

PRESS RELEASE

DECEMBER 01, 2023

DBRS Morningstar Confirms NORD/LB's LT Issuer Rating at A (high), Stable Trend, and Upgrades Intrinsic Assessment to BBB

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the credit ratings for Norddeutsche Landesbank Girozentrale (NORD/LB or the Bank), including the Long-Term Issuer Rating at A (high), the Senior Non-Preferred Debt Rating at 'A', and the Short-Term Issuer Rating at R-1 (middle). The trend on all ratings remains Stable. The credit ratings and the trend are all in line with the broader Sparkassen-Finanzgruppe (SFG). NORD/LB's Intrinsic Assessment (IA) was upgraded to BBB from 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 CREDIT RATING CONSIDERATIONS

The confirmation of NORD/LB's credit ratings reflects its membership of the SFG and 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 upgrade of the IA reflects the significant progress NORD/LB has made regarding its restructuring programme. This includes the return to profitability, albeit at modest levels, and the significant risk reduction that has occurred since the recapitalisation of the Bank in 2019. At the same time, the Bank has further increased capital ratios. DBRS Morningstar notes that the franchise has remained intact throughout the restructuring process.

The IA continues to take into account NORD/LB's role as a central institution and clearing bank for the savings banks in this region, as its well-established commercial banking franchise in Northern Germany, including a more international specialty finance business. In DBRS Morningstar's view the Bank's liquidity and funding profile is well managed and benefits from its membership in the SFG and its established covered bond franchise, offsetting the risk from a largely corporate deposit base. The Bank maintains substantial capital cushions above regulatory minimum requirements, which is needed to offset the Bank's limited access to capital markets and the still modest capital generation. With the wind-down of the shipping portfolio that has now been completed, asset quality metrics have improved materially. However, given the weak economic environment, the credit outlook is set to deteriorate. In particular, we note that the Bank has significant exposure to commercial real estate, and, to a lesser extent, aircraft finance. The Bank's main weakness remains its limited earnings power amid a still ongoing restructuring programme. While interest rates should support revenues going forward, the economic conditions have become more challenging. We continue to monitor the Bank's progress towards sustainable revenue generation, cost reductions, and the build-out of the new bank steering IT system.

CREDIT RATING DRIVERS

NORD/LB's issuer credit 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 consistently achieving higher levels of profitability, while maintaining healthy asset quality and capital metrics.

NORD/LB's issuer credit 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 maintain the currently modest level of profitability over the medium term. A material deterioration in the Bank's asset quality would also lead to a downgrade of the IA.

CREDIT RATING RATIONALE

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

DBRS Morningstar takes 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. With total assets of EUR 113 billion as of end-Q3 2023, NORD/LB ranks among the top ten banks in Germany by assets and is the fourth largest of 5 Landesbanken. Following a period of a mandated de-leveraging as part of the Bank's restructuring programme, the Bank has started growing again with new business increasing across all segments, underscoring that the franchise has remained intact. The Bank is well-positioned in the renewable energy finance business and should benefit from the energy transition. The Bank's main challenges remain its limited earnings power. In addition, a new bank steering IT system remains an important outstanding project, which has encountered delays and entails significant execution risk.

Earnings Combined Building Block (BB) Assessment: Weak

Despite the recent improvement, earnings generation remains NORD/LB's weakness. The Group reported a net profit of EUR 195 million in 9M 2023, up from EUR 37 million in 9M 2022 driven by an increase in core revenues by 22%, partly offset by loan loss provisions (LLPs) of EUR 34 million compared to a release of EUR 98 million and an expense increase of 3% compared to 9M 2022. This resulted in the cost-income ratio improving considerably to 69% in 9M 2023 down from 101% a year earlier. The return on equity (ROE) was 4.0% in 9M 2023. While these are the best results since the beginning of the transformation, NORD/LB is not only trailing European peers, but also other German Landesbanken. DBRS Morningstar notes that earnings volatility has improved following the wind-down of the shipping portfolio. However, large fluctuations in positions accounted at fair value have had an outsized impact on the P&L in the more recent past. Higher interest rates, a decline in guarantee fees, and benefits from the restructuring programme should be supportive of profits, but we also expect headwinds such as pressure on deposit margins, subdued loan demand, cost pressure from inflation and higher credit costs to materialise over the near- to medium-term.

Risk Combined Building Block (BB) Assessment: Strong/Good

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. The Bank's reported NPL ratio remained stable YOY at 0.7% at end-September 2023. Exposure to shipping, which caused significant credit losses in the past, has now been eliminated. Given its wholesale banking franchise, the Bank continues to maintain sizeable exposures. In particular, the Bank has exposure to aircraft finance, a sector adversely affected by the COVID-19 pandemic that has not yet fully recovered. In addition, commercial real estate (CRE) is a large part of NORD/LB's business. Albeit conservatively managed, the sector is affected by higher interest rates and structural demand changes. Going forward, we expect NPLs to increase from the current lows, not just in the more vulnerable sectors. In our view, corporate borrowers face multiple challenges such as a weak economy, wage inflation, still high higher energy costs, and increasing interest burdens. However, we view the Bank as well protected by a management overlay of EUR 300 million as part of its loan loss reserves. We continue to see elevated operational risks associated with the large restructuring and the complete overhaul of the Bank's IT systems.

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

NORD/LB's liquidity and funding profile is satisfactory. The funding profile predominantly consists of wholesale funding and corporate deposits. NORD/LB does not have a large retail franchise of granular and sticky deposits, however, the Bank manages its

corporate deposits prudently, limiting concentration risks and less stable deposits. The funding profile is further supported by the Bank's covered bond franchise, and the access to the intra-group funding of the SFG. In our view, NORD/LB's membership in the SFG with its mutual support also provides confidence during periods of stress. As of end-9M 2023 the liquidity coverage ratio (LCR) stood at 129%, and the net stable funding ratio (NSFR) was 115%, both ratios were well above the 100% requirement.

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

NORD/LB's Q3 2023 CET1 ratio was 14.8% (15.4% when including Q3 earnings) compared to 15.1% at end-2022, as retained earnings more than offset an increase in risk weighted assets (RWA) to EUR 42 billion from EUR 39 billion due to business growth and the termination of the North Vest hedging transaction. The CET1 ratio is well above regulatory requirements of 9.34% and positions NORD/LB at the upper end of its peer group. In DBRS Morningstar's view NORD/LB's sound capital cushion is partly offset by the fact that the Bank's capital generation capacity is still constrained and that the ability to raise external capital is limited. We also note that the capital cushion is needed given the risk related to the execution of the Bank's restructuring programme, the current macroeconomic uncertainty, and the Bank's substantial CRE exposure.

Further details on the Scorecard Indicators and Building Block Assessments can be found at: <https://www.dbrsmorningstar.com/research/424842>.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Credit rating actions on Sparkassen-Finanzgruppe are likely to have an impact on this credit rating.

Governance (G) Factors

The subfactor Corporate Governance is relevant to the rating of Sparkassen-Finanzgruppe, and this is reflected in the franchise grid grades for the bank. We view certain weaknesses in the group structure as relevant from a corporate government perspective. Notably, the Landesbanken are majority or part-owned by German Federal States. State governments, in our view, have limited capabilities to effectively supervise the banks' activities. In the past, NORD/LB has taken outsized risks, resulting in high costs to tax payers and the Sparkassen. Sparkassen associations, while part-owners of some Landesbanken have had only limited influence over the risk taking by the Landesbanken. The ownership mix and the parliamentary process involved in decision making, has also made it difficult at times to swiftly react to challenges. In 2020, the ECB requested better pre-emptive risk controls within the IPS and more transparent processes in case of a need for recapitalisation, which has been addressed in 2021. We note that aggregate financial information for the Group is limited. In addition, the Bank needs and has started to implement a new bank steering IT system, which entails significant execution risk.

ESG factors that have a significant or relevant effect on the credit analysis of Sparkassen-Finanzgruppe are discussed separately at <https://www.dbrsmorningstar.com/issuers/10051>.

There were no Environmental or Social factors that had a significant or relevant effect on the credit analysis.

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 (04 July 2023) <https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria:-approach-to-environmental,-social,-and-governance-risk-factors-in-credit-ratings>

Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (22 June 2023) <https://www.dbrsmorningstar.com/research/415978/global-methodology-for-rating-banks-and-banking-organisations> In addition DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings <https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria:-approach-to-environmental,-social,-and-governance-risk-factors-in-credit-ratings> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://www.dbrsmorningstar.com/about/methodologies>.

The sources of information used for these credit ratings include Morningstar Inc. and Company Documents, NORD/LB 9M 2023 & H1 2023 Presentations, NORD/LB H1 2023 Interim Report, NORD/LB 2018-2022 Annual Reports. DBRS Morningstar considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

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

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and credit 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: <https://registers.esma.europa.eu/cerep-publication>. For further information on DBRS Morningstar historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/424841>.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Rating Committee Chair: Elisabeth Rudman, Managing Director, Head of Global FIG



Initial Rating Date: June 11, 2018

Last Rating Date: December 02, 2022

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

NORD/LB Luxembourg S.A. Covered Bond Bank

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
01-Dec-23	Long-Term Issuer Rating	Confirmed	A (high)	Stb	
01-Dec-23	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
01-Dec-23	Short-Term Debt	Confirmed	R-1 (middle)	Stb	EU U
01-Dec-23	Short-Term Deposits	Confirmed	R-1 (middle)	Stb	EU U
01-Dec-23	Long-Term Deposits	Confirmed	A (high)	Stb	EU U
01-Dec-23	Long-Term Senior Debt	Confirmed	A (high)	Stb	EU U

Norddeutsche Landesbank Girozentrale

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
01-Dec-23	Long-Term Issuer Rating	Confirmed	A (high)	Stb	EU U
01-Dec-23	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	EU U
01-Dec-23	Long-Term Deposits	Confirmed	A (high)	Stb	EU U
01-Dec-23	Senior Non-Preferred Debt	Confirmed	A	Stb	EU U
01-Dec-23	Short-Term Debt	Confirmed	R-1 (middle)	Stb	EU U
01-Dec-23	Short-Term Deposits	Confirmed	R-1 (middle)	Stb	EU U
01-Dec-23	Subordinated Debt	Confirmed	A (low)	Stb	EU U
01-Dec-23	Long-Term Senior Debt	Confirmed	A (high)	Stb	EU U

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