



Rating_Action: Moody's affirms NORD/LB's A3 long-term deposit and issuer ratings; changes outlook to positive from stable

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Frankfurt am Main, March 24, 2023 -- Moody's Investors Service (Moody's) has today affirmed the ratings and rating assessments of Norddeutsche Landesbank GZ (NORD/LB) including the bank's A3 long-term senior unsecured debt, issuer and deposit ratings, and changed the outlook on these to positive from stable. Concurrently, the rating agency affirmed NORD/LB's ba3 Baseline Credit Assessment (BCA) and ba1 Adjusted BCA.

NORD/LB's Aa1 rated backed subordinate debt ratings that qualify for 'grandfathering' under the public law guarantee ('Gewehrtraegerhaftung') were unaffected by today's rating action.

Further, Moody's affirmed the ratings of NORD/LB's subsidiary NORD/LB Luxembourg S.A. Covered Bond Bank (NORD/LB CBB) and changed the outlook on the long-term deposit and issuer ratings to positive from stable.

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

RATINGS RATIONALE

AFFIRMATION OF BASELINE CREDIT ASSESSMENT

The affirmation of NORD/LB's ba3 BCA reflects the bank's financial resilience after its recapitalization and loan book clean-up but also the lackluster progress in improving its profitability over the past years. The lack of progress in managing its cost base down, which is not offset by higher revenues, impairs the achievability of its 2024 targets and leaves some uncertainty with regards to future strategy and value proposition.

Since the launch of NORD/LB's transformation program in 2019 the bank managed to significantly de-risk its loan book by exiting the cyclical ship segment and other non-core segments and reducing its balance sheet as planned. The bank also managed to increase its capital buffers during that time, an important mitigant to a lending portfolio that remains mostly exposed to corporate clients. Moody's expects that a sustainable improvement in its profitability level will remain the key challenge for the bank, particularly amid economic uncertainty. NORD/LB has yet to establish a strong track record of profit generation and gaining traction in its cost management in order to successfully execute on its NORD/LB 2024 targets.

AFFIRMATION OF RATINGS

The affirmation of NORD/LB's ratings reflects the affirmation of the ba3 BCA and ba1 Adjusted BCA, which incorporates two notches of affiliate support uplift from the BCA, assuming an unchanged high likelihood of cross-sector support from Sparkassen-Finanzgruppe (S-Finanzgruppe, Corporate Family Rating Aa2 stable, BCA a2) in case of need.

Furthermore, the affirmation reflects the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss in resolution for NORD/LB's different liability classes, and which continues to result in three notches of rating uplift for senior unsecured debt and deposits, two notches of rating uplift for junior senior unsecured debt, and a one notch deduction from the bank's Adjusted BCA for the subordinate rating class, because of its high loss severity.

Finally, the affirmation incorporates an unchanged assumption of a moderate likelihood of sovereign government support for deposits and the senior unsecured rating class, resulting in one notch of rating uplift, and a low likelihood for junior senior unsecured debt and the subordinate rating class, resulting in no further rating uplift. The moderate support assumption for deposits and the senior unsecured rating class reflects NORD/LB's membership in the systemically important S-Finanzgruppe, while junior senior unsecured debt and the subordinate rating class do not benefit from government support because these instruments are designed to absorb losses in resolution.

OUTLOOK CHANGE TO POSITIVE FROM STABLE

The outlook change to positive reflects the rating agency's expectation that the bank will maintain its improved solvency and its solid funding and liquidity profile, while further strengthening profitability. Moody's also expects that NORD/LB maintains and further strengthens its banking franchise as it continues to transform into a leaner, more focused bank which is firmly entrenched into the German savings banks sector. If successfully implemented, the agency expects improving profitability over time.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

NORD/LB's senior unsecured debt and deposit ratings could be upgraded following an upgrade of the bank's BCA. An upgrade of the BCA would be subject to evidence of further improvement in the level and stability of NORD/LB's profitability and execution of its strategy.

NORD/LB's junior senior unsecured debt and its subordinated debt ratings could also be upgraded in case the bank were to issue material volumes of capital instruments.

There is currently limited downward pressure on the bank's ratings. A downgrade of NORD/LB's ratings is likely if the bank's BCA or Adjusted BCA are downgraded, which could stem from a material negative deviation from the bank's transformation plan.

Furthermore, a downgrade of the bank's junior senior unsecured instruments could result from a reduction in the volume of junior senior unsecured debt or subordinated debt outstanding, such it results in a higher loss severity than currently anticipated.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

LIST OF AFFECTED RATINGS

Issuer: Norddeutsche Landesbank GZ

..Outlook Actions:

....Outlook, Changed To Positive From Stable

..Affirmations:

....LT Counterparty Risk Rating (Foreign Currency) , Affirmed A3

....LT Counterparty Risk Rating (Local Currency) , Affirmed A3

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed P-2

....ST Counterparty Risk Rating (Local Currency) , Affirmed P-2

....LT Bank Deposits (Foreign Currency) , Affirmed A3, outlook changed to POS from STA

....LT Bank Deposits (Local Currency) , Affirmed A3, outlook changed to POS from STA

....ST Bank Deposits (Foreign Currency) , Affirmed P-2

....ST Bank Deposits (Local Currency) , Affirmed P-2

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

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

....LT Issuer Rating (Foreign Currency) , Affirmed A3, outlook changed to POS from STA

....Baseline Credit Assessment , Affirmed ba3

....Adjusted Baseline Credit Assessment , Affirmed ba1

....Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed A3, outlook changed to POS from STA

....Senior Unsecured Medium-Term Note Program (Local Currency) , Affirmed (P)A3

....Junior Senior Unsecured Regular Bond/Debenture (Foreign Currency) , Affirmed Baa2

....Junior Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed Baa2

....Junior Senior Unsecured Medium-Term Note Program (Local Currency) , Affirmed (P)Baa2

....Subordinate Regular Bond/Debenture (Foreign Currency) , Affirmed Ba2

....Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Ba2

....Subordinate Medium-Term Note Program (Local Currency) , Affirmed (P)Ba2

....Commercial Paper (Foreign Currency) , Affirmed P-2

....Commercial Paper (Local Currency) , Affirmed P-2

...Other Short Term (Local Currency) , Affirmed (P)P-2

Issuer: Bremer Landesbank Kreditanstalt Oldenburg GZ

..Outlook Actions:

....Outlook, Changed To No Outlook From Stable

..Affirmations:

....Junior Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed Baa2 (assumed by Norddeutsche Landesbank GZ)

Issuer: Deutsche Hypothekenbank (Actien-Gesellschaft)

..Outlook Actions:

....Outlook, Changed To Positive From Stable

..Affirmations:

....Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed A3, outlook changed to POS from STA (assumed by Norddeutsche Landesbank GZ)

....Junior Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed Baa2 (assumed by Norddeutsche Landesbank GZ)

....Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Ba2 (assumed by Norddeutsche Landesbank GZ)

Issuer: NORD/LB Luxembourg S.A. Covered Bond Bank

..Outlook Actions:

....Outlook, Changed To Positive From Stable

..Affirmations:

....LT Counterparty Risk Rating (Foreign Currency) , Affirmed A3

....LT Counterparty Risk Rating (Local Currency) , Affirmed A3

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed P-2

....ST Counterparty Risk Rating (Local Currency) , Affirmed P-2

....LT Bank Deposits (Foreign Currency) , Affirmed A3, outlook changed to POS from STA

....LT Bank Deposits (Local Currency) , Affirmed A3, outlook changed to POS from STA

....ST Bank Deposits (Foreign Currency) , Affirmed P-2

....ST Bank Deposits (Local Currency) , Affirmed P-2
....LT Counterparty Risk Assessment , Affirmed A3(cr)
....ST Counterparty Risk Assessment , Affirmed P-2(cr)
....LT Issuer Rating (Foreign Currency) , Affirmed A3, outlook changed to POS from STA
....LT Issuer Rating (Local Currency) , Affirmed A3, outlook changed to POS from STA
....ST Issuer Rating (Foreign Currency) , Affirmed P-2
....ST Issuer Rating (Local Currency) , Affirmed P-2
....Baseline Credit Assessment , Affirmed ba3
....Adjusted Baseline Credit Assessment , Affirmed ba1
....Senior Unsecured Medium-Term Note Program (Local Currency) , Affirmed (P)A3

Issuer: Norddeutsche Landesbank GZ, New York Branch

Outlook: NOO

..Affirmations:

....LT Counterparty Risk Rating (Foreign Currency) , Affirmed A3
....LT Counterparty Risk Rating (Local Currency) , Affirmed A3
....ST Counterparty Risk Rating (Foreign Currency) , Affirmed P-2
....ST Counterparty Risk Rating (Local Currency) , Affirmed P-2
....LT Counterparty Risk Assessment , Affirmed A3(cr)
....ST Counterparty Risk Assessment , Affirmed P-2(cr)
....Commercial Paper (Local Currency) , Affirmed P-2

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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