

Norddeutsche Landesbank
Girozentrale

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Moody's downgrades NORD/LB's rating to "Baa3"

On 30 June 2017 Moody's Investors Service concludes the "Review for Downgrade" open on 18 April 2017 and downgrades NORD/LB's long-term debt rating to "Baa3" from „Baa2”.

The outlook changes from „Review for Downgrade“ to „negative“. The reason for that was the deterioration of the Baseline Credit Assessment from von „b1“ to „b2“.

	NEW	Old
Long-term Senior Unsecured Debt, Issuer	Baa3 negative	Baa2*
Long-term Senior Senior Unsecured, Long-term Deposits	Baa2 negative	Baa1*
Short-term debt, Short-term deposits	P-2	P-2
BCA (Baseline Credit Assessment)	b2	b1
Adjusted BCA	ba3	ba2
Outlook	Negative	Review for Downgrade

* Includes "Rating under Review" resp. "Review for Downgrade"

The ratings of Deutsche Hypo, BremerLB and NORD/LB Luxembourg CBB were affected as well.

While NORD/LB made adequate progress in its de-risking programme, supported by a less adverse shipping market environment than in 2016 Moody's believes 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. Today's rating actions 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.

NORD/LB has already introduced a range of **measures** in order to reduce the ship portfolio, improve earnings and sustainably strengthen the capital ratio. These measures, which are already showing initial successes, are not yet reflected in the rating downgrade by Moody's. **We consider the rating actions inappropriate at this point in time.**

NORD/LB has announced that it is generating a **profit again for 2017**. It already achieved a profit in 1Q17. With earnings before taxes of € 255 million, NORD/LB is substantially closer to its target for the year. However, on account of one-time effects in the first three months, income for 1Q17 cannot be extrapolated to the year as a whole.

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With the retention of earnings for financial year 2017, **the bank's capital ratio will also rise again**. In addition, NORD/LB is to continue to reduce its risk-weighted assets, which will likewise contribute to the rise in the capital ratio. The objective for year-end 2017 is a core capital ratio (CET1) of 11.0 per cent. Currently (as at 31 March 2017) the ratio is at 10.5 per cent and therefore still clearly above the requirements placed on NORD/LB by the supervisory authorities (SREP ratio: 8.33 per cent).

NORD/LB is additionally working hard to reduce its **ship finance portfolio** and already has considerable successes to record in this context. After NORD/LB, with a portfolio of € 19 billion, declared its intention in April 2016 to reduce its ship finance portfolio to a target figure of € 12 to € 14 billion, by the end of March 2017 it was already able to realise a decrease by around € 3 billion to a portfolio of now € 15.9 billion. It is becoming apparent that the target range for the reduction will already be reached at the end of 2017, and hence a year sooner than originally planned.

Additionally, at the beginning of 2017 NORD/LB launched a Group-wide **transformation programme** – under the name **One Bank** – in order to make the Group sustainably profitable and thus strengthen the capital ratio. In the course of this programme, all Group structures and units will be put to the test. Through the complete integration of BremerLB into NORD/LB in particular, duplicate structures in the Group will be eliminated and an overlap-free business and operating model will be achieved. With the One Bank programme the bank intends to reduce its costs within the Group by up to € 200 million by the end of 2020. Associated with this is a staff reduction of up to 1,250 jobs.

NORD/LB is convinced that, with the One Bank programme, it is on the right path towards making the Group sustainably profitable and thus strengthening the capital ratio as well.