



Rating Action: Moody's downgrades NORD/LB's deposits to Baa1 and senior unsecured ratings to Baa2 and places ratings on review for further downgrade

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Downgrade also affects Deutsche Hypo and NORD/LB CBB, rating review extends to all three rated subsidiaries, including BremerLB

Frankfurt am Main, April 18, 2017 -- Moody's Investors Service has today taken a number of rating actions on all unguaranteed ratings of Norddeutsche Landesbank GZ (NORD/LB) and three of its rated subsidiaries. The rating actions follow the publication of the 2016 financial results that have been weaker than anticipated by the bank. In Moody's opinion, the higher losses and associated capital erosion have reduced the resilience of the group against downside risks in light of continued adverse effects on NORD/LB's large shipping portfolio and have increased the pressure to accelerate the execution of its previously announced de-risking strategy.

The following rating actions have been taken:

- Downgrade by one notch of all of NORD/LB's long-term ratings including deposits and senior-senior unsecured debt to Baa1 from A3 and the senior unsecured debt and issuer ratings to Baa2 from Baa1. Furthermore, downgrade by one notch of NORD/LB's Baseline Credit Assessment (BCA) and adjusted BCA to b1 and ba2 from ba3 and ba1, respectively, and of its long-term Counterparty Risk Assessment (CRA) to Baa1(cr) from A3(cr).
- Downgrade by one notch of Deutsche Hypothekbank (Actien-Gesellschaft)'s (Deutsche Hypo) long-term ratings including deposits and senior-senior unsecured debt to Baa1 from A3 and the senior unsecured debt ratings to Baa2 from Baa1. Also, downgrade by one notch of Deutsche Hypo's BCA and adjusted BCA to b1 and ba2 from ba3 and ba1, respectively, and of its long-term CRA to Baa1(cr) from A3(cr).
- Downgrade by one notch of NORD/LB Luxembourg S.A. Covered Bond Bank's (NORD/LB CBB) long-term ratings including deposits to Baa1 from A3, issuer ratings to Baa2 from Baa1 and senior unsecured program ratings to (P)Baa2 from (P)Baa1. Furthermore, downgrade by one notch NORD/LB CBB's BCA and adjusted BCA to b1 and ba2 from ba3 and ba1, respectively, and of its long-term CRA to Baa1(cr) from A3(cr).
- Placing on review for downgrade all long-term ratings and CRAs of NORD/LB, Deutsche Hypo and NORD/LB CBB as well as their Prime-2 short-term ratings, their Prime-2(cr) short-term CRA as well as the banks' BCA and adjusted BCA.
- Placing on review for downgrade of Bremer Landesbank Kreditanstalt Oldenburg GZ's (BremerLB) long-term ratings including the Baa1 rated long-term deposits, the Baa2 senior unsecured debt ratings and the Baa1(cr) long-term CRA. The bank's ba2 adjusted BCA was also placed on review for downgrade while BremerLB's BCA converged at b1 with NORD/LB's BCA (from caa2 previously), reflecting the progressive integration of BremerLB into the group, and was subsequently placed on review for downgrade. Furthermore, the bank's Prime-2 short-term program and deposit ratings and its Prime-2(cr) were placed on review for downgrade.

During the rating review, Moody's will focus on NORD/LB's near-term ability to counterbalance mounting pressures on its weak capitalization, for instance through executing its announced accelerated de-risking strategy without incurring additional significant losses beyond the rating agency's current expectations. A lack of meaningful progress in de-risking and bolstering its low capital buffers could result in rating downgrades by more than one notch. Conversely, near-term de-risking achievements and/or credible assisting measures by the group's stakeholders could support the stabilization of the ratings at their current level.

NORD/LB's and BremerLB's Aa1-rated guaranteed senior and subordinate debt ratings as well as the Caa2(hyb) ratings of non-cumulative preference share vehicles, Fuerstenberg Capital GmbH (I) and Fuerstenberg Capital II GmbH, were unaffected by today's rating actions.

For a list of all affected ratings, please refer to the end of this press release.

RATINGS RATIONALE

RECENT DEVELOPMENTS WITHIN NORD/LB AND ITS AFFILIATES

On 6 April 2017, NORD/LB published its annual report and financial results 2016, in which the banking group reported a €2.0 billion net loss for the year 2016. This was higher than previously anticipated by the bank, as a result of a significant increase in loan loss provisions for its shipping loan exposures, leading to more meaningful than expected erosion of the group's capitalization, as shown in the year-end 2016 fully-phased common equity tier 1 ratio of 9.9%, down from 12.2% as of December 2015.

The bank's results underscores that the prolonged weakness of the global shipping industry continues to have particularly adverse effects on the shipping exposures of NORD/LB. Overall, NORD/LB's problem loan ratio as adjusted by Moody's rose to 9.1% as of 31 December 2016, up from 6.8% as of year-end 2015. NORD/LB has said it has strengthened the loan loss reserve coverage of its shipping exposures to 47.6% from 38.8% over the same one year period, which was, however, below the bank's previously communicated target level of 50% for year-end 2016.

Following NORD/LB's assumption of the full ownership of BremerLB as of 1 January 2017, the subsidiary entered into a control agreement with NORD/LB pursuant to which NORD/LB commits to the absorption of potential losses incurred by BremerLB from the fiscal year 2017 on. BremerLB stated in April 2017 that the bank obtained a waiver from standalone minimum capital requirements effective from 31 March 2017. Prior to the waiver grant, NORD/LB decided to recapitalise BremerLB with a €400 million capital injection. On 6 April 2017, NORD/LB announced its board decided to merge BremerLB into NORD/LB during 2017.

DOWNGRADE OF NORD/LB'S BASELINE CREDIT ASSESSMENT AND LONG-TERM RATINGS

The downgrade of NORD/LB's BCA to b1 from ba3 is driven by the overall weakened credit profile owing to hefty losses and capital erosion in 2016 and Moody's assessment that additional loan loss provisioning needs in 2017 may exceed the banking group's pre-provision income. In Moody's view, unless charter rates improve beyond the rating agency's current expectations, NORD/LB is exposed to significant net income pressure from provisioning needs under both current and future shipping problem loans. Continued subdued net income levels would impair NORD/LB's capacity to bolster its absolute and risk-weighted capitalisation levels, which are low against a background of persisting asset risks from the shipping portfolio.

The rating agency believes that in 2017, NORD/LB will focus on further improving the loan loss reserve coverage of its shipping exposures to a level that should support the execution of the bank's portfolio reduction plan. However, in Moody's view, unless freight rates recover from current levels, the risks to NORD/LB's portfolio reduction plan and capital include: 1) further negative credit quality migration of the currently still performing part of the shipping loan portfolio; and 2) difficulties in achieving divestment volume or price targets amidst strong supply of shipping loans or collaterals in the market; both of these would result in additional and likely significant loan loss provisioning for ship finance exposures over the coming years.

NORD/LB's long-term ratings were downgraded by one notch, reflecting the one notch downgrade of the bank's BCA, whereas the rating agency's assumptions for affiliate support, the results of its Advanced Loss Given Failure (LGF) analysis and its government support assumptions remained unchanged.

CONVERGENCE OF BREMERLB'S BCA WITH NORD/LB'S BCA AND REVIEW OF RATINGS

The upgrade of BremerLB's BCA to b1 from caa2 reflects an alignment of BremerLB's standalone assessment with that of NORD/LB following the latter's announcement that its management board agreed on a merger of BremerLB into NORD/LB. Together with the regulatory waiver from standalone minimum capital requirements obtained recently, this plan, which Moody's expects to conclude in 2017, leads to a convergence of the risk profiles of BremerLB with that of NORD/LB. Because NORD/LB's BCA was placed on review for downgrade today, the rating review also extends to the BCA of BremerLB.

Based on the upgrade and rating review of BremerLB's BCA, Moody's placed on review for downgrade BremerLB's adjusted BCA at its current level of ba2, i.e. the same level as NORD/LB's adjusted BCA which benefits from two notches of support derived from the high probability of support being available under the institutional protection scheme of Sparkassen-Finanzgruppe (S-Finanzgruppe, Corporate Family Rating Aa2 stable, BCA a2).

BremerLB's long- and short-term ratings were also placed on review for downgrade at their current levels, reflecting the unchanged level of the adjusted BCA, an unchanged outcome of the Advanced LGF analysis performed at the group-wide level of NORD/LB and unchanged government support assumptions.

DOWNGRADE OF THE RATINGS OF DEUTSCHE HYPO AND NORD/LB CBB

The downgrade of Deutsche Hypo's BCA to b1 from ba3 and of its adjusted BCA to ba2 from ba1 is triggered by the alignment of the bank's standalone assessment with that of its parent NORD/LB. This reflects the tight integration of the entity within NORD/LB, with which it has a profit and loss transfer agreement in place. Based on this agreement, it also benefits from a regulatory waiver from minimum capital requirements.

Moody's considers NORD/LB CBB a highly integrated and harmonised subsidiary of NORD/LB and accordingly the bank's BCA and adjusted BCA are aligned and downgraded today in parallel with NORD/LB's BCA and adjusted BCA to b1 from ba3 and to ba2 from ba1, respectively.

Deutsche Hypo's and NORD/LB CBB's long-term ratings were downgraded by one notch, reflecting the one notch downgrade of the banks' BCAs, whereas the rating agency's assumptions for affiliate support, the results of its Advanced Loss Given Failure (LGF) analysis and its government support assumptions remained unchanged for both entities.

DOWNGRADE OF DEUTSCHE HYPO'S HYBRID RATING

The Pref. Stock Non-cumulative rating of Charlottenburg Capital Intl. S.ar.l. & Cie was downgraded to B2(hyb) from B1(hyb). Moody's expects the instrument to continue to be subject to the approach of applying LGF and additional notching to the adjusted BCA of Deutsche Hypo, because Deutsche Hypo's full-year 2016 local GAAP results confirmed a positive profit transfer plus balance sheet gain amount for 2016. The one-notch downgrade of the adjusted BCA of Deutsche Hypo, however, also leads to a one-notch downgrade of the rating of Charlottenburg Capital Intl. S.ar.l. & Cie. Deutsche Hypo announced in December 2016 that the obligations issued by Charlottenburg Capital Intl. S.ar.l. & Cie. have been called and will be repaid on 30 June 2017.

REVIEW FOR DOWNGRADE OF NORD/LB'S AND ITS AFFILIATES' LONG-TERM DEBT AND DEPOSIT RATINGS

The ratings of NORD/LB and its affiliates have been placed on review for downgrade reflecting Moody's assessment of the diminished resilience of NORD/LB group against further downside risk and the continued adverse effects on the group's credit fundamentals from the prolonged global shipping crisis.

The rating agency believes the extended downturn affecting the bank's shipping segment has increased the near-term pressure to improve the current imbalance between NORD/LB's reduced risk absorption capacity and the size of its credit-risk intense shipping loan book. In particular, Moody's notes that NORD/LB's capitalization may prove insufficient in a downside scenario.

In order to address these concerns, Moody's rating review will accordingly focus on NORD/LB's near-term ability to execute already announced and additional expected measures under its de-risking strategy and on the compatibility of these measures with the bank's aim to return to profitability in 2017. A lack of meaningful progress in de-risking and bolstering its low capital buffers could result in rating downgrades by more than one notch. Conversely, near-term de-risking achievements and/or credible assisting measures by the group's stakeholders could support the stabilization of the ratings at their current level.

WHAT COULD CHANGE THE RATING - UP / DOWN

There is currently limited upward pressure on the ratings of NORD/LB and its rated subsidiaries, as indicated by the review for downgrade.

Moody's may downgrade the long- and short-term debt and deposit ratings of NORD/LB and its rated subsidiaries if NORD/LB's BCA and adjusted BCA (the latter includes Moody's assumptions of affiliate support from S-Finanzgruppe) are downgraded. NORD/LB's BCA may be downgraded if the bank fails to halt or otherwise mitigate the recent trend of credit losses in ship finance eroding its capital base. The impact of a BCA downgrade on the long-term and short-term ratings could be reduced or even offset by Moody's re-assessment of affiliate support, e.g., if higher support assumptions were justified by improved visibility of credible capital- and/or risk-reduction measures undertaken by the group's key stakeholders.

Furthermore, the long- and short-term debt and deposit ratings of NORD/LB and its rated subsidiaries may be downgraded if, at the group level, the amount of equal-ranking or subordinated debt for an individual debt class was to decline beyond current expectations, leading to a less favorable outcome under Moody's Advanced LGF analysis.

LIST OF AFFECTED RATINGS

Issuer: Norddeutsche Landesbank GZ

Downgraded and placed on review for further downgrade:

....LT Issuer Rating (Foreign), Downgraded to Baa2 from Baa1, outlook changed to Rating Under Review from Negative

....LT Bank Deposits (Local & Foreign), Downgraded to Baa1 from A3, outlook changed to Rating Under Review from Negative

....Senior Unsecured (Local & Foreign), Downgraded to Baa2 from Baa1, outlook changed to Rating Under Review from Negative

....Senior Senior Unsecured (Local), Downgraded to Baa1 from A3, outlook changed to Rating Under Review from Negative

....Subordinate (Local & Foreign), Downgraded to Ba3 from Ba2

....Subordinate MTN (Local), Downgraded to (P)Ba3 from (P)Ba2

....Senior Unsecured MTN (Local), Downgraded to (P)Baa2 from (P)Baa1

....Senior Senior Unsecured MTN (Local), Downgraded to (P)Baa1 from (P)A3

....LT Counterparty Risk Assessment, Downgraded to Baa1(cr) from A3(cr)

....Adjusted Baseline Credit Assessment, Downgraded to ba2 from ba1

....Baseline Credit Assessment, Downgraded to b1 from ba3

Placed on review for downgrade:

....ST Bank Deposits (Local & Foreign), Currently P-2

....Other Short Term (Local), Currently (P)P-2

....ST Deposit Note/ CD Program (Local), Currently P-2

....Commercial Paper (Local & Foreign), Currently P-2

....ST Counterparty Risk Assessment, Currently P-2(cr)

Outlook Action:

....Outlook changed to Rating Under Review from Negative

Issuer: Bremer Landesbank Kreditanstalt Oldenburg GZ

Placed on review for downgrade:

....LT Issuer Rating (Foreign), Currently Baa2, outlook changed to Rating Under Review from Developing
....LT Bank Deposits (Local & Foreign), Currently Baa1, outlook changed to Rating Under Review from Developing
....Senior Unsecured (Local), Currently Baa2, outlook changed to Rating Under Review from Developing
....Subordinate MTN (Local), Currently (P)Ba3
....Senior Unsecured MTN (Local), Currently (P)Baa2
....Adjusted Baseline Credit Assessment, Currently ba2
....LT Counterparty Risk Assessment, Currently Baa1(cr)

Placed on review for downgrade:

....ST Banks Deposits Rating (Local & Foreign), Currently P-2
....Other Short Term (Local), Currently (P)P-2
....Commercial Paper (Local), Currently P-2
....ST Counterparty Risk Assessment, Currently P-2(cr)

Upgraded and placed on review for downgrade:

.... Baseline Credit Assessment, Upgraded to b1 from caa2

Outlook Action:

....Outlook changed to Rating Under Review from Developing

Issuer: NORD/LB Luxembourg S.A. Covered Bond Bank

Downgraded and placed on review for further downgrade:

....LT Bank Deposits (Local & Foreign), Downgraded to Baa1 from A3, outlook changed to Rating Under Review from Negative
....LT Issuer Rating (Local & Foreign), Downgraded to Baa2 from Baa1, outlook changed to Rating Under Review from Negative
....Senior Unsecured MTN (Local), Downgraded to (P)Baa2 from (P)Baa1
....Adjusted Baseline Credit Assessment, Downgraded to ba2 from ba1
....Baseline Credit Assessment, Downgraded to b1 from ba3
....LT Counterparty Risk Assessment, Downgraded to Baa1(cr) from A3(cr)

Placed on review for downgrade:

....ST Bank Deposits (Local & Foreign), Currently P-2
....ST Issuer Rating (Local & Foreign), Currently P-2
....ST Counterparty Risk Assessment, Currently P-2(cr)

Outlook Action:

....Outlook changed to Rating Under Review from Negative

Issuer: Deutsche Hypothekenbank (Actien-Gesellschaft)

Downgraded and placed on review for further downgrade:

....LT Bank Deposits (Local & Foreign), Downgraded to Baa1 from A3, outlook changed to Rating Under Review from Negative
....Senior Unsecured (Local), Downgraded to Baa2 from Baa1, outlook changed to Rating Under Review from Negative
....Senior Senior Unsecured (Local), Downgraded to Baa1 from A3, outlook changed to Rating Under Review from Negative
....Subordinate MTN (Local), Downgraded to (P)Ba3 from (P)Ba2
....Senior Unsecured MTN (Local), Downgraded to (P)Baa2 from (P)Baa1
....Senior Senior Unsecured MTN (Local), Downgraded to (P)Baa1 from (P)A3

....Subordinate (Local), Downgraded to Ba3 from Ba2

....Adjusted Baseline Credit Assessment, Downgraded to ba2 from ba1

....Baseline Credit Assessment, Downgraded to b1 from ba3

....LT Counterparty Risk Assessment, Downgraded to Baa1(cr) from A3(cr)

Placed on review for downgrade:

....ST Bank Deposits (Local & Foreign), Currently P-2

....Other Short Term (Local), Currently (P)P-2

....ST Counterparty Risk Assessment, Currently P-2(cr)

Outlook Action:

....Outlook changed to Rating Under Review from Negative

Issuer: Charlottenburg Capital Intl. S.ar.l. & Cie

Downgraded and placed on review for further downgrade:

....Pref. Stock Non-cumulative (Local), Downgraded to B2(hyb) from B1(hyb)

Outlook Action:

....Outlook changed to Rating Under Review from No Outlook assigned

Issuer: Norddeutsche Landesbank GZ, New York Branch

Downgraded and placed on review for further downgrade:

....LT Counterparty Risk Assessment, Downgraded to Baa1(cr) from A3(cr)

Placed on review for downgrade:

....Commercial Paper (Local Currency), Currently P-2

....ST Counterparty Risk Assessment, Currently P-2(cr)

Outlook Action:

....Outlook changed to Rating Under Review from Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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