

Rating Action: Moody's upgrades long-term ratings of NORD/LB, outlook stable

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Rating upgrade extends to subsidiaries; NORD/LB's hybrid securities downgraded

Frankfurt am Main, January 09, 2020 -- Moody's Investors Service (Moody's) has today upgraded by two notches the long-term ratings of Norddeutsche Landesbank GZ (NORD/LB) and its rated subsidiaries, including Deutsche Hypothekenbank (Actien-Gesellschaft) (Deutsche Hypo) and NORD/LB Luxembourg S.A. Covered Bond Bank (NORD/LB CBB). Specifically, NORD/LB's long-term senior unsecured debt and deposit ratings were upgraded to A3 from Baa2, the outlook changed to stable from ratings under review. Moody's also upgraded NORD/LB's Baseline Credit Assessment (BCA) to ba3 from b2. Further, Moody's has affirmed the P-2 short-term ratings of NORD/LB and its rated subsidiaries, as applicable, and downgraded NORD/LB's hybrid securities which are issued through the funding vehicles Fuerstenberg Capital Erste GmbH and Fuerstenberg Capital II GmbH, to Caa3(hyb) from Caa1(hyb).

The rating actions follow NORD/LB's announcement on 23 December 2019, stating that the capital strengthening of combined €3.6 billion from its public sector owners was successfully completed.

Today's rating actions conclude the rating review for NORD/LB and its subsidiaries, opened on 18 December 2018.

Moody's Aa1 backed ratings for instruments that benefit from the grandfathering of statutory guarantees remain unaffected by today's rating action.

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

RATINGS RATIONALE

- UPGRADE OF NORD/LB'S BASELINE CREDIT ASSESSMENT REFLECTS IMPROVED SOLVENCY

The upgrade of NORD/LB's BCA to ba3 from b2 reflects the strengthened standalone credit profile resulting from the group's materially improved solvency. The capital injection completes the bank's key milestones that are required to continue its path of de-risking the bank through exiting ship finance and re-sizing its activities in accordance with the medium-term plan, termed NORD/LB 2024.

Moody's assessment of the execution risk during NORD/LB's ambitious medium-term transition plan and resulting uncertainty regarding its success presently limits the standalone creditworthiness at the ba3 level. The rating agency believes that the bank will face challenges protecting its franchise and restoring a moderate level of profitability during the extended period that management works to implement its transition plans.

With a Common Equity Tier 1 (CET1) ratio moving to more than 14.0% by year-end 2019 and a coverage ratio of around 65% of non-performing loans, Moody's considers the bank to be appropriately capitalized, including the guarantee, to enable it to further reduce its remaining exposure to ship loans. Disposals of ship loans have already helped to improve the bank's asset quality and reduce risks on NORD/LB's balance sheet. As of 30 September 2019, NORD/LB's ship exposure declined to €6.1 billion, compared with €10.3 billion at the end of 2018 and €12.1 billion at the end of 2017.

The transformation of NORD/LB will lead to a significantly re-sized and de-risked balance sheet. Until end-2024, NORD/LB is committed to shrink its assets to around €95 billion, compared with €146.9 billion at 30 September 2019. The bank's transformation program also foresees a significant lowering of its operating expenses, including the number of employees to 2,800-3,000 by 2024 from 5,670 at year-end 2018.

As part of today's rating action, Moody's also upgraded the BCA of NORD/LB's subsidiary Deutsche Hypo to ba3 from b2. While Deutsche Hypo's financial strength is better than that of its parent, it remains capped at the level of NORD/LB, reflecting the close interlinkages between the two banks, including a regulatory capital waiver and profit and loss transfer agreement. Further, NORD/LB CBB's BCA was upgraded to ba3 from b2 and remains aligned with that of NORD/LB, because the rating agency considers the Luxembourg-based bank a highly integrated and harmonised subsidiary.

- UPGRADE OF THE ADJUSTED BASELINE CREDIT ASSESSMENT

Moody's recognizes the significant support provided through Sparkassen-Finanzgruppe (Corporate Family Rating Aa2 negative, BCA a2) to strengthen NORD/LB's capital, which allows the bank to de-risk and transform. Sparkassen-Finanzgruppe injected a combined €1.1 billion, alongside NORD/LB's other owners, the federal states of Lower Saxony and Saxony-Anhalt (Aa1 stable). The upgrade of NORD/LB's Adjusted BCA to ba1 from ba3 reflects Moody's unchanged high affiliate support assumption, which provides two notches of rating uplift from NORD/LB's BCA, lifting its Adjusted BCA to ba1.

- UPGRADE OF THE LONG-TERM RATINGS

The upgrade of NORD/LB's and rated subsidiaries' long-term senior unsecured debt and deposit ratings to A3 from Baa2 reflect the two-notch upgrade of NORD/LB's BCA and Adjusted BCA, as well as the unchanged result from Moody's Advanced Loss Given Failure (LGF) analysis. NORD/LB has significant outstanding volumes of junior senior unsecured debt and other instruments designed to absorb losses in resolution. In combination with a moderate volume of senior unsecured bonds in issuance the rating agency assesses the loss-given-failure for senior unsecured debt and deposits to be extremely low, resulting in three notches of rating uplift for these liability classes.

As a member bank of Sparkassen-Finanzgruppe, Germany's largest systemically important banking group, Moody's continues to assume a moderate probability of government support, leading to one notch of government support uplift in the senior unsecured debt and deposit ratings of NORD/LB and its rated subsidiaries.

- RATIONALE FOR THE STABLE OUTLOOK

The stable outlook on NORD/LB's and rated subsidiaries' long-term senior unsecured and deposit ratings reflects Moody's view that the management needs to develop a track record on its path towards a more balanced risk profile, thereby reducing presently-meaningful execution risk and raising the credibility of its profitability ambitions before further rating upgrades could be warranted.

- DOWNGRADE OF NORD/LB'S HYBRID SECURITIES RATINGS

The downgrade of NORD/LB's non-cumulative preference shares to Caa3(hyb) from Caa1(hyb) reflects the instruments unchanged status as an impaired security and increased uncertainty around future potential recovery. The Caa3(hyb) rating considers both an expected-loss rating approach for rating the hybrid instruments as well as the agency's LGF approach from NORD/LB's Adjusted BCA. The Caa3(hyb) rating balances Moody's view of very high expected losses associated with further coupon skips and additional write-downs with a still-possible upside related to a swift and successful turnaround of the bank resulting in a resumption of coupon payments and principle write-backs.

Moody's believes these instruments face very high risks, including the potential participation in local GAAP losses for financial years 2019 and beyond, which are burdened by restructuring charges and NORD/LB's possible decision to call back these instruments for reasons relating to their gradual de-recognition as regulatory capital. Moody's believes that NORD/LB's improved capitalization reduces the bank's dependence on these instruments as a supplement to regulatory capital.

WHAT COULD CHANGE THE RATINGS UP/DOWN

A rating upgrade for NORD/LB's and its rated subsidiaries' deposit and senior unsecured debt ratings, where applicable, depends on an upgrade of the banks' BCA.

A BCA upgrade will likely be prompted when NORD/LB successfully executes the planned measures under its transformation program until 2024, leading to (1) a significantly smaller and de-risked balance sheet, including the disposal of remaining loans relating to ship finance; (2) a maintained or even increased capitalization; and (3) a restored moderate level of profitability.

Moody's may downgrade NORD/LB's and its rated subsidiaries' ratings if (1) NORD/LB's BCA or Adjusted BCA are downgraded; or (2) a shift in NORD/LB's liability structure results in decreasing volumes of bail-in-able debt instruments, which increases the expected loss under the agency's Advanced LGF analysis.

NORD/LB's BCA could be downgraded if (1) the bank faces challenges in maintaining its franchise during the

extended phase of transformation; or (2) its capital significantly declines below the improved levels following the capital injection.

In addition, NORD/LB's non-cumulative preference shares could be upgraded if there is a resumption of coupon payments and principle write-backs. Conversely, the preference shares could be downgraded if redeemed at current book value.

LIST OF AFFECTED RATINGS

Issuer: Norddeutsche Landesbank GZ

..Upgrades:

-Long-term Counterparty Risk Ratings, upgraded to A3 from Baa2
-Long-term Bank Deposits, upgraded to A3 from Baa2, outlook changed to Stable from Ratings under Review
-Long-term Counterparty Risk Assessment, upgraded to A3(cr) from Baa2(cr)
-Long-term Issuer Rating, upgraded to A3 from Baa2, outlook changed to Stable from Ratings under Review
-Baseline Credit Assessment, upgraded to ba3 from b2
-Adjusted Baseline Credit Assessment, upgraded to ba1 from ba3
-Senior Unsecured Regular Bond/Debenture, upgraded to A3 from Baa2, outlook changed to Stable from Ratings under Review
-Senior Unsecured Medium-Term Note Program, upgraded to (P)A3 from (P)Baa2
-Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Ba1
-Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa2 from (P)Ba1
-Subordinate Regular Bond/Debenture, upgraded to Ba2 from B1
-Subordinate Medium-Term Note Program, upgraded to (P)Ba2 from (P)B1

..Affirmations:

-Short-term Counterparty Risk Ratings, affirmed P-2
-Short-term Bank Deposits, affirmed P-2
-Short-term Counterparty Risk Assessment, affirmed P-2(cr)
-Commercial Paper, affirmed P-2
-Other Short Term, affirmed (P)P-2

..Outlook Action:

-Outlook changed to Stable from Rating under Review

Issuer: Bremer Landesbank Kreditanstalt Oldenburg GZ

..Upgrades:

-Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Ba1

..Outlook Action:

-Outlook changed to Stable from Rating under Review

Issuer: Norddeutsche Landesbank GZ, New York Branch

..Upgrades:

...Long-term Counterparty Risk Ratings, upgraded to A3 from Baa2

...Long-term Counterparty Risk Assessment, upgraded to A3(cr) from Baa2(cr)

..Affirmations:

...Short-term Counterparty Risk Ratings, affirmed P-2

...Short-term Counterparty Risk Assessment, affirmed P-2(cr)

...Commercial Paper, affirmed P-2

..Outlook Action:

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

Issuer: Fuerstenberg Capital Erste GmbH

..Downgrade:

...Preferred Stock Non-cumulative, downgraded to Caa3(hyb) from Caa1(hyb)

..Outlook Action:

...Outlook changed to No Outlook from Ratings under Review

Issuer: Fuerstenberg Capital II GmbH

..Downgrade:

...Preferred Stock Non-cumulative, downgraded to Caa3(hyb) from Caa1(hyb)

..Outlook Action:

...Outlook changed to No Outlook from Ratings under Review

Issuer: Deutsche Hypothekenbank (Actien-Gesellschaft)

..Upgrades:

...Long-term Counterparty Risk Ratings, upgraded to A3 from Baa2

...Long-term Bank Deposits, upgraded to A3 from Baa2, outlook changed to Stable from Ratings under Review

...Long-term Counterparty Risk Assessment, upgraded to A3(cr) from Baa2(cr)

...Long-term Issuer Ratings, upgraded to A3 from Baa2, outlook changed to Stable from Ratings under Review

...Baseline Credit Assessment, upgraded to ba3 from b2

...Adjusted Baseline Credit Assessment, upgraded to ba1 from ba3

...Senior Unsecured Regular Bond/Debenture, upgraded to A3 from Baa2, outlook changed to Stable from Ratings under Review

...Senior Unsecured Medium-Term Note Program, upgraded to (P)A3 from (P)Baa2

...Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Ba1

...Subordinate Regular Bond/Debenture, upgraded to Ba2 from B1

...Subordinate Medium-Term Note Program, upgraded to (P)Ba2 from (P)B1

..Affirmations:

-Short-term Counterparty Risk Ratings, affirmed P-2
-Short-term Bank Deposits, affirmed P-2
-Short-term Counterparty Risk Assessment, affirmed P-2(cr)
-Short-term Issuer Ratings, affirmed P-2
-Other Short Term, affirmed (P)P-2

..Outlook Action:

-Outlook changed to Stable from Rating under Review

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

..Upgrades:

-Long-term Counterparty Risk Ratings, upgraded to A3 from Baa2
-Long-term Bank Deposits, upgraded to A3 from Baa2, outlook changed to Stable from Ratings under Review
-Long-term Counterparty Risk Assessment, upgraded to A3(cr) from Baa2(cr)
-Long-term Issuer Ratings, upgraded to A3 from Baa2, outlook changed to Stable from Ratings under Review
-Baseline Credit Assessment, upgraded to ba3 from b2
-Adjusted Baseline Credit Assessment, upgraded to ba1 from ba3
-Senior Unsecured Medium-Term Note Program, upgraded to (P)A3 from (P)Baa2

..Affirmations:

-Short-term Counterparty Risk Ratings, affirmed P-2
-Short-term Bank Deposits, affirmed P-2
-Short-term Counterparty Risk Assessment, affirmed P-2(cr)
-Short-term Issuer Ratings, affirmed P-2

..Outlook Action:

-Outlook changed to Stable from Rating under Review

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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