MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns senior-senior unsecured bank debt ratings to 14 German banks and upgrades 350 bonds to the new rating level

Global Credit Research - 21 Nov 2016

Action follows clarification from the German authorities around the seniority of certain debt liabilities in resolution and insolvency

Frankfurt am Main, November 21, 2016 -- Moody's Investors Service has today assigned first-time local-currency and foreign-currency senior-senior unsecured bank debt ratings (an additional rating class for German banks as detailed below) to 14 German banks.

At the same time, the rating agency has upgraded to the senior-senior debt rating level, by up to two notches, 350 bonds issued by 13 German banks and their foreign branches and issuing vehicles. Previously, Moody's rated these bonds in line with other senior unsecured bank debt. Following today's upgrades, their ratings are now rated at the same level as junior deposits.

Furthermore, Moody's affirmed the ratings of 59 senior-senior unsecured bonds issued by one bank.

Today's rating actions were triggered by a guidance document published in the summer by the German regulatory bodies -- Bafin (Bundesanstalt fuer Finanzdienstleistungen), Deutsche Bundesbank (Germany's Central Bank) and FMSA (Bundesanstalt fuer Finanzmarktstabilisierung) -- on the treatment of certain debt instruments issued by German banks under the upcoming change to the legal insolvency ranking of bank claims, which will become effective as of 1 January 2017.

The guidance document clarified what terms and characteristics would qualify individual bonds as regular senior liabilities ("debt securities" in the narrow definition of Article 46f(6) of the German Banking Act (Kreditwesengesetz)), and which therefore do not benefit from the pari passu ranking with wholesale deposits. In essence, the guidance document specifies which bank liabilities are now subordinated to other senior unsecured obligations of banks. The guidance document also details the features that exclude bonds from this treatment of subordination. Excluded bonds will continue to rank pari passu with other senior bank claims such as money-market instruments as well as institutional and wholesale deposits, effectively creating an additional, more senior class of unsecured debt liabilities.

Under the liability waterfall employed in Moody's Advanced Loss Given Failure (LGF) analysis, this specific class of liability -- which Moody's will refer to as "senior-senior unsecured bank debt" -- now ranks at the same seniority level as junior deposits, and therefore above regular senior unsecured bank debt. Moody's treatment of the respective instruments reflects the legal rank of senior-senior unsecured debt instruments in Germany's future bank insolvency legislation. In accordance with their higher ranking, today's assigned senior-senior unsecured bank debt ratings are aligned with the long-term deposit ratings of the affected institutions, and carry the same outlook as the banks' deposit ratings.

Based on an analysis of the individual interest and principal payment terms of debt instruments, Moody's changed the status to senior-senior unsecured bank debt, and upgraded or affirmed (as applicable), the ratings of those bonds that qualify as senior-senior liabilities. At the same time, all other senior unsecured debt instruments issued by German banks are unaffected by today's rating actions, as Moody's expects them to be subordinated to junior deposits and senior-senior bonds, a view reflected in the various rating actions taken on German banks' obligations on 26 January 2016 (see Moody's upgrades German banks' deposit ratings and downgrades senior debt ratings, https://www.moodys.com/research/--PR_342472).

Moody's has assigned first-time senior-senior unsecured bank debt ratings, and taken rating actions for the following institutions, including their foreign branches and issuance vehicles:

Bayerische Landesbank: 78 bonds upgraded to A1 stable from A2 stable

Berlin Hyp AG: 1 bond upgraded to A1 positive from A2 positive

Commerzbank AG: 49 bonds upgraded to A2 stable from Baa1 stable

DekaBank Deutsche Girozentrale: 7 bonds upgraded to Aa2 stable from Aa3 stable

Deutsche Apotheker- und Aerztebank eG: 3 bonds upgraded to Aa1 stable from Aa3 stable

Deutsche Bank AG: 29 bonds upgraded to A3 stable from Baa2 stable

Deutsche Hypothekenbank (Actien-Gesellschaft): 1 bond upgraded to A3 negative from Baa1 negative

DZ Bank AG: 60 bonds upgraded to Aa1 stable from Aa3 positive

HSH Nordbank AG: 59 bonds affirmed at Baa3 developing

Landesbank Baden-Wuerttemberg: 18 bonds upgraded to Aa3 stable from A1 stable

Landesbank Hessen-Thueringen GZ: 58 bonds upgraded to Aa3 stable from A1 stable

Muenchener Hypothekenbank eG: 13 bonds upgraded to Aa3 stable from A1 stable

Norddeutsche Landesbank GZ: 26 bonds upgraded to A3 negative from Baa1 negative

UniCredit Bank AG: 7 bonds upgraded to A2 stable from Baa1 stable

Today's rating actions have no impact on the ratings of other instruments of the affected banks, including subordinated debt, hybrid capital instruments, junior deposits, as well as rating inputs, such as Baseline Credit Assessments (BCA) and Counterparty Risk Assessments. Similarly, the short-term debt and short-term deposit ratings of German banks remain unaffected by today's actions, because their rating levels are mapped from the banks' long-term deposit ratings.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_193183 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

Moody's will publish later today a Special Comment entitled "Key Considerations in Our Rating Action Establishing a New Senior Debt Rating Class", providing more background on today's rating action. Subscribers will be able to access the report under the following link:

http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1047267

RATINGS RATIONALE

(1) FIRST-TIME ASSIGNMENT OF SENIOR-SENIOR UNSECURED BANK DEBT RATINGS

In November 2015, the German government amended the insolvency legislation for banks to effectively subordinate certain senior unsecured debt obligations to other senior liabilities. From January 2017 onwards, junior depositors and investors in senior unsecured bonds that exhibit complex structural features will benefit from the subordination of non-structured (or less complex) senior unsecured debt instruments, reducing the severity of loss for the former.

Today's assignment of senior-senior unsecured bank debt ratings to some German bank liabilities reflects the clarification issued by the German authorities regarding the criteria governing the subset of senior unsecured debt securities that will become subordinated to other senior claims.

This is the first instance of senior-senior unsecured bank debts to which Moody's has assigned a rating.

Moody's senior-senior unsecured bank debt ratings speak to those securities that benefit from additional subordination from non-structured, "plain-vanilla" debt securities. Based on the legal situation, which will become effective in Germany on 1 January 2017, Moody's expects these senior-senior unsecured instruments to rank pari-passu with junior deposits of banks in insolvency and resolution.

As in the case of the junior deposits, for senior-senior debt instruments of most German banks Moody's Advanced LGF analysis results in an "extremely low" loss-given-failure, resulting in three notches of rating uplift from the affected banks' Adjusted Baseline Credit Assessment (BCA), from which these ratings are notched. However, some senior-senior unsecured bank debt ratings include less favourable results and lower uplift, because the liability structures of the affected banks include less subordination in the form of subordinated debt and/or senior unsecured debt securities. Based on the Advanced LGF analysis of 14 banks, which are frequent issuers of structured senior bank debt instruments, Moody's has assigned senior-senior unsecured bank debt ratings at the level of the banks' junior deposit ratings. Senior unsecured ratings remain unaffected by today's rating action.

Moody's Advanced LGF analysis reflects the benefit of instrument volume and subordination protecting creditors from losses in the event of insolvency or resolution. German banks and their foreign branches are subject to the EU Bank Recovery and Resolution Directive (BRRD), which Moody's considers an Operational Resolution Regime.

(2) UPGRADE OF DEBT INSTRUMENTS ELIGIBLE FOR SENIOR-SENIOR UNSECURED BANK DEBT RATINGS

Based on a comprehensive analysis of the individual characteristics of the debt instruments, which were previously rated uniformly as senior unsecured debt, Moody's identified 409 bonds that exhibit at least one feature that exempts them from the regular debt security status as defined in article 46f (6) of the German Banking Act (Kreditwesengesetz), which was further clarified in a guidance document published earlier this year by the German bank regulatory authorities. These 409 bonds are therefore re-classified and rated as senior-senior unsecured bank debt as of today's rating actions.

The structuring features that exempt a bond from subordination most frequently encountered by Moody's during this analysis include:

• Interest level caps and floors for floating rate instruments;

• Linkage of floating rate interest payments to sources other than Euribor or Libor, foremost to swap rates; and

• Linkage of the bond's payment profile to embedded derivatives.

To the extent that Moody's will be advised of any additional instruments which may be subject to the senior-senior unsecured classification, Moody's will review such instances on a case-by-case basis, in line with its current practice. Such reclassifications and rating adjustments (if applicable) will typically not be accompanied by a press release.

(3) WITHDRAWAL OF CERTAIN DEBT INSTRUMENT RATINGS

For a subset of 7 individual bonds of three issuers, Moody's has withdrawn senior unsecured ratings without affecting the overall program or issuer ratings of these issuers.

Moody's has withdrawn the ratings because it believes it has insufficient or otherwise inadequate information to support the maintenance of the rating. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, www.moodys.com.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Ratings pressure in either direction on the German banks' ratings may arise due to: (1) Fundamental developments that result in upgrades or downgrades to a bank's BCA; (2) Any change in Moody's assessment of the strength and/or availability of parental support or cross-sector support -- the latter is generally applicable to banks that are members of an institutional protection scheme; (3) alterations in a bank's liability structure that changes the expected loss severity for particular liability classes; and/or (4) any change in Moody's assumptions regarding the likelihood of government support being available.

Changes in the severity of loss for certain liability classes -- and therefore pressure on the results of Moody's Advanced LGF analysis -- may develop if the individual banks' subordinated instruments increase (or decrease), and/or if senior unsecured debt increases (or decreases) relative to their tangible banking assets. This could result in additional (or fewer) notches of rating uplift resulting from Moody's LGF analysis.

For bank-specific rating drivers, please refer to the respective banks' latest credit opinions.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_193183 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Person Approving the Credit Rating

• Releasing Office

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Moody's considers a rated entity or its agent(s) to be participating when it maintains an overall relationship with Moody's. On this basis Deutsche Apotheker- und Aerztebank eG or its agents are considered to be participating entities. This rated entity or its agents generally provide Moody's with information for their ratings process.

The relevant office for each credit rating is identified in "Debt/deal box" on the Ratings tab in the Debt/Deal List section of each issuer/entity page of the Website.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead analyst and the Moody's legal entity that has issued the ratings.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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