MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms 22 German banks' senior unsecured debt ratings; changes 16 outlooks to negative

Global Credit Research - 12 Dec 2017

Actions reflect amendments to European Union's (EU) Bank Recovery and Resolution Directive

Frankfurt am Main, December 12, 2017 -- Moody's Investors Service has today affirmed the senior unsecured debt ratings of 22 German banks, including several of their rated subsidiaries and supported entities, as well as changed the outlooks on 16 of these ratings to negative.

Today's actions follow the agreement to an amendment to the EU's Bank Recovery and Resolution Directive (BRRD), which requires member states to introduce a class of non-preferred senior debt and therefore aims to improve the consistency between creditor hierarchies across the EU. This development is expected to be credit negative for investors in senior unsecured bonds issued by German banks. In this context, the outlook change to negative for most of the banks included in today's ratings action reflects Moody's view that, once the directive's amendment is transposed into German law, unsecured bonds that meet the definition of article 46f of the German Banking Act (§46f KWG) could rank pari passu with future junior senior bonds. This may call into question the moderate probability of government support Moody's currently considers warranted for senior unsecured debt instruments issued by the banks included in this rating action.

The issuer ratings of the affected banks, which follow the senior unsecured ratings of these entities, were also affirmed and their outlooks changed to negative from stable, where applicable, as the outlook assignments for issuer ratings mirror the respective senior unsecured debt rating outlooks.

Most other ratings and rating inputs for the banks included in today's rating action have been unaffected.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_198022 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

Moody's also published a special comment entitled "FAQ on credit impact of changes to EU insolvency hierarchy on German bank debt", 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_1100106

A separate rating announcement for Commerzbank AG has been published today and can be found under: https://www.moodys.com/research/Moodys-affirms-Commerzbanks-A2-deposit-and-Baa1-unsecured-debt-ratings--PR_375754

RATINGS RATIONALE

OUTLOOK CHANGES ON SENIOR UNSECURED DEBT REFLECT THE DECLINING PROBABILITY OF GOVERNMENT SUPPORT UPON TRANSPOSITION OF THE BRRD AMENDMENT INTO GERMAN LAW

On November 2017, the European Council and European Parliament agreed to amend the EU's BRRD to introduce a subordinated ("non-preferred", or junior) senior unsecured debt class in all EU member countries. Transposition into national law will be required by year-end 2018, before EU banks become subject to total loss absorbing capacity (TLAC) requirements, or to minimum requirements for own funds and eligible liabilities (MREL).

The amended directive text, which was agreed upon between Parliament, European Commission and the member states in a European trialogue, enables Germany to maintain its current statutory subordination of senior unsecured bank bonds that meet the definition of §46f KWG below other types of senior unsecured liabilities. These include institutional deposits, operating liabilities and bonds with embedded options or a range of other structurally complex features. At the same time, Germany will be able to rank the stock of outstanding plain vanilla senior unsecured bank bonds pari passu with future new issuance of contractually subordinated non-preferred, or junior senior debt.

Whereas German lawmakers may consider special characteristics of the domestic bank liabilities, Moody's believes the joint European aim to more effectively harmonise bank debt rankings in national insolvency laws will prompt Germany to limit the degree of national deviation from the liability structures in place in other EU member states.

The negative outlooks assigned to most senior unsecured debt ratings of the banks affected by today's rating action reflect Moody's view that German legislators may effectively rank pari passu current statutorily subordinated senior unsecured debt with the new class of non-preferred senior debt (or junior senior debt), although Germany might opt to only include instruments issued after a certain date or within a certain time period. Moody's believes that the resolution authorities would expect such a combined debt tranche to absorb losses, if resolution tools were applied, or in the case of an insolvency. If such a legal change happened, the rating agency expects it would lower its government support assumption for these instruments to low, given that they would be clearly designated as loss absorbing. This reduction in support would result in the removal of the rating uplift of one notch currently incorporated into the ratings of these instruments.

The rating outlooks on the issuer ratings of German banks, which currently benefit from one notch of rating uplift followed the direction of outlook changes applied to senior unsecured debt instrument ratings.

Those senior unsecured debt ratings of German banks that already carried a negative outlook prior to today's rating action were affirmed with a negative outlook today. These negative outlooks now also reflect the additional downward pressure related to the rating agency's considerations around government support.

Moody's changed the outlooks on the Aa3 senior unsecured debt ratings of DZ BANK AG and DVB Bank S.E. to negative from positive. The outlook change to negative additionally reflects that Moody's no longer expects upward pressure on these ratings from a more favourable result of its Advanced Loss Given Failure (LGF) analysis. The rating agency bases its LGF analysis on DZ BANK's liability structure at the banking group level, which is relevant for both issuers.

The developing outlook on the affirmed Baa3 senior unsecured debt rating of HSH Nordbank AG was maintained in today's rating action. This already captures a high probability that Moody's will, in due course, remove the government support included in the bank's senior unsecured debt ratings. The rating pressure from weakening support, however, may be offset by other factors that will likely drive the bank's ratings in 2018.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's may downgrade by one notch those German banks' senior unsecured debt instrument ratings that currently incorporate one notch of government support if German legislative changes rank outstanding senior unsecured debt instruments pari-passu with future issuance of junior senior debt.

Moody's may upgrade senior unsecured debt instruments if 1) a bank's improved BCA, or a more favourable LGF result for this debt class, more than offsets the downward pressure from weakening government support; or 2) in the event that Germany transposes BRRD amendments in such a manner that results in existing senior unsecured debt instruments being given greater preferential treatment in the liquidation or resolution hierarchies. This would also result in upward rating pressure on banks' issuer ratings.

Ratings pressure in either direction may occur due to: (1) Fundamental developments that result in upgrades or downgrades of 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 a mutualist sector's institutional protection scheme; (3) alterations in a bank's liability structure that changes the expected loss severity for particular liability classes; and/or (4) for all rating classes, 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 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 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 September 2017. 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_198022 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:

• Releasing Office

• Person Approving the Credit Rating

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.

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.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Goetz Thurm
Vice President - Senior Analyst
Financial Institutions Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Carola Schuler
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.