

## DBRS Morningstar Confirms NORD/LB's Long-Term Issuer Rating at A (high)/R-1 (middle), Stable Trend

### BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings for Norddeutsche Landesbank Girozentrale (NORD/LB or the Bank), including the Long-Term Issuer Rating at 'A (high)', the Senior Non-Preferred Rating at 'A', and the Short-Term Issuer Rating at R-1 (middle). The trend on all ratings remains Stable. The ratings and the trend are all in line with the broader Sparkassen-Finanzgruppe (SFG). NORD/LB's Intrinsic Assessment (IA) remains at BBB (low) and its Support Assessment remains unchanged at SA1. For a complete list of ratings, please see the table at the end of this press release.

### KEY RATING CONSIDERATIONS

The confirmation of NORD/LB's ratings reflects its membership in the SFG and in the Institutional Protection Scheme (IPS) of the SFG. Each member of the IPS, including NORD/LB, is generally rated at the floor level, which is currently A (high) with a Stable trend.

The IA continues to take into account NORD/LB's established franchise as a commercial bank in the region of Northern Germany, its role as a central institution and clearing bank for the savings banks in this region, as well as a global footprint in its specialty finance business. The Bank's liquidity position is solid and is supported by its membership in the SFG and its established covered bond franchise. Following the Bank's recapitalisation and de-risking, it now has substantial capital buffers above regulatory minimum requirements. The IA also considers that credit risk emanating from the Bank's shipping portfolio has been largely eliminated, however, increased credit risk related to aircraft finance and the general economic uncertainty could still lead to elevated credit losses. The Bank's main challenges remain its limited earnings power and the ambitious restructuring programme, which, while on track in terms of cost reduction and systems overhaul, continues to be subject to execution risk, including potential revenue losses. We expect 2022 to provide a clearer picture in relation to revenue generation capabilities, progress and impact of cost cuts, and the build-out of new IT systems.

### RATING DRIVERS

NORD/LB's Issuer Ratings benefit from the SFG's IPS. An upgrade of SFG's ratings would lead to an upgrade of NORD/LB's ratings. The IA would be upgraded, if the Bank is successful in restoring sustainable profitability, while maintaining healthy asset quality and capital metrics.

NORD/LB's Issuer Ratings benefit from the SFG's IPS. A downgrade of SFG's ratings would lead to downgrade of NORD/LB's ratings. The IA would be downgraded, should the Bank fail to achieve a sustainable business model over the medium term. Any developments that would lead to a material deterioration in the Bank's liquidity or capital situation would also lead to a downgrade of the IA.

## RATING RATIONALE

### Franchise Combined Building Block (BB) Assessment: Good / Moderate

NORD/LB has a diverse corporate and commercial client base in Northern Germany, complemented by a savings bank segment and revenues from more global business lines. A large-scale restructuring programme ("NORD/LB 2024"), implemented in 2019 included an exit from the shipping business, which previously had been one of the Bank's major business lines as well as a significant reduction in the Bank's total assets to about EUR 110 billion by end-2024, down from EUR 145 billion in 2019. The programme also includes a complete overhaul of the Bank's IT systems and carries significant execution risk. To date, the Bank has fully integrated its commercial real estate subsidiary Deutsche Hypo, has reduced the balance sheet size to EUR 117 billion and the shipping portfolio to EUR 1.1 billion, and has prepared a number of measures that should start yielding visible P&L results in 2022.

### Earnings Combined Building Block (BB) Assessment: Weak / Very Weak

For the first 9 months of 2021, NORD/LB reported a net profit of EUR 122 million, up from a net loss of EUR 70 million a year earlier. However, a number of items other than core revenues have affected these results and for the full-year 2021 only a small profit is expected and Bank is not likely to reach meaningful profitability until 2023. DBRS Morningstar notes that in the interim the guarantee fees, paid by the Bank to the State of Lower Saxony, will be reinvested in the Bank in order to support capital formation. In DBRS Morningstar's view NORD/LB's earning generation ability remains under pressure, as the Bank is executing its restructuring programme, the low interest rate environment persists, and uncertainty related to COVID-19 pandemic continues to affect the economic environment. We will monitor carefully, whether the Bank will be able to generate sufficient revenues to support a viable business model, as the restructuring programme progresses.

### Risk Combined Building Block (BB) Assessment: Moderate / Weak

DBRS Morningstar notes that NORD/LB has significantly improved its credit risk profile in recent years through divestments of risky assets and various portfolio guarantees. As a result, exposure to shipping has been virtually eliminated and more than half of the aviation portfolio is protected by guarantees. However, with an exposure not subject to guarantees of EUR 1.4 billion, aircraft finance currently represents one of the Bank's larger credit risks. Overall, the Bank's reported NPL ratio continued to improve to 1.0% at end-September 2021 from 1.3% at end-2020. Given its wholesale banking franchise, the Bank continues to maintain sizeable exposures to cyclical sectors that include more lumpy exposures. Credit risk could still increase as a result of delayed effects from the COVID-19 pandemic and operational risk associated with the large scale system changes also exists.

### Funding and Liquidity Combined Building Block (BB) Assessment: Good / Moderate

The funding profile which predominantly consists of wholesale funding and corporate deposits is balanced by the established funding relationships within the SFG and the access to stable Pfandbrief funding. The balance sheet shrinkage will also reduce funding needs. As of end-Q3 2021 the LCR stood at 149%, and for the first time the Bank published its net stable funding ratio (NSFR), which was 124.1%, both well above the 100% requirement.

### Capitalisation Combined Building Block (BB) Assessment: Moderate / Weak

DBRS Morningstar notes that NORD/LB has further solidified its capital position, which somewhat mitigates the fact that the Bank is currently not able to generate significant amounts of capital from earnings and has very limited ability to raise external capital. The fully-loaded common equity tier 1 (CET1) ratio of 15.8% at the end of Q3 2021 is expected to decline by year-end, but should remain well above 14% over the near- to medium-term. This gives the bank a healthy buffer relative to its current SREP requirement of 8.67%. However, in our view the capital cushion is needed given the risks related to the execution of the Bank's ambitious

restructuring programme, remaining challenges from the COVID-19 pandemic, as well as various other factors affecting capital in coming years.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/389232>.

## ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

### Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (19 July 2021)

<https://www.dbrsmorningstar.com/research/381742/global-methodology-for-rating-banks-and-banking-organisations>

Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (3 February 2021) <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

The sources of information used for this rating include Company Documents, NORD/LB 9M 2021 Presentation, NORD/LB H1 2021 Interim Report, NORD/LB 2017-2020 Annual Reports and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/389231>.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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## Ratings

### Nordeutsche Landesbank Girozentrale

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
03-Dec-21	Long-Term Issuer Rating	Confirmed	A (high)	Stb	<b>EU</b> <b>U</b>
03-Dec-21	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	<b>EU</b> <b>U</b>
03-Dec-21	Long-Term Deposits	Confirmed	A (high)	Stb	<b>EU</b> <b>U</b>
03-Dec-21	Senior Non-Preferred Debt	Confirmed	A	Stb	<b>EU</b> <b>U</b>
03-Dec-21	Short-Term Debt	Confirmed	R-1 (middle)	Stb	<b>EU</b> <b>U</b>
03-Dec-21	Short-Term Deposits	Confirmed	R-1 (middle)	Stb	<b>EU</b> <b>U</b>
03-Dec-21	Subordinated Debt	Confirmed	A (low)	Stb	<b>EU</b> <b>U</b>
03-Dec-21	Long-Term Senior Debt	Confirmed	A (high)	Stb	<b>EU</b> <b>U</b>

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