



Fitch Rates 6 German Banks' Debut Senior Preferred Issuance

Fitch Ratings-London/Frankfurt-03 August 2018: Fitch Ratings has assigned ratings to the debut senior preferred notes of Bayerische Landesbank (BayernLB), Landesbank Baden-Wuerttemberg (LBBW), Norddeutsche Landesbank Girozentrale (NORD/LB), DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK) and Aareal Bank AG (Aareal). Fitch has also assigned ratings to the senior preferred debt issuance programmes of the above mentioned banks and to Deutsche Bank AG's EUR80 billion debt issuance programme. A full list of rating actions is available at the end of this rating action commentary.

KEY RATING DRIVERS

Senior preferred is a new class of senior unsecured debt introduced by way of amendments to Article 46f of the German Banking Act that came into force on 21 July 2018. This new regime implements the reform of the Bank Resolution and Recovery Directive agreed at EU level at end-2017, which aims at harmonising the ranking of senior debt in resolution and insolvency and creating a level playing field across the EU.

The revised Article 46f defines senior preferred debt as the new reference senior debt class and gives German banks the possibility (by specifying so in each notes' issuance documentation) to issue senior non-preferred debt that ranks between senior preferred and subordinated Tier 2 debt.

The outstanding stock of senior unsecured debt issued prior to 21 July 2018 that is not considered by the German regulators to contain complex embedded derivatives ranks pari passu with senior non-preferred debt (and, thus, junior to the new senior preferred debt) issued under the new regime. Conversely, the outstanding stock of senior unsecured debt issued prior to 21 July 2018 that is considered by the German regulators to contain complex embedded derivatives ranks pari passu with senior preferred debt issued since 21 July 2018.

Under our Bank Rating Criteria, we equalise the ratings of senior non-preferred and pari passu legacy senior unsecured debt with the banks' respective Issuer Default Ratings (IDRs), because these creditors are the most exposed of all senior unsecured debt investors to a potential resolution of the banks.

Senior preferred debt ratings can benefit from one-notch uplift above the banks'

IDRs if we assess that the banks have sufficient buffers of qualifying junior and senior non-preferred debt to protect senior preferred creditors in a resolution (see "Fitch Assigns Derivative Counterparty and Deposit Ratings to German Banks" published on 12 December 2016 and "Fitch Upgrades Deutsche Bank's and Aareal's "Preferred" Senior Unsecured Notes" published on 16 June 2017 and available on www.fitchratings.com).

The long-term ratings assigned to BayernLB's, LBBW's and NORD/LB's debut senior preferred debt issuance are equalised with the banks' respective Long-Term IDRs, Derivative Counterparty Ratings (DCRs) and Long-Term Deposit Ratings. Fitch believes the banks' buffers of junior debt and vanilla senior debt do not afford any obvious incremental probability of default benefit over and above the support benefit already factored into the banks' IDRs.

The long-term rating assigned to DZ BANK's debut senior preferred debt issuance is equalised with the bank's Long-Term IDR, DCR and Long-Term Deposit Rating. DZ BANK's IDRs are group ratings, aligned with those of Genossenschaftliche FinanzGruppe (GFG, AA-/Stable/F1+), the German cooperative banking group, of which DZ BANK is the central institution.

In our view, GFG's consolidated layer of junior and senior non-preferred debt does not provide sufficient protection to senior preferred creditors in a resolution to warrant one-notch uplift of the new senior preferred debt class. This is primarily driven by DZ BANK, GFG's dominant senior debt issuer, traditionally placing a large share of its senior debt issuance within GFG. It also reflects DZ BANK's limited debt issuance needs due to the modest size of the bank's wholesale business relative to the predominantly retail deposit-funded GFG.

The long- and short-term ratings assigned to BayernLB's, LBBW's, NORD/LB's and DZ BANK's senior preferred debt issuance programmes are aligned with the banks' respective Long- and Short-Term IDRs for the same reasons that drive the equalisation of the long-term senior preferred debt ratings with the banks' Long-Term IDRs.

The long-term ratings assigned to Deutsche Bank's and Aareal's senior preferred debt issuance programmes and to Aareal's debut senior preferred notes issued are rated one notch above the banks' respective Long-Term IDRs to reflect our view that the banks' respective buffers of qualifying junior and vanilla non-preferred senior debt are sufficient to recapitalise the banks, restore their viability and prevent default on senior preferred liabilities upon resolution. The short-term rating of 'F2' assigned to both banks' senior preferred debt issuance programmes is the lower of two short-term ratings that map to an 'A-' long-term rating as there are no clear liquidity enhancements at instrument level.

Fitch has also withdrawn the short-term ratings of the six banks' senior unsecured debt issuance programmes. These short-term ratings are no longer relevant for Fitch's coverage because debt issued with original maturities of less than one year has preferred status under the new German resolution regime.

RATING SENSITIVITIES

BayernLB's, LBBW's, NORD/LB's and DZ BANK's senior preferred debt and issuance programme ratings are primarily sensitive to changes in the banks' respective IDRs.

Aareal's senior preferred debt and issuance programme ratings and Deutsche Bank's senior preferred issuance programme ratings are primarily sensitive to changes in the banks' IDRs. In addition, the ratings are sensitive to the amount of subordinated and senior non-preferred debt buffers relative to the recapitalisation amount likely to be needed to restore the banks' viability and prevent default on senior preferred liabilities.

The rating actions are as follows:

Bayerische Landesbank

Senior preferred notes DE000BLB56P8: assigned 'A-'

Senior preferred debt issuance programme: assigned 'A-/'F1'

Senior unsecured debt issuance programme: 'F1' withdrawn

Landesbank Baden-Wuerttemberg

Senior preferred notes DE000LB1QB57: assigned 'A-'

Senior preferred debt issuance programme: assigned 'A-/'F1'

Senior unsecured debt issuance programme: 'F1' withdrawn

Norddeutsche Landesbank Girozentrale

Senior preferred notes DE000NLB2500, DE000NLB2534, DE000NLB2567, DE000NLB25Z7, DE000NLB2518, DE000NLB2542, DE000NLB2575, DE000NLB2526, DE000NLB2559 and DE000NLB2583: assigned 'A-'

Senior preferred debt issuance programme: assigned 'A-/'F1'

Senior unsecured debt issuance programme: 'F1' withdrawn

DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Senior preferred notes DE000DDA0L17, DE000DDA0L25, DE000DDA0L33: 'AA-' assigned

Senior preferred debt issuance programme: 'AA-/'F1+'

Senior unsecured debt issuance programmes: 'F1+' withdrawn

Aareal Bank AG

Senior preferred notes DE000A2E4CC2: assigned 'A-'

Senior preferred debt issuance programme: assigned 'A-/'F2'

Senior unsecured debt issuance programme: 'F2' withdrawn

Deutsche Bank AG's EUR80 billion debt issuance programme

Senior preferred debt issuance programme: assigned 'A-/'F2'

Senior unsecured debt issuance programme: 'F2' withdrawn

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Applicable Criteria

Bank Rating Criteria (pub. 22 Jun 2018)

(<https://www.fitchratings.com/site/re/10034713>)

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