

## CREDIT OPINION

18 April 2024

Update

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### RATINGS

#### Norddeutsche Landesbank - Girozentrale -

Domicile	Hannover, Germany
Long Term CRR	Aa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa2
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Aa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Norddeutsche Landesbank - Girozentrale -

### Update following upgrade of ratings

#### Summary

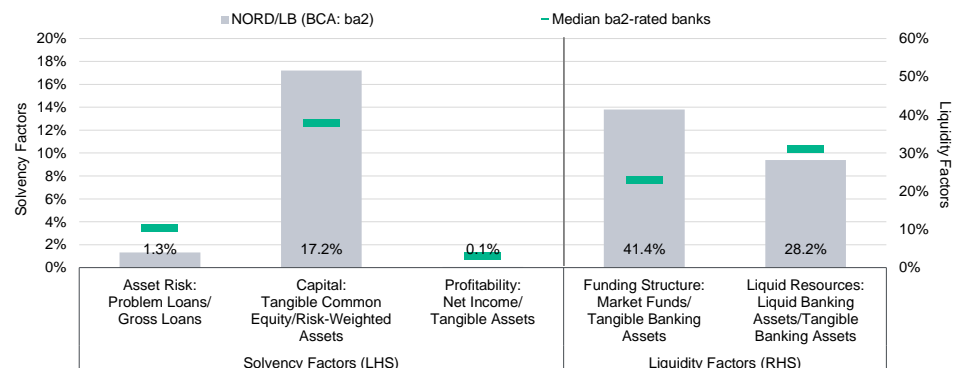
On 15 March 2024, we upgraded [Norddeutsche Landesbank - Girozentrale -](#)'s (NORD/LB) long-term deposit, long-term issuer, and senior unsecured ratings to Aa2 from A3 with a stable outlook. Concurrently, we upgraded NORD/LB's Baseline Credit Assessment (BCA) to ba2 from ba3 and its Adjusted BCA to a3 from ba1.

NORD/LB's Aa2 deposit, issuer, and senior unsecured ratings reflect the bank's ba2 BCA, a five-notch rating uplift from its membership in the institutional protection scheme of [Sparkassen-Finanzgruppe](#) (S-Finanzgruppe; Aa2 stable, a2)<sup>1</sup>, resulting in an a3 Adjusted BCA, three notches of rating uplift from our Advanced Loss Given Failure (LGF) analysis, and a one-notch rating uplift from government support, given its membership in the systemically relevant S-Finanzgruppe.

NORD/LB's ba2 BCA reflects the bank's resilience in its improved combined solvency profile despite the headwinds from a deteriorated operating environment in Germany. While asset quality will weaken, the bank's improved pre-provision profitability, the build-up of post-model management adjustments, and the bank's solid risk-weighted capitalisation will provide a sufficient buffer against rising asset risks. The BCA also takes into account NORD/LB's elevated market funding dependence, while its sound liquid resources continue to provide a sufficient mitigant against potential funding challenges. In addition, we continue to incorporate a one notch negative corporate behaviour adjustment in the BCA, reflecting the bank's remaining execution risks stemming from its ongoing strategic transformation.

Exhibit 1

#### Rating Scorecard - Key financial ratios



Asset Risk and Profitability ratios are the average over the 2020 to H1 2023 period.

Source: Moody's Ratings and company filings

## Credit strengths

- » Strong risk-weighted capitalisation following the capital injection in 2019, supported by asset guarantees.
- » Improved asset quality after the wind-down of its shipping loan portfolio.
- » Membership in S-Finanzgruppe's institutional protection scheme (IPS).

## Credit challenges

- » Sizeable exposures to the cyclical and currently struggling commercial real estate (CRE) sector, as well as to the recessionary German economy.
- » Remaining execution risks associated with the bank's transformation plan.
- » Limited track record of profit generation in the bank's core segments.
- » Dependence on confidence-sensitive market funding.

## Outlook

- » The stable outlook on NORD/LB's long-term deposit, long-term issuer, and senior unsecured ratings reflects the stable outlook of S-Finanzgruppe.
- » The stable outlook further incorporates our expectation of a broadly unchanged liability structure of NORD/LB.

## Factors that could lead to an upgrade

- » An upgrade of NORD/LB's long-term ratings could be triggered by an improvement in the financial strength of S-Finanzgruppe.
- » NORD/LB's junior senior unsecured and subordinate ratings could potentially also be upgraded if the bank were to issue substantial additional volumes of capital instruments, such that it reduces the loss severity for these instrument classes.
- » An upgrade of the BCA could result if NORD/LB manages to maintain its current financial strength in the deteriorated operating environment by keeping problem loan formation in check, defending its sound capitalisation, reporting sustainably improved profitability, and maintaining its current combined liquidity profile. However, an upgrade of NORD/LB's BCA would not result in an upgrade of its Adjusted BCA or its ratings.

## Factors that could lead to a downgrade

- » NORD/LB's ratings would be downgraded following a downgrade of the Adjusted BCA, either as a result of a deterioration in the financial strength of S-Finanzgruppe or caused by a weaker BCA of NORD/LB.
- » Furthermore, a shift in the liability structure towards non-bail-in-able instruments, such that it increases the loss severity for a respective debt class and results in reduced rating uplift from our Advanced LGF analysis, could result in a downgrade.
- » The BCA could be downgraded in case of a further material weakening of NORD/LB's asset quality, a concurrent decline in capitalisation and profitability, and a deterioration of the bank's combined liquidity profile.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Norddeutsche Landesbank - Girozentrale - (Consolidated Financials) [1]

	06-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (EUR Billion)	106.5	106.0	111.4	120.9	133.9	(6.3) <sup>4</sup>
Total Assets (USD Billion)	116.2	113.1	126.2	147.9	150.3	(7.1) <sup>4</sup>
Tangible Common Equity (EUR Billion)	6.9	6.8	5.8	5.5	5.5	6.6 <sup>4</sup>
Tangible Common Equity (USD Billion)	7.6	7.3	6.5	6.7	6.2	5.8 <sup>4</sup>
Problem Loans / Gross Loans (%)	0.9	1.0	1.4	2.0	3.1	1.7 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	17.2	17.0	15.3	13.8	13.9	15.4 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.8	9.7	14.2	22.2	35.2	18.0 <sup>5</sup>
Net Interest Margin (%)	1.0	0.8	0.7	1.0	0.7	0.9 <sup>5</sup>
PPI / Average RWA (%)	0.7	0.0	0.2	1.3	0.8	0.6 <sup>6</sup>
Net Income / Tangible Assets (%)	0.2	0.1	0.0	0.0	-0.1	0.0 <sup>5</sup>
Cost / Income Ratio (%)	77.6	98.4	93.6	65.9	74.4	82.0 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	42.5	41.4	42.3	43.8	44.6	42.9 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	28.4	28.2	32.0	31.4	32.2	30.4 <sup>5</sup>
Gross Loans / Due to Customers (%)	160.9	156.0	149.4	152.6	152.2	154.2 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

## Profile

NORD/LB operates as a universal bank, serving private, corporate, and institutional customers, with a regional focus on Northern Germany. NORD/LB's retail activities are housed within Braunschweigische Landessparkasse, while the bank's commercial activities comprise corporate lending as well as asset-based financing for the energy, infrastructure, and real estate sectors. In addition, the bank serves as the state bank in the German federal states of Lower Saxony and Saxony-Anhalt, and as the central bank for the savings banks in Lower Saxony, Saxony-Anhalt, and Mecklenburg-Western Pomerania.

As of 31 December 2023, the bank reported total assets of €112 billion and employed about 4,400 staff. As of the same date, NORD/LB's largest shareholder was the State of Lower Saxony, which held a 57.92% stake, while the State of Saxony-Anhalt held a 6.25% stake and the remainder of the bank was owned by several savings banks vehicles.

For more information, please see NORD/LB's [Issuer Profile](#) and Germany's [Banking System Outlook](#).

## Weighted Macro Profile of Strong (+)

As of 30 June 2023, 70.6% of NORD/LB's exposures derived from Germany, which has a [Strong \(+\) Macro Profile](#) assigned, while other European countries (Macro Profile of Strong) accounted for 21.9%, North America (Strong (+)) for 5.0%, and other worldwide exposures (Strong (-)) for 2.5%. The weighted average of these exposures resulted in a Strong (+) Weighted Macro Profile for NORD/LB.

## Detailed credit considerations

### Risks remain in executing NORD/LB's strategic revamp

Since year-end 2018, NORD/LB has successfully downsized and de-risked its balance sheet, reducing its reported total assets by 27% to €112.0 billion and its risk-weighted assets (RWA) by 10% to €40.4 billion as of 31 December 2023. As part of its transformation programme "NORD/LB 2024", the bank has exited the cyclical shipping segment and it continues to reduce exposures in other non-core segments, largely related to non-strategic parts of its corporates portfolio and supra-regional municipal financing.

Overall, the bank's transformation programme "NORD/LB 2024" is now nearly completed, but there is still some uncertainty around NORD/LB's future strategy, its banking franchise and value proposition within the German banking landscape, as it needs to successfully win new business in a competitive environment without compromising on credit quality. In addition, the bank's "fitt - future investment in technology and transformation program", which started in October 2023, runs until 2026, and aims to implement a new IT-based bank steering system, creates ongoing execution risks.

Already under its "NORD/LB 2024" programme, the bank targeted to revamp its bank steering software, an ambition that was rather unsuccessful and caused management to terminate the project, invest anew, overhaul the implementation strategy, and start from scratch with the new "fitt" program. While the new process considers the outcome of a postmortem analysis of the old project, which should increase the chances of eventual success, it remains a key execution risk related to a crucial investment in the bank's future strategic agility.

Furthermore, on 22 September 2023 the bank announced that it assesses options for a carve-out of the Braunschweigische Landessparkasse, a subsidiary of NORD/LB that operates as a savings bank. Lastly, following press speculation that first surfaced in October 2023, NORD/LB confirmed on 15 March 2024 that a sale or run-down of its aviation business are strategic options that will be decided upon this year.

Hence, to capture these remaining risks in executing its strategic revamp, we continue to incorporate a one notch negative Corporate Behaviour adjustment in NORD/LB's BCA.

### Asset quality improved following the wind-down of the shipping loan portfolio, but recently deteriorated again

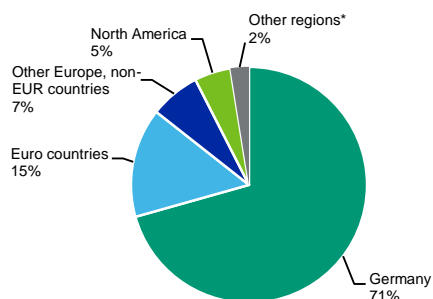
We assign a baa3 Asset Risk score, six notches below the aa3 initial score. Our downward adjustments reflect NORD/LB's sizeable sector concentrations in cyclical CRE and asset-based lending for corporate clients. Furthermore, we make a downward adjustment to reflect a potential weakening of the bank's asset quality because of ongoing challenges for the bank's corporate clients in the recessionary German economy.

The bank's problem loan ratio stood at about 1.6% as of year-end 2023, compared with 0.9% as of 30 June 2023, still representing a steady improvement from the 3.1% reported as of year-end 2019. NORD/LB's historically high problem loan ratio stemmed mostly from the bank's underperforming shipping loan portfolio, while the recent increase in the problem loan ratio reflected weakened asset quality in NORD/LB's CRE portfolio. After the downsizing of its shipping loan portfolio and other non-core portfolios, NORD/LB's regional exposures now mostly relate to Germany and other Euro-area countries. Around 43% of the bank's exposures related to the service industry and the public-sector, while financial institutions accounted for 26% as of 30 June 2023.

The bank's remaining most volatile and cyclical asset exposures are its CRE and aircraft finance portfolios. At the group level, CRE exposures are focused on Germany (59%) and the Benelux (21%), while exposures to the US CRE market were zero. Offices and commercial buildings are the main sub-segments. In addition, NORD/LB finances shopping centres, hotels, logistics buildings, and multi-storey residential buildings. The bank's aircraft financing exposures of €3.0 billion as of 30 June 2023 consisted of more than 250 aircraft and close to 50 (spare) engines and additionally comprised corporate loans to airlines and aircraft leasing companies. Nearly 30% of the portfolio remains guaranteed by the State of Lower Saxony or is securitised, mitigating the risks arising from the aircraft finance portfolio.

In addition to these two high-risk sectors, the bank's corporate clients, particularly SMEs, continue to face difficulties in the recessionary German economy, which might translate into further deteriorating asset quality and the formation of sizeable new problem loans in the coming quarters.

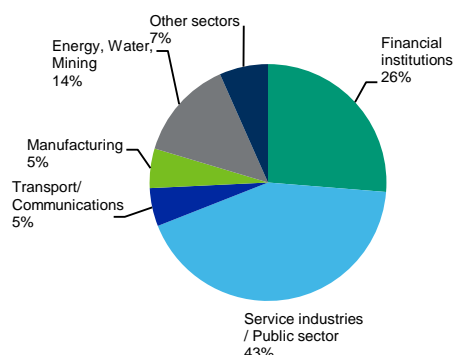
Exhibit 3  
NORD/LB's exposure at default by region  
Data in percentage terms as of 30 June 2023



\*Other regions include Central and South America, the Middle East and Africa, and Asia/Australia.

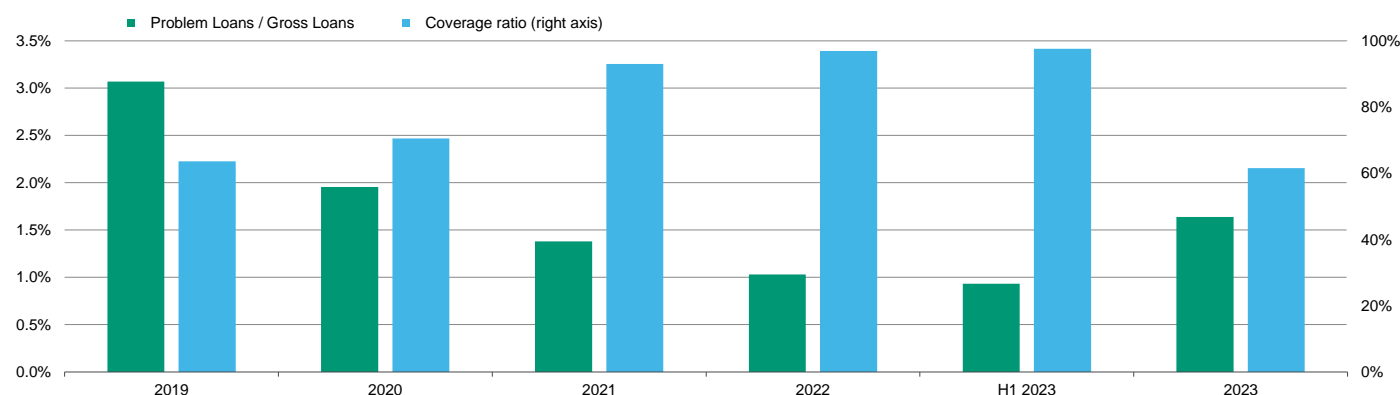
Sources: Moody's Ratings and company filings

Exhibit 4  
NORD/LB's exposure at default by sector  
Data in percentage terms as of 30 June 2023



Sources: Moody's Ratings and company filings

Exhibit 5  
NORD/LB's problem loan ratio has increased again in 2023



Problem loan ratio in accordance with Moody's definition; 2023 figures are Moody's estimates

Source: Moody's Ratings and company filings

### Solid capital buffers, but internal capital generation is still weak

We assign an a2 Capital score, three notches below the aa2 initial score, reflecting that NORD/LB's capitalisation might weaken if the bank resumes growth, which would result in higher RWA, while its internal capital generation capacity is still weak. In addition, in a stressed scenario, the bank might find it difficult to remain profitable and strengthen its loss-absorption capacity through earnings retention.

NORD/LB's improved capitalisation following the €2.8 billion capital injection in 2019 helped the bank de-risk and resize its activities in recent years. The bank's regulatory Common Equity Tier 1 (CET1) capital ratio stood at 15.2% as of year-end 2023 and we estimate that our tangible common equity (TCE) to RWA ratio reached 16.9% as of the same date. The difference between our TCE ratio and the regulatory CET1 ratio mainly results from the additional consideration of the negative accumulated other comprehensive income (OCI) in the CET1 capital calculation, which mostly captures unrealized losses on financial instruments. Since the TCE leverage ratio is well above our 5% baseline requirement, we do not negatively adjust for leverage in NORD/LB's assigned Capital score.

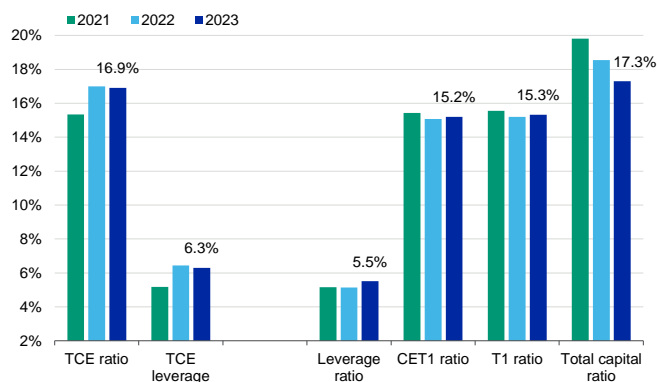
Since [February 2023](#), German banks have to comply with additional sector wide capital requirements, including a 0.75% countercyclical buffer in relation to domestic RWA and a 2.0% systemic risk buffer specific to domestic residential housing loan RWA. The changes translated into additional capital requirements of about 0.95% for NORD/LB at present, which the bank can comfortably

meet. NORD/LB has also participated in the [European Banking Authority's \(EBA\) stress test in July 2023](#), in which the EBA tested banks' capital resiliency in a severe adverse scenario and in which NORD/LB's CET1 ratio dropped to 7.6% by year-end 2025, 1.9 percentage points below its 9.4% regulatory CET1 ratio requirement at that time. Hence, the bank's regulator, the European Central Bank (ECB), increased NORD/LB's Pillar 2 requirement following the annual Supervisory Review and Evaluation Process (SREP) in H2 2023 to 2.75% from 2.5% on a Total Capital basis, which compares to a median of 2.25% for all banks under ECB supervision.

Exhibit 6

**Solid capital and leverage ratios as of 31 December 2023**

Capital ratios as a percentage of RWA



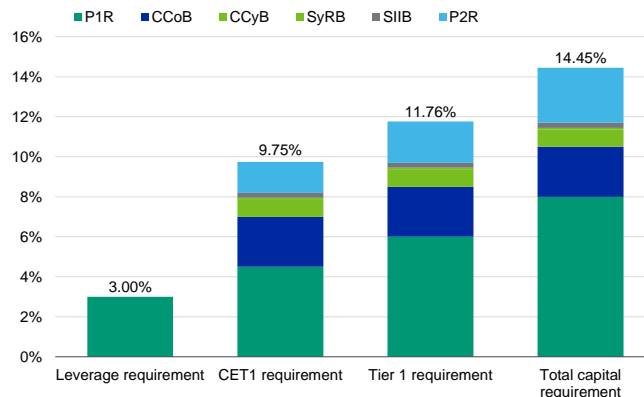
TCE = Tangible common equity (our calculation); TCE leverage compares TCE with tangible banking assets; CET1 = Common Equity Tier 1; T1 = Tier 1 capital; the 2023 CET1 ratio and TCE leverage are Moody's estimates

Sources: Moody's Ratings and company filings

Exhibit 7

**Capital requirements as of 1 January 2024**

As a percentage of RWA



P1R = Pillar 1 requirement; CCoB = Capital conservation buffer; CCyB = Countercyclical capital buffer; SyRB = Systemic risk buffer; SIIB = Systemically important institutions buffer; P2R = Pillar II requirement.

Sources: Moody's Ratings and company filings

**Profitability has improved, but remains subdued**

We assign a b2 Profitability score, one notch above the initial score. Profitability has improved in 2022 and 2023 due to the bank's transformation program, but also due to the higher interest rate environment. However, maintaining and improving profitability will remain a key challenge for the bank, particularly amid the ongoing economic uncertainty and the need to continuously invest in digitalisation, as exemplified by the bank's "fitt" program.

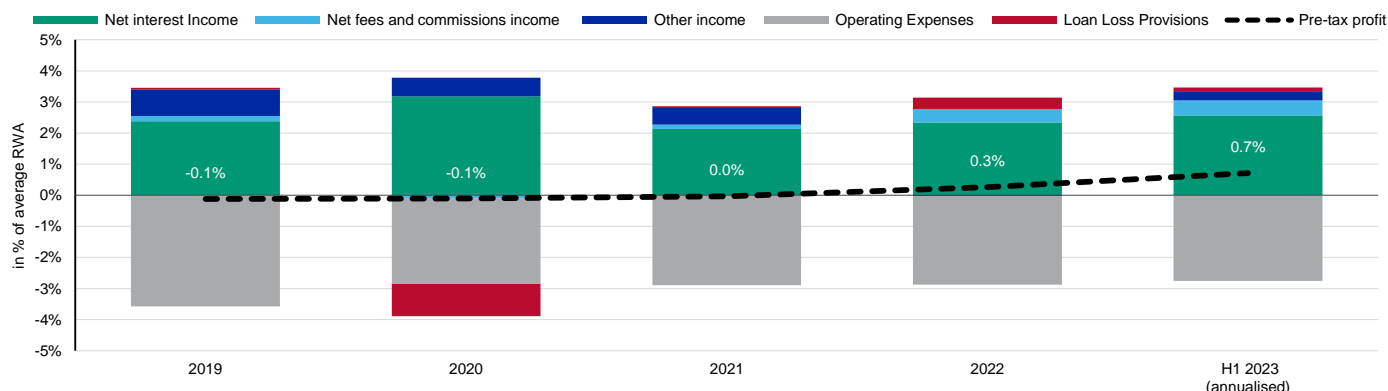
For 2023, NORD/LB reported a net profit of €224 million (2022: €89 million; 2021: €32 million), which translated into a return on assets of 0.2%. The material improvement in 2023 compared to 2022 mostly reflected a 20% increase in net interest income due to the higher interest rate environment, a 26% higher net fee and commission income partly due to additional fees on new business, and an improvement in other revenue items. In addition, the bank's operating costs remained stable and restructuring charges declined, while loan loss provisions normalised after a release of provisions in 2022. As of 31 December 2023, NORD/LB maintained €289 million of post-model management adjustments which should support profitability in the future.<sup>2</sup>

Nonetheless, NORD/LB's management needs to demonstrate a sustainable improvement in the bank's profitability and establish a track record of meeting its profitability targets without compromising the bank's improved credit quality. Furthermore, while profitability has recently improved, it remains subdued in an international context.

Exhibit 8

**NORD/LB's profitability has improved in 2022 and 2023**

Profitability breakdown as a percentage of average RWA



Sources: Moody's Ratings and company filings

**Wholesale funding dependence is partly mitigated by access to the savings banks network**

We assign a ba1 Funding Structure score, three notches above the b1 initial score. The positive adjustment reflects that our initial calculation of market funds includes sector and development bank funding, which are not confidence-sensitive funding sources. Conversely, we consider promissory notes, registered bonds, and structured products sold to customers as market funding.

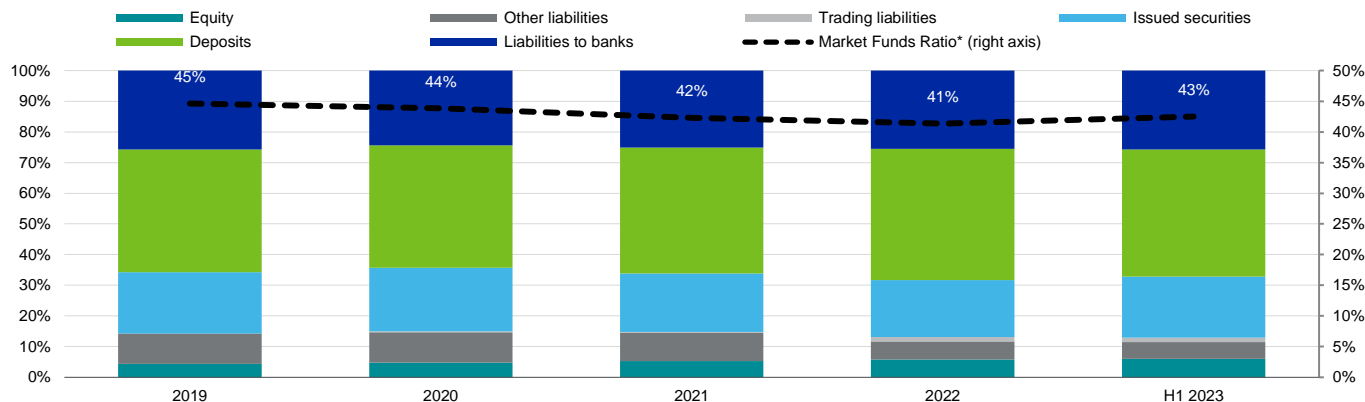
NORD/LB benefits from good access to stable funding resources provided by regional savings banks (and their retail clients) as well as its own retail client base, its strong covered bond franchise, access to development bank loans, and central bank funding. However, the bank also relies on more confidence-sensitive funding sources, such as interbank, money market, bond, and promissory note funding, as well as institutional client deposits, which exposes the bank to refinancing risks in a more adverse market environment. In addition, NORD/LB's derivatives book, and the related risk of volatile collateralisation requirements, creates funding risk for the bank.

NORD/LB's market funding dependence declined somewhat in the last few years, driven by lower refinancing needs during the bank's transformation. However, without a substantial retail deposit franchise outside of Braunschweigische Landessparkasse, the bank might need to increase its market funding dependence again if it chooses to resume growth in its lending business. The bank's non-retail deposits consist of SME and larger corporate deposits, both of which are more susceptible to flight risk in case of concerns over the bank's financial stability. At the same time, the bank's deposit withdrawal risk is largely mitigated by NORD/LB's membership in the IPS of S-Finanzgruppe.

Exhibit 9

**NORD/LB remains dependent on capital market and interbank funding**

Liability breakdown as a percentage of assets (left); market funds ratio (right)



\*Market funds ratio = Market funds/tangible banking assets.

Sources: Moody's Ratings and company filings

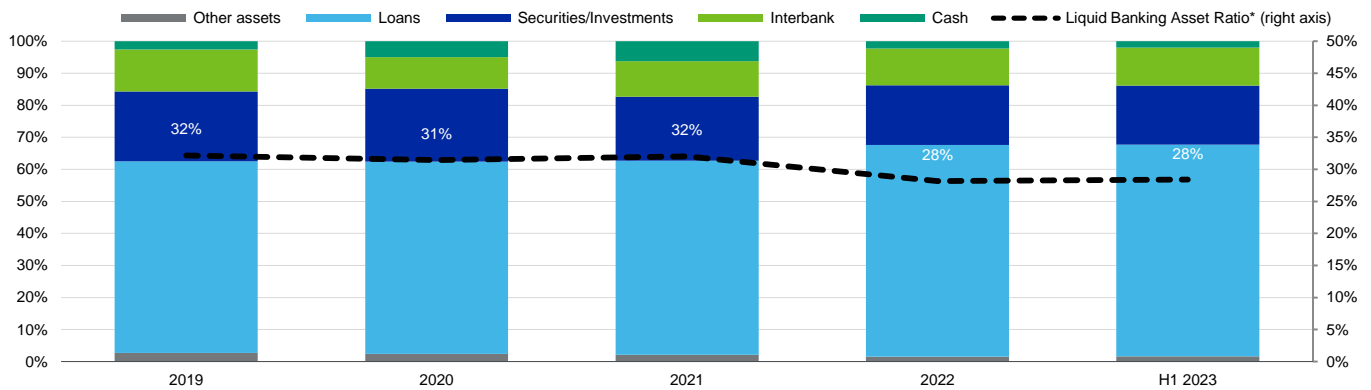
**Liquidity could be further bolstered by covered bond issuance**

The assigned baa2 Liquid Resources score is positioned two notches below the a3 initial score. The negative adjustment reflects asset encumbrance, level 3 fair-value and trading assets, as well as intragroup restrictions. This is partly offset by NORD/LB's leeway to issue additional (retained) covered bonds to generate liquidity at short notice if required. Together with NORD/LB's diversified funding mix, the bank's liquidity reserves provide it with flexibility in a more adverse market environment, mitigating potential funding challenges.

From our initial calculation of liquid banking assets, we deduct asset encumbrance, which mostly stems from NORD/LB's development bank pass-through loans, which represent collateral for its development bank funding that is passed on to the savings banks and to other banks, but also from collateral provided for repo transactions. We also do not consider level 3 fair-value and trading assets as liquid because they are fair-valued on a mark-to-model basis and cannot easily be sold in times of market stress.

Conversely, additional liquidity could be generated at short notice through the issuance of retained covered bonds that can serve as collateral for additional central bank funding. With NORD/LB exhibiting substantial over-collateralisation in its [mortgage](#) and [public sector](#) covered bond programmes, the bank would have substantial leeway to generate additional liquidity through covered bond issuance if required.

Exhibit 10  
**NORD/LB's liquid resources remain adequate for the time being**  
 Asset breakdown as a percentage of total assets (left); liquid banking asset ratio (right)

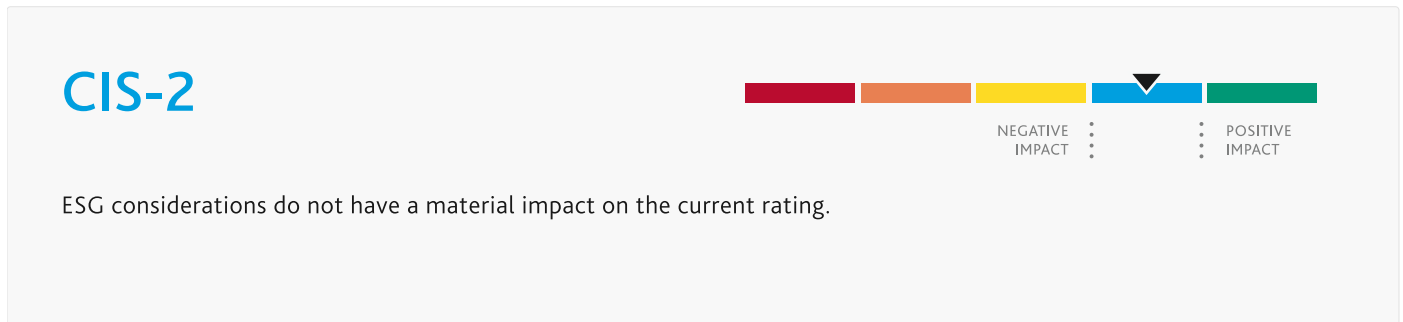


\*Liquid banking assets ratio = Liquid assets/tangible banking assets.  
 Sources: Moody's Ratings and company filings

**ESG considerations**

**Norddeutsche Landesbank - Girozentrale -'s ESG credit impact score is CIS-2**

Exhibit 11  
**ESG credit impact score**



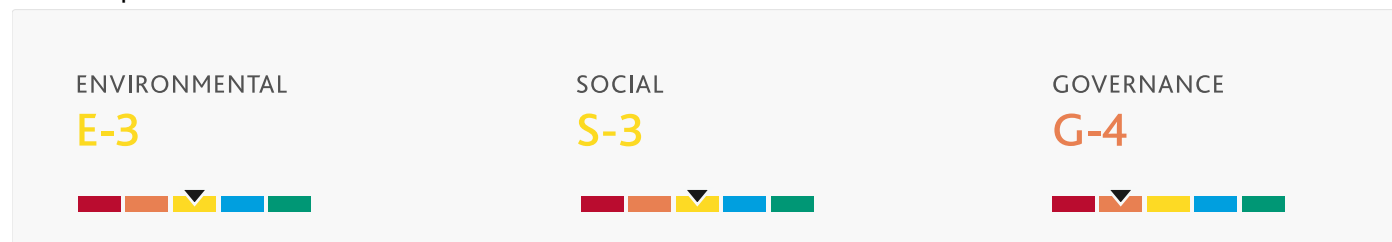
Source: Moody's Ratings



NORD/LB's **CIS-2** reflects the mitigating rating impact of affiliate support from Sparkassen-Finanzgruppe (S-Finanzgruppe) over NORD/LB's ESG risk profile. Environmental and social risk factors have a limited impact on the bank's credit profile to date. The bank's corporate governance risks mainly stem from the remaining execution risks of the bank's ongoing transformation program, a lack of medium-term track record regarding the viability of its amended strategy, and still subdued profitability in an international context.

Exhibit 12

### ESG issuer profile scores



Source: Moody's Ratings

### Environmental

NORD/LB faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risk as a large, mostly regional banking group. In line with its peers, NORD/LB faces mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, NORD/LB is actively engaging in transforming its lending book towards less carbon-intensive assets.

### Social

S-Finanzgruppe member banks such as NORD/LB face moderate social risks related to customer relations as well as to demographic and societal trends. Risks related to the distribution of financial products such as regulatory and reputational risks, as well as exposure to litigation are mitigated by developed policies and procedures, many of which are standardized across the sector. High cyber and personal data risks are managed by continued investment in technology by member banks, complemented by the access to and collaboration with dedicated centralized IT functions of the group. Operating mostly in Germany, S-Finanzgruppe's member banks face challenges from aging population affecting long-term economic growth prospects and impacting demand for certain banking products. The group's scale should support its ability to adapt to consumer preferences, regulatory changes, and societal trends such as digitization.

### Governance

NORD/LB's governance risks remain material, reflecting execution risks during its transition phase towards its new business model and a lack of track record regarding the viability of its amended strategy. Previous business focus on ship finance led to severe financial losses in the past and has made the current restructuring programme necessary. Management's ability to address the bank's subdued profitability also remains a concern because it provides only a limited buffer against potential adverse developments and limits the bank's capital generation capacity and, hence, growth prospects. As a public-sector bank, NORD/LB is majority owned by the federal state of Lower Saxony (57%), which is reflected in the composition of its board of directors. Germany's developed institutional framework mitigates associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Affiliate support

NORD/LB benefits from cross-sector support from S-Finanzgruppe. Cross-sector support reduces the probability of default because the support would be available to stabilise a distressed member bank and not just to compensate for losses in resolution. The very high support assumption assigned to NORD/LB and to the other Landesbanks reflects their cross-liability scheme membership, but only partial ownership by S-Finanzgruppe members. Cross-sector support for NORD/LB provides a five-notch rating uplift from the ba2 BCA, leading to an a3 Adjusted BCA.

We believe that the probability of NORD/LB receiving cross-sector support has risen following the strengthening of the institutional protection scheme (IPS) of S-Finanzgruppe, whose statutes were updated earlier in 2024. The revised statutes result in a more rule-based IPS that implements an early intervention system with clearly identified triggers and timely escalation of decision-making steps as well as increased ex-ante funds over time, which, in our view, increase the likelihood and timeliness of support for NORD/LB. In our assessment, we considered the likelihood of support based on the new and improved governance structure of the IPS, the economic rationale to improve sector cohesion through swift and positive support decisions, and the capacity of the sector in different scenarios, including a situation in which a number of larger members require capital support concurrently.

### Loss Given Failure (LGF) analysis

NORD/LB is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an Operational Resolution Regime. We therefore apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution.

In our Advanced LGF analysis, we consider the results of both the formal legal position (*pari passu*, or *de jure* scenario), to which we assign a 75% probability, and an alternative liability ranking, reflecting resolution authority discretion to prefer deposits over senior unsecured debt (full depositor preference, or *de facto* scenario), to which we assign a 25% probability.

We further assume residual TCE of 3% and losses post-failure of 8% of tangible banking assets. In addition, we assume a 26% share of deposits being "junior" wholesale deposits, for which we factor in a 25% run-off before failure, while we assume a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions.

The results of our Advanced LGF analysis are:

- » For deposits and senior unsecured debt, as well as CRR liabilities, our LGF analysis indicates an extremely low loss given failure, leading us to position their Provisional Rating Assessments at aa3, three notches above the a3 Adjusted BCA.
- » For junior senior unsecured debt, our LGF analysis indicates a very low loss given failure, leading us to position its Provisional Rating Assessment at a1, two notches above the a3 Adjusted BCA.
- » For subordinated debt, our LGF analysis indicates a high loss given failure, leading us to position its Provisional Rating Assessment at baa1, one notch below the a3 Adjusted BCA.

### Government support

Following the introduction of the BRRD, we have lowered our expectations about the degree of support the government might provide to a bank in Germany in the event of need. Because of its size on a consolidated basis, we consider S-Finanzgruppe to be systemically important. We, therefore, attribute a moderate probability of German government support for all members of the sector, in line with support assumptions for other systemically relevant banking groups in Europe. As a result, we still include one notch of government support uplift in our Counterparty Risk Ratings (CRR), senior unsecured debt and deposit ratings for S-Finanzgruppe member banks that are incorporated in Germany, including NORD/LB. For junior senior unsecured debt and subordinated debt instruments, we continue to believe that the likelihood of government support is low and these ratings do not include any related uplift.

### Counterparty Risk Ratings (CRRs)

#### NORD/LB's CRRs are Aa2/P-1

The CRRs, before government support, are three notches above the bank's a3 Adjusted BCA, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities. NORD/LB's CRRs also benefit from one notch of rating uplift from government support, in line with our moderate support assumptions for deposits and senior unsecured debt.

### Counterparty Risk (CR) Assessment

#### NORD/LB's CR Assessment is Aa2(cr)/P-1(cr)

NORD/LB's CR Assessment, before government support, is three notches above the a3 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, including junior deposits and (junior) senior unsecured debt. Because the CR Assessment captures the probability of default on certain senior

operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

The CR Assessment also benefits from one notch of rating uplift from government support, in line with our moderate support assumptions for deposits and senior unsecured debt.

### **Methodology and scorecard**

The principal methodology used in rating NORD/LB was [Banks Methodology](#) published in March 2024.

#### **About Moody's Bank Scorecard**

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the outcome of our scorecard may significantly differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard outcome and the individual scores are discussed in Rating Committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 13

Norddeutsche Landesbank - Girozentrale -

<b>Macro Factors</b>							
<b>Weighted Macro Profile</b>		<b>Strong +</b>		<b>100%</b>			
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	1.3%	aa3	↓↓	baa3	Expected trend	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.2%	aa2	↔	a2	Stress capital resilience	Risk-weighted capitalisation	
Profitability							
Net Income / Tangible Assets	0.1%	b3	↑	b2	Expected trend	Return on assets	
Combined Solvency Score		a2		baa3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	41.4%	b1	↔	ba1	Extent of market funding reliance	Expected trend	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	28.2%	a3	↔	baa2	Asset encumbrance	Additional liquidity resources	
Combined Liquidity Score		ba1		baa3			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				-1			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				baa3 - ba2			
Assigned BCA				ba2			
Affiliate Support notching				5			
Adjusted BCA				a3			
<b>Balance Sheet</b>							
		<b>in-scope (EUR Million)</b>	<b>% in-scope</b>	<b>at-failure (EUR Million)</b>	<b>% at-failure</b>		
Other liabilities		54,748	51.4%	57,770	54.3%		
Deposits		29,626	27.8%	26,604	25.0%		
Preferred deposits		21,923	20.6%	20,827	19.6%		
Junior deposits		7,703	7.2%	5,777	5.4%		
Senior unsecured bank debt		6,320	5.9%	6,320	5.9%		
Junior senior unsecured bank debt		10,452	9.8%	10,452	9.8%		
Dated subordinated bank debt		2,027	1.9%	2,027	1.9%		
Preference shares (bank)		50	0.0%	50	0.0%		
Equity		3,192	3.0%	3,192	3.0%		
Total Tangible Banking Assets		106,416	100.0%	106,416	100.0%		

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	26.1%	26.1%	26.1%	26.1%	3	3	3	3	0	aa3
Counterparty Risk Assessment	26.1%	26.1%	26.1%	26.1%	3	3	3	3	0	aa3 (cr)
Deposits	26.1%	14.8%	26.1%	20.7%	3	3	3	3	0	aa3
Senior unsecured bank debt	26.1%	14.8%	20.7%	14.8%	3	3	3	3	0	aa3
Junior senior unsecured bank debt	14.8%	5.0%	14.8%	5.0%	2	2	2	2	0	a1
Dated subordinated bank debt	5.0%	3.0%	5.0%	3.0%	-1	-1	-1	-1	0	baa1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa3	1	Aa2	Aa2
Counterparty Risk Assessment	3	0	aa3 (cr)	1	Aa2(cr)	
Deposits	3	0	aa3	1	Aa2	Aa2
Senior unsecured bank debt	3	0	aa3	1	Aa2	Aa2
Junior senior unsecured bank debt	2	0	a1	0	A1	
Dated subordinated bank debt	-1	0	baa1	0	Baa1	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

## Ratings

Exhibit 14

Category	Moody's Rating
<b>NORDDEUTSCHE LANDESBANK - GIROZENTRALE -</b>	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa2
Senior Unsecured -Dom Curr	Aa2
Junior Senior Unsecured -Dom Curr	A1
Junior Senior Unsecured MTN -Dom Curr	(P)A1
Subordinate	Baa1
Commercial Paper	P-1
Other Short Term -Dom Curr	(P)P-1
<b>NORDDEUTSCHE LANDESBANK GZ, NEW YORK BRANCH</b>	
Counterparty Risk Rating	Aa2/P-1
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Commercial Paper	P-1

Source: Moody's Ratings

## Endnotes

- [1](#) The ratings shown are S-Finanzgruppe's corporate family rating and outlook, and its BCA.
- [2](#) NORD/LB created additional post-model reserves of €30 million in 2023, while it had reduced its management adjustments by €100 million in 2022, which partly explains the large €142 million loan-loss reversals reported in 2022.

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