

Four German Banks On Watch Positive, Various Banks' Snr Unsecured Debt On Watch Developing Or Neg, Pending Notes Review

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OVERVIEW

- In light of our evolving understanding of bank resolution regulations, we are reviewing our ratings on most of the long-term senior unsecured debt issued by 13 German banks and our long-term issuer credit ratings on four of these banks.
- We intend to separate our current class of ratings on senior unsecured debt into two layers and, depending on each instrument's specific characteristics, we will either reclassify them as senior subordinated, reflecting their new status as hybrid capital, or retain the senior unsecured classification.
- We would likely lower our ratings on senior subordinated debt issues by one or two notches, reflecting the likelihood that they would absorb losses and be subordinated to senior unsecured debt in the event of a bank resolution or liquidation.
- However, we might raise our long-term issuer credit ratings and long-term issue ratings on the senior unsecured debt of four systemically important banks--Commerzbank AG, Deutsche Bank AG, Deutsche Pfandbriefbank AG, and UniCredit Bank AG--which we expect could maintain significant buffers of subordinated instruments that could protect senior creditors in the event

of a resolution.

- We are therefore placing our long-term issuer credit ratings on the four banks on CreditWatch positive, but placing our ratings on most of the banks' senior unsecured debt on CreditWatch developing pending our review of the debt classification.
- We are placing our ratings on nine other banks' senior unsecured debt instruments on CreditWatch negative, since we believe they could become subordinated, while senior creditors are unlikely to benefit from additional buffers of subordinated instruments.
- We aim to resolve the CreditWatch placements in the first quarter of 2017, after reviewing each debt instrument's terms and conditions, and the size and sustainability of banks' buffers of subordinated instruments.

FRANKFURT (S&P Global Ratings) Dec. 15, 2016--S&P Global Ratings today placed various ratings on Germany-based banks on CreditWatch (see Ratings List).

Specifically, we have placed on CreditWatch, with positive implications:

- Our long-term issuer credit ratings on four systemically important banks, namely Deutsche Bank AG, Commerzbank AG, UniCredit Bank AG, and Deutsche Pfandbriefbank AG (PBB), and several of their foreign subsidiaries (including our ratings on the subsidiaries' senior unsecured debt); and
- Our short-term issuer credit ratings on Commerzbank.

At the same time, we affirmed our short-term issuer credit ratings on Deutsche Bank, UniCredit Bank, and PBB. We also placed our ratings on all four banks' long-term senior unsecured debt on CreditWatch developing.

We placed on CreditWatch negative our issue ratings on most of the long-term debt of nine other German banks or bank subsidiaries: DekaBank Deutsche Girozentrale, Deutsche Apotheker- und Aerztebank eG (ApoBank), Deutsche Genossenschafts-Hypothekenbank AG (DG Hyp), DVB Bank SE, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Grenke AG, Landesbank Hessen-Thüringen Girozentrale (Helaba), Volkswagen Financial Services (including Volkswagen Bank GmbH), and WL BANK AG Westfälische Landschaft Bodenkreditbank.

We affirmed our ratings on the senior unsecured debt of NRW.BANK and on Helaba's grandfathered guaranteed senior unsecured debt.

We placed on CreditWatch positive our long-term issuer credit rating on NORD/LB Luxembourg S.A. Covered Bond Bank and our issue ratings on the bank's senior unsecured debt.

RATIONALE

Certain term, non-structured senior unsecured bonds will become subordinated by German law on Jan. 1, 2017. The CreditWatch placements follow our assessment that those instruments will be economically equivalent to senior

subordinated debt that we rate in other European countries and include in banks' additional loss-absorbing capacity (ALAC). This action was prompted by our evolving understanding of regulatory approaches to bank resolution across the EU, including the European Commission's recent proposal for a directive regarding the ranking of unsecured debt instruments in an insolvency hierarchy.

Subordination of certain long-term debt instruments under the forthcoming German law will result in a split of our current classification of senior unsecured debt. Since we are not yet in a position to establish each instrument's future ranking or the overall size of each bank's senior subordinated debt class, we have placed the ratings on CreditWatch rather than revise them immediately. Our action does not reflect bank-specific developments.

The coming change in legislation means that certain senior unsecured obligations of German banks will become junior to other general senior debt (which currently rank *pari passu*) and likely count as regulatory bail-in capacity. Certain other senior unsecured obligations (typically structured notes) will remain in a senior position, and our reading is that this class will continue to rank *pari passu* with uncollateralized derivatives, corporate and institutional deposits, and short-term money market instruments. The legislation is retroactive, covering all existing obligations that meet certain conditions, and will affect these instruments' ranking in resolution and liquidation. We believe there is increasing convergence between the instruments that will become subordinated obligations in Germany, the senior subordinated debt issued by Denmark-based Nykredit Realkredit A/S, and those currently being prepared for issuance by French banks (see "Credit FAQ: Rating Implications For German Banks Due To Evolving Bank Resolution Regulations" published Dec. 15, 2016, and "Credit Agricole's Proposed Debut Senior Nonpreferred Notes Rated 'BBB+', " published Dec. 13, 2016).

The greater likelihood that regulators will use senior subordinated instruments to absorb losses in a bank's bail-in resolution process, leads us to treat such obligations as hybrid capital instruments and to reclassify them as senior subordinated debt. We expect to apply the same starting point to rate such instruments as we do for a bank's other hybrid capital instruments, from which we then generally deduct one notch for subordination if the starting point is 'bbb-' or higher.

Assuming that the senior subordinated instruments meet the other requirements in our criteria, we would expect to include them in the German banks' ALAC buffers, as we do for such instruments issued by banks in other European countries. This also reflects our assessment that a default on these instruments would not lead to a general default of the issuing banks according to German legislation. ALAC can result in an uplift to the long-term issuer credit rating on a bank of up to two notches above the stand-alone credit profile (SACP) or unsupported group credit profile, provided *inter alia* that we consider the bank to be subject to a well-defined resolution process.

Furthermore, since the ALAC uplift is relevant only if there is no other stronger support element, in our view only Deutsche Bank, Commerzbank, UniCredit Bank, and PBB could benefit from a potential ALAC uplift, given the current components of the rating. Currently none of our German bank ratings includes ALAC uplift; therefore our long-term ratings on these four banks are on CreditWatch positive (the positive implications for the short-term rating on Commerzbank reflect the correlation between the long- and short-term ratings). We placed our ratings on some of these banks' liabilities on CreditWatch positive because we have already determined that they will remain senior unsecured. They comprise commercial paper and other short-term debt, issues for which we assign ratings to the principal only, and debt issued by foreign subsidiaries (and domestic non-bank subsidiaries that are not subject to European Capital Requirements Regulation), where the rating is based on a guarantee by the German parent. For the four banks' other senior unsecured debt, we need to determine the issue-specific ranking in a resolution. Depending on our assessment of the ALAC uplift and the instruments' ranking, we might lower, raise, or affirm the issue ratings, hence our placement of those ratings on CreditWatch developing.

The CreditWatch positive on certain of the four banks' rated foreign subsidiaries reflects that the ratings depend on the respective parent's group credit profile, which could potentially receive ALAC uplift. The same rationale supports the CreditWatch positive on NORD/LB Luxembourg S.A. Covered Bond Bank, a subsidiary of Norddeutsche Landesbank Girozentrale (not rated).

We affirmed our short-term ratings on Commerzbank's Polish subsidiary mBank, rather than place them on CreditWatch, because we consider it highly unlikely that we would rate mBank higher than our 'BBB+/A-2' foreign currency ratings on Poland.

We affirmed our ratings on UniCredit Bank's subordinated and junior subordinated issues even though the starting point for rating these instruments is currently the long-term issuer credit rating, which might be raised due to ALAC uplift. This is because we believe that the subordination of some of UniCredit Bank's moresenior instruments does not reduce the default risk of these more junior instruments. We also recognized that UniCredit Bank will pay an extraordinary dividend of €3 billion to its parent, Italy-based Unicredit SpA, in 2017. This is in line with our previous expectation that the bank's capitalization could well decline significantly from its current level; so we have left the SACP assessment unchanged at 'bbb+'.

Separately, the affirmation of our ratings on NRW.BANK's senior unsecured debt reflects our assessment of an almost certain likelihood of government support for these instruments from the State of North Rhine-Westphalia. This is based on NRW.BANK's status as a government-related entity that benefits from maintenance obligation (Anstaltslast), the statutory guarantee (Gewährtraegerhaftung) on its liabilities, and the explicit statutory

refinancing guarantee for all of its liabilities.

Likewise, the affirmation of our issue ratings on Helaba's grandfathered debt obligations reflects the ultimate grandfathered statutory guarantee by the State of Hesse. We believe that these instruments, if they are reclassified as senior subordinated, would likely be bailed in--alongside other senior subordinated instruments--in a resolution, to comply with the "no creditor worse off" principle under bail-in regulation. However, we believe that the guarantor's commitment and support mechanism to honor these obligations mean that, in practice, there will be no material difference in the risk of default between these instruments and the bank's senior unsecured grandfathered debt obligations.

For all these institutions, we do not consider the retroactive alteration in a debt instrument's ranking to a more junior status to be tantamount to a default. We consider that the change is made by law and to facilitate the bail-in of debt from an operational and legal perspective under a hypothetical future event. The retroactive change, in our view, also reflects lawmakers' intention to prevent banks' prolonged accumulation of the regulatory minimum requirement for own funds and liabilities or total loss-absorbing capacity buffers. Furthermore, we do not consider any Germany-based bank we rate to be in acute financial distress or close to the point of nonviability.

CREDITWATCH

- DekaBank, ApoBank, DG Hyp, DVB Bank, DZ BANK AG, Grenke, Helaba, Volkswagen Financial Services (including Volkswagen Bank GmbH), and WL BANK AG:

We placed our ratings on certain of these banks' senior unsecured debt instruments on CreditWatch negative pending our review of each instrument. We expect to resolve the CreditWatch placement within the first quarter of 2017. Upon resolution of the CreditWatch, we would likely lower, by one notch, our ratings on any instrument we reclassify as senior subordinated debt. For debt issued directly by Grenke AG, we may lower the rating by two notches, given that the company's SACP, which is the starting point for notching to derive the rating on hybrid issues, is one notch below the long-term issuer rating. (We have not placed debt issued by Grenke Finance PLC and guaranteed by Grenke AG on CreditWatch negative.) We expect to affirm our ratings on any instrument that we continue to classify as senior unsecured debt. We will likely place on CreditWatch negative any new issuance during the CreditWatch period.

- Deutsche Bank, Commerzbank AG, UniCredit Bank, and PBB:

The considerations stated above for the nine banks also apply to these four institutions. In addition, the CreditWatch on these banks and certain of their subsidiaries also reflects the upside rating potential stemming from their ALAC buffers. We might affirm or raise our long-term issuer credit ratings by up to two notches, depending on our view of the likely size of the four

banking groups' sustainable ALAC buffers. For Deutsche Bank, any upgrade would likely be limited to one notch, given that the long-term rating already includes a positive adjustment notch for the potential that the bank might achieve a more stable and predictable operating model, and we expect to remove that notch if there is ALAC support (Deutsche Bank is the only one of the four groups with this positive adjustment in the current rating).

Indeed, for all four banks, any upgrade would also depend on our view of the rating level that is most comparable with our ratings on similar domestic and international banks. For UniCredit Bank AG, an upgrade would also depend on the possible negative impact on the bank's creditworthiness from pressure on UniCredit SpA's credit profile. We would also regard as a constraint any development that confirms that group members of UniCredit, a cross-border banking group, would be subject to a more unified, single resolution process.

Upon resolution of the CreditWatch, we would likely lower, by one notch, our ratings on any instrument we reclassify as senior subordinated debt. It might be two notches to 'BBB-' for debt issued by Deutsche Bank directly, given that the bank's 'bbb' SACP, which is the starting point for notching to derive the rating on hybrid issues, is one notch below the 'BBB+' long-term issuer credit rating (which includes a positive adjustment notch). We expect to least affirm our ratings on any instrument that we continue to classify as senior unsecured debt, or even raise the ratings if we were to upgrade the issuing bank.

We aim to resolve the CreditWatch on the issue ratings within the first quarter of 2017 after establishing the appropriate ranking of each instrument. To resolve the CreditWatch on the issuer credit ratings and our ratings on senior unsecured issuances, we will also assess each banking group's sustainable ALAC buffers.

- **NORD/LB Luxembourg S.A. Covered Bond Bank (NORD/LB CBB):**

NORD/LB CBB's senior unsecured instruments are not directly affected by the change in German law, since the bank is not subject to German insolvency law. However, our long-term issuer credit rating and our ratings on the senior debt might benefit from the possibly stronger creditworthiness of NORD/LB CBB's parent, Norddeutsche Landesbank Girozentrale. For this reason, we have placed these ratings on CreditWatch with positive implications. We aim to resolve the CreditWatch according to similar factors and timing as the CreditWatch on the four systemically important banks.

RELATED CRITERIA

- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 01, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And

Assumptions, March 25, 2015

- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 06, 2010
- Criteria - Financial Institutions - Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 04, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March, 23, 2004

RELATED RESEARCH

- Credit FAQ: Rating Implications For German Banks Due To Evolving Bank Resolution Regulations, Dec. 15, 2016
- Various Deutsche Pfandbriefbank Ratings On CreditWatch Pending Review Of Senior Unsecured Debt; Hybrids Upgraded, Dec. 15, 2016
- France's New Senior Nonpreferred Notes: An Additional Route To Building Loss-Absorbing Capacity, Dec. 13, 2016
- S&P Global Ratings Explains Its Approach To Rating Senior Subordinated Tier 3 Bank Hybrid Instruments, May 24, 2016
- GRE Criteria Review Of Six German And Austrian Banks' Grandfathered Debt Results In Four Downgrades And Two Affirmations, Sept. 20, 2012.

Ratings List

NB: This list does not include all the ratings affected.

* * * * * Commerzbank AG * * * * *
CreditWatch Action; Ratings Affirmed
Commerzbank AG
Counterparty Credit Rating

To	From
BBB+/Watch Pos/A-2	BBB+/Stable/A-2

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Senior Unsecured	BBB+/Watch Dev	BBB+
Senior Unsecured	BBB+p/Watch Pos	BBB+p
Senior Unsecured	cnA+/Watch Dev	cnA+
Commercial Paper	A-2/Watch Pos	A-2
mBank		
Counterparty Credit Rating	BBB/Watch Pos/A-2	BBB/Stable/A-2
Commerzbank U.S. Finance Inc.		
Commercial Paper[1]	A-2/Watch Pos	A-2
mFinance France S.A		
Senior Unsecured[2]	BBB/Watch Pos	BBB

[1] Guaranteed by Commerzbank AG. [2] Guaranteed by mBank.

* * * * * Members of Cooperative Banking Sector * * * * *

CreditWatch Action; Ratings Affirmed

	To	From
DZ BANK AG Deutsche Zentral-Genossenschaftsbank		
Senior Unsecured	AA-/Watch Neg	AA-
Commercial Paper	AA-/Watch Neg	AA-
Deutsche Apotheker- und Aerztebank eG		
Senior Unsecured	AA-/Watch Neg	AA-
Deutsche Genossenschafts-Hypothekenbank AG		
Senior Unsecured	A+/Watch Neg	A+
WL BANK AG Westfaelische Landschaft Bodenkreditbank		
Senior Unsecured	AA-/Watch Neg	AA-
DVB Bank SE		
Senior Unsecured	A+/Watch Neg	A+

Rating Affirmed

DZ BANK AG Deutsche Zentral-Genossenschaftsbank		
Senior Unsecured	cnAAA	
Commercial Paper	A-1+	
DZ PRIVATBANK S.A.		
Commercial Paper	A-1+	

* * * * * DekaBank Deutsche Girozentrale * * * * *

CreditWatch Action

To From

*Four German Banks On Watch Positive, Various Banks' Snr Unsecured Debt On Watch Developing Or Neg,
Pending Notes Review*

DekaBank Deutsche Girozentrale
Senior Unsecured

A/Watch Neg A

* * * * * Deutsche Bank AG * * * * *

CreditWatch Action; Ratings Affirmed

To From

Deutsche Bank AG

Counterparty Credit Rating

BBB+/Watch Pos/A-2 BBB+/Negative/A-2

Greater China Regional Scale

cnA+/Watch Pos/-- cnA+/--/--

Deutsche Bank AG (Canada Branch)

Deutsche Bank Trust Corp.

Deutsche Bank Trust Co. Delaware

Deutsche Bank Trust Co. Americas

Deutsche Bank National Trust Co.

Deutsche Bank Luxembourg S.A.

Deutsche Bank AG (Milan Branch)

Deutsche Bank AG (Madrid Branch)

Deutsche Bank AG (London Branch)

Deutsche Bank AG (Cayman Islands Branch)

Counterparty Credit Rating

BBB+/Watch Pos/A-2 BBB+/Negative/A-2

Deutsche Bank Securities Inc.

Counterparty Credit Rating

BBB+/Watch Pos/A-2 BBB+/Negative/A-2

Local Currency

Deutsche Bank AG

Senior Unsecured

BBB+/Watch Dev BBB+

Senior Unsecured

BBB+p/Watch Pos BBB+p

Senior Unsecured

cnA+/Watch Dev cnA+

Certificate Of Deposit

BBB+/Watch Dev/-- BBB+

Ratings Affirmed

Deutsche Bank AG

Turkey National Scale

trAAA/--/trA-1

Commercial Paper

A-2

Certificate Of Deposit

--/--/A-2

Deutsche Bank AG (Cayman Islands Branch)

Commercial Paper

A-2

Deutsche Bank Financial LLC

Commercial Paper[1]

A-2

[1] Guaranteed by Deutsche Bank AG.

* * * * * Deutsche Pfandbriefbank AG * * * * *

CreditWatch Action; Ratings Affirmed

	To	From
Deutsche Pfandbriefbank AG		
Counterparty Credit Rating	BBB/Watch Pos/A-2	BBB/Stable/A-2
Commercial Paper	A-2	A-2
Senior Unsecured	BBB/Watch Dev	BBB

Upgraded

	To	From
Deutsche Pfandbriefbank AG		
Subordinated	BB+	BB

Hypo Real Estate International Trust I

Preferred Stock	BB-	B+
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* * * * * Landesbank Hessen-Thueringen Girozentrale * * * * *

CreditWatch Action

	To	From
Landesbank Hessen-Thueringen Girozentrale		
Senior Unsecured	A/Watch Neg	A

Ratings Affirmed

Landesbank Hessen-Thueringen Girozentrale
Senior Unsecured (Grandfathered)* AA-

*Guarantor: State of Hesse

* * * * * NRW.BANK * * * * *

Ratings Affirmed

NRW.BANK
Senior Unsecured
Local Currency AA-
Foreign and Local Currency* AA-

*Guarantor: State of North-Rhine Westphalia.

* * * * * NORD/LB Luxembourg S.A. Covered Bond Bank * * * * *

CreditWatch Action; Ratings Affirmed

	To	From
NORD/LB Luxembourg S.A. Covered Bond Bank		
Counterparty Credit Rating	BBB/Watch Pos/A-2	BBB/Negative/A-2
Senior Unsecured	BBB/Watch Pos	BBB

*Four German Banks On Watch Positive, Various Banks' Snr Unsecured Debt On Watch Developing Or Neg,
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* * * * * UniCredit Bank AG * * * * *

CreditWatch Action; Ratings Affirmed

To From

UniCredit Bank AG

UniCredit Luxembourg S.A.

Counterparty Credit Rating BBB/Watch Pos/A-2 BBB/Negative/A-2

UniCredit Bank AG

Senior Unsecured BBB/Watch Dev BBB

Ratings Affirmed

UniCredit Bank AG

Senior Unsecured A-2

Subordinated BB+

Short-Term Debt A-2

HVB Capital LLC I

HVB Capital LLC II

HVB Capital LLC III

HVB Funding Trust I

HVB Funding Trust II

HVB Funding Trust III

Junior Subordinated BB-

* * * * * Volkswagen Bank GmbH * * * * *

CreditWatch Action

To From

Volkswagen Bank GmbH

Senior Unsecured A-/Watch Neg A-

Volkswagen Financial Services AG

Senior Unsecured BBB+/Watch Neg BBB+

* * * * * Grenke AG * * * * *

CreditWatch Action

To From

Grenke AG

Senior Unsecured BBB+/Watch Neg BBB+

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