

Rating Action: Moody's downgrades NORD/LB's and its subsidiaries' deposits to Baa2 and senior unsecured ratings to Baa3, outlook negative

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All short-term programme and short-term deposit ratings confirmed at P-2

Frankfurt am Main, June 30, 2017 -- Moody's Investors Service has today downgraded by one notch the ratings of Norddeutsche Landesbank GZ (NORD/LB) and of its rated subsidiaries Deutsche Hypothekbank (Actien-Gesellschaft) (Deutsche Hypo), Bremer Landesbank Kreditanstalt Oldenburg GZ (BremerLB) and NORD/LB Luxembourg S.A. Covered Bond Bank (NORD/LB CBB). Among the ratings affected by today's rating action were, as far as assigned to each entity, the banks' long-term deposit and senior senior unsecured ratings which were downgraded to Baa2 from Baa1, the long-term senior unsecured debt and issuer ratings which were downgraded to Baa3 from Baa2, and the subordinated debt ratings, which were downgraded to B1 from Ba3. Furthermore, Moody's downgraded the banks' assessments by one notch, including the long-term Counterparty Risk (CR) Assessments to Baa2(cr) from Baa1(cr), the baseline credit assessments (BCA) to b2 from b1, and the adjusted BCAs to ba3 from ba2. The rating agency confirmed all short-term ratings, including all debt and deposit ratings at P-2, all programme ratings at (P)P-2 and all CR Assessments at P-2(cr). The banks' long-term deposit, senior senior unsecured as well as senior unsecured and issuer ratings carry a negative outlook.

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

"While NORD/LB made adequate progress in its de-risking program, supported by a less adverse shipping market environment than in 2016 we believe that the bank will only gradually rebuild a sufficient degree of resilience against adverse ship market value and freight rates scenarios, leaving it significantly exposed to solvency risks within the next 12 to 18 months" says Bernhard Held, a Moody's Vice President.

Today's rating actions conclude the rating review for NORD/LB and its affiliates opened on 18 April 2017, and reflect Moody's view that the success of NORD/LB's measures to de-risk the bank and stabilise its capitalisation depends to a significant degree on the future development of shipping markets.

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

RATINGS RATIONALE

DOWNGRADE OF NORD/LB'S BASELINE CREDIT ASSESSMENT AND ADJUSTED BCA

The downgrade of NORD/LB's BCA to b2 from b1 reflects the vulnerability of its risk-weighted and absolute capitalisation to setbacks in the tentative stabilization experienced year-to-date of container and bulker ship freight rates and market values, following a pronounced downturn in 2016 which continues to affect the tanker ship segment.

The current b2 BCA also takes into account a set of measures initiated by NORD/LB to fend-off solvency pressures and to stabilise current capital levels. In Q1 2017, NORD/LB reduced its gross shipping exposure to EUR15.9 billion from EUR16.8 billion while maintaining its shipping non-performing loan coverage ratio at 48% as of 31 March 2017 (31 December 2016: 48%), from which the rating agency does not expect it to rise significantly going forward. Taking into account additional ship sales agreed with buyers, the bank is on track to achieve its shipping exposure target range of EUR12 billion to EUR14 billion within the next 12 to 18 months.

NORD/LB's pluralistic ownership structure between public-sector majority ownership and minority ownership by member institutions/associations of the Sparkassen-Finanzgruppe (Corporate Family Rating Aa2 stable, BCA a2) under the EU Bank Recovery and Resolution Directive complicate the task of stakeholder support provision in case of need. However, the rating agency believes that ultimately, the probability of emergency support forthcoming from the Sparkassen-Finanzgruppe in case of need is high, leading to an unchanged two notches of support for NORD/LB's adjusted BCA and its downgrade to ba3 from ba2. NORD/LB is a direct

member bank of the institutional protection scheme of Sparkassen-Finanzgruppe.

DOWNGRADE OF THE LONG-TERM RATINGS OF NORD/LB AND ITS SUBSIDIARIES

Driven by the one-notch downgrade of the bank's and its subsidiaries' BCAs and adjusted BCAs, all long-term ratings of the rated group members were today downgraded by one notch.

The downgrade of Deutsche Hypo's, BremerLB's and NORD/LB CBB's BCAs to b2 from b1 and of their adjusted BCAs to ba3 from ba2 reflects the alignment of the banks' standalone assessments with that of parent bank NORD/LB.

NORD/LB aims to merge with BremerLB over the course of 2017, leading to a full alignment of the ratings of both entities.

Deutsche Hypo's standalone financial profile compares favourably with NORD/LB's, but due to the tight integration of this subsidiary, Moody's caps Deutsche Hypo's BCA at the level of NORD/LB's b2 BCA. NORD/LB maintains a control and profit-and-loss transfer agreement with Deutsche Hypo, based on which the subsidiary has been granted an exemption from regulatory minimum capital requirements. Deutsche Hypo's adjusted BCA is also aligned with NORD/LB's and accordingly downgraded to ba3 from ba2.

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 in parallel with NORD/LB's BCA and adjusted BCA to b2 from b1 and to ba3 from ba2, respectively.

Moody's expects that NORD/LB and its three rated subsidiaries will be subject to joint resolution in the case of failure. As a result, the ratings of all four continue to reflect the assumption of a joint group liability structure, leading to identical notching results under Moody's Advanced Loss Given Failure (LGF) analysis as well as unchanged and identical moderate government support assumptions.

NEGATIVE OUTLOOK ON NORD/LB'S AND ITS AFFILIATES' LONG-TERM DEBT AND DEPOSIT RATINGS

The long-term ratings of NORD/LB and its affiliates carry a negative outlook reflecting the tail risk of another weakening of shipping markets within the 12 to 18 months outlook horizon, which would in Moody's view have a significant negative impact on net income and capital development of NORD/LB. The negative outlook also captures additional execution risk related to strategic measures planned and targeted by NORD/LB to protect its current capitalization levels.

The current b2 BCA of NORD/LB reflects that Moody's considers current capital levels weak even in case of a successful reduction in shipping risks towards the EUR12 billion to EUR14 billion announced target range for year-end 2018.

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 negative outlook.

Moody's may stabilise the outlook on NORD/LB's ratings, if the bank continues to execute successfully on its de-risking plan over the 12 to 18 months outlook horizon while preserving its core capital above current levels and with a sufficient margin above regulatory capital requirements.

Moody's may downgrade the long- and short-term ratings of NORD/LB and its rated subsidiaries if NORD/LB's BCA and adjusted BCA are downgraded. NORD/LB's BCA may be downgraded if (1) additional loan loss provisioning needs in the context of NORD/LB's shipping portfolio reduction cannot be sufficiently covered by underlying pre-provision income, thereby negatively affecting capitalisation or if (2) rating migration trends in its shipping portfolio become worse than the rating agency's current expectations.

Furthermore, the long- and short-term 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 favourable outcome under Moody's Advanced LGF analysis.

LIST OF AFFECTED RATINGS

Issuer: Norddeutsche Landesbank GZ

Downgraded:

....LT Issuer Rating (Foreign), Downgraded to Baa3 from Baa2, outlook changed to Negative from Rating Under Review

....LT Bank Deposits (Local & Foreign), Downgraded to Baa2 from Baa1, outlook changed to Negative from Rating Under Review

....Senior Unsecured (Local & Foreign), Downgraded to Baa3 from Baa2, outlook changed to Negative from Rating Under Review

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

....Subordinate (Local & Foreign), Downgraded to B1 from Ba3

....Subordinate MTN (Local), Downgraded to (P)B1 from (P)Ba3

....Senior Unsecured MTN (Local), Downgraded to (P)Baa3 from (P)Baa2

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

....LT Counterparty Risk Assessment, Downgraded to Baa2(cr) from Baa1(cr)

....Adjusted Baseline Credit Assessment, Downgraded to ba3 from ba2

....Baseline Credit Assessment, Downgraded to b2 from b1

Confirmed:

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

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

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

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

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

Outlook Action:

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

Issuer: Bremer Landesbank Kreditanstalt Oldenburg GZ

Downgraded:

....LT Issuer Rating (Foreign), Downgraded to Baa3 from Baa2, outlook changed to Negative from Rating Under Review

....LT Bank Deposits (Local & Foreign), Downgraded to Baa2 from Baa1, outlook changed to Negative from Rating Under Review

....Senior Unsecured (Local), Downgraded to Baa3 from Baa2, outlook changed to Negative from Rating Under Review

....Subordinate MTN (Local), Downgraded to (P)B1 from (P)Ba3

....Senior Unsecured MTN (Local), Downgraded to (P)Baa3 from (P)Baa2

....LT Counterparty Risk Assessment, Downgraded to Baa2(cr) from Baa1(cr)

....Adjusted Baseline Credit Assessment, Downgraded to ba3 from ba2

....Baseline Credit Assessment, Downgraded to b2 from b1

Confirmed:

...ST Banks Deposits Rating (Local & Foreign), at P-2

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

...Commercial Paper (Local), at P-2

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

Outlook Action:

...Outlook changed to Negative from Rating Under Review

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

Downgraded:

...LT Issuer Rating (Local & Foreign), Downgraded to Baa3 from Baa2, outlook changed to Negative from Rating Under Review

...LT Bank Deposits (Local & Foreign), Downgraded to Baa2 from Baa1, outlook changed to Negative from Rating Under Review

...Senior Unsecured MTN (Local), Downgraded to (P)Baa3 from (P)Baa2

...LT Counterparty Risk Assessment, Downgraded to Baa2(cr) from Baa1(cr)

...Adjusted Baseline Credit Assessment, Downgraded to ba3 from ba2

...Baseline Credit Assessment, Downgraded to b2 from b1

Confirmed:

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

...ST Issuer Rating (Local & Foreign), at P-2

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

Outlook Action:

...Outlook changed to Negative from Rating Under Review

Issuer: Deutsche Hypothekbank (Actien-Gesellschaft)

Downgraded:

...LT Bank Deposits (Local & Foreign), Downgraded to Baa2 from Baa1, outlook changed to Negative from Rating Under Review

...Senior Unsecured (Local), Downgraded to Baa3 from Baa2, outlook changed to Negative from Rating Under Review

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

...Subordinate MTN (Local), Downgraded to (P)B1 from (P)Ba3

...Senior Unsecured MTN (Local), Downgraded to (P)Baa3 from (P)Baa2

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

...Subordinate (Local), Downgraded to B1 from Ba3

...LT Counterparty Risk Assessment, Downgraded to Baa2(cr) from Baa1(cr)

...Adjusted Baseline Credit Assessment, Downgraded to ba3 from ba2

...Baseline Credit Assessment, Downgraded to b2 from b1

Confirmed:

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

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

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

Outlook Action:

...Outlook changed to Negative from Rating Under Review

Issuer: Norddeutsche Landesbank GZ, New York Branch

Downgraded:

...LT Counterparty Risk Assessment, Downgraded to Baa2(cr) from Baa1(cr)

Confirmed:

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

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

Outlook Action:

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

PRINCIPAL METHODOLOGY

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

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