

Announcement: Moody's places German banks' subordinated debt on review for downgrade

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Approximately EUR24 billion of subordinated debt affected

New York, December 16, 2010 -- Moody's Investors Service has today placed on review for possible downgrade the ratings of 246 subordinated debt securities together with the subordinated tranches of the relevant debt programs issued or guaranteed by 24 banks in Germany (including one Irish subsidiary of a German bank). This follows the German parliament's approval of the German Bank Restructuring Act, which will become legally effective as of 1 January 2011.

RATINGS RATIONALE

The Bank Restructuring Act -- and related amendments to the German Banking Act (KWG) -- will establish a framework for dealing with banks in distress, allowing the regulator to trigger losses outside of liquidation on senior debt as well as on subordinated bank debt that is typically classified as Lower Tier 2 for regulatory capital purposes. While Moody's believes that, for the time being, regulators are unlikely to impose losses on senior debt due to the need to preserve systemic stability in the current fragile market conditions, this change of law implies significantly higher risk for subordinated bank debt. In Moody's view it materially reduces the likelihood of systemic support for Lower Tier 2 debt in the context of bank bail-outs and may lead to multi-notch rating downgrades for this category of debt.

A detailed list of the affected ratings is available on Moody's website, which may be accessed by clicking here http://v3.moody's.com/viewresearchdoc.aspx?docid=PBC_129542. The ratings of grandfathered debt qualifying for "Gewehrtraegerhaftung" (a guarantee obligation) by regional governments are not affected and hence, are excluded from the list.

Moody's review for possible downgrade will focus on the implied higher risk for subordinated debt under the newly established bank resolution regime. For the first time in Germany, it will be possible to separate subordinated from senior claims under a reorganisation procedure. This would be achieved through either (i) imposing losses on subordinated debt of a going-concern entity under a reorganisation plan; or (ii) separating classes of debt into 'going concern' and 'gone concern' legal entities, de facto changing the pari passu status of subordinated debt outside of liquidation.

"The law allows losses to be selectively imposed on subordinated debt. In a post-crisis scenario, we believe that its provisions could be used without having a material adverse impact on the stability of the financial markets", says Carola Schuler, Managing Director for Banking at Moody's in Frankfurt. "Going forward, the regulators may take advantage of such wider resolution options on a case-by-case basis."

Even though the regulatory tools provided by the Bank Restructuring Act and the German Banking Act are broad enough to allow the imposition of losses on senior unsecured bondholders as well, Moody's is not considering rating actions in respect of senior debt for the time being. Haircuts on senior unsecured debt would be likely to severely disrupt financial markets and, hence, Moody's expects the regulator to tread very carefully and in accordance with market conditions. Moody's will, however, continue to monitor the funding situation of German banks and will reassess the relevance of systemic support and financial stability accordingly on an ongoing basis.

Please see "Assessment of Post-Crisis Support for German Banks" published in April 2010, for an earlier comment by Moody's on the rising risk of losses imposed on subordinated debt issued by German banks.

FUTURE RATINGS OF SUBORDINATED DEBT LIKELY TO EXCLUDE SYSTEMIC SUPPORT, BUT MAY STILL BENEFIT FROM REGIONAL GOVERNMENT SUPPORT

As a consequence of the increased probability that losses may be imposed on subordinated debt, Moody's will consider removing the systemic support which currently accounts, on average, for three notches of uplift for this class of bank debt in Germany. Upon the conclusion of the review and in line with "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt", Moody's may position the ratings one notch below its Adjusted Baseline Credit Assessment (Adjusted BCA) which reflects the bank's stand-alone financial strength including parental and cooperative support.

Currently, the rating of subordinated debt of German banks is positioned one notch below the Bank Deposit Rating and thus incorporates uplift for all types of external support, including systemic as well as regional and local government support. The Adjusted BCA adds parental and cooperative support to the intrinsic financial strength of a bank, but excludes regional and local government and systemic support on a regular basis. In the process of this review, Moody's may, on a case-by-case basis, consider adding some degree of regional and local government support to the Adjusted BCA for this particular class of debt, mainly limited to the Landesbanken. The review will therefore focus on potential support scenarios for public sector banks under the new law where regional and local governments effectively take a first-loss position and are able and willing to provide support in the future.

Moody's expects to conclude its review within a few weeks of the new law becoming effective.

For the ratings of junior subordinated and hybrid debt in Germany, the Adjusted BCA will continue to exclude both systemic and regional and local government support and is not affected by this review.

LIST OF BANKS AFFECTED AND THEIR CURRENT ADJUSTED BCAS

Please see below for a full list of the affected banks and their current Adjusted BCA excluding systemic and regional and local government (RLG) support. All outstanding deposit and debt ratings are available on www.moody's.com. For the banks indicated by RLG and as discussed above, Moody's may decide to include some degree of RLG support in the Adjusted BCA for the purpose of rating subordinated debt as part of its review.

Bayerische Landesbank: Adjusted BCA equivalent to Baa3 (RLG);

Bremer Landesbank Kreditanstalt Oldenburg GZ: Adjusted BCA equivalent to A2 (RLG);

Commerzbank AG: Adjusted BCA equivalent to Baa1;

DekaBank: Adjusted BCA equivalent to A2;

DEPFA Bank plc (Ireland): Adjusted BCA equivalent to B2;

Deutsche Apotheker- und Aerztebank eG: Adjusted BCA equivalent to Baa1;

Deutsche Bank: Adjusted BCA equivalent to A2;

Deutsche Hypothekenbank AG: Adjusted BCA equivalent to A3;

Deutsche Pfandbriefbank AG: Adjusted BCA equivalent to B1;

Deutsche Postbank: Adjusted BCA equivalent to Baa1;

DVB Bank S.E.: Adjusted BCA equivalent to A2;

DZ BANK AG Deutsche Zentral-Genossenschaftsbank: Adjusted BCA equivalent to A2;

Eurohypo AG: Adjusted BCA equivalent to Ba1;

HSB Nordbank AG: Adjusted BCA equivalent to Ba2 (RLG);

IKB Deutsche Industriebank AG: Adjusted BCA equivalent to Caa1;

Landesbank Baden-Wuerttemberg: Adjusted BCA equivalent to A3 (RLG);

Landesbank Berlin AG: Adjusted BCA equivalent to Baa1;

Landesbank Hessen-Thueringen GZ: Adjusted BCA equivalent to A3 (RLG);

Muenchener Hypothekenbank eG: Adjusted BCA equivalent to A2;

Norddeutsche Landesbank GZ: Adjusted BCA equivalent to A2 (RLG);

Sparkasse KoelnBonn: Adjusted BCA equivalent to Baa3 (RLG);

UniCredit Bank AG: Adjusted BCA equivalent to A3;

Volkswagen Bank GmbH: Adjusted BCA equivalent to A3;

WestLB AG: Adjusted BCA equivalent to Ba3 (RLG).

The principal methodology used in this rating was Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt published in November 2009. Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings and further information on the meaning of each rating category.

Moody's last rating action on Bayerische Landesbank (BayernLB) was on March 02, 2010 when Moody's downgraded BayernLB's hybrid ratings.

Domiciled in Munich, Germany, BayernLB reported total assets of EUR332 billion at 30 September 2010 and a pretax profit for the first nine months of EUR669 million.

Moody's last rating action on Bremer Landesbank was on September 22, 2009 when Moody's Investors Service affirmed Bremer Landesbank's Aa2/C/Prime-1 ratings.

Domiciled in Bremen, Germany, Bremer Landesbank reported total assets of EUR35 billion at 30 June 2010 and a pretax profit for the first six months of EUR34 million.

Moody's last rating action on Commerzbank AG (Commerzbank) was on March 30, 2010 when Moody's upgraded the hybrid ratings of Dresdner Funding Trust IV following a restructuring of the terms and conditions of this instrument by Commerzbank AG.

Domiciled in Frankfurt, Germany, Commerzbank reported total assets of EUR848 billion at 30 September 2010 and a pretax profit for the first nine months of EUR1,097 million.

Moody's last rating action on DekaBank Deutsche Girozentrale (DekaBank) was on November 19, 2009 when Moody's Investors Service affirmed DekaBank's BFSR C (Aa2) with a stable outlook.

Domiciled in Frankfurt, Germany, DekaBank reported total assets of EUR137 billion at 30 September 2010 and a pretax profit for the first three quarters of 2010 of EUR543 million.

Moody's last rating action on DEPFA Bank plc was on October 01, 2010 when Moody's Investors Service downgraded DEPFA Bank plc's ratings to Baa3/E+/Prime-3.

Domiciled in Dublin, Ireland, DEPFA Bank plc reported total assets of EUR240 billion at 30 June 2010 and a pretax loss for the first six months of EUR303 million.

Moody's last rating action on Deutsche Apotheker- und Aerztebank eG (apoBank) was on February 18, 2010 when Moody's downgraded apoBank's Tier 1 hybrid securities rating.

Domiciled in Duesseldorf, Germany, apoBank reported total assets of EUR43 billion at 30 June 2010 and a net profit for the first half year of EUR25 million.

Moody's last rating action on Deutsche Bank AG was on March 04, 2010 when Moody's downgraded Deutsche Bank to Aa3/C+ from Aa1/B.

Domiciled in Frankfurt, Germany, Deutsche Bank AG reported total assets of EUR1,958 billion at 30 September 2010 and a pretax profit for the first nine months of EUR3,268 million.

Moody's last rating action on Deutsche Hypothekenbank was on October 22, 2010 when Moody's Investors Service assigned a final Baa3 rating to the capital notes issued by Charlottenburg Capital International S.à.r.l. & Cie SECS (CCI).

Domiciled in Hannover, Germany, Deutsche Hypothekenbank reported total assets of EUR37 billion at 30 June 2010 and a pretax profit for the first six months of EUR12 million.

Moody's last rating action on Deutsche Pfandbriefbank AG was on October 1, 2010 when Moody's affirmed the A3 long-term debt and deposit ratings as well as the Baa1 rating for the senior subordinated debt.

Domiciled in Unterschleißheim, Germany, Deutsche Pfandbriefbank AG reported total assets of EUR229 billion at 30 June 2010 and a pretax loss for the first six months of EUR352 million.

Moody's last rating action on Deutsche Postbank AG was on February 19, 2010 when Moody's downgraded Postbank's ratings to A1/D+ from Aa3/C.

Domiciled in Bonn, Germany, Deutsche Postbank AG reported total assets of EUR231 billion at 30 September 2010 and a pretax profit for the first nine months of EUR296 million.

Moody's last rating action on DVB Bank S.E. was on September 28, 2009 when Moody's downgraded DVB's BFSR to D+ from C- (Baa3).

Domiciled in Frankfurt, Germany, DVB Bank S.E. reported total assets of EUR20 billion at 30 June 2010 and a pretax profit for the first six months in 2010 of EUR140 million.

Moody's last rating action on DZ Bank was on February 19, 2010 when Moody's downgraded DZ Bank's hybrid securities ratings.

Domiciled in Frankfurt, Germany, DZ Bank reported total assets of EUR404 billion at 30 June 2010 and a pretax income for the first half year of EUR616 million.

Moody's last rating action on Eurohypo AG (Eurohypo) was on February 18, 2010 when Moody's downgraded Eurohypo's Tier III subordinated securities rating under its MTN Program.

Domiciled in Eschborn, Germany, Eurohypo reported total assets of EUR257 billion at 30 June 2010 and a pretax loss for the first half year of EUR215 million.

Moody's last rating action on HSH Nordbank was on May 04, 2010 when Moody's downgraded HSH Nordbank's long-term debt ratings to A3.

Domiciled in Hamburg, Germany, HSH Nordbank reported total assets of EUR176 billion at 30 June 2010 and a pretax loss for the first half year of EUR427 million.

Moody's last rating action on IKB Deutsche Industriebank AG was on September 17, 2009 when Moody's confirmed IKB's Baa3/P-3 ratings.

Domiciled in Dusseldorf, Germany, IKB Deutsche Industriebank AG reported total assets of EUR36 billion at 30 September 2010 and a pretax loss for the first half year of EUR241 million.

Moody's last rating action on Landesbank Baden-Wuerttemberg (LBBW) was on July 23, 2009 when Moody's downgraded LBBW's BFSR to C- from C, the senior unsecured debt and deposit ratings to Aa2 from Aa1 and the subordinated debt rating to Aa3 from Aa2.

Domiciled in Stuttgart, Germany, LBBW reported total assets of EUR417 billion at 30 June 2010 and a pretax loss for the first half year of EUR321 million.

Moody's last rating action on Landesbank Berlin AG was on November 19, 2009 when Moody's affirmed the D+/A1.

Landesbank Berlin AG domiciled in Berlin, Germany, reported total assets of EUR143 billion at 30 June 2010 and a pretax profit for the first half year of EUR146 million.

Moody's last rating action on Landesbank Hessen-Thueringen GZ was on February 18, 2010 when Moody's downgraded Helaba's hybrid securities ratings.

Landesbank Hessen-Thueringen GZ domiciled in Frankfurt, Germany, reported total assets of EUR175 billion at 30 September 2010 and a pretax profit for the first nine months of EUR284 million.

Moody's last rating action on Muenchener Hypothekenbank eG was on December 08, 2009 when Moody's downgrades MünchenerHyp to A1/C- from Aa3/C+, concluding review.

Domiciled in Munich, Germany, Muenchener Hypothekenbank eG reported total assets of EUR36 billion at 30 September 2010 and a pretax profit for the first three quarters of 2010 of EUR30 million.

Moody's last rating action on Norddeutsche Landesbank GZ was on February 25, 2010 when Moody's downgraded Nord/LB's hybrid ratings.

Norddeutsche Landesbank GZ domiciled in Hannover, Germany, reported total assets of EUR237 billion at 30 September 2010 and a pretax profit for the first nine months of EUR154 million.

Moody's last rating action on Sparkasse KoelnBonn was on March 15, 2010 when Moody's downgraded Sparkasse KoelnBonn's ratings to A1/D- from Aa2/C.

Domiciled in Cologne, Germany, Sparkasse KoelnBonn reported total assets of EUR30 billion at 31 December 2009 and a pretax loss for 2009 of EUR120 million.

Moody's last rating action on UniCredit Bank AG was on March 11, 2010 when Moody's downgraded UniCredit Bank's hybrid securities ratings.

Domiciled in Munich, Germany, UniCredit Bank AG reported total assets of EUR412 billion at 30 September 2010 and a pretax profit for the first nine months of EUR1,686 million.

Moody's last rating action on Volkswagen Bank GmbH was on September 23, 2010 when Moody's downgraded Volkswagen Bank's BFSR to C-; A2 long-term rating confirmed.

Volkswagen Bank GmbH domiciled in Brunswick, Germany reported total assets of EUR34 billion at 30 June 2010 and a pretax profit for the first half year of EUR188 million.

Moody's last rating action on WestLB was on May 04, 2010 when Moody's downgraded WestLB's senior unsecured debt and deposit ratings to A3 from A2 and its subordinated debt ratings to Baa1 from A3 following Moody's revision of its assumptions for future support for the bank.

Domiciled in Dusseldorf, Germany, WestLB reported total assets of EUR220 billion at 30 September 2010 and a pretax loss for the first nine months of EUR33 million.

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