MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades German banks' deposit ratings and downgrades senior debt ratings

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Action reflects the introduction of legislation that subordinates certain creditors to depositors in resolution from 2017

Frankfurt am Main, January 26, 2016 -- Moody's Investors Service has today taken a number of ratings actions for 35 German banks, including several rated subsidiaries in Luxembourg and Ireland, as well as their supported entities. In particular, the rating agency upgraded the deposit ratings of 22 banks by up to two notches and downgraded the senior unsecured debt ratings of seven banks by a maximum of one notch. In addition, the bank deposit ratings for nine banks, and senior debt ratings for 18 banks were affirmed and the senior debt ratings for two banks were upgraded by one notch. The outlooks on the ratings have mostly been revised to stable.

Today's action reflects the changes in protection offered to depositors and senior creditors, as captured by Moody's Advanced Loss Given Failure (LGF) analysis. The changes in protection result from the subordination of certain senior unsecured debt obligations relative to other senior liabilities, including deposits, in Germany's insolvency legislation which will take effect from January 2017. The changed rank ordering in bank resolutions implies a higher severity of loss in resolution for senior unsecured debt instruments because these will no longer benefit from their current pari passu status with junior deposits. Conversely, for junior deposits, the new law implies a lower severity of loss as these will benefit from the subordination of long-term debt instruments.

In the context of prospective legal changes, Moody's also upgraded several German banks' short-term debt ratings because these are now referenced to their respective long-term deposit ratings, reflecting that the new German legislation will not subordinate money market obligations to junior deposits. Short-term debt and deposit ratings are therefore Prime-1 if a bank's long-term deposit rating is A2 or higher.

Within the group of 35 banks, Moody's also took several actions on ratings and rating inputs that were unrelated to the forthcoming change in insolvency legislation:

Moody's upgraded Commerzbank AG's Baseline Credit Assessment (BCA) to baa3 from ba1, reflecting the sustained improvement in the bank's asset quality and capitalisation. In addition, the rating agency upgraded Bayerische Landesbank's (BayernLB's) BCA to ba1 from ba2 and its adjusted BCA to baa2 from baa3, reflecting improvements in its asset quality, capital and profitability. The assessment of the banks' improved financial strength in combination with their respective revised LGF assessments have led Moody's to affirm Commerzbank's Baa1 long-term senior debt and issuer ratings, and to upgrade BayernLB's senior debt ratings to A2 from A3.

Moody's also downgraded to B2 from B1 the senior subordinated debt rating of HSH Nordbank AG, due to higher loss-given-failure for these instruments following sizeable maturities of mostly grandfathered subordinated debt in 2015.

The outlooks on German banks' long-term deposit ratings as well as senior debt or issuer ratings have, in most cases, been changed to stable. The stable rating outlooks indicate Moody's expectation of a broadly stable liability structure, along with stability for other ratings inputs. For a small number of banks, negative outlooks are maintained or have been assigned. In most cases, negative outlooks indicate respective pressure on BCAs, or likely changes to a bank's liability structure in the next 12-18 months which may adversely affect the result of Moody's Advanced LGF analysis. Previously, the outlooks on junior deposit ratings were mostly positive and the outlooks for senior unsecured debt and issuer ratings mostly negative in order to indicate the diverging rating pressures from the prospective change in insolvency legislation.

Following the maturity of the vast majority of debt instruments benefitting from phased-out legacy guarantees by German regional governments (so-called grandfathered debt), Moody's has withdrawn backed deposit and issuer ratings and selected backed debt ratings for the group of Germany's Landesbanken. This reflects that: 1) Either legacy guarantees by the regional governments no longer apply; or 2) these ratings have become obsolete because no respective liabilities are outstanding any longer. For more information, please refer to "Moody's

Investors Service's Policy for Withdrawal of Credit Ratings," available at moodys.com.

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

Please click on http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_187274 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

Moody's has also published a Special Comment entitled "Banks - Germany, Italy: Change in Insolvency Legislation Drives German And Italian Bank Rating Actions", providing more background on today's rating action. Subscribers can access the report under the following link:

http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1013718

A separate rating announcement for Deutsche Bank AG has been published today and can be found under https://www.moodys.com/research/Moodys-upgrades-Deutsche-Bank-AGs-deposit-rating-and-downgrades-debt--PR_342809

RATINGS RATIONALE

(1) DEPOSIT RATING UPGRADES AND SENIOR DEBT RATING DOWNGRADES REFLECT CHANGES TO GERMANY'S NEW INSOLVENCY LEGISLATION FOR BANKS

In November 2015, the German government amended the insolvency legislation for banks to effectively subordinate certain senior unsecured debt obligations to other senior liabilities including deposits. From January 2017 onwards, depositors will benefit from the subordination of senior unsecured debt instruments, reducing the severity of loss for deposits. In contrast, the subordination of senior unsecured debt instruments will increase the loss severity for senior debt instruments, offering lower protection for senior bondholders.

Today's rating action reflects the lower loss-given-failure in resolution for German banks' junior deposits in its bank deposit ratings. At the same time, it factors in the higher loss-given-failure for German banks' unsecured bonds and notes in its senior unsecured debt ratings.

For long-term junior deposits of most German banks, Moody's Advanced LGF analysis results in an "extremely low" loss-given-failure, resulting in three notches of rating uplift for junior deposits (previously in most cases "very low" and two notches of rating uplift) for the majority of banks. However, some deposit ratings include less favourable results and lower uplift, because their liability structures include low or no subordination in the form of subordinated debt and/or senior debt instruments.

For senior unsecured debt ratings of most German banks, Moody's Advanced LGF analysis results in a "low" or "very low" loss-given-failure, resulting in one or two notches of rating uplift. However, some banks have less (more) favourable LGF results, leading to lower (higher) rating uplift for senior debt, depending on their individual liability structures.

Moody's Advanced LGF analysis reflects the benefit of instrument volume and subordination protecting creditors from losses in the event of resolution. German, Irish and Luxembourg-based banks are subject to the EU Bank Resolution and Recovery Directive (BRRD), which Moody's considers to be an Operational Resolution Regime. Although neither Luxembourg nor Ireland have introduced similar changes to the priority of claims in their respective insolvency legislation, Moody's believes that subsidiaries in these jurisdictions, to the extent they are highly-integrated, will form part of a common resolution perimeter with their respective parent banks.

For more information on Moody's LGF analysis and a discussion of the differences in creditor hierarchies, see Moody's "How Resolution Frameworks Drive Our Creditor Hierarchies" at

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1003760 (in addition to the primary methodology itself).

(2) COMMERZBANK's BCA UPGRADE OFFSETS LOWER RATING UPLIFT FOR SENIOR DEBT

The affirmation of Commerzbank's Baa1 issuer/senior unsecured debt ratings reflects: (1) The upgrade of the bank's BCA and adjusted BCA to baa3 from ba1; and (2) the reduced rating uplift from Moody's Advanced LGF analysis, reflecting the changed priority of claims under Germany's new insolvency legislation. The bank's issuer/senior unsecured debt ratings now only benefit from one notch of LGF uplift from previously two, owing to the group's limited volume of subordinated and senior unsecured debt. At the same time, the rating agency upgraded Commerzbank's deposit ratings to A2 from Baa1, now incorporating three notches of rating uplift from the bank's adjusted BCA, reflecting the bank's large deposit base. The outlook on all ratings is stable.

Commerzbank's short-term debt and deposit ratings have been upgraded to Prime-1 from Prime-2 and are now mapped from the bank's A2 deposit rating, as money market obligations have not been subordinated to junior deposits under the new German legislation. Moody's also upgraded all subordinated and hybrid debt ratings by one notch, mirroring the higher BCA.

The upgrade of Commerzbank's BCA to baa3 from ba1 reflects the bank's improved financial profile, most notably with regards to asset quality and capital as well as its continued sound funding profile. At a Common Equity Tier 1 (CET1) capitalization of 10.8% on a fully phased-in basis (12.5% on a phase-in basis) and a leverage ratio of 4.1% as of September 2015, Moody's considers Commerzbank's capital ratios to be adequate in the context of its risk profile. As of September 2015, the bank's non-performing loans accounted for 3.5% of its gross loans. The BCA remains constrained by the bank's low profitability and some tail risk relating to exposure concentrations to the shipping and commercial real estate sectors.

(3) BAYERNLB'S BCA UPGRADE SUPPORTS UPGRADE OF SENIOR DEBT

The one-notch upgrade of BayernLB's senior unsecured debt ratings to A2/Prime-1 reflects: (1) The upgrade of the bank's BCA to ba1 from ba2 and adjusted BCA to baa2 from baa3; and (2) the unchanged very low loss-given-failure in resolution, which continues to result in rating uplift by two notches for this class of debt under Germany's new insolvency legislation. The LGF result remains underpinned by BayernLB's large volume of wholesale funds that are eligible as senior liabilities under the new German legislation, despite large maturities of (mostly) grandfathered debt in 2015. Moody's also upgraded BayernLB's deposit ratings to A1 from A3, that now benefit from three notches of LGF uplift from the bank's adjusted BCA, because depositors benefit from the subordination of senior unsecured debt. Moody's also upgraded the bank's subordinated debt ratings by one notch, mirroring the higher adjusted BCA.

The upgrade of BayernLB's BCA to ba1 from ba2 reflects the bank's improving financial profile as reflected by stronger solvency metrics, i.e., Moody's key ratios for asset risk, capitalisation and profitability. In particular, Moody's expects BayernLB's CET1 and leverage ratios to remain satisfactory as and when the bank returns the remaining EUR2.3 billion of gross participation capital provided by the Federal State of Bavaria. As of September 2015, BayernLB reported a fully phased-in 11.1% CET1 ratio, compared to 10.2% in 2014.

(4) MOSTLY STABLE OUTLOOKS ON DEPOSIT AND DEBT RATINGS INDICATE MOODY'S EXPECTATIONS OF STABLE LIABILITY STRUCTURES

Outlooks, which provide an opinion on the likely rating direction over the medium term, have in most cases been changed to stable for both long-term deposit and senior unsecured debt (or issuer) ratings. Previously, the outlooks on junior deposit ratings were mostly positive and the outlooks for senior unsecured debt and issuer ratings mostly negative to indicate a high probability of a rating change upon the government's final decision to subordinate senior debt instruments to junior deposits.

The mostly stable rating outlooks generally indicate Moody's expectation of the German banks' broadly stable liability structure, along with stability for other ratings inputs. A stable outlook may also indicate diverging pressures from a bank's BCA and its likely future LGF result, which may offset each other.

For a small number of banks negative outlooks are maintained or have been assigned. Where outlooks are negative, they either indicate: (1) Respective pressure on BCAs; (2) likely changes to the bank's respective liability structure in the next 12-18 months which may adversely affect the result of Moody's Advanced LGF analysis; or (3) expected bank-specific developments during 2016.

(5) WITHDRAWAL OF BACKED GRANDFATHERED DEBT RATINGS FOR CERTAIN LIABILITY CLASSES

Moody's withdrawal of backed, or grandfathered, issuer and deposit ratings and selected debt ratings for the group of German Landesbanken reflects that: 1) Either the legacy statutory guarantees from regional governments no longer apply; or 2) these ratings have become obsolete because no respective liabilities are outstanding any longer.

Most prominently, this relates to backed long- and short-term deposit ratings, backed long-term issuer ratings and short-term debt ratings and several backed debt and debt program ratings. Moody's has generally not withdrawn any grandfathered long-term debt or program ratings where instruments remain outstanding. Grandfathered debt benefits from Gewährträgerhaftung, i.e. a statutory deficiency guarantee, which allows creditors direct recourse to the guarantors, mainly Germany's regional governments. Instruments that were issued by German Landesbanken before July 18, 2001 remain grandfathered until they mature; all issues after July 18, 2001 have ceased to be grandfathered.

WHAT COULD CHANGE THE RATINGS UP/DOWN

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 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 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 January 2016. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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.

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