

RATING ACTION COMMENTARY

Fitch Upgrades NORD/LB's Viability Rating to 'bb+'; Affirms IDR at 'A-/Stable

Fri 02 Feb, 2024 - 06:43 ET

Fitch Ratings - Frankfurt am Main - 02 Feb 2024: Fitch Ratings has upgraded Norddeutsche Landesbank Girozentrale's (NORD/LB) Viability Rating (VR) to 'bb+' from 'bb', while affirming its Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook. A full list of rating actions is below.

The upgrade of the VR primarily reflects NORD/LB's stabilising business profile and improving performance, as a result of significant progress in its restructuring. Fitch expects that earnings should now remain broadly stable with an operating profit at above 0.3% of risk-weighted assets (RWAs) through the cycle.

The improved business profile reflects continuing execution of its strategic targets, demonstrating NORD/LB's potential to generate sufficient profitable new business and sustainable growth after years of deleveraging, while maintaining its risk appetite. We also believe that the bank will maintain its capital ratios at current levels to provide a substantial cushion against risks stemming from the recession in Germany.

KEY RATING DRIVERS

Owners' Support Drives IDRs: NORD/LB's IDRs are driven by its Shareholder Support Rating (SSR), which reflects a strong likelihood of support from the bank's owners, Germany's savings banks group Sparkassen-Finanzgruppe (Sparkassen) (SFG; A+/Stable) and the federal states of Lower Saxony and Saxony-Anhalt (both AAA/Stable).

Fitch uses SFG's Long-Term IDR as the anchor rating for determining NORD/LB's support-driven ratings, as it believes support would need to be forthcoming from both SFG and its federal states owners to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if NORD/LB fails. The Stable Outlook on NORD/LB's Long-Term IDR reflects that of SFG. We notch NORD/LB's SSR down twice from SFG's 'A+' IDR to reflect regulatory restrictions on support, due to the

requirement for state-aid examination under EU competition rules. The two-notch difference also reflects NORD/LB's strategic, but not key and integral, role for its owners.

Fitch believes the federal states of Lower Saxony and Saxony-Anhalt will participate in support measures for the bank, but NORD/LB's SSR does not factor in support from the states as it is based on the lowest of the owners' ratings, i.e., that of SFG.

Wholesale-Oriented Business Profile: The VR reflects the bank's largely wholesale-driven business profile and only modest profitability compared with domestic peers'. The bank's transformation programme is almost completed, and Fitch expects the bank to build a record of sustainable profitable business generation. The bank also has good asset quality, adequate capitalisation and access to savings banks' excess liquidity.

NORD/LB's VR is one notch below the implied 'bbb-' rating due to the bank's only recently stabilising business profile and franchise, which has a high impact on our view of the bank's credit profile.

Concentration Constrains Risk Profile: The bank's risk appetite is in line with Landesbanken peers' and limited by its owners' close scrutiny. NORD/LB's focus on wholesale banking leads to sector concentrations, in particular in commercial real estate. The latter benefits from conservative underwriting standards and good collateralisation.

Resilient Asset Quality: We expect NORD/LB's impaired loans ratio to deteriorate modestly in 2024 as a result of the economic downturn, high interest rates and inflation, but for it to remain below 2% in the medium term. The bank's risk concentrations, including to the energy sector, constrain our asset-quality assessment.

Stabilising Profitability: We expect NORD/LB's operating profit to remain in the next two years at above 0.3% of RWAs. In the coming quarters, profitability could temporarily fall below this level as a challenging operating environment in Germany could weaken loan demand and lead to higher loan impairment charges (LICs).

Impaired loans and Stage 2 exposures are adequately covered by loan loss allowances including management's adjustments, which mitigate the impact of the economic downturn on the bank's earnings. Intense competition in most business segments structurally limits NORD/LB's pricing power and weighs on its profitability.

Adequate Capitalisation: We expect NORD/LB's common equity Tier 1 (CET1; 14.8% at end-3Q23) capital ratio to remain comfortably above its regulatory requirement of

9.6%. The bank benefitted from capital injections from Lower Saxony during its restructuring and low dividend pay-out expectations from its owners. Its weak organic capital generation, in combination with expected business-driven RWA inflation, constrains our assessment.

IPS Membership Underpins Funding: NORD/LB's predominantly wholesale funding benefits from its membership of SFG's institutional protection scheme (IPS). Its liquidity position is underpinned by a large portfolio of cash and liquid securities and should remain sound despite increased competition for deposits.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of SFG's IDRs, or an adverse change in the ownership structure or in SFG's strategic commitment to the bank, could lead to a downgrade. The ratings could also be downgraded if failed execution of the business plan threatens NORD/LB's viability, in which case an orderly wind-down under sponsorship by the owners is a credible scenario. Given the bank's significant progress in its restructuring, we view this as rather unlikely in the near-to-medium term. We believe support from SFG's IPS would qualify as an alternative private-sector measure, capable of preventing resolution under German law.

The VR would likely be downgraded if we expect the bank's impaired loans ratio to rise to and remain above 3%, if the CET1 ratio falls durably below 12% or if NORD/LB becomes loss-making on a sustained basis without clear recovery prospects.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of NORD/LB's IDRs would require an upgrade of SFG's ratings.

An upgrade of the VR would require evidence that the bank further strengthens its business profile, reflected in the generation of sufficient and adequately priced new business without relaxing its risk standards post-restructuring.

An upgrade would also require asset quality to remain resilient and to be broadly in line with peers' over the next one to two years, with its impaired loan ratio remaining below 2%. An upgrade of the VR would also be contingent on NORD/LB to maintain a CET1 ratio above 13.5% and its operating profit/RWAs to rise towards 0.5%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

NORD/LB's Short-Term IDR is the higher of two options mapping to an 'A-' Long-Term IDR on Fitch's rating scale, because propensity to support by its institutional owners is likely to be more certain in the near term and the bank shares strong links with SFG and has privileged access to SFG's ample liquidity and funding resources.

NORD/LB's senior non-preferred debt is rated in line with its Long-Term IDR. Its Derivative Counterparty Rating, long-term senior preferred debt and long-term deposit ratings are one notch above its Long-Term IDR, to reflect the protection that could accrue to them from junior resolution debt buffers.

NORD/LB's short-term senior preferred debt and deposit ratings are the lower of two options mapping to a long-term rating of 'A'. This is because we believe that, despite the owners' very high propensity to provide support to NORD/LB, we see impediments to the prompt flow of funds given the lengthy process required to support a Landesbank, which are not commensurate with an 'F1+' short-term rating.

NORD/LB's non-guaranteed Tier 2 subordinated bond rating is notched down twice from the VR to reflect loss severity, in line with Fitch's baseline approach. Its upgrade to 'BB-' mirrors the upgrade of NORD/LB's VR.

The ratings of NORD/LB's grandfathered state-guaranteed subordinated notes are equalised with the Long-Term IDRs of their guarantors, Lower Saxony and Saxony-Anhalt. This reflects our opinion that both states' ability and propensity to honour their guarantees are very strong.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

A change in NORD/LB's short-term ratings would require a change in NORD/LB's Long-Term IDR of more than one notch.

NORD/LB's DCR, senior non-preferred and senior preferred debt and deposit ratings are sensitive to a change in the bank's IDRs. We could also downgrade these ratings if we expect the sum of junior and senior non-preferred debt to decrease, in particular, if the buffer is likely to fall and remain below 10% of its RWAs on a sustained basis.

NORD/LB's non-guaranteed Tier 2 subordinated bond rating is sensitive to a change in the VR.

We would downgrade the ratings of NORD/LB's grandfathered state-guaranteed Tier 2 notes if Lower Saxony's and Saxony-Anhalt's ratings are downgraded.

VR ADJUSTMENTS

The business profile score of 'bb+' is below the 'bbb' implied-category score due to the following adjustment reason: business model (negative).

The asset quality score of 'bbb' is below the 'a' implied-category score due to the following adjustment reason: concentrations (negative).

The capitalisation and leverage score of 'bbb' is below the 'a' implied-category score due to the following adjustment reason: internal capital generation and growth (negative).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

NORD/LB's ratings are driven by potential support from SFG.

NORD/LB's grandfathered state-guaranteed Tier 2 subordinated notes are linked to Fitch's assessment of Lower Saxony's and Saxony-Anhalt 's creditworthiness and, by extension, to Germany's ratings.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ◆	RATING ◆	PRIOR ◆
Norddeutsche Landesbank Girozentrale	LT IDR A- Rating Outlook Stable	A- Rating Outlook Stable
	Affirmed	

	ST IDR	F1	Affirmed	F1
	Viability	bb+	Upgrade	bb
	DCR	A(dcr)	Affirmed	A(dcr)
	Shareholder Support	a-	Affirmed	a-
subordinated	LT	AAA	Affirmed	AAA
Senior non-preferred	LT	A-	Affirmed	A-
subordinated	LT	BB-	Upgrade	B+
long-term deposits	LT	A	Affirmed	A
Senior preferred	LT	A	Affirmed	A

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Markus Glabach

Director

Primary Rating Analyst

+49 69 768076 195

markus.glabach@fitchratings.com

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Justus Roppertz

Senior Analyst

Secondary Rating Analyst

+49 69 768076 232

justus.roppertz@fitchratings.com

Olivia Perney

Managing Director

Committee Chairperson

+33 1 44 29 91 74

olivia.perney@fitchratings.com

MEDIA CONTACTS**Peter Fitzpatrick**

London

+44 20 3530 1103

peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 01 Sep 2023\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Norddeutsche Landesbank Girozentrale

EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following

<https://www.fitchratings.com/rating-definitions-document> details Fitch's rating

definitions for each rating scale and rating categories, including definitions relating to

default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts,

ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name

as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's

[Regulatory Affairs](#) page on Fitch's website. The endorsement status of international

credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.