

**Norddeutsche Landesbank
Girozentrale**

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Despite restructuring and Corona impacts - NORD/LB with balanced annual result in 2020

- > **Consolidated profit at € 25 million**
- > **Administrative expenses fell again**
- > **CET1 ratio at strong 14.6 per cent**
- > **Important intermediate steps in the transformation of the bank achieved**
- > **Outlook for 2021 characterised by high uncertainty due to Corona pandemic**

NORD/LB Norddeutsche Landesbank closed the 2020 financial year with a consolidated profit after taxes of € 25 million. Earnings before taxes were € -13 million. In order to be prepared for possible consequences in connection with the Corona pandemic, the bank has significantly increased its risk provisioning in the 2020 financial year. At the same time, NORD/LB has continued to restructure the Group and has achieved important interim targets.

"Of course the Corona pandemic has had an impact on our business result. Fortunately, loan losses in connection with the pandemic have so far been quite manageable. Nevertheless, we have increased our risk provisions considerably in the past year. We therefore prepared ourselves for possible future effects," said Thomas Bürkle, Chairman of the Managing Board of NORD/LB. "At the same time we are continuing to massively restructure the bank. With each measure, the bank becomes a bit more future-proof and competitive in the process."

Income statement for the 2020 financial year

In the 2020 financial year, the Group's **net interest income** amounted to € 1,285 million (previous year: € 1,024 million). The increase compared to the previous year is mainly due to a one-off effect from the revaluation of financial liabilities. However, the general conditions remain challenging due to the extremely low interest rates on the money and capital markets.

In connection with the Corona pandemic, **risk provisioning** was expanded considerably. At € -426 million, it was significantly higher than

the previous year's figure (€ 29 million). It is mainly influenced by model adjustments as a result of the gloomy overall economic situation. Within the framework of this so-called management adjustment, the Bank has formed risk provisions in the amount of € 386 million for potential pandemic-related defaults in the future.

With a value of € -38 million, **net commission income** fell short of the previous year's result of € 71 million. This development is due, among other things, to the significant increase in expenses as a result of the payments for the guarantees of the State of Lower Saxony (€ 164 million). At the same time, the termination of existing securitisation transactions had a compensating effect (€ 79 million). The net commission income adjusted for these one-time special effects, however, decreased only slightly compared to the previous year.

The **fair-value result** (including hedge accounting) again made a positive contribution to earnings last year, amounting to € 268 million (€ 186 million). The fair-value result was positively influenced, among other things, by valuation effects in connection with the guarantees of the State of Lower Saxony. **Profit/loss from shares in companies** was € -13 million (€ 17 million), **Profit/loss from investments accounted for using the equity method** was € -11 million, slightly lower than in the previous year (€ 20 million).

Administrative expenses declined again, falling to € 934 million in 2020 (€ 970 million). Both personnel costs and operating expenses declined. In the past three years, annual administrative costs have thus already been reduced by more than 20 per cent. **NORD/LB** is also planning to reduce administrative expenses in the coming years. While staff expenses will continue to fall as a result of the significant reduction in the number of employees, simpler and leaner Group structures will lead to more efficient work processes and hence to a fall in material costs.

Other operating profit/loss in the 2020 financial year was € -21 million. (€ 45 million). This item includes, among other things, the expenses for the bank levy (€ 73 million) and for the deposit guarantee fund (€ 11 million).

Expenses for restructuring and transformation decreased significantly. Last year they amounted to € 87 million (€ 459 million). These expenses are directly related to the Bank's transformation process and mainly consist of provisions for the planned staff reduction as well as expenses for the utilisation of consulting services for the restructuring of the Bank.

Income taxes calculated according to IFRS were € -38 million (€ 36 million). This accounting tax income resulted primarily from the different tax treatment of the management adjustment in the tax and IFRS balance sheets. Another positive tax effect resulted from the conclusion of tax audits for previous years.

Total assets of the NORD/LB Group continued to decrease in the 2020 accounting period. As at 31 December 2020 it stood at € 126.5 billion (year-end 2019: € 139.6 billion). In the past ten years, NORD/LB's total assets have therefore fallen by around € 100 billion. The **total risk exposure amount**, which is decisive for calculating the capital ratios, stabilised last year. It was € 39.7 billion as at 31 December 2020 and has therefore hardly changed compared to the previous year (€ 39.8 billion).

Despite the challenges posed by the pandemic and the ongoing restructuring of the bank, the capital ratios of NORD/LB remained stable. The **Common Equity Tier 1 capital ratio** was 14.6 per cent as at 31 December 2020 (previous year: 14.5 per cent) and therefore significantly above the regulatory minimum requirement (8.7 per cent).

Development of segments in the financial year 2020

The individual business segments of NORD/LB were affected to varying degrees by the Corona pandemic and its economic consequences in 2020.

The **Corporate Customers** strategic business segment comprises NORD/LB's middle and upper-middle-market corporate customer business. After the reorganisation of the business segments, the Corporate Customers segment was the segment with the largest contribution to earnings in the Group. Earnings before taxes amounted to € 89 million in 2020.

In the **Private and Commercial Customers and Savings Bank Network Customers** segment NORD/LB presented its products and services for private and commercial customers in the region of Braunschweigische Landessparkasse (BLSK), in Hanover and Hamburg as well as in Bremen and Oldenburg and its business with savings banks in Lower Saxony, Saxony-Anhalt, Mecklenburg-Western Pomerania and Schleswig-Holstein and Brandenburg. The cooperations in the lending business with the savings banks as well as the municipal financing business are also allocated to this segment. The Bank intends to grow more strongly in the Private Banking sub-segment in the future. Earnings before taxes of € -32 million are primarily due to the significant increase in

risk provisions. At the same time, negative effects from an increased inflow of deposits had a negative impact.

The main task of the strategic business segment **Markets** is the provision of capital market products and capital market-related products for institutional clients. Earnings before taxes of € 31 million were achieved in this segment last year. While negative valuation losses had a dampening effect, the segment was able to significantly increase its service result. In addition to a large number of transactions for domestic financial institutes, **NORD/LB** also successfully supported international issuers in their capital market activities. **NORD/LB** was once again one of the leading banks for German federal states and also brought a significant number of transactions to the market at municipal level.

The **Special Finance** segment is divided into two business segments: Energy and Infrastructure Customers and Aircraft Customers. The Energy segment mainly finances the construction and capacity expansion of wind and photovoltaic plants. The focus in the Infrastructure segment is on public-sector building construction, commercial infrastructure and rail transport. The sub-segment Aircraft Customers comprises the predominantly asset-based aircraft financing. In addition to commercial aircraft financing, this sub-segment offers other financial products such as promissory notes and derivatives. The segment achieved earnings before taxes of € -150 million. The result was burdened primarily by risk provisions in the aircraft financing sub-segment.

Business with **Real Estate Banking Customers** is largely determined by the activities of Deutsche Hypo, which will be fully integrated into **NORD/LB** on 1 July 2021. So far the effects of the Corona pandemic have had no direct impact on risk provisioning. The share of defaulted financing continues to be at a historically low level. The increase in risk provisions in this business segment is also almost exclusively due to model adjustments. The segment result before taxes amounted to € 30 million.

The **Special Credit and Portfolio Optimization (SCPO)** division is not a strategic business segment, but serves to reduce non-strategic customer relationships and asset classes. In the 2020 accounting period the segment achieved a loss before taxes of € 53 million, with commission payments for guarantees provided by the state of Lower Saxony on the shipping portfolio having a negative impact on earnings. **NORD/LB** continued to significantly reduce its shipping portfolio in the past financial year. As at 31 December 2020, the remaining portfolio was reduced to a volume of € 2.1 billion (31 December 2019: € 4.6 billion). The non-performing loan

(NPL) portfolio stood at € 0.9 billion at the end of 2020 and is to be almost completely wound down by the end of 2021.

Transformation of the Bank achieves important interim goals

Last year NORD/LB achieved important interim goals as part of its transformation programme. The number of employees will be reduced from currently just under 5,000 to 2,800 by 2024. The imminent massive reduction in the number of employees was contractually agreed on the basis of voluntary measures. In order to be able to fulfil the upcoming tasks with a significantly reduced workforce, the Bank will rely even more on innovative forms of work and more agility in the future.

The full integration of Deutsche Hypo on 1 July 2021 will also be a significant step towards simplifying the Group. The full integration of the real estate subsidiary is associated with considerable synergy effects and therefore cost savings. In addition, NORD/LB will gradually receive a completely new bank management architecture in the coming years, which will be groundbreaking for the industry.

NORD/LB will also focus even more strongly on sustainable financing in the future. NORD/LB is already one of the European market leaders in the financing of renewable energies and can look back on many years of experience in this business area. With the signing of the Principles for Responsible Banking and the establishment of a Sustainability Board, it will develop even more strongly in the direction of a sustainable bank.

Outlook 2021

NORD/LB has made a good start to the 2021 financial year. The development of new business has been very positive so far. Nevertheless, the business result in 2021 will continue to be influenced by the effects of the Corona pandemic and the transformation of the bank. Against the backdrop of the still considerable uncertainties about the consequences of the pandemic, it is therefore still too early to make a forecast for the annual result in 2021.

"In discussions with our clients, I can still sense uncertainty about the future economic development. However, the increased worldwide use of vaccines against the coronavirus makes me confident that we will get this pandemic with all its consequences under control in the near future. Above all, we should not be discouraged by setbacks. NORD/LB is in any case well prepared for the challenges posed by Corona," says Thomas Bürkle.

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Consolidated financial statements for financial year 2020

INCOME STATEMENT ¹ (IFRS in € million)	2020 ¹	2019	Change in € million	Change in %
Net interest income	1 285	1 024	261	25
Risk provisioning	- 426	29	- 455	> 100
Net commission income	- 38	71	109	> 100
Profit/loss at fair value (including hedge accounting)	268	186	82	44
Result from financial instruments not measured at fair value through profit/loss	- 36	- 30	- 6	20
Profit/loss from shares in companies	- 13	17	- 30	> 100
Profit/loss from investments accounted for using the equity method	- 11	20	- 31	> 100
Administrative expenses (-)	934	970	- 36	- 4
Other operating profit/loss	- 21	45	- 66	> 100
Earnings before restructuring, transformation and taxes	74	392	- 318	- 81
Expenses for restructuring and transformation (-)	87	459	- 372	- 81
Earnings before taxes (EBT)	- 13	- 67	54	- 81
Income taxes (-)	- 38	36	74	> 100
Consolidated profit	25	- 103	128	> 100

¹ Final and audited figures

BALANCE SHEET FIGURES (IFRS in € million)	31.12. 2020 ¹	31.12. 2019	Change in € million	Change in %
Balance sheet total	126 491	139 594	- 13 103	- 9
Reported equity	5 821	5 804	17	-

¹ Final and audited figures

KEY FIGURES	31.12. 2020	31.12. 2019	Change in %
Cost-Income-Ratio (CIR, in %)	64.5	73.7	- 12
Return-on-Equity (RoE, in %)	- 0.2	- 1.0	- 80

REGULATORY RATIOS (CRR / CRD IV / IFRS)	31.12. 2020	31.12. 2019	Change in € million	Change in %
Common equity tier 1 capital (in € million)	5 805	5 758	47	1
Regulatory capital (in € million)	7 639	8 236	- 597	- 7
Total risk exposure amount (in € million)	39 692	39 841	- 149	-
CET1 capital ratio, in %	14.63	14.45		
Total capital ratio, in %	19.24	20.67		
Common equity tier 1 capital ratio ¹ (fully loaded, in %)	14.58	14.37		
Total regulatory capital ratio ² (fully loaded, in %)	19.19	20.60		
Leverage ratio (in %)	4.3	4.1		

¹ CET1 capital ratio; ² Total regulatory capital ratio