

Rating Action: Moody's assigns first-time Baa2 deposit and issuer ratings to Oldenburgische Landesbank AG; outlook stable

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Frankfurt am Main, October 02, 2019 -- Moody's Investors Service ("Moody's") has today assigned first-time Baa2 long-term deposit and issuer ratings as well as Baa1 long-term Counterparty Risk Ratings (CRRs) to Oldenburgische Landesbank AG (OLB). Concurrently, the rating agency assigned a baa3 Baseline Credit Assessment (BCA) and Adjusted BCA and an A3(cr) long-term Counterparty Risk Assessment (CR Assessment) to OLB. Further, Moody's assigned P-2 short-term deposit ratings, issuer ratings and CRRs as well as a P-2(cr) short-term CR Assessment to the bank. The outlook on OLB's long-term deposit and issuer ratings is stable.

A full list of assigned ratings and rating inputs can be found at the end of this press release.

RATINGS RATIONALE

-- BASELINE CREDIT ASSESSMENT

In assigning a BCA of baa3 to OLB, Moody's reflects the bank's sound financial fundamentals underpinned by its strong access to retail deposit funding and by its solid capitalisation. At the same time, the baa3 BCA incorporates Moody's expectation that OLB will continue to tightly manage liquidity safety buffers while the bank restructures its retail operations and increases the role of specialised lending portfolios, which will raise OLB's exposure to asset concentration risks.

Moody's assessment of OLB's standalone creditworthiness reflects the successful combination of several banks under OLB's brand, including a refocusing of its business activities on retail banking, small and medium-sized enterprise (SME) and corporate lending as well as on specialised lending activities.

Headquartered in Oldenburg, in north-western Germany, OLB emerged from several meaningful acquisitions. The combined entity is run by an aligned and shareholder-driven management group focused on raising its profitability. OLB's largest segment by assets and revenues is at present its retail & business customers operation supported by a regional branch network with a leading market share in its home region. Following the merger with former Bremer Kreditbank AG (BKB) in 2018, OLB's traditional operations that also include its role as a leading regional lender to small and medium-sized enterprises (SME) have been complemented by BKB's corporate and SME lending at a national niche scale, as well as by specialised lending activities which are focused on acquisition finance and commercial real estate lending, but which also include the group's reduced shipping finance business.

As a predominantly deposit-funded bank with a limited need to source additional market funds, OLB will in the opinion of Moody's be confronted with a continued pressure on lending rates amid a highly accommodative monetary policy framework in the euro area. At the same time, the rating agency expects the bank to continue its policy of a tight management of liquid resources, and of broadening diversification of funding sources, while maintaining its core capital ratio as measured by the rating agency's Tangible Common Equity ratio in excess of 12%.

Moody's expects that going forward, OLB will seek to improve the efficiency of its geographically concentrated retail banking operations while at the same time raising the revenue contribution of its specialised lending activities. While these will dilute moderately the bank's exposure to the economic development of its home region, its growing specialised lending activities will expose the bank to a larger extent to cyclical risks as well as to asset concentration risks, which will carry potential tail risks in an adverse economic scenario and constrain OLB's baa3 BCA.

Conversely, OLB's growth plans outside of its regional retail and SME banking areas may slow down in the advanced stage of the benign German credit cycle due to a scarcity of lending opportunities that offer a sound risk-return profile. In this case, the bank's ability to improve the efficiency of OLB's traditional operations will be of increased relevance for the bank to achieve its overall profitability aspirations in light of the net interest margin pressure confronted by deposit-funded institutions. Moody's does not have any particular governance

concern for OLB, and does not apply any corporate behaviour adjustment to the bank. OLB shows an appropriate risk management framework commensurate with its risk appetite.

-- LONG-TERM DEPOSIT, ISSUER AND COUNTERPARTY RISK RATINGS

OLB's Baa2 deposit and issuer ratings as well as its Baa1 CRRs reflect the bank's baa3 BCA and Adjusted BCA and the outcome of Moody's Advanced Loss Given Failure (LGF) analysis.

OLB is subject to the EU Bank Recovery and Resolution Directive, which Moody's considers an operational resolution regime. The LGF analysis takes into account the severity of losses faced by the different liability classes in resolution and results in one notch of rating uplift for the bank's long-term deposit and issuer ratings from the bank's Adjusted BCA. The one notch rating uplift reflects the rating agency's assessment that the outstanding volumes of lower-ranking liabilities, in particular the remaining volumes of statutorily subordinated senior unsecured promissory notes, lead to a low loss-given-failure of junior deposits and senior unsecured liabilities in case of failure. For OLB's long-term CRRs, the rating agency expects a potential loss-given-failure to be very low, resulting in two notches of rating uplift.

Moody's does not apply rating uplift from support potentially being provided by the Government of Germany (Aaa Stable) because of OLB's marginal importance for the German banking system.

-- RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation of a stable development in the key financial ratios and the credit profile of OLB over the next 12-18 months.

WHAT COULD CHANGE THE RATINGS UP/DOWN

An upgrade of OLB's ratings could be prompted by: 1) a higher BCA and Adjusted BCA; and/or 2) a change in OLB's liability structure that could prompt a better result from Moody's Advanced LGF analysis, for example through the issuance of large volumes of senior (or junior-senior) unsecured bonds.

An upgrade of OLB's baa3 BCA could be prompted by the establishment of a sustained track record of achieving its financial targets, including strong profitability, which would be reflecting progress in the formation of a universal banking group in combination with the resulting strengthening of the bank's solvency profile through a sizeable retention of profits to achieve a meaningfully higher capitalisation.

A downgrade of OLB's issuer and deposit ratings could be prompted by: 1) a BCA downgrade; or 2) a weaker result from Moody's Advanced LGF analysis as a result of a declining layer of instruments designed to absorb losses in the case of failure.

OLB's BCA could be downgraded as a result of rising asset risk, in particular in the case of a more pronounced shift in its asset composition towards higher-margin special lending than what Moody's currently anticipates; or a sustained decline in its capital ratios below OLB's management's current ambition levels, for example because of unexpectedly high RWA growth or M&A activity; or significantly weakening financial results.

LIST OF AFFECTED RATINGS

Issuer: Oldenburgische Landesbank AG

Assignments:

....LT Bank Deposits (Local & Foreign Currency), Assigned Baa2, Outlook assigned Stable

....ST Bank Deposits (Local & Foreign Currency), Assigned P-2

....LT Issuer Rating (Local & Foreign Currency), Assigned Baa2, Outlook assigned Stable

....ST Issuer Rating (Local & Foreign Currency), Assigned P-2

....Adjusted Baseline Credit Assessment, Assigned baa3

....Baseline Credit Assessment, Assigned baa3

...LT Counterparty Risk Ratings (Local & Foreign Currency), Assigned Baa1

...ST Counterparty Risk Ratings (Local & Foreign Currency), Assigned P-2

...LT Counterparty Risk Assessment, Assigned A3(cr)

...ST Counterparty Risk Assessment, Assigned P-2(cr)

Outlook Action:

...Outlook, assigned Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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