



RATING ACTION COMMENTARY

Fitch Takes Rating Actions on German Banks; Removes Ratings from UCO

Thu 23 Apr, 2020 - 10:15 AM ET

Fitch Ratings - Frankfurt am Main - 23 Apr 2020: Fitch Ratings has taken rating actions on Aareal Bank AG (Aareal), Berlin Hyp, Norddeutsche Landesbank Girozentrale (NORD/LB) and NORD/LB Luxembourg S.A. Covered Bond Bank (NORD/LB CBB). The affected ratings - derivative counterparty ratings (DCR), senior unsecured debt, long-term senior preferred (SP) debt and deposit ratings - have all been removed from Under Criteria Observation (UCO).

The ratings were placed UCO on 4 March 2020 following the publication of Fitch's updated Bank Rating Criteria and Non-Bank Financial Institutions Rating Criteria on 28 February 2020. A full list of rating actions is detailed below. The issuers' other ratings are unaffected by today's rating action.

Fitch's updated criteria better reflect continuing developments in bank resolution, the build-up of bail-in debt buffers that protect more senior creditors and their implication for default risk and recovery prospects for senior and junior liability classes.

KEY RATING DRIVERS

Unless noted below, the key rating drivers for the banks named below are those outlined in the respective latest Rating Action Commentary.

DCR, SENIOR PREFERRED (SP) DEBT AND DEPOSIT RATINGS

We have upgraded the DCR of NORD/LB as well as the long-term SP debt and long-term deposit ratings of Berlin Hyp, NORD/LB and NORD/LB CBB by one notch to reflect the protection that could accrue to them from more junior resolution debt and equity buffers. NORD/LB CBB is part of NORD/LB's resolution group and its Long-Term Issuer Default Rating (IDR) is aligned with the parent's.

Fitch has also affirmed NORD/LB's short-term senior preferred and deposit ratings at 'F1', which is the lower of the two ratings that map to an 'A' long-term SP and deposit rating because our assessment of NORD/LB's funding and liquidity score is not sufficiently high to achieve a higher short-term rating.

SENIOR UNSECURED DEBT RATINGS

The senior unsecured debt class of the banks listed below contains senior unsecured instruments issued before 21 July 2018. Therefore, this debt class may contain non-structured senior unsecured debt and certain instruments with simple structures that in resolution rank pari passu with senior non-preferred instruments issued after 21 July 2018, as well as structured notes that rank pari passu with SP instruments issued after the same date.

Aareal

We have removed the 'BBB+' senior non-preferred (previously senior unsecured) debt ratings of Aareal from UCO and maintained them on Rating Watch Negative (RWN). The RWN on debt ratings mirrors the RWN on Aareal's Long-Term IDR (see "Fitch Takes Actions on 6 German Banking Groups on Coronavirus Uncertainties" on www.fitchratings.com).

Berlin Hyp

We have affirmed the senior non-preferred (previously senior unsecured) debt ratings of Berlin Hyp at 'A+'.

We have upgraded the ratings of three SP notes by one notch above Berlin Hyp's Long-Term IDR (DE000BHY0AZ7, DE000BHY0A31 and DE000BHY0A49), in line with the bank's long-term SP debt rating.

NORD/LB

We have affirmed the senior unsecured/ senior non-preferred debt ratings of NORD/LB at 'A-'. Fitch has also upgraded by one notch 30 structured notes in line with the bank's long-term SP debt rating.

RATING SENSITIVITIES

Aareal

Aareal's senior non-preferred debt ratings are primarily sensitive to changes in the bank's Long-Term IDR, which is aligned with the bank's Viability Rating.

Factors that could, individually or collectively, lead to negative rating action/ downgrade:

-The ratings would be downgraded if Aareal's Long-Term IDR is downgraded or if we expect the bank to include SP debt in its resolution buffer and if the sum of senior non-preferred and more junior debt buffers falls below 10% of risk-weighted assets (RWA).

Factors that could, individually or collectively, lead to positive rating action/ upgrade:

-The ratings would be upgraded if Aareal's Long-Term IDR is upgraded.

Berlin Hyp

Berlin Hyp's senior non-preferred debt and long-term SP and deposit ratings are primarily sensitive to changes in the bank's Long-Term IDR.

Factors that could, individually or collectively, lead to negative rating action/ downgrade:

-The ratings would be downgraded if Berlin Hyp's Long-Term IDR is downgraded or if we expect the bank to include SP debt in its resolution buffer and if the sum of senior non-preferred and more junior debt buffers falls below 10% of RWA.

Factors that could, individually or collectively, lead to positive rating action/ upgrade:

-The ratings would be upgraded if Berlin Hyp's Long-Term IDR is upgraded.

NORD/LB

NORD/LB's DCR, senior non-preferred and SP debt and deposit ratings are primarily sensitive to changes in the bank's IDR.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-The DCR, senior non-preferred and long-term SP and deposit ratings would be downgraded if NORD/LB's Long-Term IDR is downgraded or if we expect the bank to include SP debt in its resolution buffer and if the sum of senior non-preferred and more junior debt buffers falls below 10% of RWA.

-Short-term SP and deposit ratings would be downgraded if the bank's Short-Term IDR is downgraded.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-The ratings would be upgraded if NORD/LB's IDRs are upgraded.

NORD/LB CBB (Lux)

NORD/LB CBB's SP debt ratings are primarily sensitive to changes in NORD/LB CBB's Long-Term IDR, which in turn is sensitive to NORD/LB's Long-Term IDR and to our assessment of NORD/LB's propensity to support the subsidiary. They are also sensitive to NORD/LB CBB remaining part of NORD/LB's resolution group and the size of NORD/LB's senior non-preferred and more junior debt buffer.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-An upgrade of NORD/LB's Long-Term IDR.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-The ratings would be downgraded if NORD/LB CBB's Long-Term IDR is downgraded, which could be triggered by a downgrade of NORD/LB's Long-Term

IDR or a reduction of the subsidiary's strategic importance to the parent (particularly if NORD/LB's declaration of backing for the bank is terminated, which we view as unlikely in the short term).

-The ratings would also be downgraded if NORD/LB CBB ceases to be part of NORD/LB's resolution group or if we expect NORD/LB to include SP debt in its resolution debt buffer and at the same time the sum of NORD/LB's senior non-preferred and more junior debt buffers falls below 10% of RWA.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Berlin Hyp's and NORD/LB's ratings are driven by potential support from Sparkassen-Finanzgruppe (SFG). NORD/LB CBB's ratings are driven by support from NORD/LB.

RATING ACTIONS

ENTITY/DEBT	RATING		
Aareal Bank AG			
● senior unsecured	LT	BBB+	Rating Watch Maintained
NORD/LB Luxembourg S.A. Covered Bond Bank			
● Senior preferred	LT	A	Upgrade
Norddeutsche Landesbank Girozentrale	DCR	A(dcr)	Upgrade

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Aareal Bank AG

EU Issued

Berlin Hyp AG

EU Issued

NORD/LB Luxembourg S.A. Covered Bond Bank	EU Issued
Norddeutsche Landesbank Girozentrale	EU Issued

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Structured Finance Banks Europe Germany Luxembourg

