Moody’s bulk rating action on German Landesbanken
16 November 2011

Moody’s Investors Service is currently re-evaluating the support factors integrated into the ratings of banks on a world-wide basis. In the last several months this exercise resulted in downgrades of American, British, French, Italian and Danish banks. All in all, more than one hundred European banks have been downgraded since the beginning of this year, and no upgrades have been reported. In July, Moody’s placed all German Landesbanks on “Review for downgrade”. Today’s rating action concluded this review.

According to Moody’s the main reason for the rating changes is the assumption of a decreasing capability and political willingness of the public sector to support banks in the event of a future crisis. This change in methodology now limits the support uplift from eight notches previously to a maximum of five notches today.

Prior to this review, Moody’s examined the Financial Strength Ratings (BFSR / Stand Alone Rating) of the German banking system. The BFSRs are a vital part of the Issuer Default Rating. On October 14, 2011 the Financial Strength Rating of HSH Nordbank was confirmed by Moody’s with a stable outlook.

In our opinion, the decision not to improve our stand alone rating does not ascribe sufficient value to the considerable progress the Bank has made in stabilizing and implementing a sustainable business model. Recently the EU Commission thoroughly vetted the bank’s business model and officially approved its viability.

With today’s rating action, Moody’s downgraded the Issuer Default Ratings (IDR) of eleven Landesbanks. By reducing the support uplift, the IDR of HSH Nordbank has been reduced from A- to Baa2. The Outlook was set to “stable”. Due to Moody’s rating methodology the short-term rating automatically follows the IDR downgrade and has been notched down from
Prime-1 to Prime-2. With these ratings, HSH Nordbank remains in investment grade territory.

We expect only a moderate impact on the Bank’s funding costs from the rating changes. In the course of HSH Nordbank’s strategic realignment, the bank has established a robust funding structure that makes the bank significantly less reliant on volatile international money and capital markets. The expansion of deposits taken from our large and stable client base as well as focusing on funding in the deep and diversified German market, in particular on the savings banks sector, has paid off well.