



Tagging Info

Fitch Affirms NORD/LB Covered Finance Bank SA's IDRs on Merger

Announcement Ratings Endorsement Policy

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Fitch Ratings-Frankfurt/London-15 October 2014: Fitch Ratings has affirmed NORD/LB COVERED FINANCE BANK S.A. (NORD/LB CFB) Long- and Short-term Issuer Default Ratings (IDR) at 'A' and 'F1'. The Outlook is Negative. At the same time, Fitch has affirmed the Support Rating at '1'.

The rating action follows the announcement by NORD/LB CFB's parent, Norddeutsche Landesbank Luxembourg S.A. (NORD/LB Luxembourg), that over the course of the first half of 2015 NORD/LB Luxembourg and its wholly owned subsidiary NORD/LB CFB will be merged. The new bank will be set up as a covered bond bank and will continue NORD/LB CFB's covered refinancing activities for Norddeutsche Landesbank Girozentrale (NORD/LB, A/Negative/F1) via the issue of covered bonds under Luxembourg law (Lettres de Gage).

KEY RATING DRIVERS - IDRS and SUPPORT RATING

The Long- and Short-term IDRs of NORD/LB CFB are driven by Fitch's view of the extremely high likelihood of support from the bank's ultimate owner, NORD/LB, via NORD/LB Luxembourg. NORD/LB CFB's ratings are equalised with those of NORD/LB due to the high degree of integration between the two entities. The bank forms less than 5% of NORD/LB's assets but is an important part of the group's capital market activities and is fully integrated into group processes.

In addition, NORD/LB CFB benefits from public declarations from both NORD/LB and NORD/LB Luxembourg ensuring that NORD/LB CFB will meet its obligations. While the public declarations do not comment explicitly on support and timeliness, Fitch believes that support, if needed, would be forthcoming in a timely manner.

The Long-term IDR of NORD/LB is driven by Fitch's expectation that support from the State of Lower Saxony (AAA/Stable) would be extremely likely if required, meaning that NORD/LB CFB's ratings and NORD/LB Luxembourg's creditworthiness are ultimately linked to the creditworthiness of Lower Saxony.

Currently NORD/LB Luxembourg is responsible for the management of NORD/LB CFB's cover pool and issuance of Lettre de Gages as NORD/LB CFB has no employees; other functions are carried out on NORD/LB CFB's behalf by NORD/LB. Fitch notes that, following the merger, the new bank will expand on the business currently conducted by NORD/LB CFB, including the expansion of Lettres de Gage issuance into new asset classes, as well as other activities that will support NORD/LB's strategic objectives. Fitch expects that the new bank's business model will be strongly dependent on the bank's integration into NORD/LB.

Fitch understands from the bank that the merged bank will be the legal successor of NORD/LB Luxembourg, meaning that the agency will withdraw the ratings of NORD/LB CFB once the merger has been executed. The plan to merge NORD/LB CFB into its parent NORD/LB Luxembourg and to reshape the merged entity's business model in line with NORD/LB CFB's main activity suggest strongly that support from NORD/LB for the new entity will be not weaker than for NORD/LB CFB. Fitch expects that senior unsecured creditors will continue to benefit from support of NORD/LB, particularly given the chain of support will become shorter and more direct. Similarly to NORD/LB CFB, NORD/LB Luxembourg benefits from a public declaration of support from NORD/LB.

The Negative Outlook on NORD/LB CFB's IDR mirrors that of NORD/LB. Fitch revised the Outlook on NORD/LB's Long-term IDR to Negative from Stable in March 2014, to reflect the expected implementation of legislative and practical aspects of bank resolution frameworks (including the Bank Recovery and Resolutions Directive), which are likely to reduce implicit sovereign support for EU banks.

Fitch does not assign a Viability Rating to NORD/LB CFB because of the high degree of integration between NORD/LB CFB and NORD/LB.

RATING SENSITIVITIES - IDRS and SUPPORT RATING

NORD/LB CFB's ratings are sensitive to a change in Fitch's view of the likelihood, willingness or propensity of NORD/LB to support the bank. Due to the high degree of integration into the group a rating action on NORD/LB CFB would most likely be triggered by any rating action on NORD/LB.

More specifically the expected downgrade of NORD/LB's IDR by up to two notches due to the forthcoming change from sovereign to institutional support by end-1H15 also means that we expect to downgrade NORD/LB Luxembourg's ratings. In addition, a change in Fitch's view of the willingness or propensity of NORD/LB or of NORD/LB Luxembourg would also be likely to trigger a rating action. This would arise, for instance, from a change in NORD/LB CFB's or NORD/LB Luxembourg's ownership or support structure, or a change in the degree of integration with NORD/LB. Fitch believes that such changes are unlikely in the medium term.

The announced merger has no impact on the ratings of NORD/LB CFB's Lettres de Gages Publiques.

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 31 January 2014 and 'Assessing and Rating Bank Subordinated and Hybrid Securities', dated 31 January 2014 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria
Assessing and Rating Bank Subordinated and Hybrid Securities Criteria

Additional Disclosure

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