

**Rating Action: Moody's takes rating actions on 12 German Landesbanken**

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Global Credit Research - 16 Nov 2011

**Concludes review initiated on 1 July 2011**

Frankfurt am Main, November 16, 2011 -- Moody's Investors Service has today taken rating actions on the senior debt and deposit ratings of 12 German public-sector banks (primarily Landesbanken), closing the review that was initiated on 1 July 2011. The rating actions reflect Moody's assumption that there is now a lower likelihood that these banks would receive external support, if required.

The key drivers behind Moody's reduced support assumptions are

- (i) that future government (or systemic) support for German public-sector banks has become less certain, partly owing to the new bank resolution regime that enables the government to impose losses on creditors outside of liquidation; and
- (ii) the restrictions on the provision of support, due to strict conditions set by the European Commission (EC).

Even after today's downgrades, the senior ratings of Landesbanken continue to incorporate support assumptions that are very high because Landesbanken are ultimately government-owned, either directly or indirectly. Following the reassessment of support assumptions support uplift of two to five notches is now incorporated in the banks' long-term ratings (from a total of four to eight previously). The rating actions listed below are discussed in more detail in our Special Comment "Moody's Reduces Support Assumptions for German Landesbanken", published today.

Today's rating actions do not reflect changes in the standalone credit assessments of the 12 banks. Rating announcements pertaining to the standalone credit assessments of the banks were reported separately during the review period, as appropriate. Neither are today's rating actions linked to the evolving euro-area sovereign debt crisis. Moody's standalone credit assessments for German public-sector banks already reflect potential losses on exposures to stressed euro-area sovereigns, although the rating agency closely monitors the credit implications of the ongoing euro-area crisis for these banks.

Moody's had previously commented on the issue of weakening support in various publications, see "Assessing Post-Crisis Support for German Banks", 15 April 2010, "German Bank Restructuring Act Shapes Post-Crisis Regulation, But Is Negative for Debtholders", 6 December 2010, "German Landesbanken: Moody's to Reassess Support Assumptions", 10 May 2011, "Moody's reviews ratings of German Landesbanken", 1 July 2011.

In summary, Moody's has:

- Confirmed the ratings of one bank, Landesbank Berlin AG (LBB, at the A1 level);
- Downgraded by one notch the rating for one bank, DekaBank Deutsche Girozentrale (DekaBank, to Aa3 from Aa2);
- Downgraded by two notches the ratings for three banks, Landesbank Hessen-Thüringen GZ (Helaba, to A1 from Aa2), Landesbank Saar (SaarLB, to A3 from A1) and HSH Nordbank AG (HSH, to Baa2 from A3);
- Downgraded by three notches the ratings for six banks, Bayerische Landesbank (BayernLB, to Baa1 from A1), Deutsche Hypothekenbank AG (Deutsche Hypo, to Baa1 from A1), Landesbank Baden-Württemberg (LBBW, to A2 from Aa2), Norddeutsche Landesbank GZ (NORD/LB, to A2 from Aa2), Norddeutsche Landesbank Luxembourg S.A. (NLBL, to A3 from Aa3) and Bremer Landesbank Kreditanstalt Oldenburg GZ (BremerLB, to A2 from Aa2);
- Extended the review, direction uncertain, of the ratings of one bank, WestLB AG (WestLB, at the A3 level).

Moody's has also downgraded to Prime-2 the ratings for six banks, namely BayernLB, Deutsche Hypo, HSH, NLBL, SaarLB, and WestLB. The Prime-1 short-term ratings of the other banks were unaffected. The agency also downgraded selected subordinated debt and hybrid instruments as listed in the separate attachment.

A detailed summary of the rating actions and the current levels of support for the Landesbanken is available here:

[http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_137453](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_137453)

**RATINGS RATIONALE**

- Reduced political will to support future bank bailouts:

Government (or systemic) support for German public-sector banks has become less certain, partly owing to the new bank resolution regime that enables the government to impose losses on creditors outside of liquidation. Support factored into the ratings of German banks rose to exceptionally high levels during the prolonged period of market disruption, consistent with the extraordinary actions taken by authorities to support banks. With authorities now taking steps that reduce the probability, predictability and likely extent of future support, Moody's has removed some of this extraordinary support, which it always considered temporary.

- Restrictions to support due to strict EC conditions:

The European Commission, whose approval for some forms of support is required under EU state aid regulations, has set strict conditions that constrain the ability of governments (including regional and local governments) to support banks. This has become an obstacle for some Landesbanken to obtain support, particularly for those banks that required support more than once.

- LANDESBANKEN SENIOR RATINGS STILL INCORPORATE SUPPORT ASSUMPTIONS THAT ARE VERY HIGH

Moody's view that German public-sector banks continue to benefit from a very high probability of external support is driven by two important factors:

(i) Systemic importance of German public-sector banks: The Landesbanken, their subsidiaries and DekaBank belong to the broader public-sector banking group, which accounts for more than one third of total lending and deposits in the German system; the public-sector banks are thus a cornerstone of Germany's financial system and its economy.

(ii) Direct and indirect government influence: Ownership and control of German public-sector banks relates ultimately to government entities. The government's influence underpins a high probability of support.

The long-term debt ratings for 11 of the banks affected by today's actions are now positioned two to five notches above their standalone credit assessments (except for WestLB's ratings, which benefit from eight notches of support-driven uplift, but remain under review, direction uncertain).

#### -- LOWER SUPPORT ASSUMPTIONS: TWO GROUPS OF LANDESBANKEN

During the crisis, support providers did not act alone, but rather "in concert". Support was generally coordinated among savings banks, German federal states and, in some cases, the central government. The actual burden sharing of individual support packages was subject to internal, multilateral negotiations. Previously it was assumed that support would be offered largely independently by the multiple sources of support available to Landesbanken, namely parental, cooperative, regional and local government (RLG), and systemic support. To reflect this change, going forward, Moody's analyses external support for German Landesbanken in a unified way, rather than sequentially.

The revised approach to assessing external support for Landesbanken is consistent with Moody's joint default analysis (JDA) and has not affected the outcome of the ratings review. Broadly speaking, the Landesbanken fall into two groups.

(i) Landesbanken likely to benefit directly from multiple support sources:

Most Landesbanken groups will likely receive support directly from multiple sources, if needed. The group includes Helaba (long-term rating A1, standalone credit assessment C-/Baa2, support-driven rating uplift four notches), LBBW (A2, D+/Baa3, support-driven rating uplift four notches), NORD/LB (A2, D+/Baa3, support-driven rating uplift four notches), SaarLB (A3, D/Ba2, support-driven rating uplift five notches), BayernLB (Baa1, D-/Ba3, support-driven rating uplift five notches), HSH (Baa2, E+/B1, support-driven rating uplift five notches) and WestLB (A3, E+/B2, ratings under review -- direction uncertain, support-driven rating uplift eight notches).

(ii) Landesbanken likely to benefit indirectly from multiple support sources, through the owners:

This smaller group, which comprises the banks wholly-owned by savings banks (LBB and DekaBank) and the rated NORD/LB subsidiaries, also benefits from multiple support sources. Moody's expects that cooperative, RLG and systemic support would be provided primarily through their owners, indirectly benefiting the entities in this group.

The group includes DekaBank (long-term rating Aa3, standalone credit assessment C/A3, three notches of support uplift), LBB (A1, D+/Baa3, support-driven rating uplift five notches), BremerLB (A2, C-/Baa1, support-driven rating uplift two notches), NLBL (A3, D+/Baa3, support-driven rating uplift three notches) and Deutsche Hypo (Baa1, D/Ba2, support-driven rating uplift four notches).

#### -- FOCUS OF THE EXTENDED REVIEW FOR WestLB

WestLB (A3, E+/B2, support-driven rating uplift eight notches) is an exception, as its ratings remain on review, direction uncertain. The bank's evolving break-up and planned unwinding may entail the sale of divisions to third parties and / or transfer into a yet to be established servicer bank (Verbundbank) for savings banks before remaining assets and liabilities are transferred to the bank's dedicated wind-down vehicle, EAA Erste Abwicklungsanstalt (rated Aa1 stable). The extended review will focus on (i) the outcome of the EC's pending state-aid ruling; and (ii) further clarity on the breakup and distribution of existing liabilities. The agency notes that the transition risk for WestLB's ratings, in either direction, remains high.

#### RATING RATIONALE FOR SHORT TERM RATINGS AND SUBORDINATED DEBT

The downgrades of the short-term ratings for six banks from Prime-1 to Prime-2 follow Moody's approach of positioning the short-term ratings for banks with long-term debt ratings of A3 or lower outside of Prime-1, whenever these long-term ratings strongly rely on support-driven uplift (rather than a banks' standalone credit profile).

In line with Moody's hybrid bank rating methodology, the ratings for subordinated instruments of Landesbanken are based on their adjusted baseline credit assessments, which in most cases incorporate two notches of support. The outlooks assigned to subordinated debt and hybrid ratings that are notched off the adjusted baseline credit assessment follow the outlooks on the respective standalone credit assessments.

#### WHAT COULD CHANGE THE RATINGS

All of the ratings are subject to changes of these banks' standalone financial strength ratings. Debt ratings that continue to benefit from very high support remain sensitive to any further changes in Moody's support assumptions. Please refer to [www.moody.com](http://www.moody.com) for a more detailed discussion of each institution's credit profile.

#### PRINCIPAL METHODOLOGIES

The methodologies used in these rating actions were Bank Financial Strength Ratings: Global Methodology published in February 2007, Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007, and Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt published in November 2009. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

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