

**Rating Action: Moody's assigns first-time A3 deposit and Baa1 issuer ratings to  
NORD/LB Luxembourg S.A. Covered Bond Bank; outlook negative**

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Global Credit Research - 02 Jan 2017

**Provisional (P)Baa1 senior unsecured program rating assigned**

Frankfurt am Main, January 02, 2017 -- Moody's Investors Service has today assigned for the first time A3/P-2 long- and short-term deposit ratings and Baa1/P-2 long- and short-term issuer ratings, as well as a (P)Baa1 senior unsecured medium-term note (MTN) program rating to NORD/LB Luxembourg S.A. Covered Bond Bank (NORD/LB CBB). The outlook on the long-term ratings is negative. In addition, Moody's has assigned a ba3 baseline credit assessment (BCA) and a ba1 adjusted BCA to NORD/LB CBB. Moody's has also assigned a long- and short-term Counterparty Risk (CR) Assessment of A3(cr)/P-2(cr) to NORD/LB CBB.

A full list of assigned ratings and rating inputs can be found at the end of this press release.

**RATINGS RATIONALE**

**-- STANDALONE BASELINE CREDIT ASSESSMENT**

Moody's considers NORD/LB CBB to be a highly integrated and harmonized subsidiary of Norddeutsche Landesbank GZ (NORD/LB, deposits A3 negative / senior unsecured Baa1 negative, BCA ba3), because of its limited proprietary franchise, the magnitude of its management integration and its role as a group service provider, as well as the influence of the parent in NORD/LB CBB's financial profile, in particular its funding profile and profitability. The rating agency therefore assigns a ba3 BCA to NORD/LB CBB, which is aligned with the BCA of its owner NORD/LB.

NORD/LB CBB's business activities are foremost determined by its role as NORD/LB's booking center for assets that to a great extent qualify as eligible collateral under Luxembourg's covered bond product, the "Lettres de Gage publiques". NORD/LB CBB's balance sheet size accounts for less than 10% of consolidated NORD/LB group assets, so that the transferred asset exposures are generally large in comparison to NORD/LB CBB's risk-bearing capacity. These risk concentrations are mitigated by asset guarantees from NORD/LB and by a tight integration of NORD/LB CBB's risk management into that of its German parent. NORD/LB CBB's proprietary franchise is of limited scope, and the entity provides important services for NORD/LB group and its overseas branches, including European fixed-income sales outside Germany and Austria.

**-- AFFILIATE SUPPORT**

Moody's considers NORD/LB CBB to benefit from "affiliate-backing", the strongest form of support likelihood, provided by the parent bank NORD/LB. The two notch uplift provided on this basis from NORD/LB CBB's ba3 BCA also incorporates the high likelihood of support being available in case of need for NORD/LB as a group from cross-sector support of Germany's Sparkassen-Finanzgruppe (S-Finanzgruppe; corporate family rating Aa2 stable, BCA a2).

NORD/LB's commitment to its Luxembourg-based subsidiary is underscored by a letter of comfort and by the group's track record of consistent support of its subsidiaries when required.

**-- LONG-TERM DEPOSIT AND ISSUER RATINGS**

NORD/LB CBB's issuer and deposit ratings reflect: (1) The bank's ba3 BCA; (2) its ba1 adjusted BCA incorporating two notches of affiliate uplift from NORD/LB and S-Finanzgruppe; (3) the result of Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in resolution and provides three notches of rating uplift to NORD/LB CBB's deposit ratings and two notches of rating uplift to the issuer and senior unsecured program ratings; and (4) a moderate probability of NORD/LB CBB receiving government support in case of need, resulting in one notch of rating uplift.

Moody's assumes that NORD/LB CBB, despite the differences in Luxembourg's and Germany's insolvency hierarchies which will -- at least temporarily -- become more explicit as of 1 January 2017, would form part of one common resolution perimeter with its German parent. Common resolution with the parent is likely given that NORD/LB CBB is strongly interconnected with its parent, as illustrated by its funding reliance on its parent for a large portion of its balance sheet. Such interconnectedness implies limited options for a subsidiary's ring-fencing in resolution.

As a result of the Luxembourg-based bank's close integration, Moody's also expects any potential German government support in case of need -- which would be made available if needed through S-Finanzgruppe -- to be available for the benefit of creditors of both NORD/LB and NORD/LB CBB, so that the rating agency includes one notch of government support from Germany (Aaa stable) in the deposit and issuer ratings and the CR Assessment of NORD/LB CBB.

The negative outlook on NORD/LB CBB's long-term deposit and issuer ratings mirrors the negative rating outlook Moody's assigns to these ratings for the bank's parent NORD/LB.

#### WHAT WOULD MOVE THE RATING UP / DOWN

Upward rating pressure on NORD/LB CBB's issuer, senior unsecured program and deposit ratings would be subject to respective rating upgrades for its parent NORD/LB.

As indicated by the negative outlook, Moody's currently does not expect such positive rating pressure to arise in the near term.

Instead, NORD/LB's and its subsidiary's long-term ratings may be downgraded due to downgrades of their BCAs. The latter could be driven by sustained pressures in the shipping industry which could exert pressure on the group's capitalisation and challenge NORD/LB's efforts to reduce its large shipping exposure towards its medium-term target size of €12-14 billion.

Furthermore, the long-term issuer and deposit ratings of NORD/LB and of NORD/LB CBB may be downgraded if, at the group level, the amount of equal-ranking or subordinated debt for an individual debt class was to decline beyond current expectations, leading to a less favourable outcome under Moody's Advanced LGF analysis.

#### LIST OF AFFECTED RATINGS

The following ratings and ratings input were assigned to NORD/LB CBB for the first time:

- Long-term deposit rating (local- and foreign currency) at A3, with negative outlook
- Short-term deposit rating (local- and foreign currency) at P-2
- Long-term issuer rating (local- and foreign currency) at Baa1, with a negative outlook
- Short-term issuer rating (local- and foreign currency) at P-2
- Long-term senior unsecured MTN program rating (local currency) at (P)Baa1
- Long-term Counterparty Risk Assessments at A3(cr)
- Short-term Counterparty Risk Assessment at P-2(cr)
- Baseline credit assessment at ba3
- Adjusted baseline credit assessment at ba1

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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