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Girozentrale**

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## Stress test confirms the capital-strengthening programme of NORD/LB and its owners

- > **Result “in line with expectations”, marked by a low initial value**
- > **NORD/LB in midfield among German banks in terms of stress-test effect**
- > **Bank continues strategy of boosting capital, reducing NPLs and transforming the Group**
- > **Tender process for investors on schedule and very promising**

NORD/LB Norddeutsche Landesbank has concluded the Europe-wide bank stress test with a CET1 ratio of 7.07 percent in the adverse scenario. “NORD/LB’s stress-test result is therefore in line with expectations and did not turn up any surprises,” said Thomas Bürkle, Chairman of the Managing Board of NORD/LB. “The result reflects the fact that, as everyone knows, for the last few years we have been hedging risks from the shipping portfolio on a large scale. This was necessary and made sense but naturally it also impacts negatively on the Bank’s capital resources. The result is therefore at the same time clear confirmation of the capital-strengthening course we have embarked on together with our owners and which we are vigorously pursuing. The tender process launched in this context for potential investors is on schedule and looks very promising.”

### **Brief analysis by the Bank**

The key factor in NORD/LB’s stress-test result was the low baseline for the Bank’s capital ratio (CET1), which fell by 6.08 percentage points in the adverse scenario. Among all German banks participating in the test, the average score for this figure (*drop rate*) was 5.86 percentage points. This means that, in terms of the actual stress-test effect, NORD/LB is in midfield in comparison with other German banks. These are the findings of an initial internal brief analysis conducted by the Bank on the evening the stress-test results were published. This says: “Rather than merely looking at where the Bank places in any capital ratio ranking, it is more revealing to view the stress-test effect, i.e. the difference between the actual capital ratio and the ratio in the crisis scenario assumed for 2020. In simple terms, this *drop rate* gives an indication of the extent to which

there may be undetected or unhedged default risks on the Bank's balance sheet which could become particularly onerous in a crisis scenario. A high score here would be a warning signal, therefore. NORD/LB achieves a score of 6.08 percentage points for this drop rate, which is an unremarkable result when measured against the average for all German banks."

Since the last bank stress test in 2016, NORD/LB has created a new loan loss provision totalling around € 3.9 billion for its shipping loans portfolio by own means without any state aid. "These measures were in line with the specifications contained in current accounting rules and also matched the expectations of the regulatory authorities, rating agencies, the owners and the public. However, at the same time, they also weighed on the Bank's capital base," as the Bank's brief analysis concludes. "NORD/LB was therefore starting from a comparably low baseline in the stress test, and consequently emerges with a correspondingly low result in the adverse scenario in comparison with its competitors, in spite of a drop rate that was only moderate. This is the expected consequence from the previously created risk provisions."

### **Bank maintains course in strengthening capital, reducing NPLs and transforming the Group**

NORD/LB had already announced last year, therefore, that it regards a Common equity tier 1 capital ratio of 13% as the minimum target for its business model. This ratio currently stands at 12.4%. "The Bank therefore continues to meet all regulatory requirements by a clear margin. However, this alone is not sufficient to prepare NORD/LB for the increasing requirements of the future and for the coming challenges on the markets," says Bürkle. "For that reason, we are working very hard with our owners to sustainably strengthen our capital base. In this regard the stress test does not give rise to any new insights or an acute need for action, but as a further data point, it underlines the necessity of vigorously maintaining the course embarked on."

NORD/LB is currently working in three areas to restructure the Bank to future-proof it further:

1. Since the end of last year, the Bank has been working hard with its owners to examine different options for **strengthening capital**. In the process, it is liaising closely with the financial regulatory authorities and the European Commission. Feasible options include the possibility of external investors taking a stake in NORD/LB. A **tender process** was launched at the end of September in which more than

ten high-quality expressions of interest have been received. A shortlist of strategic and financial investors whose offers fit best with the strategic vision of the Bank and its owners have had access to a data room since mid-October. At the same time, the State of Lower Saxony, as the majority shareholder in NORD/LB, is also reviewing whether to participate in a capital increase as part of the Bank's investment management.

2. We are making good progress in **reducing the NPL shipping portfolio**. NORD/LB is thus reducing its risk assets and capital consumption. After reducing its entire shipping portfolio from € 19.0 billion (at the end of 2015) to its current level of € 11.5 billion (mid-2018), the Bank is now concentrating on its NPL shipping loans portfolio. The Bank has set itself the target of cutting this portfolio from its current figure of € 7.7 billion to under € 5 billion by the end of 2019. Here the Bank is now making big strides, with the result that it will probably be possible to reach this target significantly earlier.
3. At the same time, the Bank is continuing to pursue its Group-wide **transformation programme One Bank**, which scrutinises all its processes, products and structures and is intended to ensure NORD/LB's competitiveness over the long term with the focus on earnings capacity, risks and costs. In this context, the second phase of a voluntary **personnel reduction programme** was launched yesterday on 1 November, the aim of which is to cut a total of 1,250 jobs across the Group by the end of 2020.

"We are making good progress in all these areas — capitalisation, NPL reduction, Group transformation. The Bank and its owners initiated this radical restructuring of the Bank at an early stage. We will systematically pursue this restructuring in order to future-proof the Bank further. The stress test shows that we are moving in the right direction," Thomas Bürkle said. A viable plan to boost capital and restructure the Bank is to be presented by the end of the year.

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**About NORD/LB**

With total assets of € 160 billion, NORD/LB Norddeutsche Landesbank is one of Germany's leading commercial banks. Its core business segments include structured finance in the energy and infra-

structure sector, ship and aircraft finance, corporate client business, commercial real estate finance, capital market business and private and commercial client business including private banking. The Bank has its head office in Hanover, Braunschweig and Magdeburg. NORD/LB also has branches in Bremen, Oldenburg, Hamburg, Schwerin, Düsseldorf, Munich and Stuttgart. Outside Germany, NORD/LB is active in Luxembourg with a covered bond bank (NORD/LB Covered Bond Bank) and also has offices in London, New York, Singapore and Shanghai.

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