

## **FITCH AFFIRMS NORD/LB AND BREMERLB AT 'A'; HSH AT 'A-'; OUTLOOKS STABLE**

Fitch Ratings-London-30 July 2013: Fitch Ratings has affirmed Norddeutsche Landesbank Girozentrale's (NORD/LB), Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale's (BremerLB) and NORD/LB Covered Finance Bank's (NORD/LB CFB) Long-term Issuer Default Ratings (IDRs) at 'A' with a Stable Outlook. At the same time, the agency has affirmed HSH Nordbank AG's (HSH) Long-term IDR at 'A-', also with a Stable Outlook.

In addition, the agency has affirmed both NORD/LB's and BremerLB's Viability Ratings (VR) at 'bbb-'. Fitch has revised the Rating Watch on HSH's VR of 'b' to Evolving (RWE) from Negative (RWN). A full list of rating actions is at the end of this rating action commentary.

### **KEY RATING DRIVERS - IDRS, SUPPORT RATINGS, SUPPORT RATING FLOORS, SENIOR DEBT RATINGS**

The affirmations of the IDRs, Support Ratings, Support Rating Floors (SRF) and unsecured senior debt ratings reflect that Fitch's view of the extremely high likelihood of state support for Landesbanken is unchanged, in light of the strategic stake the German federal states hold in their Landesbanken and considerations around their importance to and entrenchment in their respective local regions. In addition, the high share of guaranteed funding by the federal states and funding through German savings banks is reflected in the Support Ratings of '1' and SRFs. The ratings of state-guaranteed/grandfathered senior debt reflect the credit quality of the guarantors as well as Fitch's assessment of the strength of Gewährträgerhaftung (guarantee mechanism).

At 'A-', HSH's SRF and IDR are one notch below those of NORD/LB and BremerLB, reflecting both a lower (although still high) degree of entrenchment in the regional economies as well as Fitch's assumption that one of HSH's federal state owners, the State of Schleswig Holstein, will dispose of its shareholding once the market environment allows this - although this is unlikely to happen before 2016.

### **RATING SENSITIVITIES - IDRS, SUPPORT RATINGS, SUPPORT RATING FLOORS AND SENIOR DEBT**

The IDRs, Support Ratings, SRFs, senior unsecured debt ratings and the ratings of the state-guaranteed/grandfathered debt of all three banks are sensitive to any change in Fitch's view of the creditworthiness of the German federal states, underpinned by the stability of the German solidarity system linking its creditworthiness to that of the Federal Republic of Germany ('AAA'/Stable). They are also sensitive to any change in Fitch's view of the currently high propensity of the federal states to support their respective Landesbanken or any external restrictions that could be imposed to prevent them from doing so.

Fitch notes that there is a clear political intention to ultimately reduce the implicit state support for systemically important banks in Europe, as demonstrated by a series of policy and regulatory initiatives aimed at curbing systemic risk posed by the banking industry. This might result in Fitch downgrading SRFs in the medium term. In this context, Fitch is paying close attention to ongoing policy discussions around support and 'bail-in' for eurozone banks. Until now, senior creditors in major global banks have been supported in full, but resolution legislation is developing quickly and the implementation of creditor 'bail-in' is starting to make it look more feasible for taxpayers and creditors to share the burden of supporting banks. While this largely affects large, systemically relevant banks, it could ultimately also put pressure on the SRFs of German Landesbanken.

### **KEY RATING DRIVERS - VR**

The revision of the Rating Watch on HSH's VR to Evolving from Negative reflects the potential uplift to the rating from recent positive developments, while negative sensitivities remain. In June 2013 HSH announced that the guarantee shield on its portfolio will be restored to its initial level of

EUR10bn from EUR7bn. Fitch views the nature and dimension of this capital strengthening measure as positive in light of the bank's weak asset quality and future stress tests of the European Banking Authority (EBA). This measure should stabilise the bank's Core Tier 1 ratio at around 10% on a fully-loaded Basel III basis.

However, the extension of the shield will come at a high cost in terms of appropriate compensation to the state and in any case it remains uncertain whether the recent capital support measures by the federal state owners will be approved by the European Commission (EC) or whether EC approval would require broader restructuring measures by the bank. Depending on its extent, a negative decision could result in a VR downgrade. Fitch will resolve the RWE once clarity is given about the EC's decision and respective potential compensatory requirements. Fitch now expects this to become clear by H114.

Both NORD/LB's and BremerLB's VRs reflect their strong regional franchises, high degree of co-operation with the local savings banks, solid access to funding and adequate overall risk profile. BremerLB has a track record of more stable earnings, demonstrated especially during the current financial crisis. NORD/LB's underlying profitability is low but improving.

NORD/LB's, BremerLB's and HSH's VRs are negatively affected by the risks arising from the banks' substantial exposures to cyclical industries, especially real estate (mainly NORD/LB and HSH) and shipping (all three banks).

All three banks are also dependent on wholesale funding, which also means funding costs are vulnerable to market fluctuations. The banks' long-term asset profiles combined with the low growth environment means that it is taking time to pass increased funding costs onto the revenue side. This is mitigated somewhat by matching of their long-term asset profiles on the funding side and by their stable and diversified investor base, including medium-sized institutional investors in Germany and savings banks, underpinned by access to the local savings bank network. These mitigating factors support NORD/LB's and BremerLB's investment grade VR levels.

While HSH's VR takes into account the drivers above, it also factors in the substantial challenges the bank faces from the realignment of its revised business model. Fitch understands that new business in 2013 continues to be slower than planned, although margins have improved. The agency believes that the prolonged crisis in the shipping industry will extend the period the bank will need to achieve its targeted viable business model. Consequently Fitch does not expect HSH to improve its operating profitability substantially for the years 2013 and 2014.

#### RATING SENSITIVITIES - VR

HSH's VRs are sensitive to the factors outlined in the Rating Watch drivers above. NORD/LB's and BremerLB's VRs are primarily sensitive to the degree of progress they are able to make in reducing exposure to higher-risk and highly-cyclical sectors, features they share with HSH. These comprise mainly shipping (all three banks) and international commercial real estate (NORD/LB and HSH) exposures.

Downside risk arises in particular from developments in the shipping industry. NORD/LB and BremerLB's 2012 financial performance was burdened by shipping-related impairment charges, and Fitch currently expects that this trend will continue for the full year 2013. Fitch estimates that a recovery in the shipping sector will not be evident until end-2014 at the earliest.

A significant worsening of the shipping industry outlook beyond Fitch's expectations would likely erode the banks' capital, particularly in light of the three Landesbanken's historically modest profitability, which could lead to a negative action on the banks' VRs.

Upside potential to NORD/LB's and BremerLB's VR in the medium term is linked to a sustainable stabilisation of the banks' earnings base in conjunction with a material improvement in asset quality. In light of the restored capitalisation of the bank Fitch views an upgrade of HSH's VR likely if it receives approval for extension of state aid measures from the EC and makes progress in establishing its targeted client-oriented business model in H213.

## SUSBIDIARY AND AFFILIATED COMPANY - KEY RATING DRIVERS AND RATING SENSITIVITIES

NORD/LB CFB's IDR is based on the extremely high likelihood of support from Norddeutsche Landesbank Luxembourg S.A. and NORD/LB, the bank's direct and ultimate owner, respectively, reflected in the declaration of backing (Patronatserklärungen) for NORD/LB CFB from both entities. Fitch does not assign a VR to NORD/LB CFB as a result of the strong support and degree of integration of the bank with the NORD/LB group.

NORD/LB CFB's ratings are sensitive to a change in Fitch's view of the likelihood of support from NORD/LB. Due to the high degree of integration between the two banks a rating action on NORD/LB CFB would most likely be caused by any rating action on NORD/LB.

## SUBORDINATED DEBT

The ratings on HSH's subordinated debt instruments were also subject to review; see separate RAC published 30 July 2013 for the rating actions on these instruments. Its guaranteed subordinated debt ratings and those of NORD/LB were affirmed, as Fitch believes guaranteed debt would not be subject to burden-sharing.

The rating actions are as follows:

### HSH

Long-term IDR: affirmed at 'A-', Stable Outlook

Short-term IDR: affirmed at 'F1'

Viability Rating: 'b', revised to RWE from RWN

Support Rating: affirmed at '1'

Support Rating Floor 'affirmed at 'A-'

Senior debt: affirmed at 'A-' / 'F1'

State-guaranteed/grandfathered senior and subordinated obligations: affirmed at 'AAA'

State-guaranteed/grandfathered market-linked securities: affirmed at 'AAAemr'

Senior market-linked securities: affirmed at 'A-emr'

### NORD/LB

Long-term IDR affirmed at 'A'; Outlook Stable

Short-term IDR affirmed at 'F1'

Viability Rating: affirmed at 'bbb-'

Support Rating Floor affirmed at 'A'

Support Rating affirmed at '1'

State-guaranteed/grandfathered senior and subordinated obligations affirmed at 'AAA'

Senior debt affirmed at 'A'/F1'

### BremerLB

Long-term IDR affirmed at 'A'; Outlook Stable

Short-term IDR affirmed at 'F1'

Viability Rating: affirmed at 'bbb-'

Support Rating Floor affirmed at 'A'

Support Rating affirmed at '1'

State-guaranteed/grandfathered senior obligations affirmed at 'AAA'

Senior Debt affirmed at 'A'

### NORD/LB CFB

Long-term IDR affirmed at 'A'; Outlook Stable

Short-term IDR affirmed at 'F1'

Support Rating affirmed at '1'

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Applicable criteria 'Global Financial Institutions Rating Criteria', dated 15 August 2012, 'Assessing and Rating Bank Subordinated and Hybrid Securities', dated 5 December 2012 and 'Evaluating Corporate Governance', dated 12 December 2012, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:  
Global Financial Institutions Rating Criteria  
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