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Ratings On German Banks' Lower Tier 2 Sub Debt Lowered Due To Bank Restructuring Act; Other Debt Ratings Not Affected

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- We are lowering our ratings on lower Tier 2 subordinated debt issued by Germany-incorporated banks.
- These rating actions follow a review of Germany's Bank Reorganization Act and the application of our methodology for rating lower Tier 2 subordinated debt.
- The extent of the downgrades varies by issuer and ranges between one and three notches.

FRANKFURT (Standard & Poor's) Feb. 28, 2011--Standard & Poor's Ratings Services said today that it had lowered its ratings on lower Tier 2 (LT2) subordinated debt issued by Germany-incorporated banks. These rating actions follow our review of Germany's Bank Restructuring Act (BRA). The changes are set out in the ratings list below.

The impact on ratings is greatest for banks with issuer credit ratings and LT2 ratings that were accorded uplift from their respective stand-alone credit profiles on the basis of expectation of future extraordinary government support. This is because we believe that there is now a greater likelihood that state aid will not be made available to support any form of regulatory capital instrument (see "S&P Comments On Decision To Lower Ratings On German Banks' Lower Tier 2 Sub Debt Due To Bank Restructuring Act", published on RatingsDirect on Feb. 28, 2011). The ratings on Germany-incorporated LT2 subordinated debt instruments are consistent with our "Methodology For Rating Bank Nondeferrable Subordinated Debt (Lower Tier 2 Regulatory Capital)" (published Aug. 4, 2009 on RatingsDirect) and at similar levels as the current ratings on similar debt issued by U.K.-incorporated banks. The issuer credit

ratings and other debt issue ratings on Germany-incorporated banks are not affected by this review.

In summary, the ratings on LT2 issues by Commerzbank AG (A/Negative/A-1), Eurohypo AG (A-/Negative/A-2), Deutsche Pfandbriefbank AG (PBB; BBB/Stable/A-2), DEPFA PLC (BBB/Stable/A-2), and Depfa ACS Bank (BBB/Stable/A-2) have been lowered by three notches, while the ratings on LT2 issues by Deutsche Bank AG (A+/Stable/A-1) and its subsidiaries Deutsche Postbank AG (A/Stable/A-1) and BHW Bausparkasse AG (BHW; A-/Stable/A-2) as well as those issued by Westdeutsche Immobilienbank (WIB; BBB+/Negative/A-2) have been lowered by two notches. The ratings on the other issues included in the review have been lowered by one notch. For investment-grade rated entities, we have until now generally rated LT2 debt one notch below the long-term counterparty credit rating on the issuer. Our "methodology" calls for a wider differential between the long-term counterparty credit rating and LT2 issue ratings in jurisdictions in which we consider that the regulatory and legal frameworks and the likely behavior of national authorities might lead to default on LT2 instruments without triggering nonpayment of senior debt.

We view Germany as a jurisdiction in which regulatory intent and the legal framework indicate a higher default risk on LT2 issues relative to senior debt. New legislation came into effect in January 2011, which gives German authorities significantly greater powers that could, we believe, be detrimental to the interests of all bondholders. Our understanding is that the legislation does not apply to entities incorporated outside Germany, such as the foreign parents and/or subsidiaries of Germany-incorporated banks. The ratings on LT2 debt issued by foreign entities associated with Germany-incorporated banks are therefore unaffected by this review unless the subsidiaries themselves are based in jurisdictions in which we consider a higher default risk to exist on LT2 instruments, such as the U.K. or Ireland.

Our ratings on senior debt issues are not affected by this review. Our interpretation of the legislation and its intent is that the authorities' key objective remains the maintenance of financial market stability. However, we believe the intent is to avoid to the extent possible the use of public funds to support shareholders and holders of other regulatory capital instruments. Accordingly, we still see a meaningful likelihood that extraordinary government support may be made available to support senior creditors to systemically important institutions but not subordinated investors.

Our ratings on junior subordinated debt issued by Germany-incorporated banks are not affected because we have already lowered the ratings on these instruments due to the much lower likelihood that extraordinary government support would benefit holders of these bonds. We expect that the ratings on junior subordinated debt instruments will remain lower than those on LT2 instruments as long as we see a greater risk that coupon deferrals and/or principal writedowns may occur before a bank reorganization process is initiated.

We believe that there has always been ambiguity about government support and that it is possible that banks which we expect to receive extraordinary support in times of stress might not receive it. Conversely, it is possible that government support may also benefit investors in LT2 instruments or less systemically important institutions for political and/or economic reasons, but we see a lower likelihood of this happening in the future.

We note that the new legislation has not yet been tested and that national and international debate on bank resolution regimes is developing. For this reason, we may revise our view on the likelihood of support in the future if we were to conclude that there was a greater likelihood of the authorities sharing the cost of a bank restructuring with senior creditors. This could, for example, be the case if the social and economic costs of insolvency on the part of a large systemically important bank were likely to be lower than the economic and/or political cost of using public funds.

The article setting out our rating methodology for LT2 debt updates our definition of default. If national authorities support timely servicing of senior debt but allow nonpayment on nondeferrable subordinated instruments that qualify as regulatory capital (such as LT2 bonds), the ratings on the affected subordinated issues would be lowered to 'D' at the point of default, but the counterparty credit rating on the issuer would no longer be lowered automatically to 'SD' (selective default).

We see Tier 1 and upper Tier 2 instruments as more vulnerable than LT2 debt to payment suspension because of the coupon deferral clauses included in the terms of those instruments at origination. We have already increased the rating differential between long-term counterparty credit ratings and the ratings on Tier 1 and upper Tier 2 issues (see "Hybrid Securities Of Over 60 European Financial Institutions Downgraded Following S&P Review", published on March 31, 2009).

RATINGS LIST

Senior subordinated debt ratings lowered

	To	From
Commerzbank AG	BBB-	A-
Eurohypo AG	BB+	BBB+
Dresdner Funding Trust IV	BBB-	A-
Deutsche Pfandbriefbank AG	BB-	BBB-
DEPFA BANK PLC	BB-	BBB-
Depfa ACS Bank	BB-	BBB-
Deutsche Bank AG	BBB+	A
Deutsche Postbank AG	BBB	A-
BHW Bausparkasse AG	BBB-	BBB+
Westdeutsche ImmobilienBank	BB+	BBB
Volkswagen Bank GmbH	BBB	BBB+
UniCredit Bank AG	BBB+	A-
DekaBank Deutsche Girozentrale	BBB+	A-
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	A-	A

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Not Affected*

Deutsche Genossenschafts-Hypothekenbank AG	BBB+	A-
DVB Bank SE	BBB+	A-
Deutsche Apotheker- und Aerztebank eG	A-	A
WL BANK AG Westfaelische Landschaft Bodenkreditbank	A-	A

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