



**Rating Action: Moody's upgrades Norddeutsche Landesbank - Girozentrale -'s deposit and senior unsecured ratings; stable outlook**

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15 Mar 2024

**Baseline Credit Assessment upgraded to ba2 from ba3**

Frankfurt am Main, March 15, 2024 – Moody's Ratings (Moody's) has today upgraded Norddeutsche Landesbank - Girozentrale -'s (NORD/LB) long-term deposit, long-term issuer, and senior unsecured ratings to Aa2 from A3 with a stable outlook. Previously, the ratings were on review for upgrade. At the same time, the rating agency upgraded the bank's long-term Counterparty Risk Ratings (CRR) to Aa2 from A3, the junior senior unsecured rating to A1 from Baa2, and the subordinate rating to Baa1 from Ba2. Concurrently Moody's upgraded the bank's short-term CRR, short-term deposit, and Commercial Paper ratings to P-1 from P-2.

In addition, Moody's upgraded NORD/LB's Baseline Credit Assessment (BCA) to ba2 from ba3, its Adjusted BCA to a3 from ba1, the long-term Counterparty Risk Assessment (CR Assessment) to Aa2(cr) from A3(cr), and the short-term CR Assessment to P-1(cr) from P-2(cr).

Finally, Moody's affirmed NORD/LB's backed subordinate rating at Aa1.

A full list of affected ratings and assessments, which also pertain to Bremer Landesbank Kreditanstalt Oldenburg GZ, Deutsche Hypothekenbank (Actien-Gesellschaft), NORD/LB Luxembourg S.A. Covered Bond Bank, and Norddeutsche Landesbank GZ, New York Branch, can be found at the end of this press release.

This rating action concludes the review initiated on 9 February 2024.

**RATINGS RATIONALE**

**– UPGRADE OF THE BCA**

The upgrade of NORD/LB's BCA to ba2 from ba3 reflects the bank's resilience in its improved combined solvency profile despite the headwinds from a deteriorated operating environment in Germany. While asset quality will weaken, the rating agency expects that the bank's improved pre-provision profitability, the build-up of post-model management adjustments in recent years, and the bank's solid risk-weighted capitalisation will provide a sufficient buffer against rising asset risks.

The BCA also takes into account NORD/LB's elevated market funding dependence, which remains significant despite the bank's access to funding from the savings bank sector and development banks. NORD/LB's sound liquid

resources continue to provide a sufficient mitigant against potential funding challenges, however.

In addition, Moody's continues to incorporate a one notch negative corporate behaviour adjustment in NORD/LB's BCA, reflecting the bank's corporate governance risks that mainly stem from the remaining execution risks of the bank's ongoing transformation program, a lack of track record regarding the viability of the bank's amended strategy, and limited clarity on the owners' consensus regarding the future strategic path of NORD/LB.

#### – UPGRADE OF THE ADJUSTED BCA

The upgrade of NORD/LB's Adjusted BCA to a3 from ba1 reflects the upgrade of the bank's BCA and the very high probability of cross-sector support from Sparkassen-Finanzgruppe (S-Finanzgruppe; Corporate Family Rating Aa2 stable, BCA a2) in case of need, which results in five notches of rating uplift from affiliate support. Previously, a high support assumption was assumed, which yielded two notches of rating uplift.

Moody's believes that the probability of NORD/LB receiving such support has risen significantly following the strengthening of the institutional protection scheme (IPS) of S-Finanzgruppe, whose statutes were updated earlier in 2024[1]. The revised statutes result in a more rule-based IPS that implements an early intervention system with clearly identified triggers and timely escalation of decision-making steps as well as increased ex-ante funds over time, which, in the view of the rating agency, increase the likelihood and timeliness of support for NORD/LB. In its assessment, the rating agency considers the likelihood of support based on the new and improved governance structure of the IPS, the economic rationale to improve sector cohesion through swift and positive support decisions, and the capacity of the sector in different scenarios, including a situation in which a number of larger members require capital support concurrently.

#### – UPGRADE OF LONG-TERM RATINGS

The upgrade of NORD/LB's long-term ratings follows the upgrade of NORD/LB's Adjusted BCA and incorporates unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis and unchanged assumptions for government support.

Because of NORD/LB's high share of capital market funding and the resulting meaningful volume of bail-in-able debt instruments, the rating agency's Advanced LGF analysis continues to yield three notches of rating uplift for the CRR, the CR Assessment, deposits, and senior unsecured debt, and two notches of rating uplift for junior senior unsecured liabilities. Because subordinated debts do not benefit from protection beyond equity and face a high loss severity, they are rated one notch below the Adjusted BCA.

The unchanged moderate government support assumption for liabilities ranking above junior senior unsecured debt and the resulting one notch of rating uplift reflects the bank's membership in the systemically important S-Finanzgruppe.

#### – UPGRADE OF SHORT-TERM RATINGS

The upgrade of NORD/LB's short-term ratings to P-1 from P-2 takes into account the upgrade of the respective long-

term ratings to Aa2 from A3.

## – AFFIRMATION OF BACKED RATINGS

The affirmation of NORD/LB's backed subordinate rating at Aa1 continues to reflect Moody's interpretation of the deficiency guarantee that was granted by the bank's owners at the time of issuance and its assessment of the capacity, likelihood, willingness, and timeliness of support by the guarantors.

## OUTLOOK

The stable outlook on NORD/LB's long-term deposit, long-term issuer, and senior unsecured ratings reflects the stable outlook of S-Finanzgruppe. The stable outlook further incorporates the rating agency's expectation of a broadly unchanged liability structure of NORD/LB.

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

An upgrade of NORD/LB's long-term ratings could be triggered by an improvement in the financial strength of S-Finanzgruppe. NORD/LB's junior senior unsecured and subordinate ratings could potentially also be upgraded if the bank were to issue substantial additional volumes of capital instruments, such that it reduces the loss severity for these instrument classes.

An upgrade of the BCA could result if NORD/LB manages to maintain its current financial strength in the deteriorated operating environment by keeping problem loan formation in check, defending its sound capitalisation, reporting sustainably improved profitability, and maintaining its current combined liquidity profile. However, an upgrade of NORD/LB's BCA would not result in an upgrade of its Adjusted BCA or its ratings.

NORD/LB's ratings would be downgraded following a downgrade of the Adjusted BCA, either as a result of a deterioration in the financial strength of S-Finanzgruppe or caused by a weaker BCA of NORD/LB. Furthermore, a shift in the liability structure towards non-bail-in-able instruments, such that it increases the loss severity for a respective debt class and results in reduced rating uplift from Moody's Advanced LGF analysis, could result in a downgrade.

The BCA could be downgraded in case of a further material weakening of NORD/LB's asset quality, a concurrent decline in capitalisation and profitability, and a deterioration of the bank's combined liquidity profile.

## LIST OF AFFECTED RATINGS

Issuer: Norddeutsche Landesbank - Girozentrale -

..Upgrades:

....LT Counterparty Risk Rating (Foreign Currency) , Upgraded to Aa2 from A3

....LT Counterparty Risk Rating (Local Currency) , Upgraded to Aa2 from A3

....ST Counterparty Risk Rating (Foreign Currency) , Upgraded to P-1 from P-2

....ST Counterparty Risk Rating (Local Currency) , Upgraded to P-1 from P-2

....LT Bank Deposits (Foreign Currency) , Upgraded to Aa2 STA from A3 RUR

....LT Bank Deposits (Local Currency) , Upgraded to Aa2 STA from A3 RUR

....ST Bank Deposits (Foreign Currency) , Upgraded to P-1 from P-2

....ST Bank Deposits (Local Currency) , Upgraded to P-1 from P-2

....LT Counterparty Risk Assessment , Upgraded to Aa2(cr) from A3(cr)

....ST Counterparty Risk Assessment , Upgraded to P-1(cr) from P-2(cr)

....LT Issuer Rating (Foreign Currency) , Upgraded to Aa2 STA from A3 RUR

....Baseline Credit Assessment , Upgraded to ba2 from ba3

....Adjusted Baseline Credit Assessment , Upgraded to a3 from ba1

....Senior Unsecured Regular Bond/Debenture (Local Currency) , Upgraded to Aa2 STA from A3 RUR

....Senior Unsecured Medium-Term Note Program (Local Currency) , Upgraded to (P)Aa2 from (P)A3

....Junior Senior Unsecured Regular Bond/Debenture (Local Currency) , Upgraded to A1 from Baa2

....Junior Senior Unsecured Medium-Term Note Program (Local Currency) , Upgraded to (P)A1 from (P)Baa2

....Subordinate Regular Bond/Debenture (Foreign Currency) , Upgraded to Baa1 from Ba2

....Subordinate Regular Bond/Debenture (Local Currency) , Upgraded to Baa1 from Ba2

....Subordinate Medium-Term Note Program (Local Currency) , Upgraded to (P)Baa1 from (P)Ba2

....Commercial Paper (Foreign Currency) , Upgraded to P-1 from P-2

....Commercial Paper (Local Currency) , Upgraded to P-1 from P-2

....Other Short Term (Local Currency) , Upgraded to (P)P-1 from (P)P-2

..Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

..Affirmations:

....BACKED Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Aa1

Issuer: Bremer Landesbank Kreditanstalt Oldenburg GZ

..Upgrades:

....Junior Senior Unsecured Regular Bond/Debenture (Local Currency) , Upgraded to A1 from Baa2 (assumed by Norddeutsche Landesbank - Girozentrale -)

..Outlook: NOO

..Affirmations:

....BACKED Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Aa1 (assumed by Norddeutsche Landesbank - Girozentrale -)

Issuer: Deutsche Hypothekenbank (Actien-Gesellschaft)

..Upgrades:

....Senior Unsecured Regular Bond/Debenture (Local Currency) , Upgraded to Aa2 STA from A3 RUR (assumed by Norddeutsche Landesbank - Girozentrale -)

....Junior Senior Unsecured Regular Bond/Debenture (Local Currency) , Upgraded to A1 from Baa2 (assumed by Norddeutsche Landesbank - Girozentrale -)

..Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

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

..Upgrades:

....LT Counterparty Risk Rating (Foreign Currency) , Upgraded to Aa2 from A3

....LT Counterparty Risk Rating (Local Currency) , Upgraded to Aa2 from A3

....ST Counterparty Risk Rating (Foreign Currency) , Upgraded to P-1 from P-2

....ST Counterparty Risk Rating (Local Currency) , Upgraded to P-1 from P-2

....LT Bank Deposits (Foreign Currency) , Upgraded to Aa2 STA from A3 RUR

....LT Bank Deposits (Local Currency) , Upgraded to Aa2 STA from A3 RUR

....ST Bank Deposits (Foreign Currency) , Upgraded to P-1 from P-2

....ST Bank Deposits (Local Currency) , Upgraded to P-1 from P-2

....LT Counterparty Risk Assessment , Upgraded to Aa2(cr) from A3(cr)

....ST Counterparty Risk Assessment , Upgraded to P-1(cr) from P-2(cr)

....LT Issuer Rating (Foreign Currency) , Upgraded to Aa2 STA from A3 RUR

....LT Issuer Rating (Local Currency) , Upgraded to Aa2 STA from A3 RUR

....ST Issuer Rating (Foreign Currency) , Upgraded to P-1 from P-2

....ST Issuer Rating (Local Currency) , Upgraded to P-1 from P-2

....Baseline Credit Assessment , Upgraded to ba2 from ba3

....Adjusted Baseline Credit Assessment , Upgraded to a3 from ba1

..Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

Issuer: Norddeutsche Landesbank GZ, New York Branch

..Upgrades:

....LT Counterparty Risk Rating (Foreign Currency) , Upgraded to Aa2 from A3

....LT Counterparty Risk Rating (Local Currency) , Upgraded to Aa2 from A3

....ST Counterparty Risk Rating (Foreign Currency) , Upgraded to P-1 from P-2

....ST Counterparty Risk Rating (Local Currency) , Upgraded to P-1 from P-2

....LT Counterparty Risk Assessment , Upgraded to Aa2(cr) from A3(cr)

....ST Counterparty Risk Assessment , Upgraded to P-1(cr) from P-2(cr)

....Commercial Paper (Local Currency) , Upgraded to P-1 from P-2

..Outlook: NOO

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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## REFERENCES/CITATIONS

[1] Statutes of the institutional protection scheme of Sparkassen-Finanzgruppe (Rahmensatzung für das institutsbezogene Sicherungssystem der Sparkassen-Finanzgruppe), Deutscher Sparkassen- und Giroverband 22-Jan-2024

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