

FITCH REVISES NORD/LB AND BREMERLB'S OUTLOOK TO NEGATIVE; AFFIRMS IDRS AT 'A-'

Fitch Ratings-Frankfurt/London-28 March 2017: Fitch Ratings has revised the Outlooks on Norddeutsche Landesbank Girozentrale (NORD/LB) and its fully-owned subsidiary Bremer Landesbank Kreditanstalt Oldenburg Girozentrale (BremerLB) to Negative from Stable and affirmed their Long-Term Issuer Default Ratings (IDRs) at 'A-'. Fitch has also downgraded NORD/LB's Viability Rating (VR) to 'bb' from 'bb+' and BremerLB's VR to 'b+' from 'bb' and subsequently withdrawn BremerLB's VR. A full list of rating actions is at the end of this rating action commentary.

The rating actions follow BremerLB's profit warning on 9 March 2017 announcing a loss of about EUR1.4 billion in 2016, which is significantly higher than the high nine-digit range previously expected by management.

The downgrade of BremerLB's VR reflects our view that the bank's prospects for ongoing unsupported viability have weakened. In 2016, considerable loan impairment charges relating to its sizeable shipping portfolio depleted its small capital base, making a capital injection from NORD/LB necessary.

Under the control agreement (Beherrschungsvertrag) between NORD/LB and BremerLB effective since 1 January 2017, NORD/LB's instructions are now contractually binding for BremerLB's management. We believe that this prevents a meaningful analysis of BremerLB as a standalone entity. Consequently, we have subsequently withdrawn BremerLB's VR because of the expected reorganisation under its new ownership.

The downgrade of NORD/LB's VR reflects our view that the targeted reduction of its shipping exposure and its envisaged return to profitability in 2017 has become less likely in light of its decreased financial flexibility and the severe crisis in the shipping market. This affects NORD/LB's own large shipping portfolio as well as BremerLB's.

We have revised the Outlook on NORD/LB and BremerLB's Long-Term IDRs to Negative from Stable as we believe that the likelihood of extraordinary solvency support from NORD/LB's owners could weaken if the bank's creditworthiness, as expressed by its VR, and the sustainability of its business model, deteriorate further over the next one to two years.

KEY RATING DRIVERS

IDRS, SUPPORT RATINGS (SR) AND SENIOR DEBT RATING

NORD/LB's IDRs and Support Rating are driven by the strong institutional support from its owners, the 'AAA'/Stable rated German regional states of Lower Saxony and Saxony-Anhalt (combined 64.7% share), the savings banks associations of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania and ultimately the German savings banks group, Sparkassen Finanzgruppe (SFG, A+/Stable).

Fitch's institutional support considerations are based on the view that NORD/LB's owners consider their investment in NORD/LB long-term and strategic. The owners' strong support propensity is underpinned by NORD/LB's focus on its statutory roles, which include supporting the regional economy as well as acting as the regional savings banks' central clearing institution and the regional states' house bank.

Fitch uses the lower rating of NORD/LB's parents, SFG's Long-Term IDR, as anchor and starting point for determining support-driven ratings. In Fitch's view, support would need to be forthcoming from SFG as well as the states of Lower Saxony and Saxony-Anhalt to avoid triggering state aid considerations and resolution under the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz, SAG) if NORD/LB fails. Our assessment of Lower Saxony and Saxony-Anhalt's creditworthiness is underpinned by the stability of Germany's solidarity and financial equalisation system, which links the regional states' creditworthiness to that of Germany (AAA/Stable). SFG's ability to support, as expressed by its Long-Term IDR of 'A+' is very strong but weaker than that of the regional states.

We notch down NORD/LB's Long-Term IDR twice from SFG's 'A+'. The notching reflects NORD/LB's role for its owners, which we consider strategic, but not key and integral, as well as uncertainties over potential legal and regulatory barriers related to state aid considerations and provisions of German resolution legislation.

BremerLB's IDRs, SR and senior debt ratings are driven by the strong institutional support available from NORD/LB, as demonstrated by a capital injection completed by NORD/LB to restore BremerLB's depleted capital. Our view of institutional support from NORD/LB is also underpinned by NORD/LB's declaration of backing (Patronatserklaerung) for BremerLB.

Despite their wholesale-driven funding mixes, NORD/LB and BremerLB have Short-Term IDRs of 'F1', which is at the higher of two Short-Term IDRs that map to a 'A-' Long-Term IDR on Fitch's rating scale. Through their role as central clearing institutions for the savings banks in their respective regions, both banks have strong links to SFG and privileged access to SFG's ample excess liquidity and funding resources. BremerLB additionally benefits from ordinary funding and liquidity support from NORD/LB. Both banks' liquidity is adequate but not strong, as reflected by LCR ratios in excess of regulatory requirements.

The ratings of both banks' senior unsecured obligations are equalised with their IDRs.

VR

The one-notch downgrade of NORD/LB's VR reflects our view that a continued deterioration in asset quality, which triggered a large loss in 2016, is threatening the long-term sustainability of the bank's business model, limiting managerial flexibility and burdening its financial profile. In November 2016, NORD/LB expected an annual loss of over EUR1 billion for 2016 driven by loan impairment charges. We now expect a substantially higher loss following BremerLB's profit warning.

NORD/LB's targeted shipping exposure reduction (to EUR12 billion-EUR14 billion exposure at default by end-2018 from EUR17 billion at end-9M16) will likely trigger further losses. This will render a return to profitability in 2017, as envisaged by NORD/LB's management, more difficult, in our view, even though better earnings diversification at NORD/LB than BremerLB should mitigate the downside risk.

We understand that the vast majority of the impairment charges incurred by both banks in 2016 relates to their exposure to the poorly performing shipping sector, which resulted in a continued deterioration in asset quality and triggered an increase in reserve coverage. We expect the additional losses to have eroded NORD/LB's fully-loaded CET1 ratio from the 12.2% reported at end-9M16. The one-year expected loss calculated on the bank's loan book exceeded its stock of loan loss allowances by EUR353 million at end-9M16. This shortfall was already deducted from the bank's regulatory CET1 ratio, providing some loss absorption buffer. However, we expect this buffer to have been largely consumed by additional impairment charges in 4Q16.

The two-notch downgrade of BremerLB's VR reflects our assessment that the bank's standalone business model is highly unlikely to be viable without NORD/LB's support as its overexposure to the shipping sector is insufficiently mitigated by unrelated income sources. BremerLB's small capital base relative to its unreserved NPLs suggests that its regulatory capital ratios have been depleted to a level that required a capital injection from NORD/LB. We expect BremerLB's capitalisation to remain weak even after the capital increase.

SUBSIDIARIES

The IDRs and senior debt ratings of NORD/LB Luxembourg S.A. Covered Bond Bank's (NORD/LB CBB) are equalised with those of its parent NORD/LB, reflecting NORD/LB's strong propensity to provide support given NORD/LB CBB's strategic role within the group. This expectation is underpinned by a declaration of backing from NORD/LB. Operating as a specialised covered bond issuer, NORD/LB CBB's role is to fund NORD/LB's core businesses by issuing covered bonds in accordance with Luxembourg law (Lettres de Gage).

DERIVATIVE COUNTERPARTY RATINGS (DCRS), DEPOSIT RATINGS

We have affirmed NORD/LB and BremerLB's DCRs and Deposit Ratings at the level of their respective IDRs. We believe that their respective buffers of junior and vanilla senior debt do not afford any obvious incremental probability of default benefit over and above the multi-notch support benefit already factored into the IDRs.

SUBORDINATED DEBT

NORD/LB's Tier 2 subordinated note DE000NLB8K69 is notched once from the bank's VR to reflect our assessment of the instrument's respective non-performance and relative loss severity risk profile.

GRANDFATHERED STATE-GUARANTEED SECURITIES

The ratings of NORD/LB's grandfathered state-guaranteed senior and Tier 2 notes are equalised with the Long-Term IDR of the federal guarantors. This reflects our opinion that the respective federal states ability and propensity to honour their guarantees are very strong.

RATING SENSITIVITIES

IDRS, SR AND SENIOR DEBT

NORD/LB's IDRs, SRs and senior unsecured debt ratings are sensitive to changes in our assumptions around the propensity or ability of its owners to provide timely support. This could result from a change to SFG's IDRs or changes to the owners' strategic commitment to NORD/LB.

The strategic commitment could weaken if NORD/LB's credit profile deteriorates to an extent that would ultimately put the sustainability of its business model at risk. This could be indicated by a further downgrade of NORD/LB's VR, in which case we could apply a wider notching to NORD/LB and BremerLB's IDRs and senior unsecured debt ratings from SFG's anchor rating.

BremerLB's IDRs, SR and senior unsecured debt ratings are sensitive to changes in our assumptions around the propensity or ability of NORD/LB to support it, and as such predominantly to the same sensitivities as NORD/LB. They could come under pressure if the bank's track record remains weak despite planned restructuring measures or if we believed NORD/LB's propensity to support its subsidiary weakened because it concluded that BremerLB's weak profile would durably impair its own credit quality.

A change to our assessment of the risks of triggering a resolution process ahead of support for a Landesbank more generally could also affect both banks' IDRs, SRs and senior unsecured debt ratings.

VR

NORD/LB's VR is primarily sensitive to changes in capitalisation, asset quality and profitability. Capitalisation is primarily sensitive to continued weak earnings, as the cost of integrating BremerLB will compound NORD/LB's vulnerability to further asset quality deterioration in the shipping sector. Capitalisation also remains sensitive to movements in the euro/US dollar exchange rate as a fairly high share of the shipping exposure is US dollar-denominated. Upside potential for the VR is limited as we view a material and lasting recovery of the shipping sector as unlikely in the foreseeable future.

NORDLB's plan to lower its exposure to the shipping sector is ambitious and bears high execution risk, in our view, particularly if market demand for structured transactions based on shipping assets diminishes. Forced sales of ships may also require additional risk provisions, which could impair NORD/LB's target to return to profitability in 2017. The negative pressure could also be compounded if deterioration in commercial real estate or corporate lending triggers unexpectedly high loan loss provisions.

GRANDFATHERED STATE-GUARANTEED SECURITIES

The ratings of NORD/LB's grandfathered state-guaranteed senior and Tier 2 notes are sensitive to changes in Fitch's view of the creditworthiness of the guarantors.

DCRS AND DEPOSIT RATINGS

The DCRs and Deposit Ratings of NORD/LB and BremerLB are primarily sensitive to changes in their respective IDRs.

SUBORDINATED DEBT

The rating of NORD/LB's Tier 2 subordinated note DE000NLB8K69 is broadly sensitive to the same considerations that might affect the bank's VR.

SUBSIDIARIES

Rating actions on NORD/LB CBB's IDRs and senior unsecured debt ratings would most likely mirror similar actions on NORD/LB's IDRs. NORD/LB CBB's IDRs, SR and senior unsecured debt ratings are also sensitive to changes in our view of NORD/LB's propensity to support.

The rating actions are as follows:

Norddeutsche Landesbank Girozentrale

Long-Term IDR: affirmed at 'A-'; Outlook revised to Negative from Stable

Short-Term IDR: affirmed at 'F1'

Support Rating: affirmed at '1'

Viability Rating: downgraded to 'bb' from 'bb+'

Derivative Counterparty Rating: affirmed at 'A-'(dcr)

Deposit Ratings: affirmed at 'A-'/F1'

Senior debt and programme ratings: affirmed at 'A-'/ 'F1'

Subordinated debt: new rating assigned at 'BB-' (ISIN: DE000NLB8K69)

Grandfathered state-guaranteed senior and Tier 2 subordinated debt ratings: affirmed at 'AAA'

Bremer Landesbank Kreditanstalt Oldenburg Girozentrale

Long-Term IDR: affirmed at 'A-'; Outlook revised to Negative from Stable

Short-Term IDR: affirmed at 'F1'

Support Rating: affirmed at '1'

Viability Rating: downgraded to 'b+' from 'bb' and withdrawn

Derivative Counterparty Rating: affirmed at 'A-'(dcr)

Deposit Ratings: affirmed at 'A-'/F1'

Senior debt ratings: affirmed at 'A-'/F1'

NORD/LB Luxembourg S.A. Covered Bond Bank
Long-Term IDR: affirmed at 'A-'; Outlook revised to Negative from Stable
Short-Term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Senior debt rating: affirmed at 'A-'

Contact:

Primary Analyst
Roger Schneider
Director
+49 69 768076 242
Fitch Deutschland GmbH
Neue Mainzer Strasse 46-50
D-60325 Frankfurt am Main

Secondary Analyst

Ioana Sima
Associate Director
+44 20 3530 1736

Committee Chairperson

Patrick Rioual
Senior Director
+49 69 76 80 76 123

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email:
elaine.bailey@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)

<https://www.fitchratings.com/site/re/891051>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a

security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001