

## Ratings On DZ BANK And Various German Cooperative Sector Banks Raised; Outlook Stable

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**Rationale**

On July 29, 2005, Standard & Poor's Ratings Services raised its long- and short-term counterparty credit and certificate of deposit ratings on DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) and its subsidiaries: Deutsche Genossenschafts-Hypothekenbank AG, DZ Bank International S.A., and DZ Bank Ireland PLC, as well as on two other sector members, WL-BANK WESTFÄLISCHE LANDSCHAFT Bodenkreditbank AG and Deutsche Apotheker- und Ärztebank eG, to 'A/A-1' from 'A-/A-2'. At the same time, Standard & Poor's raised its long-term counterparty credit and certificate of deposit ratings on DVB Bank AG and VR Leasing AG to 'A-' from 'BBB+' and affirmed the 'A-2' short-term ratings on these two banks. The outlook on all banks is stable.

The rating actions mainly reflect ongoing progress at DZ BANK and the local cooperative banks in achieving sustainable improvements in profitability, asset quality, and capitalization.

Standard & Poor's views the German cooperative banking sector as a single economic group. The ratings on DZ BANK and rated member banks of the cooperative banking sector are based on the German cooperative banking sector's system of solidarity and its comprehensive protective scheme, which has prevented insolvencies of member institutions for 70 years. The ratings are also based on the sector's strong market position and franchise in the domestic retail banking market; its stable funding sources; and overall sound capitalization.

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The ratings are constrained by the local cooperative banks' slow, albeit improving, ability to realize cost synergies from the ongoing consolidation process, and still elevated, although significantly reduced, loan-loss provisions (LLPs).

The 'AAA' ratings on DZ BANK's covered bonds primarily reflect the bonds' collateral and the protections afforded by Germany insolvency and banking laws.

DZ BANK is closely integrated into the German cooperative sector and plays an important role as the larger of the two remaining central banks of the sector, and as majority owner of the sector's strategically important institutions.

In 2004, profitability of the cooperative banking sector has significantly benefited from the accelerated turnaround at DZ BANK group and earnings improvements at the local cooperative banks. Both developments are expected to be sustainable. Nevertheless, LLPs are still at somewhat elevated levels, and synergies from consolidation within the sector are filtering through only slowly. Although problems at individual institutions had put strains on the sector's protective scheme in the past, with recent improvements in asset quality and continued high members' contributions, the fund is expected to continue being replenished.

DZ BANK's profitability has demonstrated a tremendous turnaround in 2004 and 2003, after two years of operating losses. These improvements are the result of the completed restructuring of the bank, and good progress in the workout of portfolios of problem loans. Strategic sector institutions are expected to remain stable and the most important profit generators of the DZ BANK group, increasingly realizing cross-selling potential.

DZ BANK's asset quality remains characterized by still relatively high provisioning levels and workout portfolios at the group parent in 2004, but recent years' concerns have diminished. The bank should continue to make progress in reducing riskier exposures, and is expected to benefit from enhanced lending policies and revised strategic focus, and from adequate reserve levels.

DZ BANK is expected to maintain sound liquidity with available collateral comfortably exceeding short-term unsecured interbank or customer liabilities at the group parent. Since it acts as money market center for the group, however, it also has to maintain liquidity for the unexpected needs of subsidiaries. The largest subsidiaries, however, also benefit from their own stable funding sources.

Capitalization is still low despite recent improvements, in particular when adjusting for the value of DZ BANK's investment in R+V Versicherung AG. Only modest further improvements are expected from current levels.

### ***Outlook***

The stable outlook reflects Standard & Poor's expectation that the sector's achieved improvements in profitability, asset quality, and capitalization are sustainable. This is based on improved risk management across the sector dramatically lowering the number of banks requiring new support, sustainable positive effects from the past restructuring of DZ BANK, and the consolidation trend among local cooperative banks. The combination of these factors should provide a basis to

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achieve: further modest revenue growth; cost containment, particularly at the local banks; and gradually lower risk provisions. Further improvements in bottom-line profitability are likely to be less significant than in the past two years, however.

The outlook also reflects that DZ BANK's intrinsic risk and business profile has strongly recovered over the past three years. As a result, concerns about the potential negative implications on the sector from DZ BANK's still much weaker financial profile have largely been removed. It also reflects the expectation that the solidarity within the sector to support troubled institutions will remain unchanged.

### ***Ratings List***

	<b><i>To</i></b>	<b><i>From</i></b>
<b><i>DZ Bank AG Deutsche Zentral-Genossenschaftsbank</i></b>		
Counterparty credit ratings	A/Stable/A-1	A-/Stable/A-2
Commercial paper	A-1	A-2
Certificate of deposit	A/A-1	A-/A-2
Senior secured debt	AAA	
Senior unsecured debt	A	A-
Subordinated debt	A-	BBB+
Short-term secured debt	A-1+	
<b><i>Deutsche Genossenschafts-Hypothekbank AG</i></b>		
Counterparty credit ratings	A/Stable/A-1	A-/Stable/A-2
Certificate of deposit	A/A-1	A-/A-2
Senior secured debt	AAA	
Senior unsecured debt	A	A-
Subordinated debt	A-	BBB+
<b><i>DZ Bank International S.A.</i></b>		
Counterparty credit ratings	A/Stable/A-1	A-/Stable/A-2
Commercial paper	A-1	A-2
Certificate of deposit	A/A-1	A-/A-2
Senior unsecured debt	A	A-
<b><i>DZ Bank Ireland PLC</i></b>		
Counterparty credit ratings	A/Stable/A-1	A-/Stable/A-2
Certificate of deposit	A/A-1	A-/A-2
Senior unsecured debt	A	A-
Subordinated debt	A-	BBB+
<b><i>DVB Bank AG</i></b>		
Counterparty credit ratings	A-/Stable/A-2	BBB+/Stable/A-2
Commercial paper	A-2	
Certificate of deposit	A-/A-2	BBB+/A-2
Senior unsecured debt	A-	BBB+

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Subordinated debt	BBB+	BBB
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***VR Leasing AG***

Counterparty credit ratings	A-/Stable/A-2	BBB+/Stable/A-2
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***WL-BANK WESTFÄLISCHE LANDSCHAFT Bodenkreditbank AG***

Counterparty credit rating	A/Stable/A-1	A-/Stable/A-2
Senior secured (Öffentliche Pfandbriefe)	AAA	
Senior secured (Hypotheken Pfandbriefe)	AAA	
Certificate of deposit	A/A-1	A-/A-2
Senior unsecured debt	A	A-
Short-term debt	A-1	A-2
Short-term secured debt	A-1+	

***Deutsche Apotheker- und Ärztebank eG***

Counterparty credit ratings	A/Stable/A-1	A-/Stable/A-2
Commercial paper	A-1	A-2
Certificate of deposit	A/A-1	A-/A-2
Senior unsecured debt	A	A-
Subordinated debt	A-	BBB+
Short-term debt	A-1	A-2

NB: This list does not include all ratings affected.

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