

**Announcement: Moody's reviews ratings of German Landesbanken**

---

**Global Credit Research - 01 Jul 2011**

Frankfurt am Main, July 01, 2011 -- Moody's Investors Service has today initiated, or continued, reviews for downgrade on 12 German banks to reflect (i) its concerns that the relatively high systemic support assumptions factored into the long-term debt ratings of Germany's public-sector banks may be challenged in the context of weakening political will to support bank bail outs; and (ii) to a lesser extent, Moody's observation that some of Germany's savings banks have been reluctant to support their larger Landesbanken, which in turn exerts pressure on current cooperative support assumptions:

- The senior debt and deposit ratings of 10 public-sector banks and the Prime-1 short-term ratings of four of those banks were placed on review for downgrade.
- The senior debt and deposit ratings of WestLB were placed on review direction uncertain.
- The review for possible downgrade of the senior debt and deposit ratings of Bayerische Landesbank (BayernLB), initiated on 25 March 2011, was continued.
- Additionally, the senior subordinated debt ratings of seven of the banks and the hybrid security ratings of three of the banks were placed on review for downgrade. In one case, the senior subordinated debt rating was placed on review for upgrade and for one bank the senior subordinated debt rating was affirmed.

Looked at together, systemic, cooperative and regional government support assumptions factored into long-term debt ratings currently result in a high six notches of rating uplift (on average) from the standalone financial strength ratings of German Landesbanken. The rating agency expects that in most cases the long-term debt ratings could be lowered by one or two notches; three-notch downgrades are less likely.

The group of 12 banks affected by today's rating reviews comprises all of the nine German Landesbanken, two subsidiaries of Norddeutsche Landesbank Girozentrale (NORD/LB) and DekaBank Deutsche Girozentrale (DekaBank). The review for downgrade of the Prime-1 short-term ratings affects BayernLB, HSH Nordbank (HSH), Landesbank Saar (SaarLB) and WestLB, and is driven by the possibility that these banks' long-term senior debt and deposit ratings might be downgraded to or below the A3 level. Accordingly, the revised ratings might become more compatible with Prime-2 rather than Prime-1 ratings. At the same time, the rating agency affirmed the Prime-1 short-term ratings of the other eight banks that are subject to the review.

This press release follows Moody's special comment on 10 May ("German Landesbanken: Moody's to Reassess Support Assumptions") detailing its intention to reassess the support assumptions for Landesbanken and the 24 March announcement of a broader reassessment of the systemic support assumptions for smaller European financial institutions.

A detailed list of the banks and ratings affected by this review is included further below. The ratings of grandfathered debt and ratings backed by the Federal Republic of Germany (Aaa stable) remain unaffected by this rating announcement.

**RATINGS RATIONALE**

"The relatively high systemic support assumptions factored into the long-term debt ratings of Germany's public-sector banks are increasingly challenged by the weakening political will to support bank bail outs," says Katharina Barten, a Moody's Vice President and Senior Credit Officer. The rating agency is also concerned that continued difficulties of several Landesbanken to obtain approval from the European Commission (EC) for state aid raises questions about the likelihood of the viability of future support.

In addition to a reassessment of systemic support, this review will incorporate a reassessment of the probabilities for cooperative and regional government support that also benefits these banks' long-term debt ratings. The rating agency has observed in several recent cases reluctance of Germany's savings banks to support their larger Landesbanken which raises questions about our current cooperative support assumptions. Taken together, support assumptions factored into long-term debt ratings result in a high six notches of rating uplift (on average) from the standalone financial strength ratings.

For the reassessment of future systemic support, Moody's will factor in (i) a bank's size and interconnectedness; (ii) its franchise value and viability of the business model and, in that context, (iii) its assessment of the likelihood of a bank receiving approval for state aid from the EC. For the reassessment of cooperative support, Moody's will take into account the track record of support from regional savings banks and the materiality of the ownership stakes of the savings banks in the respective Landesbanken. In Moody's view, mainly those banks that are fully owned by the Sparkassen-Finanzgruppe ("S-Finanzgruppe", C+/A2 stable, Aa2 stable) will continue to benefit from a very high probability of cooperative support. Moody's considers that the willingness of regional governments to support their Landesbanken is less questionable; however, some federal states might face rising pressure to pursue a focused path of austerity. In these cases, those regional governments' support capacities may be limited and Moody's may therefore revise the respective current support assumptions.

**BANKS AFFECTED**

**(i) BANKS THAT REQUIRED SUPPORT -- under more rating pressure than others**

For the four Landesbanken that needed support during the crisis (BayernLB, HSH, Landesbank Baden-Wuerttemberg (LBBW) and WestLB), Moody's takes the view that -- partly because they have been supported once -- these banks would face major obstacles from the European Commission (EC), if they once more require approval for (renewed) state aid. The difficulty of the three pending state-aid cases passing the Commission's stringent requirements plays an increasing role in how the agency assesses future systemic and regional government support. For these four banks, the level of cooperative support that can be expected in the future will also be subject to a reassessment, which may have an impact on the final rating outcome.

As a result of these considerations, the ratings of this group of banks will likely be subject to a more far-reaching revision of support probabilities, which may result in downgrades of more than one notch. That said, downgrades by more than two notches (if any) will be the exception.

It should be noted that the review of WestLB's long-term debt ratings, for which the direction of the review is uncertain, is unique in so far as Moody's will take into account (i) the limited lifetime of the bank (since it is being unwound); and (ii) the potential that senior debt holders may benefit from credit enhancement. As announced by the bank on 24 June 2011, this may be achieved through a transfer of some of WestLB's assets and liabilities into either a newly created bank, or the asset unwinding vehicle, EAA Erste Abwicklungsanstalt (Aa1, stable). The transition risk for WestLB's ratings, in either direction, remains high.

(ii) SMALLER INSTITUTIONS -- less systemically important, therefore under high rating pressure

Moody's considers the smaller institutions in the group of public-sector banks -- such as BremerLB, Deutsche Hypothekbank AG, NordLB Lux and SaarLB -- to be less systemically important than others. Although they would likely still receive support from their public-sector owners and/or from their parent bank (as applicable), Moody's considers the probability of them receiving systemic support to be less likely. In some cases, the austerity pressure faced by the respective stake-holding federal states may also limit the regional government support that can be expected, going forward.

As a result of these considerations, this group of banks is subject to revisions to support probabilities that may result in downgrades of more than one notch. Downgrades by more than two notches are less likely.

(iii) LARGER BANKS THAT DID NOT REQUIRE SUPPORT -- facing less rating pressure

The larger banks that did not require outside assistance during the crisis -- DekaBank, Helaba, LB Berlin and Nord/LB -- are somewhat more robust and, at the same time, appear to be more reliably supported than others by their public-sector owners. Additionally, Moody's considers these four banks to be more firmly embedded in the S-Finanzgruppe than several other members.

That said, Moody's takes the view that weakening systemic support affects all German public-sector banks and the review will therefore focus on the likelihood of systemic support for these four banks. As a result, this group faces less rating pressure than other Landesbanken, and downgrades exceeding one notch are therefore less likely.

#### STANDALONE FINANCIAL STRENGTH RATINGS

#### STANDALONE FINANCIAL STRENGTH RATINGS

During the review period, Moody's plans to revisit those standalone financial strength ratings that carry a negative outlook or, in one case, a developing outlook. The banks affected are HSH (A3 negative, E+/B1 developing), LBBW (Aa2 negative, C-/Baa2 negative), NORD/LB (Aa2 negative, C-/Baa1 negative), Deutsche Hypothekbank AG (A1 negative, D+/Ba1 negative), and BremerLB (Aa2 negative, C/A3 negative). Any repositioning or affirmation of these ratings may be communicated during the review process.

#### LIST OF AFFECTED BANKS AND RATINGS

##### Bayerische Landesbank

- A1 senior debt, deposit and issuer ratings: review for downgrade initiated on 25 March 2011 extended
- Prime-1 short-term rating: on review for downgrade
- Baa3 senior subordinated debt rating: on review for downgrade
- Caa1(hyb)/Caa2(hyb) hybrid ratings: unaffected

##### Bremer Landesbank Kreditanstalt Oldenburg GZ

- Aa2 senior debt, deposit and issuer ratings: on review for downgrade
- Prime-1 short-term rating: affirmed
- A3 senior subordinated debt rating: on review for downgrade

##### DekaBank Deutsche Girozentrale

- Aa2 senior debt and deposit ratings: on review for downgrade
- Prime-1 short-term rating: affirmed
- A3 senior subordinated debt rating: affirmed

##### Deutsche Hypothekbank AG

- A1 senior debt and deposit ratings: on review for downgrade
- Prime-1 short-term rating: affirmed
- Baa1 senior subordinated debt rating: on review for downgrade
- Baa3(hyb) hybrid rating: on review for downgrade

##### HSH Nordbank

- A3 senior debt, deposit and issuer ratings: on review for downgrade
- Prime-1 short-term rating: on review for downgrade
- Ba3 senior subordinated debt rating: on review for downgrade
- Caa1(hyb) hybrid rating: unaffected

Landesbank Baden-Wuerttemberg

- Aa2 senior debt and deposit ratings: on review for downgrade
- Prime-1 short-term rating: affirmed
- Baa1 senior subordinated debt rating: on review for downgrade
- Caa1(hyb) hybrid rating: unaffected

Landesbank Berlin AG

- A1 senior debt, deposit and issuer ratings: on review for downgrade
- Prime-1 short-term rating: affirmed
- Baa2 senior subordinated debt rating: on review for upgrade

Landesbank Hessen-Thuringen GZ

- Aa2 senior debt, deposit and issuer ratings: on review for downgrade
- Prime-1 short-term rating: affirmed
- Baa1 senior subordinated debt rating: on review for downgrade
- Baa2(hyb)/Ba1(hyb) ratings for Upper Tier 2/ Tier 1 hybrid instruments: on review for downgrade

Landesbank Saar

- A1 senior debt and deposit ratings: on review for downgrade
- Prime-1 short-term rating: on review for downgrade

Norddeutsche Landesbank Girozentrale

- Aa2 senior debt, deposit and issuer ratings: on review for downgrade
- Prime-1 short-term rating: affirmed
- A3 senior subordinated debt rating: on review for downgrade
- Baa2(hyb) rating for Tier 1 hybrid instruments: on review for downgrade

Norddeutsche Landesbank Luxembourg S.A.

- Aa3 senior debt and deposit ratings: on review for downgrade
- Prime-1 short-term rating: affirmed

WestLB

- A3 senior debt and deposit ratings: on review, direction uncertain
- Prime-1 short-term rating: on review for downgrade
- B3(hyb)/Caa1(hyb) ratings for Upper Tier 2/ Tier 1 hybrid instruments: unaffected

For a detailed list of ratings affected see below link

[http://www.moodys.com/viewresearchdoc.aspx?docid=PBS\\_SF254200](http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF254200)

PREVIOUS RATING ACTIONS AND PRINCIPAL METHODOLOGIES

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The principal methodologies used were "Bank Financial Strength Ratings: Global Methodology" published in February 2007, and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", published in March 2007.

Frankfurt am Main  
Katharina Barten  
VP - Senior Credit Officer  
Financial Institutions Group

Moody's Deutschland GmbH  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Frankfurt am Main  
Carola Schuler  
MD - Banking  
Financial Institutions Group  
Moody's Deutschland GmbH  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Moody's Deutschland GmbH  
An der Welle 5  
Frankfurt am Main 60322  
Germany  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454



© 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS

and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.