 4.4% from 4.1%, due to a sharp increase on the Group's core capital of around EUR 1.1 billion in 2017.

The minimum Basel III capital ratio based on the *Supervisory Review and Evaluation Process* (SREP) applies as a regulatory minimum requirement for the Core Equity Tier 1 capital ratio and the total capital ratio at the perimeter of the DZ BANK banking Group. DZ's total capital ratio of 17.3%, compares currently well against SREP minimum total capital ratio of 12.29% (excluding Pillar 2 guidance) set by the ECB banking supervision for the banking Group for 2018.

[1] This minimum required LCR ratio was increased to 100% in January 1, 2018





Note: The above chart shows the mandatory SREP minimum capital ratio with its various components according to the ECB modified methodology for determining the SREP ratio for 2018 and DBRS estimate for 2019. In addition to the mandatory components, there is a recommended 'own funds requirement' under Pillar 2 (Pillar 2 guidance). Source: DBRS, company reports

The O-SII capital buffer is an additional mandatory SREP component for *other systemically important financial institutions* (O-SIIs) which must from 2017 onwards be maintained as an additional capital buffer on a 3-year phased-in process. DZ's O-SII capital buffer surcharge for 2018 amounts to 0.66%. The required buffer will continue to step up over time requiring a surcharge of 1.0% from January 1, 2019 onwards (see chart above).

DZ BANK AG Deutsche Zentral-Genossenschaftsbank,	31/12/2017		31/12/2016		31/12/2015		31/12/2014		31/12/2013	
	EUR		EUR		EUR		EUR		EUR	
EUR Millions	IFRS		IFRS		IFRS		IFRS		IFRS	
Balance Sheet										
Cash and deposits w ith central banks	12,835	2.54%	8,515	1.67%	6,542	1.60%	3,033	0.75%	3,812	0.99%
Lending to/deposits w ith credit institutions	128,598	25.44%	117,959	23.15%	91,872	22.50%	90,012	22.35%	88,855	23.06%
Financial Securities*	67,663	13.38%	80,449	15.79%	66,167	16.20%	70,337	17.47%	67,740	17.58%
- Trading portfolio	11,351	2.25%	11,456	2.25%	13,114	3.21%	14,281	3.55%	12,455	3.23%
- At fair value	10,360	2.05%	10,735	2.11%	9,650	2.36%	10,532	2.62%	9,868	2.56%
- Available for sale	40,975	8.10%	50,778	9.97%	38,953	9.54%	40,055	9.95%	38,547	10.00%
- Held-to-maturity	1,648	0.33%	2,561	0.50%	0	0.00%	0	0.00%	0	0.00%
- Other	3,329	0.66%	4,919	0.97%	4,450	1.09%	5,469	1.36%	6,870	1.78%
Financial derivatives instruments	17,922	3.54%	25,110	4.93%	22,353	5.47%	28,564	7.09%	23,311	6.05%
- Fair Value Hedging Derivatives	822	0.16%	1,525	0.30%	670	0.16%	736	0.18%	1,214	0.31%
- Mark to Market Derivatives	17,100	3.38%	23,585	4.63%	21,683	5.31%	27,828	6.91%	22,097	5.73%
Gross lending to customers	176,506	34.91%	180,028	35.34%	130,384	31.93%	123,973	30.79%	123,661	32.09%
- Loan loss provisions	2,775	0.55%	2,358	0.46%	2,021	0.49%	2,279	0.57%	2,379	0.62%
Insurance assets	99,506	19.68%	94,092	18.47%	87,926	21.53%	83,422	20.72%	74,331	19.29%
Investments in associates/subsidiaries	1,174	0.23%	1,187	0.23%	1,252	0.31%	1,227	0.30%	1,607	0.42%
Fixed assets	1,498	0.30%	1,752	0.34%	1,710	0.42%	2,292	0.57%	1,762	0.46%
Goodw ill and other intangible assets	635	0.13%	631	0.12%	575	0.14%	545	0.14%	565	0.15%
Other assets	2,032	0.40%	2,082	0.41%	1,581	0.39%	1,556	0.39%	2,133	0.55%
Total assets	**505,594**	**100.00%**	**509,447**	**100.00%**	**408,341**	**100.00%**	**402,682**	**100.00%**	**385,398**	**100.00%**
Total assets (USD)	607,101		537,278		443,511		487,449		530,998	
Loans and deposits from credit institutions	143,355	28.35%	135,625	26.62%	102,931	25.21%	97,035	24.10%	101,012	26.21%
Repo Agreements in Deposits from Customers	206	0.04%	223	0.04%	0	0.00%	40	0.01%	49	0.01%
Deposits from customers	126,860	25.09%	124,796	24.50%	96,552	23.64%	98,417	24.44%	99,425	25.80%
- Demand	25,878	5.12%	21,720	4.26%	15,468	3.79%	10,676	2.65%	12,956	3.36%
- Time and savings	100,441	19.87%	102,705	20.16%	80,718	19.77%	85,752	21.30%	85,455	22.17%
Issued debt securities	86,197	17.05%	95,872	18.82%	69,695	17.07%	69,782	17.33%	66,520	17.26%
Financial derivatives instruments	19,888	3.93%	29,177	5.73%	25,625	6.28%	29,693	7.37%	22,972	5.96%
- Fair Value Hedging Derivatives	3,075	0.61%	4,054	0.80%	1,898	0.46%	2,851	0.71%	2,636	0.68%
- Other	16,813	3.33%	25,123	4.93%	23,727	5.81%	26,842	6.67%	20,336	5.28%
Insurance liabilities	94,788	18.75%	89,073	17.48%	83,184	20.37%	78,923	19.60%	71,399	18.53%
Other liabilities	6,896	1.36%	7,068	1.39%	6,483	1.59%	6,763	1.68%	5,632	1.46%
- Financial liabilities at fair value through P/L	30,783	6.09%	30,311	5.95%	23,544	5.77%	25,655	6.37%	26,564	6.89%
Subordinated debt	3,573	0.71%	4,391	0.86%	3,812	0.93%	3,454	0.86%	3,465	0.90%
Hybrid Capital	326	0.06%	332	0.07%	330	0.08%	330	0.08%	736	0.19%
Equity	23,505	4.65%	22,890	4.49%	19,729	4.83%	18,245	4.53%	14,188	3.68%
Total liabilities and equity funds	**505,594**	**100.00%**	**509,447**	**100.00%**	**408,341**	**100.00%**	**402,682**	**100.00%**	**385,398**	**100.00%**
Income Statement										
Interest income	6,692		6,811		6,667		7,302		7,459	
Interest expenses	3,751		4,151		3,797		4,253		4,341	
Net interest income and credit commissions	2,941	44.49%	2,660	44.22%	2,870	48.48%	3,049	49.60%	3,118	53.94%
Net fees and commissions	1,864	28.20%	1,698	28.22%	1,632	27.57%	1,415	23.02%	1,104	19.10%
Trading / FX Income	506	7.66%	780	12.97%	369	6.23%	471	7.66%	148	2.56%
Net realised results on investment securities (available for sale)	NA	-	NA	-	NA	-	NA	-	NA	-
Net results from other financial instruments at fair value	331	5.01%	48	0.80%	262	4.43%	327	5.32%	1,019	17.63%
Net income from insurance operations	907	13.72%	760	12.63%	676	11.42%	940	15.29%	375	6.49%
Results from associates/subsidiaries accounted by the equity method	6	0.09%	12	0.20%	5	0.08%	10	0.16%	14	0.24%
Other operating income (incl. dividends)	55	0.83%	58	0.96%	106	1.79%	-65	-1.06%	2	0.03%
Total operating income	6,610	100.00%	6,016	100.00%	5,920	100.00%	6,147	100.00%	5,780	100.00%
Staff costs	1,808	47.77%	1,760	49.26%	1,610	50.34%	1,599	52.58%	1,513	51.52%
Other operating costs	1,747	46.16%	1,596	44.67%	1,359	42.50%	1,215	39.95%	1,196	40.72%
Depreciation/amortisation	230	6.08%	217	6.07%	229	7.16%	227	7.46%	228	7.76%
Total operating expenses	3,785	100.00%	3,573	100.00%	3,198	100.00%	3,041	100.00%	2,937	100.00%
Pre-provision operating income	**2,825**		**2,443**		**2,722**		**3,106**		**2,843**	
Loan loss provisions**	799		544		187		146		478	
Post-provision operating income	2,026		1,899		2,535		2,960		2,365	
Impairment on tangible assets	125		56		99		93		87	
Impairment on intangible assets	0		0		48		0		57	
Other non-operating items***	0		0		65		0		0	
Pre-tax income	1,810		2,197		2,453		2,867		2,221	
(-)Taxes	712		591		657		710		754	
(-)Other After-tax Items (Reported)	0		0		0		0		0	
(+)Discontinued Operations (Reported)	0		0		0		0		0	
(-)Minority interest	141		138		380		427		298	
Net income	**957**		**1,468**		**1,416**		**1,730**		**1,169**	
Net income (USD)	1,081		1,624		1,572		2,298		1,552	

*Includes derivatives w hen breakdow n unavailable, **LLP includes Impairments on financial assets, ***Incl. Other Provisions

DZ BANK AG Deutsche Zentral-Genossenschaftsbank,	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013
Off-balance sheet and other items					
Asset under management	341,200	309,200	276,400	246,300	219,661
Derivatives (notional amount)	1,086,089	1,030,850	936,424	869,403	945,890
BIS Risk-w eighted assets (RWA)	130,800	118,462	97,856	98,080	85,350
No. of employees (end-period)	27,218	26,473	27,123	26,823	26,371
Earnings and Expenses					
Earnings					
Net interest margin [1]	0.73%	0.73%	0.91%	0.99%	0.98%
Yield on average earning assets	1.65%	1.88%	2.12%	2.36%	2.35%
Cost of interest bearing liabilities	1.04%	1.15%	1.39%	1.58%	1.60%
Pre-provision earning capacity (total assets basis) [2]	0.56%	0.53%	0.67%	0.79%	0.72%
Pre-provision earning capacity (risk-w eighted basis) [3]	2.27%	2.26%	2.78%	3.39%	3.25%
Net Interest Income / Risk Weighted Assets	2.25%	2.25%	2.93%	3.11%	3.65%
Non-Interest Income / Total Revenues	55.51%	55.78%	51.52%	50.40%	46.06%
Post-provision earning capacity (risk-w eighted basis)	1.63%	1.76%	2.59%	3.23%	2.71%
Expenses					
Efficiency ratio (operating expenses / operating income)	57.26%	59.39%	54.02%	49.47%	50.81%
All inclusive costs to revenues [4]	59.15%	60.32%	55.09%	50.98%	52.32%
Operating expenses by employee	139,062	134,968	117,907	113,373	111,372
Loan loss provision / pre-provision operating income	28.28%	22.27%	6.87%	4.70%	16.81%
Provision coverage by net interest income	368.09%	488.97%	1534.76%	2088.36%	652.30%
Profitability Returns					
Pre-tax return on Tier 1 (excl. hybrids)	8.33%	12.23%	15.80%	21.35%	16.69%
Return on equity	4.63%	7.32%	9.44%	13.40%	12.51%
Return on average total assets	0.19%	0.32%	0.35%	0.44%	0.29%
Return on average risk-w eighted assets	0.77%	1.36%	1.45%	1.89%	1.34%
Dividend payout ratio [5]	NA	NA	NA	NA	NA
Internal capital generation [6]	NA	NA	NA	NA	NA
Growth					
Loans	-2.22%	38.41%	5.48%	0.34%	-2.03%
Deposits	1.64%	29.48%	-1.93%	-1.02%	5.74%
Net interest income	10.56%	-7.32%	-5.87%	-2.21%	-4.36%
Fees and commissions	9.78%	4.04%	15.34%	28.17%	7.81%
Expenses	5.93%	11.73%	5.16%	3.54%	3.02%
Pre-provision earning capacity	15.64%	-10.25%	-12.36%	9.25%	40.26%
Loan-loss provisions	46.88%	190.91%	28.08%	-69.46%	-22.53%
Net income	-34.81%	3.67%	-18.15%	47.99%	69.18%
Risks					
RWA% total assets	25.87%	23.25%	23.96%	24.36%	22.15%
Credit Risks					
Impaired loans % gross loans	3.00%	2.48%	3.24%	3.76%	3.88%
Loss loan provisions % impaired loans	52.32%	52.89%	47.78%	48.87%	49.54%
Impaired loans (net of LLPs) % pre-provision operating income [7]	107.26%	107.33%	96.36%	88.70%	98.21%
Impaired loans (net of LLPs) % equity	13.07%	11.62%	13.52%	15.38%	20.76%
Liquidity and Funding					
Customer deposits % total funding	35.24%	34.60%	35.37%	36.63%	36.77%
Total w holesale funding % total funding [8]	64.76%	65.40%	64.63%	63.37%	63.23%
- Interbank % total funding	39.82%	37.60%	37.71%	36.11%	37.35%
- Debt securities % total funding	23.94%	26.58%	25.53%	25.97%	24.60%
- Subordinated debt % total funding	0.99%	1.22%	1.40%	1.29%	1.28%
Short-term w holesale funding % total w holesale funding	71.97%	72.43%	75.03%	72.16%	67.35%
Liquid assets % total assets	41.36%	40.62%	40.30%	40.57%	41.62%
Net short-term w holesale funding reliance [9]	-13.94%	-11.93%	-13.21%	-16.93%	-20.11%
Adjusted net short-term w holesale funding reliance [10]	-25.91%	-24.81%	-27.88%	-32.30%	-36.29%
Customer deposits % gross loans	71.87%	69.32%	74.05%	79.39%	80.40%
Capital [11]					
Tier 1	15.32%	16.03%	15.64%	13.67%	16.39%
Tier 1 excl. All Hybrids	15.32%	14.21%	13.41%	11.65%	13.50%
Core Tier 1 (As-reported)	14.00%	14.48%	13.85%	12.15%	NA
Tangible Common Equity / Tangible Assets	3.97%	3.82%	3.54%	3.07%	2.28%
Total Capital	17.38%	18.63%	18.83%	16.83%	17.89%
Retained earnings % Tier 1	43.76%	47.37%	52.24%	44.39%	33.49%

[1] (Net interest income + dividends)% average interest earning assets.
[2] Pre-provision operating income % average total assets.
[3] Pre-provision operating income % average total risk-w eighted assets.
[4] (Operating & non-op. costs) % (op. & non-op. revenues)
[5] Paid dividend % net income.
[6] (Net income - dividends) % shareholders' equity at t-1.
[7] We take into account the stock of LLPs in this ratio.
[8] Whole funding excludes corporate deposits.
[9] (Short-term w holesale funding - liquid assets) % illiquid assets
[10] (Short-term w holesale funding - liquid assets- loans maturing w ithin 1 year) % illiquid assets
[11] Capital ratios of Interim results exclude profits for the year

Rating Methodology

The applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (May 2017), which can be found on our website under Methodologies.

Ratings

Issuer	Debt	Rating	Rating Action	Trend
DZ BANK AG	Long-Term Issuer Rating	A (high)	Trend Changed	Positive
DZ BANK AG	Short-Term Issuer Rating	R-1 (middle)	Confirmed	Stable
DZ BANK AG	Long-Term Senior Debt	A (high)	Trend Changed	Positive
DZ BANK AG	Short-Term Debt	R-1 (middle)	Confirmed	Stable
DZ BANK AG	Long-Term Deposits	A (high)	Trend Changed	Positive
DZ BANK AG	Short-Term Deposits	R-1 (middle)	Confirmed	Stable
DZ BANK AG	Long Term Critical Obligations Rating	AA	Trend Changed	Positive
DZ BANK AG	Short Term Critical Obligations Rating	R-1 (middle)	Trend Changed	Positive
DZ BANK AG	Mandatory Pay Subordinated Debt	A (low)	Trend Changed	Positive

Ratings History

Issuer	Debt	Current	2017	2016	2015
DZ BANK AG	Long-Term Issuer Rating	A (high)	A (high)	NA	NA
DZ BANK AG	Short-Term Issuer Rating	R-1 (middle)	R-1 (middle)	NA	NA
DZ BANK AG	Long-Term Senior Debt	A (high)	A (high)	A (high)	A (high)
DZ BANK AG	Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)
DZ BANK AG	Long-Term Deposits	A (high)	A (high)	NA	NA
DZ BANK AG	Short-Term Deposits	R-1 (middle)	R-1 (middle)	NA	NA
DZ BANK AG	Long Term Critical Obligations Rating	AA	AA	NA	NA
DZ BANK AG	Short Term Critical Obligations Rating	R-1 (middle)	R-1 (middle)	NA	NA
DZ BANK AG	Mandatory Pay Subordinated Debt	A (low)	A (low)	A	A

Previous Action(s)

- DBRS Confirms DZ BANK AG Deutsche Zentral-Genossenschaftsbank at A (high), Trend revised to Positive, June 1, 2018.

Related Research

- DBRS: German Shipping Banks - Hopes of Bottoming Out, March 21, 2018.
- DBRS: DZ’s Full Year 2017 Underlying Performance Resilient After Merger, March 7, 2018.

Previous Report

- DZ BANK AG, Rating Report, June 29, 2017.

Note:
All figures are in Euros unless otherwise noted.

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