

Navigator date:	07-Mar-23
Last rating action:	07-Mar-23

Sector Details:

Bank sector:	Wholesale Commercial
Region:	DM Europe
Jurisdiction:	Germany
Sovereign IDR:	AAA Stable
Last Sovereign Action:	21-Oct-22 Affirmed
Country Ceiling:	AAA
Macro prudential indicator:	3
Bank systemic indicator:	a

Bank Rating History

Viability Rating (VR)		
07-Mar-23	bb	Affirmed
29-Mar-22	bb	Review No Action
03-Dec-21	bb	Affirmed
Issuer Default Rating (IDR)		
07-Mar-23	A- Stable	Affirmed
29-Mar-22	A- Stable	Review No Action
03-Dec-21	A- Stable	Affirmed

Legend:

Main Chart: the Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Support Assessment: the colours indicate the weighting of each KRD in the assessment.

- Higher Influence
- Moderate Influence
- Lower Influence
- Benchmark-implied score

Applicable Criteria & References

- [Bank Rating Criteria \(Sep 2022\)](#)
- [Macro-Prudential Risk Monitor \(Jul 2022\)](#)
- [Sovereign Data Comparator](#)

Analysts

- [Markus Glabach \(+49 69 768076 195\)](#)
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	Operating Environment	Business Profile	Risk Profile	Financial Profile			Implied Viability Rating	Viability Rating	Shareholder Support Rating	Issuer Default Rating	
				Asset Quality	Earnings & Profitability	Capitalization & Leverage					Funding & Liquidity
		20%	10%	20%	15%	25%	10%	aaa	aaa	aaa	AAA
aaa								aaa	aaa	aaa	AAA
aa+								aa+	aa+	aa+	AA+
aa								aa	aa	aa	AA
aa-								aa-	aa-	aa-	AA-
a+								a+	a+	a+	A+
a								a	a	a	A
a-								a-	a-	a-	A- Sta
bbb+								bbb+	bbb+	bbb+	BBB+
bbb								bbb	bbb	bbb	BBB
bbb-								bbb-	bbb-	bbb-	BBB-
bb+								bb+	bb+	bb+	BB+
bb								bb	bb	bb	BB
bb-								bb-	bb-	bb-	BB-
b+								b+	b+	b+	B+
b								b	b	b	B
b-								b-	b-	b-	B-
ccc+								ccc+	ccc+	ccc+	CCC+
ccc								ccc	ccc	ccc	CCC
ccc-								ccc-	ccc-	ccc-	CCC-
cc								cc	cc	cc	CC
c								c	c	c	C
f								f	f	ns	D OR RD

Adjustments

The Viability Rating has been assigned below the implied Viability Rating due to the following adjustment reason(s): Weakest Link - Earnings & Profitability (negative).

The Operating Environment score has been assigned in line with the implied score.

The Business Profile score has been assigned below the implied score due to the following adjustment reason(s): Business Model (negative).

The Asset Quality score has been assigned below the implied score due to the following adjustment reason(s): Concentrations (negative).

The Earnings & Profitability score has been assigned above the implied score due to the following adjustment reason(s): Historical and Future Metrics (positive).

The Capitalisation & Leverage score has been assigned below the implied score due to the following adjustment reason(s): Internal Capital Generation and Growth (negative).

The Funding & Liquidity score has been assigned in line with the implied score.

Shareholder Support

Shareholder IDR	A+
Total Adjustments (notches)	-2
Shareholder Support	a-

Shareholder ability to support

Shareholder Rating	A+/Stable
Shareholder regulation	2+ Notches
Relative size	1 Notch
Country risks	Equalised

Shareholder propensity to support

Role in group	1 Notch
Reputational risk	1 Notch
Integration	2+ Notches
Support record	Equalised
Subsidiary performance and prospects	1 Notch
Legal commitments	1 Notch

Key Rating Drivers

Owners' Support Drives IDRs: NORD/LB's Long-Term IDR is 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 we believe 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.

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 federal states as it is based on the lowest of the owners' ratings, ie that of SFG.

We notch NORD/LB's SSR down twice from SFG's 'A+' 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.

Execution Risk, Weak Profitability: The VR reflects the bank's ongoing restructuring, satisfactory asset-quality, adequate capitalisation and access to savings banks' excess liquidity. NORD/LB's VR is two notches below the implied 'bbb-' rating due to the bank's weak profitability, which we score at 'bb-'.

Business Model Transformation Continues: The bank's restructuring is progressing satisfactorily on headcount reduction and the wind-down of its shipping loan portfolios is on track. However, profitability remains weak and a large portion of the planned cost reduction and revenue generation measures is subject to execution risk.

Improved Asset Quality: The bank's risk appetite is in line with Landesbanken peers' and limited by its owners' close scrutiny. NORD/LB's business model entails high single borrower concentrations, but asset quality has been resilient through the pandemic and the bank's impaired loan ratio further improved at end-3Q22. Rising interest rates and high energy prices will likely lead to an increase of German corporate defaults in 2023 and 2024, but we expect only moderate deterioration of NORD/LB's asset-quality metrics.

Profitability to Gradually Increase: We estimate NORD/LB's operating profit in 2022 to have fallen below 2021's level. We expect operating profit to improve in the next two years, driven by higher net interest margins, lower fees paid on guarantees and progress in cost reduction. We also expect precautionary loan loss allowances to offset a large portion of credit losses. We believe that the probability of incurring large operational losses during the restructuring has decreased.

At the same time, pre-tax profit could be burdened by revaluation reversals on guarantees in the next two years, which Fitch views as non-operating.

Adequate Capitalisation: NORD/LB's common equity Tier 1 (CET1) capital ratio declined to 14.6% at end-3Q22 from 15.4% at end-2021, driven mainly by loan growth, but remains well above its regulatory requirement of 8.7%. This provides a comfortable buffer to absorb larger unexpected credit losses. The bank benefited from capital reinjections from Lower Saxony during its restructuring, but its weak organic capital generation, in combination with expected regulatory and business-driven risk weighted assets (RWA) inflation, constrains our assessment.

IPS Membership Underpins Funding: NORD/LB's predominantly wholesale funding benefits from its membership in SFG's Institutional Protection Scheme (IPS). The bank's liquidity profile is sound.

Key Rating Sensitivities

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 of the ratings. 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 of the owners is likely. We believe support from SFG's IPS would qualify as an alternative private-sector measure, capable of preventing resolution under German law.

We could downgrade the VR on a material deviation from NORD/LB's business plan, in particular weak execution on the bank's cost-cutting programme or inability to generate sufficient and adequately priced new business. We could also downgrade the ratings if we expect NORD/LB's CET1 ratio to fall below 12%.

An upgrade of NORD/LB's IDRs would require an upgrade of SFG's ratings. We could upgrade the VR if we believe NORD/LB will remain profitable on a sustained basis and if its CET1 ratio remains above 13%, while maintaining asset-quality metrics broadly in line with peers'.

See [Published RAC](#) for the full Key Rating Drivers, Sensitivities, Applicable Criteria and other Disclosures.

Credit-Relevant ESG derivation

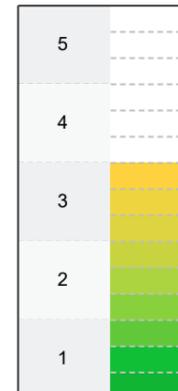
Norddeutsche Landesbank Girozentrale has 0 ESG key driver And 0 ESG driver And 5 ESG potential driver

➔ Norddeutsche Landesbank Girozentrale has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.

➔ Governance is minimally relevant to the rating and is not currently a driver.

key driver	0	Issues
driver	0	Issues
potential driver	5	Issues
not a rating driver	4	Issues
	5	Issues

Overall ESG



Environment (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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

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