

CREDIT OPINION

18 April 2024

Update



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RATINGS

NORD/LB Luxembourg S.A. Covered Bond Bank

Domicile	Luxembourg, Luxembourg
Long Term CRR	Aa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured MTN - Dom Curr
Outlook	Not Assigned
Long Term Deposit	Aa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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NORD/LB Luxembourg S.A. Covered Bond Bank

Update following upgrade of ratings

Summary

On 15 March 2024, we upgraded [NORD/LB Luxembourg S.A. Covered Bond Bank's](#) (NORD/LB CBB) long-term deposit and long-term issuer ratings to Aa2 from A3 with a stable outlook. Concurrently, we upgraded NORD/LB CBB's Baseline Credit Assessment (BCA) to ba2 from ba3 and its Adjusted BCA to a3 from ba1.

We align NORD/LB CBB) ratings and rating inputs with those of [Norddeutsche Landesbank Girozentrale](#) (NORD/LB; Aa2 stable/Aa2 stable, ba2)¹ because of the strong integration of the Luxembourg-based subsidiary with its ultimate parent, leading to our assessment of NORD/LB CBB being a highly integrated entity of NORD/LB.

As a result, NORD/LB CBB's deposit and senior unsecured debt ratings reflect the bank's and its parent's ba2 BCA and a3 Adjusted BCA, the latter incorporating a five-notch uplift from affiliate support based on a very high likelihood of cross-sector support from [Sparkassen-Finanzgruppe](#) (S-Finanzgruppe; Aa2 stable, a2)² through its parent NORD/LB; the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, providing three further notches of rating uplift; and an additional one-notch of rating uplift from government support, given NORD/LB CBB's membership in the systemically relevant S-Finanzgruppe.

Credit strengths

- » NORD/LB CBB exhibits sound asset quality, complemented by credit protection granted by NORD/LB.
- » After the discontinuation of new covered bond issuances, NORD/LB CBB has limited funding needs.
- » In resolution, NORD/LB CBB's senior unsecured creditors face only an extremely low loss given failure because they would benefit from the loss-absorbing buffers available at the NORD/LB group level, reflecting NORD/LB's large volume of outstanding junior senior debt and subordinated instruments.

Credit challenges

- » Close integration with NORD/LB, which limits NORD/LB CBB's standalone banking franchise and aligns the ratings with those of its parent bank.

Outlook

- » The stable outlook on NORD/LB CBB's long-term deposit and long-term issuer ratings reflects the stable outlook on NORD/LB's respective ratings.

Factors that could lead to an upgrade

- » Upward rating pressure on NORD/LB CBB's ratings would be subject to rating upgrades of NORD/LB.
- » For further details, please refer to our publications on [NORD/LB](#).

Factors that could lead to a downgrade

- » Downward rating pressure on NORD/LB CBB's ratings would be subject to rating downgrades of NORD/LB.
- » For further details, please refer our publications on [NORD/LB](#).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moodys.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1

NORD/LB Luxembourg S.A. Covered Bond Bank (Unconsolidated Financials) [1]

	12-22 ²	12-21 ²	12-20 ²	12-19 ²	12-18 ²	CAGR/Avg. ³
Total Assets (EUR Million)	8,978.7	10,048.0	12,063.9	14,809.0	16,522.6	(14.1) ⁴
Total Assets (USD Million)	9,582.5	11,385.4	14,760.9	16,623.1	18,887.7	(15.6) ⁴
Tangible Common Equity (EUR Million)	640.0	623.3	622.4	628.3	631.9	0.3 ⁴
Tangible Common Equity (USD Million)	683.0	706.3	761.5	705.3	722.4	(1.4) ⁴
Problem Loans / Gross Loans (%)	0.8	0.7	0.3	0.3	0.1	0.4 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	34.6	29.4	23.6	17.6	14.2	23.9 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.1	7.4	3.4	5.2	1.7	5.0 ⁵
Net Interest Margin (%)	0.8	0.9	0.8	0.8	0.7	0.8 ⁵
PPI / Average RWA (%)	0.4	-0.6	-0.1	-0.1	-0.1	-0.1 ⁶
Net Income / Tangible Assets (%)	0.2	0.0	-0.1	0.0	0.0	0.0 ⁵
Cost / Income Ratio (%)	85.5	138.2	107.9	104.8	108.6	109.0 ⁵
Market Funds / Tangible Banking Assets (%)	59.2	57.8	63.8	71.4	64.1	63.3 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	17.6	14.0	13.9	16.1	25.7	17.5 ⁵
Gross Loans / Due to Customers (%)	250.9	249.4	306.4	378.6	206.2	278.3 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. Simple average of periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

NORD/LB Luxembourg S.A. Covered Bond Bank (NORD/LB CBB) is a specialised issuer of covered bonds (*lettres de gage publiques* and *lettres de gage énergies renouvelables*) that contribute to the diversified funding structure and funding sources of Hannover-based NORD/LB, its 100% owner.

As a part of the parent's transformation programme, NORD/LB CBB discontinued underwriting new business at the beginning of 2022 and will focus on the administrative processes of existing portfolios and cover pools.

As of year-end 2022, NORD/LB CBB reported assets of €9.2 billion and had issued €3.1 billion of *lettres de gage publiques* (2021: €3.5 billion) and €0.3 billion of *lettres de gage énergies renouvelables* (2021: €0.3 billion).

NORD/LB has pledged to support its subsidiary based on a letter of comfort (*Patronatserklärung*). For more information, please see NORD/LB's [Issuer Profile](#).

Detailed credit considerations

Tight integration with NORD/LB means that the ratings of NORD/LB CBB move in tandem with those of its parent bank

NORD/LB CBB's credit profile is closely linked with that of NORD/LB. Considering the name-sharing between the subsidiary and its parent, its role as a specialised financier within the group, and its high proportion of intragroup liabilities, we consider NORD/LB CBB a highly integrated entity with a limited proprietary banking franchise. Our assessment implies a high correlation of risk between the Luxembourg-based bank and its parent.

NORD/LB CBB's close integration with NORD/LB limits the significance of a standalone analysis based on the subsidiary's financials. Although NORD/LB CBB holds an insignificant amount of high-risk assets and is comfortably capitalised, our assessment of NORD/LB's credit strengths and challenges drives NORD/LB CBB's BCA and ratings. This view is further supported by NORD/LB CBB's exemption from large lending limits with regard to intragroup exposures, based on a waiver from the Luxembourg regulator.

The bank's profitability reflects declining business volumes and lower commission fees paid to its parent in 2022

In 2022, NORD/LB CBB reported a net profit of €13.7 million, compared with a net loss of €4.1 million in 2021. The profit in 2022 was largely attributable to lower commission fees paid to its parent, its positive trading result, which, however, included temporary positive valuation effects, and a tax refund following a tax audit at the parent. NORD/LB CBB did not benefit from a higher interest rate environment in 2022 because the bank has halted new issuances, while the existing cover pools and portfolios continue to mature.

As a subsidiary of NORD/LB, NORD/LB CBB shares its margin (*Verrechnungspreismodell*) with its parent bank, NORD/LB. This margin sharing is included in NORD/LB CBB's net fee and commission income, which also includes fees paid for the credit protection provided by its parent bank for specific exposures. These guarantees are also expiring with the maturing business and accounted for €4.7 billion as of year-end 2022, declining from €5.5 billion in 2021, thus resulting in lower guarantee fees.

NORD/LB CBB is comfortably capitalised and benefits from low-risk assets and risk transfers to its parent bank

NORD/LB CBB is comfortably capitalised in the context of its low-risk credit profile, which benefits from exposures to the public sector, financial institutions, and credit guarantees provided by NORD/LB. Our view is underpinned by the bank's Common Equity Tier 1 (CET1) capital ratio of 31.6% as of year-end 2022, which was up from 29.7% as of year-end 2021. The improvement was driven by a reduction in risk-weighted assets (RWA) by around 13% to €1.8 billion from €2.1 billion.

NORD/LB CBB's regulatory leverage ratio³ stood at 6.2% as of year-end 2022 (2021: 5.7%), reflective of its low-risk assets, which comprise sizeable exposures to the public sector and financial institutions – accounting for around 35% of total – and additional credit risk transfers to NORD/LB through individually guaranteed loan exposures. These exposures allow the bank to operate with a low RWA density, which was around 20% as of year-end 2022 (2021: 20%).

Limited funding needs after discontinuation of new business

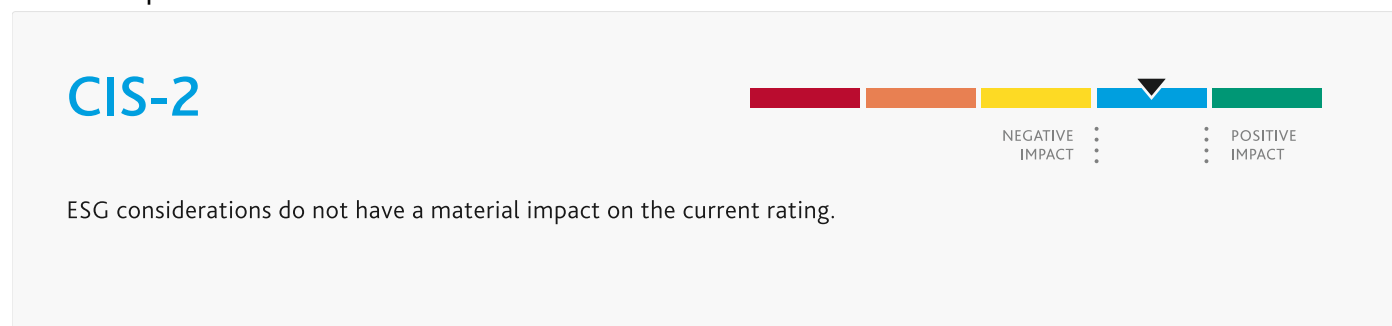
Because NORD/LB CBB has discontinued its covered bond issuance in 2022 and only acts as the administrator of existing portfolios and cover pools, we expect the bank's future funding needs to remain limited.

ESG considerations

NORD/LB Luxembourg S.A. Covered Bond Bank's ESG credit impact score is CIS-2

Exhibit 2

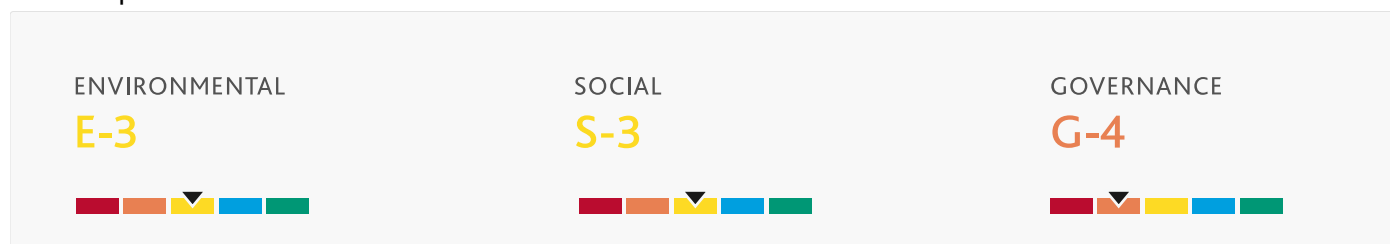
ESG credit impact score



Source: Moody's Ratings

ESG scores and narratives are aligned with those of Norddeutsche Landesbank - Girozentrale -. NORD/LB's **CIS-2** reflects the mitigating rating impact of affiliate support from Sparkassen-Finanzgruppe (S-Finanzgruppe) over NORD/LB's ESG risk profile. Environmental and social risk factors have a limited impact on the bank's credit profile to date. The bank's corporate governance risks mainly stem from the remaining execution risks of the bank's ongoing transformation program, a lack of medium-term track record regarding the viability of its amended strategy, and still subdued profitability in an international context.

Exhibit 3

ESG issuer profile scores

Source: Moody's Ratings

Environmental

ESG scores and narratives are aligned with those of Norddeutsche Landesbank - Girozentrale -. NORD/LB faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risk as a large, mostly regional banking group. In line with its peers, NORD/LB faces mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, NORD/LB is actively engaging in transforming its lending book towards less carbon-intensive assets.

Social

ESG scores and narratives are aligned with those of Norddeutsche Landesbank - Girozentrale -. S-Finanzgruppe member banks such as NORD/LB face moderate social risks related to customer relations as well as to demographic and societal trends. Risks related to the distribution of financial products such as regulatory and reputational risks, as well as exposure to litigation are mitigated by developed policies and procedures, many of which are standardized across the sector. High cyber and personal data risks are managed by continued investment in technology by member banks, complemented by the access to and collaboration with dedicated centralized IT functions of the group. Operating mostly in Germany, S-Finanzgruppe's member banks face challenges from aging population affecting long-term economic growth prospects and impacting demand for certain banking products. The group's scale should support its ability to adapt to consumer preferences, regulatory changes, and societal trends such as digitization.

Governance

ESG scores and narratives are aligned with those of Norddeutsche Landesbank - Girozentrale -. NORD/LB's governance risks remain material, reflecting execution risks during its transition phase towards its new business model and a lack of track record regarding the viability of its amended strategy. Previous business focus on ship finance led to severe financial losses in the past and has made the current restructuring programme necessary. Management's ability to address the bank's subdued profitability also remains a concern because it provides only a limited buffer against potential adverse developments and limits the bank's capital generation capacity and, hence, growth prospects. As a public-sector bank, NORD/LB is majority owned by the federal state of Lower Saxony (57%), which is reflected in the composition of its board of directors. Germany's developed institutional framework mitigates associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations**Affiliate support**

We align NORD/LB CBB's Adjusted BCA with the a3 Adjusted BCA of NORD/LB. This assessment results in five notches of rating uplift stemming from affiliate support for NORD/LB CBB.

NORD/LB CBB's Adjusted BCA incorporates the very high likelihood of support available to NORD/LB from the cross-sector support mechanism of S-Finanzgruppe, from which we expect the Luxembourg-based subsidiary to benefit equally. NORD/LB has pledged to support its subsidiary based on a letter of comfort (*Patronatserklärung*).

Loss Given Failure (LGF) analysis

NORD/LB CBB is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. We expect NORD/LB CBB to be included in the resolution perimeter of its parent, NORD/LB, and therefore apply our Advanced

LGF analysis to NORD/LB, which takes into consideration the risks faced by the different debt and deposit classes across the liability structure at failure at the group level.

In our Advanced LGF analysis, we consider the results of both the formal legal position (*pari passu*, or *de jure* scenario), to which we assign a 75% probability, and an alternative liability ranking, reflecting resolution authority discretion to prefer deposits over senior unsecured debt (full depositor preference, or *de facto* scenario), to which we assign a 25% probability.

We further assume residual TCE of 3% and losses post-failure of 8% of tangible banking assets. In addition, we assume a 26% share of deposits being "junior" wholesale deposits, for which we factor in a 25% run-off before failure, while we assume a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions.

For deposits and senior unsecured debt (from which the issuer ratings are derived), as well as for CRR liabilities, our Advanced LGF analysis indicates an extremely low loss given failure, leading us to position their Provisional Rating Assessments at aa3, three notches above the a3 Adjusted BCA.

Government support considerations

As a result of the close integration of the Luxembourg-based bank into NORD/LB, we expect any potential support from the German government, which would be made available through S-Finanzgruppe, to be available to both NORD/LB and NORD/LB CBB. Therefore, we include a one-notch rating uplift from German government support in the deposit and issuer ratings, as well as the Counterparty Risk Ratings (CRRs) and the Counterparty Risk (CR) Assessment of NORD/LB CBB.

Aa2/P-1 Counterparty Risk Ratings (CRRs)

The CRRs, before government support, are three notches above the a3 Adjusted BCA, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities. NORD/LB CBB's CRRs also benefit from one notch of rating uplift from government support, in line with our moderate support assumptions for deposits and senior unsecured debt.

Aa2(cr)/P-1(cr) Counterparty Risk (CR) Assessment

NORD/LB CBB's CR Assessment, before government support, is three notches above the a3 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, including junior deposits and (junior) senior unsecured debt, within the context of the group liability structure of NORD/LB. Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

The CR Assessment also benefits from one notch of rating uplift from government support, in line with our moderate support assumptions for deposits and senior unsecured debt.

Methodology and scorecard

Methodology used

The principal methodology used in rating NORD/LB CBB was [Banks Methodology](#) published in March 2024.

About Moody's Bank Scorecard

We do not apply the Bank Scorecard to determine NORD/LB CBB's BCA, given the alignment of the bank's BCA with that of NORD/LB.

Ratings

Exhibit 4

Category	Moody's Rating
NORD/LB LUXEMBOURG S.A. COVERED BOND BANK	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa2
ST Issuer Rating	P-1
PARENT: NORDDEUTSCHE LANDESBANK - GIROZENTRALE -	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa2
Senior Unsecured -Dom Curr	Aa2
Junior Senior Unsecured -Dom Curr	A1
Junior Senior Unsecured MTN -Dom Curr	(P)A1
Subordinate -Dom Curr	Baa1
Commercial Paper	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Ratings

Endnotes

- 1 The ratings shown are NORD/LB's deposit rating and outlook, its senior unsecured debt rating and outlook, and its BCA.
- 2 The ratings shown are S-Finanzgruppe's corporate family rating and outlook, and its BCA.
- 3 The regulatory leverage ratio compares Tier 1 capital with the exposure at default.

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