

German Cooperative Sector Banks And DZ BANK Ratings Raised To 'A+/A-1'; Outlook Stable

Rationale

On Dec. 12, 2006, Standard & Poor's Ratings Services raised its long-term and short-term ratings on rated members of the German cooperative banking sector, including DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) and its core subsidiaries, to 'A+/A-1' from 'A/A-1'. At the same time, the long-term and short-term ratings on DVB Bank AG and VR Leasing AG, were raised to 'A/A-1' from 'A-/A-2'. The outlook on all ratings is stable.

The rating action reflects continued improvements in the asset quality of the sector in 2006, and further progress in DZ BANK's profitability, as evidenced by interim results of various sector constituents. Standard & Poor's expects that these improvements are sustainable, which mitigates the increasing pressure on interest margins and securities valuation results at the local cooperative banks, exacerbated by the current environment of rising interest rates and flatter yield curves.

The ratings are based on the aggregate financial strength of the entire cooperative banking sector in Germany, including its strong market position in domestic retail banking; its stable funding sources; overall sound capitalization; and its track record of improving asset quality over the past few years. Factors constraining the ratings are the local cooperative banks' slow, yet improving, ability to realize cost synergies; exposure to low growth prospects and strong competition in the domestic market; and the structurally higher credit loss provisions in domestic retail banking.

The 'AAA' ratings on covered bonds issued by DZ BANK, Deutsche Genossenschafts-Hypothekenbank AG, and WL BANK AG Westfaelische Landschaft Bodenkreditbank

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primarily reflect the bond collateral and the protections afforded by German insolvency and banking laws.

Despite the legally independent nature of member institutions, we view the German cooperative banking sector analytically as a cohesive economic group. Strong integration and coherence within the sector, including its system of solidarity and comprehensive protective scheme, which has prevented insolvencies of member institutions since its establishment nearly 70 years ago, underscore this view.

At year-end 2005, reported assets totaled EUR909 billion, making the sector Germany's second-largest financial services group. The more than 1,200 local cooperative banks benefit from a loyal customer base and are deeply entrenched in their local communities. Specialized entities allow the sector to offer a complete range of financial services, which generally also benefit from strong positions in these product segments.

The local cooperative banks face mounting competition from specialized low-cost niche players, however, which mainly encroach on their traditional core retail deposits and mortgage loans in a low-growth domestic environment. As many of the specialized sector entities focus on areas with higher expected growth rates, it is imperative that the generally sound cooperation in the sector continues to intensify.

The sector's profitability levels are expected to remain modest for a retail-banking organization in Europe, but should continue to benefit from low volatility in revenues. Interest margin pressure on core local bank products is likely to be offset by sales growth in specialized sector entity products. Synergies from consolidation at the local cooperative banks are filtering through only slowly, however, and may allow no more than a mere stabilization of costs.

Asset quality indicators are continuing their strong recovery from the weak levels experienced in the early 2000s. Credit loss provisions in 2006 are now expected to be even lower than in 2005, and the number of banks under restructuring is set to remain low. Still, in line with other retail banks in Germany, the level of risk provisions remains relatively high in a European context.

The liquidity risk of the sector is expected to remain low, given that local cooperative banks benefit from a strong and stable retail-funding base.

The sector's capitalization on a consolidated basis continues to improve, mainly due to enhanced internal capital generation capacity and modest loan growth at the local cooperative banks. The issuance of new membership certificates also provides for stable growth of paid-up capital. Making capital resources available across the sector remains a key challenge.

Outlook

The stable outlook is based on our expectation that the recovery in the sector's earnings and asset quality in recent years is on a solid footing. Even if there is a risk that the current interest rate environment might temporarily put additional pressure on profitability, the sector should benefit from growing contributions from fee income, marginal cost increases, and improved economic conditions in Germany. Asset quality is likely to remain cyclical, but enhanced credit-risk management across the sector should limit future volatility. The stable outlook also reflects the expectation that the solidarity within the sector to support troubled institutions will remain unchanged, and that individual banks will remain members of the protection scheme and integrated into the sector.

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A positive rating action could follow if the sector were able to markedly improve its cost efficiency, which is currently not foreseeable. Additional improvements in the operating environment in Germany would also be positive if it allows the sector to achieve stronger profitable revenue growth and to achieve a further sustainable reduction in provisioning requirements.

Negative rating action could follow in the event of a reversal of the sector's recovery in credit risk. Accelerating price competition in German retail banking could also be negative if there were no offsetting effects from improved cross-selling of higher margin or fee-based products.

Ratings List

	To	From
<i>DZ BANK AG Deutsche Zentral-Genossenschaftsbank</i>		
Counterparty credit ratings	A+/Stable/A-1	A/Positive/A-1
CP	A-1	A-1
CD	A+/A-1	A/A-1
Senior secured debt	AAA	AAA
Senior unsecured debt	A+	A
<i>Deutsche Genossenschafts-Hypothekenbank AG</i>		
Counterparty credit ratings	A+/Stable/A-1	A/Positive/A-1
CD	A+/A-1	A/A-1
Senior secured debt	AAA	AAA
Senior unsecured debt	A+	A
Subordinated debt	A	A-
Short-term debt	A-1	A-1
<i>DZ Bank International S.A.</i>		
Counterparty credit ratings	A+/Stable/A-1	A/Positive/A-1
CP	A-1	A-1
CD	A+/A-1	A/A-1
Senior unsecured debt	A+	A
<i>DZ Bank Ireland PLC</i>		
Counterparty credit ratings	A+/Stable/A-1	A/Positive/A-1
CD	A+/A-1	A/A-1
Senior unsecured debt	A+	A
<i>DVB Bank AG</i>		
Counterparty credit ratings	A/Stable/A-1	A-/Positive/A-2
CP	A-1	A-2
CD	A/A-1	A-/A-2
Senior unsecured debt	A	A-
Subordinated debt	A-	BBB+
<i>VR Leasing AG</i>		
Counterparty credit ratings	A/Stable/A-1	A-/Positive/A-2

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WL BANK AG Westfaelische Landschaft Bodenkreditbank

Counterparty credit ratings	A+/Stable/A-1	A/Positive/A-1
Senior secured (Öffentliche Pfandbriefe)	AAA	AAA
Senior secured (Hypotheken Pfandbriefe)	AAA	AAA
CD	A+/A-1	A/A-1
Senior unsecured debt	A+	A
Short-term debt	A-1	A-1
Short-term secured debt	A-1+	A-1+

Deutsche Apotheker- und Ärztebank eG

Counterparty credit ratings	A+/Stable/A-1	A/Positive/A-1
CP	A-1	A-1
CD	A+/A-1	A/A-1
Senior unsecured debt	A+	A
Subordinated debt	A	A-
Short-term debt	A-1	A-1

Other member banks of the cooperative sector:

Counterparty credit rating*	A+/Stable/A-1	A/Positive/A-1
CD*	A+/A-1	A/A-1

*This rating applies to all of the following local cooperative banks:

Augusta-Bank eG Raiffeisen-Volksbank
Genobank Rhoen-Grabfeld eG
Genossenschaftsbank eG Muenchen
Hallertauer Volksbank eG
Handels- und Gewerbebank Augsburg eG
Kulmbacher Bank eG Raiffeisen-Volksbank
Landsberg-Ammersee Bank eG
LIGA Bank eG
Raiffeisenbank - Volksbank Hermsdorfer Kreuz eG
Raiffeisenbank Allersberg eG
Raiffeisenbank Altdorf-Ergolding eG
Raiffeisenbank Altdorf-Feucht eG
Raiffeisenbank am Dreisessel eG
Raiffeisenbank Am Goldenen Steig eG
Raiffeisenbank Arnstorf eG
Raiffeisenbank Aschaffenburg eG
Raiffeisenbank Aschau-Samerberg eG
Raiffeisenbank Bachgau eG
Raiffeisenbank Bad Windsheim eG
Raiffeisenbank Baisweil-Eggenthal-Friesenried eG
Raiffeisenbank Bechhofen eG
Raiffeisenbank Beuerberg-Eurasburg eG
Raiffeisenbank Bissingen eG
Raiffeisenbank Bobingen eG

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Raiffeisenbank Bruck eG
Raiffeisenbank Buch-Eching-Vatersdorf eG
Raiffeisenbank Buchloe-Kaufbeuren-Marktobderdorf eG
Raiffeisenbank Burgau eG
Raiffeisenbank Cham-Roding eG
Raiffeisenbank Deggendorf-Plattling eG
Raiffeisenbank Donaustauf-Suenching-Mintraching eG
Raiffeisenbank Eichenbuehl und Umgebung eG
Raiffeisenbank Elsavatal eG
Raiffeisenbank Essenbach eG
Raiffeisenbank Estenfeld-Bergtheim eG
Raiffeisenbank Fuessen-Pfronten-Nesselwang eG
Raiffeisenbank Gaimersheim-Buxheim eG
Raiffeisenbank Geisenhausen eG
Raiffeisenbank Gerolsbach eG
Raiffeisenbank Gilching eG
Raiffeisenbank Grainet eG
Raiffeisenbank Griesstaett-Halfing eG
Raiffeisenbank Haldenwang eG
Raiffeisenbank Hammelburg eG
Raiffeisenbank Heilsbronn-Windsbach eG
Raiffeisenbank Hemau eG
Raiffeisenbank Hengersberg-Schoellnach eG
Raiffeisenbank Hersbruck eG
Raiffeisenbank Hiltenfingen eG
Raiffeisenbank Hoehenkirchen und Umgebung eG
Raiffeisenbank Holzkirchen-Otterfing eG
Raiffeisenbank Horgau eG
Raiffeisenbank Ichenhausen eG
Raiffeisenbank Iller-Roth-Guenz eG
Raiffeisenbank im Isarwinkel eG
Raiffeisenbank im Naabtal eG
Raiffeisenbank im Oberland eG
Raiffeisenbank Ingolstadt-Pfaffenhofen-Eichstaett eG
Raiffeisenbank Jettingen-Scheppach eG
Raiffeisenbank Kallmuenz eG
Raiffeisenbank Karlstadt-Gemuenden eG
Raiffeisenbank Kemnather Land - Steinwald eG
Raiffeisenbank Kirchberg vorm Wald eG
Raiffeisenbank Kissing-Mering eG
Raiffeisenbank Krumbach/Schwaben eG
Raiffeisenbank Lech-Ammersee eG
Raiffeisenbank Lohr am Main eG
Raiffeisenbank Neumarkt i.d. OPf. eG
Raiffeisenbank Neu-Ulm/Weissenhorn eG
Raiffeisenbank Oberallgaeu-Sued eG

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Raiffeisenbank Oberferrieden-Burgthann eG
Raiffeisenbank Obernburg eG
Raiffeisenbank Oberschleissheim eG
Raiffeisenbank Ochsenfurt eG
Raiffeisenbank Ortenburg eG
Raiffeisenbank Parsberg-Velburg eG
Raiffeisenbank Pfaffenhofen a.d. Glonn eG
Raiffeisenbank Pfaffenwinkel eG
Raiffeisenbank Pfeffenhausen-Rottenburg eG
Raiffeisenbank Rain am Lech eG
Raiffeisenbank Regensburg-Wenzenbach eG
Raiffeisenbank Regenstauf eG
Raiffeisenbank Roggenburg-Breithenthal eG
Raiffeisenbank Rosenheim eG
Raiffeisenbank RSA eG
Raiffeisenbank Salzweg-Thyrnau eG
Raiffeisenbank Schierling-Obertraubling eG
Raiffeisenbank Schoellkrippen und Umgebung eG
Raiffeisenbank Schrobenhausen eG
Raiffeisenbank Schwandorf-Nittenau eG
Raiffeisenbank Seebachgrund eG
Raiffeisenbank Singoldtal eG
Raiffeisenbank Stauden eG
Raiffeisenbank Steingaden eG
Raiffeisenbank suedoestl. Starnberger See eG
Raiffeisenbank Thannhausen eG
Raiffeisenbank Toelzer Land eG
Raiffeisenbank Unteres Inntal eG
Raiffeisenbank Vilshofener Land eG
Raiffeisenbank Volkach-Wiesentheid eG
Raiffeisenbank Wegscheid eG
Raiffeisenbank Weiden eG
Raiffeisenbank Weil und Umgebung eG
Raiffeisenbank Weilheim eG
Raiffeisenbank Weissenburg eG
Raiffeisenbank Westallgaeu eG
Raiffeisenbank Westkreis Fuerstenfeldbruck eG
Raiffeisen-Volksbank Bad Staffelstein eG
Raiffeisen-Volksbank Ebersberg eG
RaiffeisenVolksbank eG Gewerbebank
Raiffeisen-Volksbank Erlangen-Hoechstadt eG
Raiffeisen-Volksbank Fuerth eG
Raiffeisen-Volksbank Gerolzhofen-Unterspiesheim eG
Raiffeisen-Volksbank Hassberge eG
Raiffeisen-Volksbank in den Landkreisen Altoetting-Muehldorf eG
Raiffeisen-Volksbank Isen-Sempt eG

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Raiffeisen-Volksbank Lichtenfels-Itzgrund eG
Raiffeisen-Volksbank Miltenberg eG
Raiffeisen-Volksbank Neuburg/Donau eG
Raiffeisen-Volksbank Tuessling-Unterneukirchen eG
Raiffeisen-Volksbank Wemding eG
Rottaler Raiffeisenbank eG
Rottaler Volksbank-Raiffeisenbank eG
RV - Bank eG
Vereinigte Raiffeisenbanken Graefenberg-Forchheim-Eschenau-Heroldsberg eG
Volksbank Forchheim eG
Volksbank Guenzburg eG
Volksbank Neu-Ulm eG
Volksbank Nordoberpfalz eG
Volksbank Ostallgaeu eG
Volksbank Raiffeisenbank Dachau eG
Volksbank Raiffeisenbank Ismaning eG
Volksbank Raiffeisenbank Mangfalltal-Rosenheim eG
Volksbank Raiffeisenbank Nuernberg eG
Volksbank Raiffeisenbank Oberbayern Suedost eG
Volksbank Raiffeisenbank Traunstein eG
Volksbank Raiffeisenbank Wuerzburg eG
Volksbank Schrobenhausen eG
Volksbank Straubing eG
Volksbank Vilshofen eG
Volksbank-Raiffeisenbank Amberg eG
Volksbank-Raiffeisenbank Chiemsee eG
Volksbank-Raiffeisenbank Dingolfing eG
Volksbank-Raiffeisenbank Penzberg eG
VR Bank Bamberg eG Raiffeisen-Volksbank
VR Bank Kitzingen eG
VR Bank Muenchen Land eG
VR Bank Starnberg-Herrsching-Landsberg eG
VR-Bank Burghausen-Muehldorf eG
VR-Bank Chiemgau-Sued eG
VR-Bank Coburg eG
VR-Bank eG Schweinfurt Land
VR-Bank Landshut eG
VR-Bank Lech-Zusam eG
VR-Bank Passau eG
VR-Bank Rhoen-Grabfeld eG
VR-Bank Rothenburg o.d.Tbr. eG
VR-Bank Rottal-Inn eG
VR-Bank Uffenheim-Neustadt eG Raiffeisen-Volksbank
VR-Bank Vilsbiburg eG
VR-Bank Volks- und Raiffeisenbank imLandkreis Garmisch-Partenkirchen eG

NB: This list does not include all ratings affected.

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