

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

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) confirmed its credit ratings on Norddeutsche Landesbank Girozentrale (NORD/LB or the Bank), including the Bank's 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 trends on all credit ratings remain Stable. The credit ratings and the trends are all in line with the broader Sparkassen-Finanzgruppe (SFG). Morningstar DBRS maintained NORD/LB's Intrinsic Assessment (IA) at BBB and its Support Assessment remains an SA1. For a complete list of credit 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.

NORD/LB's IA at BBB continues to reflect its role as a central institution and a clearing bank for the savings banks in the region, as well as its commercial banking franchise in Northern Germany, complemented by an international specialty finance business. In Morningstar DBRS' view, the Bank's liquidity and funding profiles remain well managed and benefit from its membership in the SFG and its established covered bond franchise, offsetting the risk from a largely corporate deposit base. The Bank maintains solid capital cushions above minimum regulatory requirements.

NORD/LB remains engaged in a transformation process aimed at strengthening its profitability and further developing its operational and digital infrastructures. Following the disposal of riskier exposures including its shipping and aircraft loan portfolios, the Bank is now shifting into a lower-risk and more streamlined business model. As part of the management reshuffle, which has already seen the appointment of a new CEO in 2021, the Bank appointed a new CFO and COO this year.

However, despite the improvements seen in 2024 amid the higher interest rate environment, the Bank's profitability and efficiency levels remain at the lower end when compared with its domestic and international peers. Further improvements in efficiency will likely be needed as the Bank currently faces a weaker economic environment in Germany. In particular, the commercial real estate market, which is a core area for NORD/LB's strategy, continues to be challenged by both structural and cyclical headwinds. Asset quality has deteriorated in 2024, but from a low level. Morningstar DBRS expects that some pressure on credit quality and cost of risk will persist into 2025.

CREDIT RATING DRIVERS

NORD/LB's Issuer Ratings benefit from the SFG's IPS. An upgrade of SFG's credit ratings would lead to an upgrade of NORD/LB's credit ratings as well.

The IA would be upgraded if the Bank is able to improve its profitability and efficiency levels while maintaining solid asset quality and capital metrics. Further progress with the development of its operational infrastructure and systems would also be positive.

NORD/LB's Issuer Ratings benefit from the SFG's IPS. A downgrade of SFG's credit ratings would lead to a downgrade of NORD/LB's credit ratings.

The IA would be downgraded if the Bank fails to sustain its improvement in profitability over the medium term. A material deterioration in the Bank's asset quality would also lead to a downgrade of the IA. Failure to complete its operational and systems upgrades could also result in downward credit ratings pressure.

CREDIT RATING RATIONALE

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

With a total asset size of EUR 113 billion as of end-June 2024, NORD/LB is the fourth largest of Germany's five Landesbanken and ranks among the country's ten largest banking institutions. The Bank operates as a public-sector and commercial state bank, primarily serving Northern Germany. NORD/LB also acts as the clearing institution for the savings banks within its operating regions and maintains a global presence through its specialty finance business. As a member of SFG, NORD/LB benefits from the support of its IPS. After a mandated period of deleveraging and exit from non-strategic businesses, which were part of the restructuring programme "NORD/LB 24", the bank has been focusing on selected businesses, including Private and Corporate customers, energy and infrastructure finance, as well as commercial real estate (CRE). As part of its transformation programme, the Bank is also investing in new technologies and processes, including the development of an in-house management system, aimed at strengthening its operations and improving efficiency.

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

Profitability remains an area of potential further improvement for NORD/LB. Historically, its modest profitability levels reflected low margins and a high-cost base. The Bank's past performance was also heavily affected by several restructuring initiatives. Going forward, Morningstar DBRS expects NORD/LB's profitability to improve gradually and to close the gap with its peers. The impact resulting from the disposal of the aviation business in 2024 is expected to be manageable.

In H1 2024, the Bank reported a net profit of EUR 195 million, significantly up from EUR 109 million in H1 2023, driven by an increase in core revenues (+17%) and expense reduction (-7%) YOY, partly offset by higher loan loss provisions (LLPs). Provisions amounted to EUR 61 million compared with a release of EUR 23 million in H1 2023. The cost-to-income ratio, as per Morningstar DBRS' calculation, improved to 60% in H1 2024 from 79% a year earlier, mainly on the back of higher revenues. Furthermore, return on equity (ROE) grew to 5.64% in H1 2024, from 3.40% in H1 2023.

Risk Combined Building Block (BB) Assessment: Good

In our view, NORD/LB has significantly improved its credit risk profile primarily through the divestment of risky and non-strategic assets, as well as various portfolio guarantees, while improving the diversification of its lending portfolio. However, Morningstar DBRS notes that the Bank experienced a deterioration in its asset quality in H1 2024, particularly across its domestic corporate lending (service industries and manufacturing) and CRE exposures, amidst the deteriorating economic environment in Germany and turmoil in the commercial property sector.

The Bank's loan book is fairly diversified, however the exposure to CRE (EUR 18.7 million as per latest available data) is significant accounting to around 16% of NORD/LB's total exposure at default (EaD).

The stock of NPLs increased by 71% YoY in H1 2024, while the NPL ratio, as calculated by Morningstar DBRS, increased to 1.69% at end-June 2024, up from a record low level of 0.97% at end-December 2024 and 0.99% at end-June 2023. In Morningstar DBRS' view, pressure on asset quality will likely persist in 2025. However, Morningstar DBRS expects the NPL ratio to remain below 2.5%.

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

NORD/LB's liquidity and funding profile remains good. The funding profile predominantly consists of wholesale funding and corporate deposits. While the Bank lacks a large retail franchise with granular and stable deposits, it effectively manages its corporate deposits, limiting concentration risks and exposure to less stable deposits. Characteristic of a Landesbank and reflective of its business model, NORD/LB's deposit funding is more limited compared with peers' deposits at 47% of total funding at end-June 2024. NORD/LB's loan-to-deposit ratio as calculated by Morningstar DBRS was 95.4%. The Bank benefits from its covered bond franchise and access to inter-banking funding through SFG. Moreover, the Bank maintains good access to the wholesale market. In 2024, NORD/LB returned to the market with a series of successful issuances, including a senior-non preferred issuance of EUR 500 million and a Tier 2 bond issuance of EUR 500 million.

At the end of June 2024, NORD/LB reported a liquidity coverage ratio of 138% and a net stable funding ratio of 113%, both comfortably exceeding the regulatory minimum of 100%. The Bank's funding needs have decreased, given the disposal of most of its aviation portfolio and the increased inflow of deposits.

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

In our 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 its ability to raise external capital is limited.

NORD/LB's CET1 ratio as of end-June 2024 was 15.4%, slightly up from 15.2% at end-2023, as retained earnings continued to offset the increase in risk-weighted assets (RWA) to EUR 42 billion from EUR 41 billion at end-2023, mainly driven by higher counterparty risks resulting from business growth. In H2 2024, the Bank is expected to experience a RWA release resulting from the partial sale of the aircraft financing portfolio. The CET1 ratio is well above the regulatory requirements of 9.64% and positions NORD/LB at the upper end of its peer group.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://dbrs.morningstar.com/research/443982>

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a relevant effect on the credit analysis.

Governance (G) Factors

The subfactor 'corporate governance' is relevant to the rating of NORD/LB but does not affect the rating or trend assigned to the Bank, and this is reflected in the franchise grid grades for the Bank.

Morningstar DBRS views certain weaknesses in the group structure as relevant from a corporate governance 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, Landesbanken have taken outsized risks, resulting in high costs to taxpayers 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, have also made it difficult at times to swiftly react to challenges. In addition, NORD/LB has started to implement a new in-house bank steering IT system, which entails significant execution risk.

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

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the "Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings" (13 August

2024) <https://dbrs.morningstar.com/research/437781>

Notes:

All figures are in euros unless otherwise noted.

The principal methodology is the "Global Methodology for Rating Banks and Banking Organisations" (4 June 2024) <https://dbrs.morningstar.com/research/433881>. In addition, Morningstar DBRS uses the "Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings" (13 August, 2024) <https://dbrs.morningstar.com/research/437781> in its consideration of ESG factors.

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

The sources of information used for these credit ratings include Morningstar Inc. and company documents. Other sources include NORD/LB H1 2024 Presentation, NORD/LB H1 2024 Interim Report, and NORD/LB 2018-2023 Annual Reports. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

Morningstar DBRS 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. Morningstar DBRS' trends and credit ratings are under regular surveillance.

For further information on Morningstar DBRS 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 Morningstar DBRS 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://dbrs.morningstar.com/research/443981>

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

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Initial Rating Date: 11 June 2018

Last Rating Date: 1 December 2023

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For more information on this credit or on this industry, visit dbrs.morningstar.com.

Ratings

NORD/LB Luxembourg S.A. Covered Bond Bank

| Date Issued | Debt Rated | Action | Rating | Trend | Attributes |
|-------------|--------------------------|-----------|-----------------|-------|--------------------|
| 29-Nov-24 | Long-Term Issuer Rating | Confirmed | A (high) | Stb | EU U |
| 29-Nov-24 | Short-Term Issuer Rating | Confirmed | R-1 (middle) | Stb | EU U |
| 29-Nov-24 | Short-Term Debt | Confirmed | R-1 (middle) | Stb | EU U |
| 29-Nov-24 | Short-Term Deposits | Confirmed | R-1 (middle) | Stb | EU U |
| 29-Nov-24 | Long-Term Deposits | Confirmed | A (high) | Stb | EU U |
| 29-Nov-24 | Long-Term Senior Debt | Confirmed | A (high) | Stb | EU U |

Norddeutsche Landesbank Girozentrale

| Date Issued | Debt Rated | Action | Rating | Trend | Attributes |
|-------------|---------------------------|-----------|-----------------|-------|--------------------|
| 29-Nov-24 | Long-Term Issuer Rating | Confirmed | A (high) | Stb | EU U |
| 29-Nov-24 | Short-Term Issuer Rating | Confirmed | R-1 (middle) | Stb | EU U |
| 29-Nov-24 | Long-Term Deposits | Confirmed | A (high) | Stb | EU U |
| 29-Nov-24 | Senior Non-Preferred Debt | Confirmed | A | Stb | EU U |
| 29-Nov-24 | Short-Term Debt | Confirmed | R-1 (middle) | Stb | EU U |
| 29-Nov-24 | Short-Term Deposits | Confirmed | R-1 (middle) | Stb | EU U |
| 29-Nov-24 | Subordinated Debt | Confirmed | A (low) | Stb | EU U |
| 29-Nov-24 | Long-Term Senior Debt | Confirmed | A (high) | Stb | EU U |

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