

Rating Action: Moody's downgrades German banks' subordinated debt

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Approximately EUR24 billion of subordinated debt affected

Frankfurt am Main, February 17, 2011 -- Moody's Investors Service has today downgraded the ratings of 248 subordinated debt securities, together with the subordinated tranches of the relevant debt programs issued or guaranteed by 23 German banks and one Irish subsidiary of a German bank. This follows the introduction of the German Bank Restructuring Act, which in Moody's opinion increases the risk of losses being imposed on subordinated debt outside of liquidation. Moody's has therefore decided to link the subordinated debt ratings for Lower Tier 2 and Tier 3 securities closer to the stand-alone financial strength of the issuers by withdrawing its assumption of systemic and regional government support for subordinated bank debt. The exceptions to this are the ratings of the subordinated debt issued by Bayerische Landesbank and Sparkasse KoelnBonn, for which Moody's has decided to remove all systemic support, while maintaining some degree of regional government support because of high regional-government ownership stakes.

The removal of regional government and systemic support from the subordinated debt ratings triggered by the new German Bank Restructuring Act has resulted in average downgrades of two and a half notches and a maximum change of seven notches. A detailed list of the affected ratings is available at the end of the press release and on Moody's website, which may be accessed here http://v3.moody.com/viewresearchdoc.aspx?docid=PBC_131308

Today's rating action concludes Moody's review for possible downgrade of German banks' Lower Tier 2 ratings initiated on 16 December 2010. These rating actions have no impact on the ratings of the affected banks' senior debt, grandfathered debt or hybrid debt ratings.

For more information on Moody's assessment of the German Bank Restructuring Act, see the special comment "German Bank Restructuring Act Reduces Systemic Support for Subordinated debt-holders" which is available on [moody.com](http://v3.moody.com) and may be accessed here http://v3.moody.com/viewresearchdoc.aspx?docid=PBC_131128

RATINGS RATIONALE

"The new law allows for broader burden-sharing in a distress scenario with implications potentially for both senior and subordinated debt. However, Moody's considers subordinated debt to be most at risk under the new law and has therefore adjusted its ratings accordingly," says Mathias Kuelpmann, Senior Vice President at Moody's in Frankfurt.

According to the Bank Restructuring Act, it will now be possible to (i) impose losses on debt-holders of a going-concern entity under a reorganisation "bail-in" plan; or (ii) separate classes of debt into 'going concern' and 'gone concern' legal entities. Previously, debt was likely to suffer permanent losses only in the scenario of the liquidation of a bank. The new regulatory tools allow authorities to impose losses on debt-holders without necessarily placing the entire bank into liquidation.

With these tools available, the rating agency believes that government support -- including support from public-sector owners -- for subordinated debt instruments has become far less certain than in the past, given its characteristic as regulatory capital and its reduced systemic importance as an asset class. Accordingly, the reduction of support assumptions for subordinated debt is necessary to better align these ratings with the stand-alone financial strength of the issuer versus the financial capacity of the regional or systemic support providers. To reflect the higher immediate risk arising for subordinated debt from the more flexible bank resolution regime introduced by the Bank Restructuring Act, Moody's has changed the anchor for subordinated debt from the Bank Deposit Rating to the Adjusted Baseline Credit Assessment (Adjusted BCA), which is an assessment of the issuer's financial strength and the existing anchor for all hybrid ratings. The Adjusted BCA results from adding any parental support and co-operative support (where applicable) to a bank's Baseline Credit Assessment (BCA) and excludes systemic and regional government support.

The regulatory tools provided by the Bank Restructuring Act are broad enough to allow the imposition of losses on senior unsecured and subordinated bondholders. Moody's immediate focus is on subordinated debt which, in its estimation, is unlikely to benefit from German government support in future. For senior debt, losses are unlikely to be imposed at present because (i) in the current market environment, there is a possibility that haircuts on senior unsecured debt would severely disrupt the financial markets; and (ii) there is a consequent absence of any clear consensus in Germany (and in other jurisdictions) on the feasibility of imposing losses on senior unsecured creditors at systemically important institutions. However, Moody's will continue to monitor relevant developments -- such as the recent EU proposal for a unified framework of bank resolution regimes -- in order to anticipate any developing consensus in Germany on the implications of reduced systemic support for bank funding and financial stability and on the potential for losses to be imposed across the entire credit hierarchy, up to senior debt.

Following the downgrades announced today, subordinated bank debt ratings in Germany are positioned one notch below the anchor Adjusted BCA, apart from two exceptions, Bayerische Landesbank and Sparkasse KoelnBonn. These two banks maintain some degree of regional government support as detailed further below. The approach taken is in line with the methodology "Moody's Guidelines for Rating Hybrid Securities and Subordinated Debt", published in November 2009.

Following the downgrade of the program rating of WestLB's subordinated debt to (P)B1 from (P)A2, Moody's has withdrawn the program rating of WestLB's subordinated debt for business reasons as no outstanding debt under this particular program is currently rated by Moody's. Please refer to Moody's Investors Service's Withdrawal Policy, which can be found on our website, www.moody.com.

REGIONAL GOVERNMENT SUPPORT

Regarding regional government support, Moody's continues to acknowledge both the position of regional governments as partial owners -- in particular in the case of the Landesbanken -- and the importance of these banks as major credit providers in their respective region. "Despite this, we have removed regional government support uplift for the subordinated debt ratings as this can no longer be taken for granted for this type of debt under the new Bank Restructuring Act," says Mathias Kuelpmann. "We also believe that, in cases of repeated distress in the Landesbanken sector, the central government may exert heightened pressure to downsize and consolidate, making the situation less

predictable for subordinated debt given the new tools available under the act," adds Mr Kuelpmann.

However, Moody's has decided to recognise two specific cases where some regional support remains included in the newly positioned subordinated debt ratings:

For Bayerische Landesbank, Moody's downgraded the subordinated debt to Baa3 from A2, which continues to include some regional government support. Moody's decision is underpinned by (i) the high amount of capital provided during the financial crisis, including a €10 billion equity injection; and (ii) the high 94% stake that the regional government of Bavaria (rated Aaa) owns in the bank. The €10 billion capital injection has led the rating agency to believe that the regional government will provide further support in case of need, in order to protect that region's recent investment in the bank. At the same time, the regional government has stated its intent to divest part of its stakes over time and hence Moody's has decided to include only partial regional government support. Moody's will reconsider its support assumptions for subordinated debt ratings once the plans to divest become more concrete.

For Sparkasse KoelnBonn, Moody's decided to fully include local government support in the bank's subordinated debt rating. Moody's considers that a savings bank's break-up or unwinding as result of a transfer order is not an option. Sparkasse KoelnBonn is 100% owned by the Cities of Cologne and Bonn with ownership not being transferable outside of the public sector. "Given the strong cohesion of the savings bank sector -- and with the municipalities being members of the regional savings bank associations -- we believe a solution, if ever needed, would be found within the savings bank sector," explains Mathias Kuelpmann.

SELECT CHANGES IN ADJUSTED STAND-ALONE RATINGS (Adjusted BCAs)

Moody's has changed the support assumptions for Bayerische Landesbank, increasing its expectation of regional government support to very high from high, while decreasing cooperative support to moderate from high. These support assumptions better reflect the bank's increased ownership by the Free State of Bavaria after its capital injection during the financial crisis. Over the same period, the local savings bank association reduced its share to 6% from 50%. As a result, the A1 long-term debt and deposit rating of the bank remains unchanged, but the eight notches of uplift from the Ba3 Baseline Credit Assessment (BCA) now includes only two notches of rating uplift for cooperative support, moving the Adjusted BCA one notch lower to Ba1 from Baa3. The A1 senior debt rating also includes three notches for regional government support and another three notches for systemic support.

The Adjusted BCA for Deutsche Postbank includes two notches of parental support, as Moody's expects Deutsche Bank to exercise control over Deutsche Postbank. However, the ratings of Deutsche Postbank's hybrid securities continue to exclude parental support, but have a positive outlook. As stated in Moody's press release of 1 December 2010 affirming the A1/D+ ratings of Deutsche Postbank AG, Moody's expects to include parental support for hybrid securities once Deutsche Bank demonstrates its commitment further by establishing a profit-and-loss transfer agreement.

The Adjusted BCA for UniCredit Bank AG is Baa1, which is also the anchor for the bank's hybrid securities. The Adjusted BCA of Baa1 represents a correction of the information in Moody's press release of 16 December 2010.

OUTLOOK ON SUBORDINATED DEBT HAS CHANGED FOR SOME BANKS AS IT NOW FOLLOWS THE OUTLOOK ON THE BANK FINANCIAL STRENGTH RATINGS (BFSRs)

Since Moody's is using the Adjusted BCA as the new anchor for subordinated debt, the outlooks for the subordinated debt ratings have changed in several instances to reflect the outlooks for the stand-alone bank financial strength ratings, which map to the BCA used in determining the Adjusted BCA. Previously, the subordinated debt outlooks were determined by the outlooks for a bank's long-term debt and deposit ratings, which were previously the anchor for subordinated debt ratings.

The principal methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, Incorporation of Joint Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007, and Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt published in November 2009.

DETAILED LIST OF RATING ACTIONS

Please find below the list of rating actions for the 24 banks affected. In the following section, subordinated debt typically describes Lower Tier 2 securities. Rating changes on Tier 3 are listed separately if rated by Moody's.

The subordinated debt rating of Bayerische Landesbank (BayernLB) was downgraded to Baa3 from A2, moving the rating to one notch above the bank's Adjusted BCA of Ba1, because it includes two notches of regional government support. The outlook is stable, in line with the outlook on the BFSR.

The subordinated debt rating of Bremer Landesbank was downgraded to A3 from Aa3, moving the rating to one notch below the bank's Adjusted BCA of A2. The outlook is negative, in line with the outlook on the BFSR.

The subordinated debt rating of Commerzbank AG (Commerzbank) was downgraded to Baa2 from A1 and remains on review for downgrade following Moody's announcement on Commerzbank group of February 17. This rating applies to both Lower Tier 2 and Tier 3 securities.

The subordinated debt rating of DekaBank Deutsche Girozentrale (DekaBank) was downgraded to A3 from Aa3, moving the rating to one notch below the bank's Adjusted BCA of A2. The outlook is stable, in line with the outlook on the BFSR.

The subordinated debt rating of DEPFA Bank plc was downgraded to B3 from Ba1, moving the rating to one notch below the bank's Adjusted BCA of B2. The outlook is stable, in line with the outlook on the BFSR.

The subordinated debt rating of Deutsche Apotheker- und Aertztebank eG (apoBank) was downgraded to Baa2 from A3, moving the rating to one notch below the bank's Adjusted BCA of Baa1. The outlook is negative, in line with the outlook on the BFSR.

The subordinated debt rating of Deutsche Bank AG was downgraded to A3 from A1, moving the rating to one notch below the bank's Adjusted BCA of A2. The outlook is stable, in line with the outlook on the BFSR. This rating applies to both Lower Tier 2 and Tier 3 securities.

The subordinated debt rating of Deutsche Hypothekenbank was downgraded to Baa1 from A2, moving the rating to one notch below the bank's Adjusted BCA of A3. The outlook is negative, in line with the outlook on the BFSR.

The subordinated debt rating of Deutsche Pfandbriefbank AG was downgraded to B2 from Baa1, moving the rating to one notch below the bank's Adjusted BCA of B1. The outlook is positive, in line with the outlook on the BFSR.

The subordinated debt rating of Deutsche Postbank AG was downgraded to Baa2 from A2, moving the rating to one notch below the bank's Adjusted BCA of Baa1. The outlook is negative, in line with the outlook on the BFSR.

The subordinated debt rating of DVB Bank S.E. was downgraded to A3 from A2, moving the rating to one notch below the bank's Adjusted BCA of A2. The outlook is negative, in line with the outlook on the BFSR.

The subordinated debt rating of DZ Bank was downgraded to A3 from A1, moving the rating to one notch below the bank's Adjusted BCA of A2. The outlook is stable, in line with the outlook on the BFSR.

The subordinated debt rating of Eurohypo AG (Eurohypo) was downgraded to Ba1 from A2 and remains on review for downgrade following Moody's announcement on Commerzbank group of February 17. This rating applies to both Lower Tier 2 and Tier 3 securities. Regarding Tier 3 instruments, this is a correction of the Ba2 rating mentioned in Moody's Press Release earlier today.

The subordinated debt rating of HSH Nordbank was downgraded to Ba3 from Baa1, moving the rating to one notch below the bank's Adjusted BCA of Ba2. The outlook is developing, in line with the outlook on the BFSR.

The subordinated debt rating of IKB Deutsche Industriebank AG was downgraded to Caa2 from Ba2, moving the rating to one notch below the bank's Adjusted BCA of Caa1. The outlook is stable, in line with the outlook on the BFSR.

The subordinated debt rating of Landesbank Baden-Wuerttemberg (LBBW) was downgraded to Baa1 from Aa3, moving the rating to one notch below the bank's Adjusted BCA of A3. The outlook is negative, in line with the outlook on the BFSR.

The subordinated debt rating of Landesbank Berlin AG was downgraded to Baa2 from A2, moving the rating to one notch below the bank's Adjusted BCA of Baa1. The outlook is stable, in line with the outlook on the BFSR.

The subordinated debt rating of Landesbank Hessen-Thuringen GZ was downgraded to Baa1 from Aa3, moving the rating to one notch below the bank's Adjusted BCA of A3. The outlook is stable, in line with the outlook on the BFSR.

The subordinated debt rating of Muenchener Hypothekenbank eG was downgraded to A3 from A2, moving the rating to one notch below the bank's Adjusted BCA of A2. The outlook is negative, in line with the outlook on the BFSR.

The subordinated debt rating of Norddeutsche Landesbank GZ was downgraded to A3 from Aa3, moving the rating to one notch below the bank's Adjusted BCA of A2. The outlook is negative, in line with the outlook on the BFSR.

The subordinated debt rating of Sparkasse KoelnBonn was downgraded to Baa2 from A2, moving the rating to one notch above the bank's Adjusted BCA of Baa3 because it includes two notches of regional government support. The outlook is stable, in line with the outlook on the BFSR.

The subordinated debt rating of UniCredit Bank AG was downgraded to Baa2 from A2, moving the rating to one notch below the bank's Adjusted BCA of Baa1. The outlook is stable, in line with the outlook on the BFSR.

The subordinated debt rating of Volkswagen Bank GmbH was downgraded to Baa1 from A3, moving the rating to one notch below the bank's Adjusted BCA of A3. The outlook is stable, in line with the outlook on the BFSR.

The subordinated debt rating that forms part of an EMTN program of WestLB was downgraded to (P)B1, with a stable outlook, from (P)Baa1, moving the rating to one notch below the bank's Adjusted BCA of Ba3. The issuer has decided to no longer issue subordinated debt under its EMTN program and there is no subordinated debt outstanding under the program. As a result, following this rating action, the rating will be withdrawn at the current level of (P)B1 with a stable outlook.

PREVIOUS RATING ACTIONS

Moody's last rating action on Bayerische Landesbank (BayernLB) was on 2 March 2010, when Moody's downgraded BayernLB's hybrid ratings.

Domiciled in Munich, Germany, BayernLB reported total assets of EUR332 billion as of 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 22 September 2009, when Moody's affirmed Bremer Landesbank's Aa2/C/Prime-1 ratings.

Domiciled in Bremen, Germany, Bremer Landesbank reported total assets of EUR35 billion as of 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 17 February 2011, when Moody's placed the senior debt and deposit ratings of several Commerzbank group entities on review for possible downgrade.

Domiciled in Frankfurt, Germany, Commerzbank reported total assets of EUR848 billion as of 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 19 November 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 as of 30 September 2010 and a pretax profit for the first nine months of 2010 of EUR543 million.

Moody's last rating action on DEPFA Bank plc was on 1 October 2010, when Moody's Investors Service downgraded DEPFA Banks plc's

ratings to Baa3/E+/Prime-3.

Domiciled in Dublin, Ireland, DEPFA Bank plc reported total assets of EUR240 billion as of 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 18 February 2010, when Moody's downgraded apoBank's Tier 1 hybrid securities rating.

Domiciled in Duesseldorf, Germany, apoBank reported total assets of EUR43 billion as of 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 4 March 2010, when Moody's downgraded Deutsche Bank to Aa3/C+ from Aa1/B.

Domiciled in Frankfurt, Germany, Deutsche Bank AG reported total assets of EUR1,906 billion as of 31 December 2010 and a pretax profit for the year of EUR3,975 million.

Moody's last rating action on Deutsche Hypothekenbank was on 22 October 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 as of 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 1 October 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 EUR226 billion at 30 September 2010 and a pretax loss for the first nine months of EUR233 million.

Moody's last rating action on Deutsche Postbank AG was on 19 February 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 as of 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 28 September 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 as of 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 19 February 2010, when Moody's downgraded DZ Bank's hybrid securities ratings.

Domiciled in Frankfurt, Germany, DZ Bank reported total assets of EUR404 billion as of 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 17 February 2011, when Moody's placed the senior debt and deposit ratings of several Commerzbank group entities on review for possible downgrade.

Domiciled in Eschborn, Germany, Eurohypo reported total assets of EUR257 billion as of 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 4 May 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 as of 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 17 September 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 as of 30 September 2010 and a pretax loss for the first six months of EUR241 million.

Moody's last rating action on Landesbank Baden-Wuerttemberg (LBBW) was on 23 July 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 as of 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 27 October 2010, when Moody's affirmed the D+/A1 ratings.

Landesbank Berlin AG domiciled in Berlin, Germany, reported total assets of EUR140 billion as of 30 September 2010 and a pretax profit for the first nine months of EUR220 million.

Moody's last rating action on Landesbank Hessen-Thueringen GZ was on 2 February 2011, when Moody's downgraded Helaba's grandfathered debt.

Landesbank Hessen-Thueringen GZ domiciled in Frankfurt, Germany, reported total assets of EUR175 billion as of 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 8 December 2009, when Moody's downgraded MünchenerHyp to A1/C- from Aa3/C+, concluding review.

Domiciled in Munich, Germany, Muenchener Hypothekenbank eG reported total assets of EUR36 billion as of 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 25 February 2010, when Moody's downgraded Nord/LB's hybrid ratings.

Norddeutsche Landesbank GZ domiciled in Hannover, Germany, reported total assets of EUR237 billion as of 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 15 March 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 11 March 2010, when Moody's downgraded UniCredit Bank's hybrid securities ratings.

Domiciled in Munich, Germany, UniCredit Bank AG reported total assets of EUR412 billion as of 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 23 September 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 as of 30 June 2010 and a pretax profit for the first half year of EUR188 million.

Moody's last rating action on WestLB was on 4 May 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.

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

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