

## **Moody's downgrades Deutsche Hypo's L/T ratings to A1 from Aa3**

### **C-/Baa1 BFSR/BCA downgraded to C-/Baa2**

Moody's Investors Service has today downgraded the long-term deposit and debt ratings of Deutsche Hypothekenbank AG (Deutsche Hypo) to A1 from Aa3 and the bank's subordinated debt rating to A2 from A1. Deutsche Hypo's BFSR was downgraded from a C- mapping into a Baa1 baseline credit assessment (BCA) to a C- mapping into a Baa2 BCA. Concurrently, Moody's changed the outlook on this rating to negative from stable while the long-term debt and deposit ratings continue to carry a stable outlook. The Prime-1 short-term rating was affirmed.

### **SLIM CAPITAL BUFFER WARRANTED A BCA DOWNGRADE**

Moody's downgraded the BCA of Deutsche Hypo to Baa2 from Baa1 which corresponds to the lower end of the C- BFSR range. The agency lowered the BCA in light of stress tests on Deutsche Hypo's earnings, assets and capital. The outcome of the tests reflects the rating agency's view that Deutsche Hypo's stressed capital buffer did not commensurate with the previous BCA rating level. Therefore, Moody's considers the bank to be more appropriately positioned at the lower end of the C- BFSR range, in particular because Moody's expects the bank to post subdued earnings in the next few quarters and, at the same time, have to account for losses on its commercial real estate portfolio. Nevertheless, Moody's considers these losses to be manageable, due to the bank's conservative credit underwriting practices.

### **NEGATIVE OUTLOOK DRIVEN BY POTENTIALLY WEAKENING LOSS ABSORPTION CAPACITY**

The negative outlook on the C-/Baa2 BFSR/BCA reflects Moody's view that Deutsche Hypo could still come under pressure if in the current uncertain environment, in particular if actual losses were to increase significantly above the rating agency's current expectations, moving it closer to the estimated worst-case scenario. This could result in a downgrade over the next 12-18 months. The rating agency will therefore closely monitor actual credit losses along with the bank's ability to absorb such losses in the income statement and with its existing capital cushion.

### **DOWNGRADE TO A1 DEBT RATINGS TRIGGERED BY PRESSURE ON CAPITAL**

The downgrade of Deutsche Hypo's debt and deposit ratings by one notch to A1 mirror the downgrade on the BCA rating level, resulting from potentially heightened pressure on its capital in a stress scenario.

Moody's has not changed the support assumptions for Deutsche Hypo's senior unsecured ratings. These assumptions include (i) a very high probability of support from its parent Norddeutsche Landesbank GZ (NORD/LB rated: Aa2; holds 100% of Deutsche Hypo) and, indirectly through NORD/LB, cross-sector support from German public sector banks, as well as from its ultimate majority owner, the State of Lower Saxony.

The stable outlook on the A1 ratings mirrors the rating agency's view that a mild downgrade of the bank's BFSR will not necessarily prompt a downgrade of its debt and deposit ratings, given Moody's current support assumptions.

### **RATING HISTORY AND MOODY'S METHODOLOGIES**

The last rating action on Deutsche Hypo was on 27 February 2008 when Moody's downgraded the BFSR to C- from C and upgraded the senior unsecured debt and deposit ratings to Aa3 from A2.

The principal methodology used in rating Deutsche Hypo was Moody's "Bank Financial Strength Ratings: Global Methodology", "Incorporation of Joint Default Analysis into Moody's Bank Ratings: A Refined Methodology" as well as "Guidelines for Rating Bank Junior Securities", available on [www.moody.com](http://www.moody.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Hannover, Germany, Deutsche Hypo reported total assets of EUR34.4 billion at the end of June 2009 and a small net profit of EUR1 million for H1/09.

