



## Fitch Rates Senior Preferred Debt of NRW.BANK, UniCredit Bank AG and Commerzbank AG

Fitch Ratings-Frankfurt-17 August 2018: Fitch Ratings has assigned ratings to NRW.BANK's debut senior preferred note issuance and expected ratings to Commerzbank AG's (CBK) proposed EUR-denominated senior preferred bonds. Fitch has also assigned senior preferred ratings to UniCredit Bank AG's (HVB) and CBK's debt issuance programmes.

A full list of rating actions is available at the end of this rating action commentary.

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).

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](http://www.fitchratings.com)).

## KEY RATING DRIVERS

The 'AAA' long-term ratings assigned to NRW.BANK debut senior preferred debt issuance are equalised with the bank's Long-Term IDR, which is driven by support from the owner, The State of North Rhine Westphalia (NRW). The State of NRW provides the bank with an explicit, irrevocable, unlimited and unconditional statutory first-demand guarantee covering all liabilities. Moreover the bank benefits from a maintenance guarantee (Anstaltslast) and a statutory guarantor's liability (Gewaehrtraegerhaftung). Unlike some of its regional German development bank peers, NRW.BANK is not protected from insolvency by law. Nevertheless we believe it to be highly unlikely that NRW.BANK could become subject to bail-in measures given its current support framework.

The 'BBB+' long-term rating assigned to HVB's senior preferred debt issuance programme is aligned with the bank's IDRs. The bank's qualifying junior and vanilla senior unsecured debt buffers are large, but we believe that their sustainability is not yet clear because of uncertainties on the timing of its ultimate parent's, UniCredit S.P.A. (UC; BBB/F2/Stable), plans to allocate loss-absorbing capacity to its subsidiaries, which we expect will change HVB's liabilities structure over the medium term.

The 'A-' long-term rating assigned to CBK's senior preferred debt issuance programme and the 'A-(EXP)' expected rating of the senior preferred bonds is one notch above the bank's 'BBB+' Long-Term IDR to reflect Fitch's view that the bank has a sufficient combined buffer of qualifying junior and senior non-preferred debt that could be used to recapitalise it, restore its viability and prevent default on other senior preferred liabilities on resolution. The protection afforded to senior preferred debt, deposits and derivative counterparties by those buffers means the senior preferred debt rating is given a one-notch uplift above the Long-Term IDR to reflect the liability's lower vulnerability to default than vanilla senior debt.

The 'F2' short-term rating assigned to CBK's senior preferred debt issuance programme is the lower of the two options that map to an 'A-' long-term rating in line with Fitch's criteria.

Fitch has withdrawn the short-term ratings of CBK's and HVB's 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

NRW.BANK's senior preferred debt ratings are primarily sensitive to a change in the bank's Long-Term IDRs.

HVB's senior preferred debt issuance programme ratings are primarily sensitive to changes in the bank's IDRs. The long-term senior preferred debt issuance programme rating could be rated one notch above HVB's IDRs if the bank's qualifying junior and vanilla senior debt buffers are sufficient on a sustained basis to restore viability and prevent a default on senior preferred debt after a bank's failure. We believe that further clarity on the sustainability of these buffers should become available when UC starts to downstream internal loss-absorbing capacity into HVB.

CBK's senior preferred debt issuance programme and senior preferred debt ratings are primarily sensitive to changes in the bank's IDRs. They are also sensitive to the amount of subordinated and senior vanilla debt buffers relative to the recapitalisation amount likely to be needed to restore the bank's viability and prevent default on more senior liabilities.

The rating actions are as follows:

### NRW Bank:

Senior preferred notes DE000NWB2JY1, DE000NWB18J3: assigned 'AAA'

### HVB

Senior preferred debt issuance programme rating: assigned 'BBB+'/'F2'

Senior unsecured debt issuance programme: 'F2' withdrawn

### CBK

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

EUR-denominated senior preferred bonds: assigned 'A-(EXP)'

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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