

# Rating Report

## Norddeutsche Landesbank Girozentrale

### Morningstar DBRS

23 January 2024

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### Credit Ratings

Debt	Credit Rating	Credit Rating Action	Trend
Long-Term Issuer Rating	A (high)	Confirmed Dec. '23	Stable
Short-Term Issuer Rating	R-1 (middle)	Confirmed Dec. '23	Stable
Intrinsic Assessment	BBB	Upgraded Dec. '23	--

### Credit Rating Drivers

#### Factors with Positive Rating Implications

- 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 further, if the Bank is successful in consistently achieving higher levels of profitability, while maintaining healthy asset quality and capital metrics.

#### Factors with Negative Rating Implications

- 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 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 Considerations

#### Franchise Strength (Good/Moderate)

- NORD/LB has a diverse corporate and commercial client base in Northern Germany, as well as revenues from more global business lines. The Bank is currently implementing a large-scale restructuring programme.

#### Earnings Power (Weak)

- NORD/LB's earnings generation has been under pressure given the restructuring programme, the repercussions of the COVID-19 pandemic. Higher interest and cost cuts lend some support.

#### Risk Profile (Strong/Good)

- NORD/LB's risk from exposure to the shipping sector has been eliminated, significantly improving the Bank's credit risk profile. However, the Bank faces execution risk from the current restructuring programme.

#### Funding and Liquidity (Good)

- The predominantly wholesale funding profile is supported by funding relationships within the SFG and access to stable Pfandbrief funding. The balance sheet shrinkage will also reduce funding needs.

#### Capitalisation (Moderate/Weak)

- All capital ratios are comfortably above regulatory requirements. However, capital generation capacity is expected to remain very weak.

2023H1	Scorecard Building Block (BB) Assessment	Grids BB Assessment	Combined BB Assessment
Franchise	G	M	G/M
Earnings	W/W	M/W	W
Risk	VS/S	G/M	S/G
Funding & Liquidity	S/G	G/M	G
Capitalisation	M/W	M	M/W
<b>Overall Assessment</b>	<b>Intrinsic Assessment Range (IAR)</b>		<b>Assigned IA</b>
G/M	['A (low)', 'BBB (high)', 'BBB']		BBB

## Financial Information

(In EUR Millions unless otherwise stated)	H1 2023	H1 2022	For the Year Ended December 31 (IFRS)				
			2022	2021	2020	2019	2018
Total Assets	109,438	112,257	109,325	114,631	126,176	139,594	154,012
Gross Loans to Customers	71,696	69,073	71,318	69,494	74,994	83,605	93,021
Income Before Provisions and Taxes (IBPT)	144	(111)	43	101	479	320	51
Net Attributable Income	109	(63)	89	32	19	(109)	(2,364)
Net Interest Margin	1.0%	0.8%	0.8%	0.7%	1.0%	0.7%	0.8%
Cost / Income ratio	78.8%	127.3%	95.9%	91.1%	68.2%	76.5%	95.5%
LLP / IBPT	-16.0%	60.4%	-325.6%	-10.9%	87.5%	-6.9%	3713.7%
Cost of Risk	-0.07%	-0.20%	-0.20%	-0.02%	0.54%	-0.03%	2.09%
CET1 Ratio	14.77%	15.10%	15.07%	15.42%	14.48%	14.45%	6.63%

Source: Morningstar Inc., Company Documents

## Issuer Description

[Norddeutsche Landesbank Girozentrale](#) (NORD/LB) is a German public-sector Bank and member of the Sparkassen Finanzgruppe. It ranks among the top ten banks in Germany by assets. The Bank's commercial banking activities span across a diversified range of businesses including retail, corporate, markets, commercial real estate, and specialty finance. The Bank is currently undergoing a large-scale restructuring programme.

## Credit Rating Rationale

NORD/LB's credit ratings reflect 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. We note that the franchise has remained intact throughout the restructuring process.

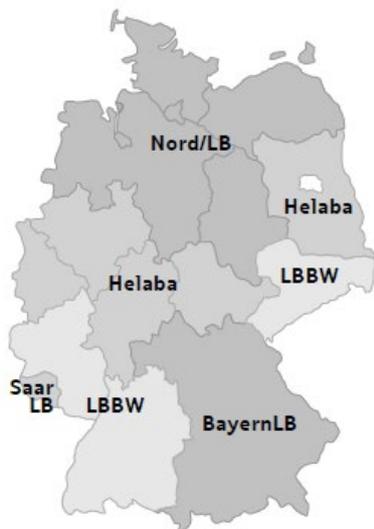
The IA continues to take into account NORD/LB's role as a central institution and clearing bank for the savings banks in this region, as its well-established commercial banking franchise in Northern Germany, including a more international specialty finance business. In our view the Bank's liquidity and 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, however, we expect more efficiency gains from the 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.

### Franchise Strength

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Good	Moderate	Good/Moderate

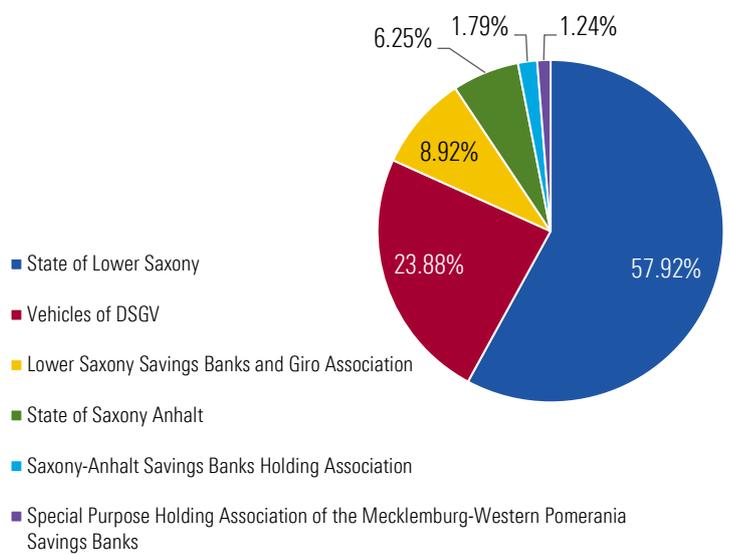
NORD/LB’s benefits from an established franchise as a commercial bank in the region of Northern Germany, its role as a central institution and clearing bank for the savings banks in this region, as well as a global footprint in its specialty finance business. With total assets of EUR 113 billion as of 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 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. NORD/LB has been executing a large-scale restructuring programme (“NORD/LB 2024”), however, its limited earnings power remains one of the main challenges. In addition, a new bank steering IT system remains an important outstanding project, which has encountered delays and entails execution risk.

**Exhibit 1** NORD/LB Geographic Focus



Source: DSGV.

**Exhibit 2** NORD/LB Ownership Structure (As of December 2023)



Source: Morningstar DBRS, Company Documents.

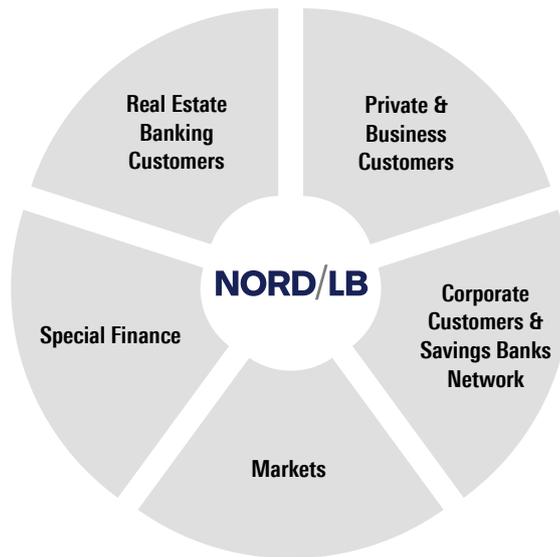
NORD/LB has significant commercial banking activities which span a diversified range of businesses including corporate, markets, commercial real estate, and specialty finance. NORD/LB’s retail business is currently undertaken through Braunschweigische Landessparkasse, a savings bank in the Braunschweig region, with a network of around 100 branches and self-service centres, although a potential spin-off is being discussed. As a member of the Sparkassen Finanzgruppe<sup>1</sup>, NORD/LB is an

<sup>1</sup> See our Rating Report: Sparkassen-Finanzgruppe, May 11, 2023.

institution incorporated under German public law with legal capacity (rechtsfähige Anstalt des öffentlichen Rechts, AöR).

In our view, NORD/LB's franchise benefits from the local economies of its core regions in Northern Germany, complemented by revenues from more global business lines. The overall diversification of the franchise provides for a fairly evenly distributed revenue profile (see Exhibit 5). We note that NORD/LB is well positioned to take advantage of the increased demand in the renewable energy sector.

**Exhibit 3** NORD/LB Business Segments



Source: Morningstar DBRS, Company Documents.

The Bank was recapitalised in December 2019 by the current owner States and the DSGV (Deutscher Sparkassen- und Giroverband), as part of an effort to remove the problematic shipping loans from the balance sheet. Concurrently, the Bank has implemented a far-reaching transformation programme, with the goal to create a significantly smaller, regionally focused, lower risk and more profitable Bank as shown in the following chart.

**Exhibit 4** Original NORD/LB Financial Targets 2024

<b>EUR 95bn*</b> Total Assets	<b>EUR 43bn</b> RWAs	<b>&lt;50%</b> Cost- Income Ratio	<b>EUR 625m</b> Costs	<b>EUR 1.35bn</b> Earnings	<b>&gt;7%</b> ROE	<b>&gt;14%</b> CET1 ratio	<b>2,800 - 3,000</b> Staff
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Source: Morningstar DBRS, Company Documents.

\*: Updated to EUR 110 billion, including the KfW pass-through loans.-

Since the announcement the operating environment has changed significantly, which has led to certain modifications of the original targets. Among others, the balance sheet size is not expected to be reduced further from current levels. Overall, the Bank has made material progress executing on the programme. The wind-down of the shipping portfolio has been largely completed and the Bank has fully integrated Deutsche Hypo. Staff numbers have also declined, with the Bank reporting 3,845

FTEs at end-2022, down from 5,489 at end-2019, and further reductions have taken place over the course of 2023. We believe that the profitability targets are ambitious. Achieving an ROE of at least 7% and a cost-income ratio of below 50% requires the Bank to preserve most of its revenues while cutting costs. Under its new CEO (since 2022), the Bank has returned on a growth path. However, sluggish loan demand amid a weak economy, repricing of deposits, and inflationary pressure on costs could create challenges. In addition, the Bank has faced challenges related to its new bank-steering system. Following the failure of a third-party provider to deliver according to plan, the project will now take longer and be more costly.

In 2022, the Group further simplified its structure. The full integration of Deutsche Hypo was completed and NORD/LB transferred the operations from KreditServices Nord GmbH to IBM. In addition, NORD/LB signed an agreement to separate Investitionsbank Sachsen-Anhalt from NORD/LB. The Bank continued the implementation of the “NORD/LB 2024” transformation programme and further staff reductions are scheduled. Going forward, the Bank is considering divesting its savings bank, Braunschweigische Landessparkasse (BLSK), an option that is motivated by the desire of the local communities in the Braunschweig region to have more autonomy and influence over BLSK. In addition, the aircraft finance portfolio is undergoing a strategic review.

The Bank recently renewed its management board by appointing a new CFO and COO. The COO has an IT background, which is important in the context of the new bank steering project.

### Earnings Power

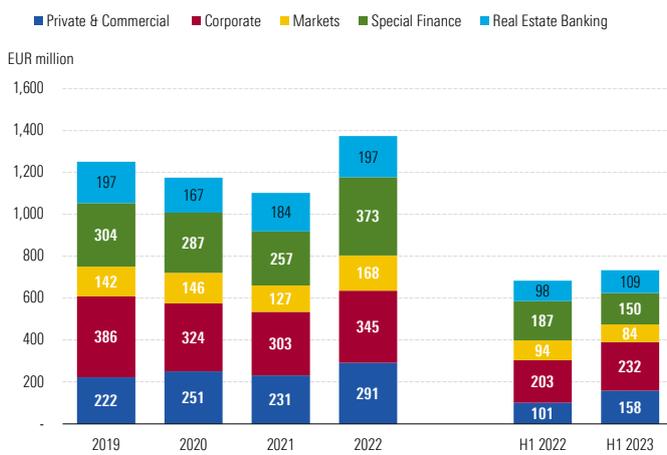
<b>Scorecard BB Assessment</b>	<b>Grids BB Assessment</b>	<b>Combined BB Assessment</b>
Weak/Very Weak	Moderate/Weak	Weak

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. We note 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.

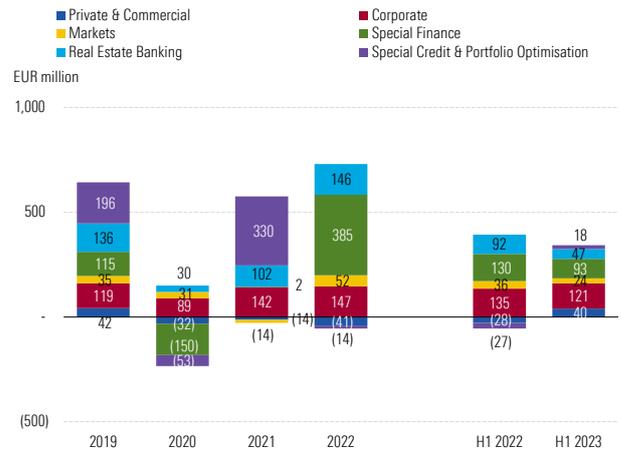
9M 2023 core revenues increased on the back of net interest income, which increased by 18% YOY to EUR 517 million driven by the high interest rate environment. In addition, net commission income improved by 56% YOY to EUR 97 million, supported by lower fees for the guarantees of the State of Lower Saxony, as the size of the guaranteed asset portfolio is reducing as planned as well as growth of new business. The result from fair value measurement also improved significantly,

reaching break even in H1 2023, from a net loss of EUR 137 million in H1 2022, as medium term rates declined. The Bank released EUR 23 million in loan loss provisions (LLPs) in H1 2023, compared to a 67 million release in H1 2022, as a result from reversals of individual impairments and the receipt of receivables written off in the period. Administrative expenses remained broadly stable, as they increased just by 1.4% driven by higher consulting costs and the relocation of service expenses from other comprehensive income.

**Exhibit 5 Revenues by Business Segment**



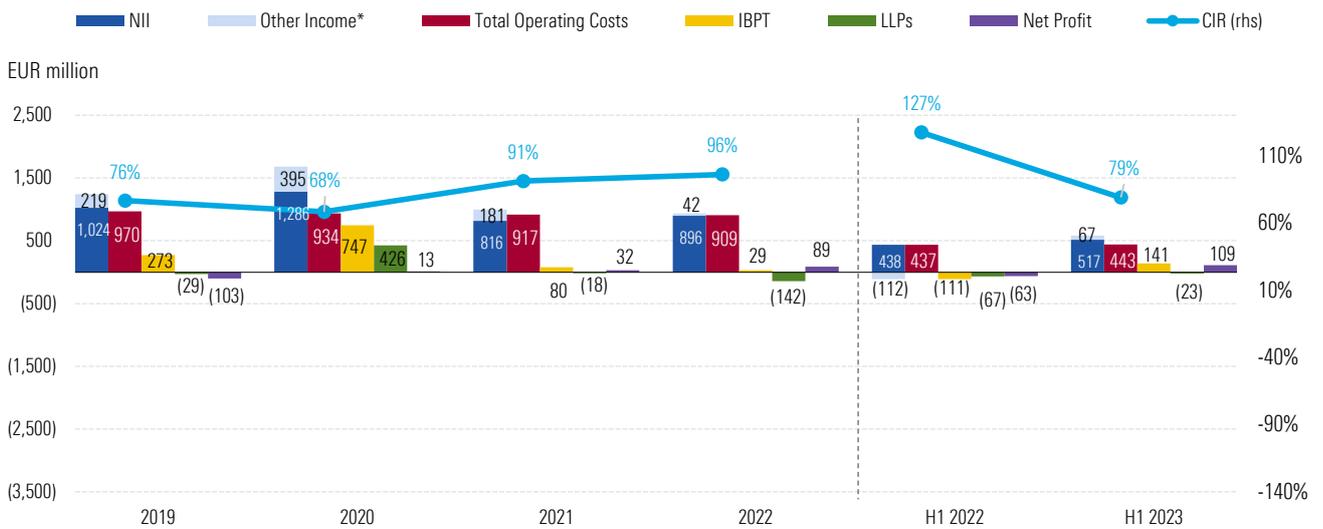
**Exhibit 6 Consolidated Profit by Business Segment**



Source: Morningstar DBRS; Company Documents.

Note: Revenues consists of Net interest income before loan loss provisions, Net commission income and Profit/loss from financial instruments at fair value through profit or loss.

**Exhibit 7 Profitability**



Source: Morningstar DBRS; Company Documents.

Notes: \* Operating Income, excl. NII.

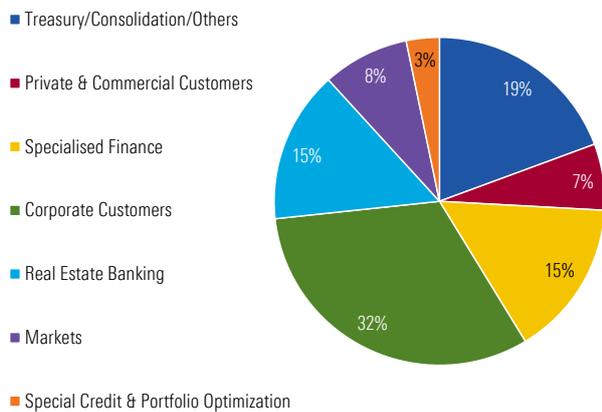
Despite NORD/LB's wide and diverse wholesale banking franchise, earnings generation ability has been only moderate. While gradually improving, earning generation remains a challenge for NORD/LB. 2023 was marked by more staff reductions as part of the Bank's restructuring programme and should lead to further cost benefits, this is partly offset by wage inflation and higher than anticipated costs for the new bank steering project. In addition, Deposit margins have likely reached a peak and loan growth is sluggish in the current weak economic environment. However, given that the Bank has EUR 300 million in management overlays, we expect that credit costs will remain manageable

**Risk Profile**

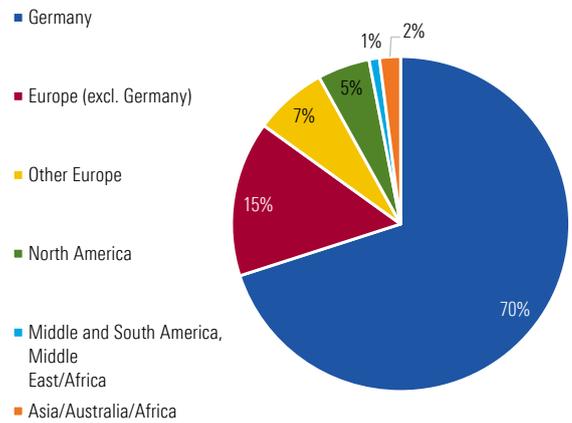
<b>Scorecard BB Assessment</b>	<b>Grids BB Assessment</b>	<b>Combined BB Assessment</b>
Very Strong/Strong	Good/Moderate	Strong/Good

In our opinion 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 has reached a low 0.6% at end-June 2023 from 0.7% at end-2022. The NPL ratio as calculated by Morningstar DBRS was 0.99% at end-H1 2023, the latest available data. 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 burden. 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 operational risks associated with the restructuring and the overhaul of the Bank’s steering systems.

**Exhibit 8** Asset breakdown by segment, H1 2023



**Exhibit 9** Exposure by region, H1 2023



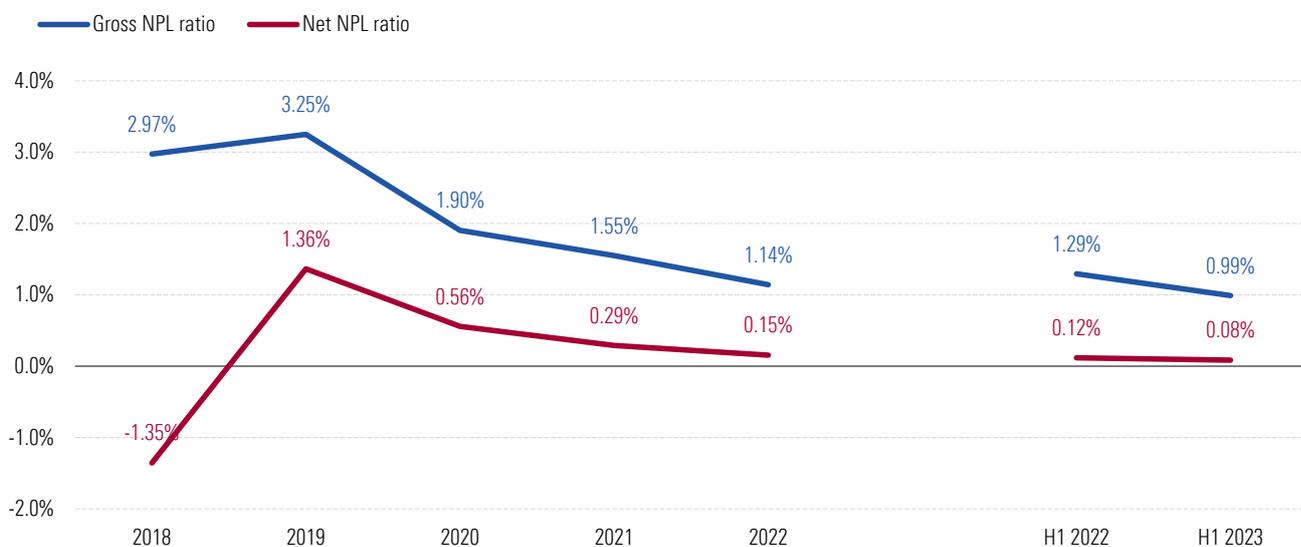
Source: Morningstar DBRS; Company Documents.

After the onset of the COVID-19 pandemic, aircraft lending has become a focus, with air travel having been one of the segments most affected. While recovered, air travel is not yet back to pre-pandemic levels and not all airlines have benefitted equally from governments support. Therefore, asset quality in this sector is still impaired. Since end 9M 2020 the Bank has reduced its Exposure at Default (EaD) to EUR 3.0 billion from EUR 4.1 billion. EUR 260 million are covered by guarantees provided by the State of Lower Saxony. Accordingly, the Bank has reduced the loan loss reserves for

this segment over the course of 2022 from EUR 270 million to 183 million. In 9M 2023, the Bank has released another EUR 47 million of reserves, as asset quality is improving. However, without the reserve releases the segment would be lossmaking.

The Bank also has a EUR 16.8 billion CRE portfolio (EaD) which is mainly focused on Germany (59%) and Western Europe (35%). Due to conservative underwriting, NPLs have been low so far and write-offs have been negligible.

**Exhibit 10** NPL ratios



Source: Morningstar DBRS, Company Documents.

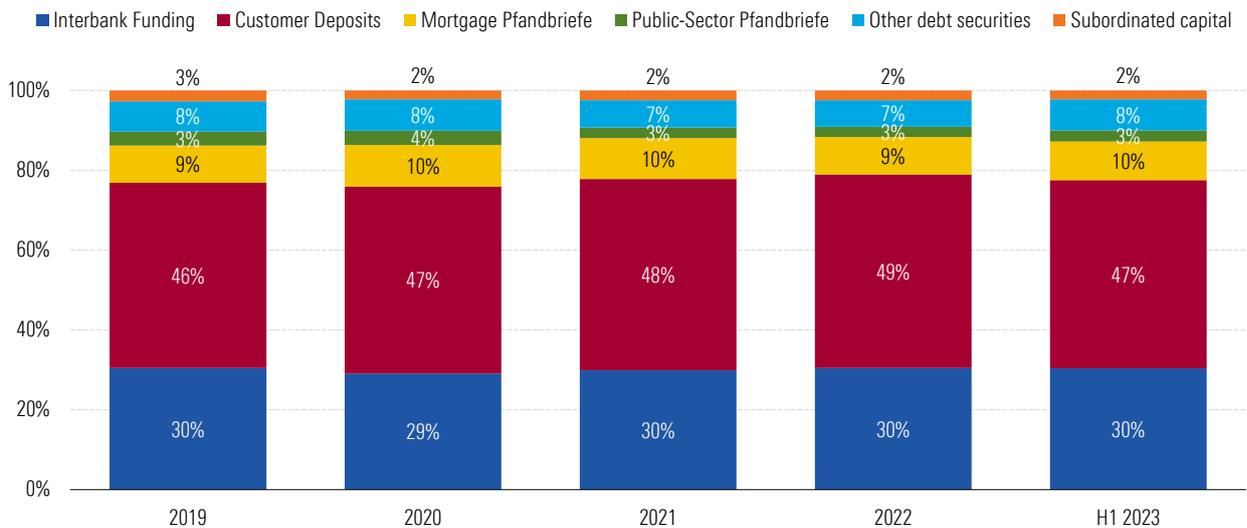
**Funding and Liquidity**

<b>Scorecard BB Assessment</b>	<b>Grids BB Assessment</b>	<b>Combined BB Assessment</b>
Strong/Good	Good/Moderate	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 .

Characteristic of a Landesbank and reflective of its business model, NORD/LB’s deposit funding is at the lower end of the peer group with customer deposits representing 47% of total funding at end-H1 2023, and the loan to deposit ratio was 98.4%. The Bank manages its corporate deposits prudently, paying close attention to sector and single name concentration. In addition, NORD/LB has access to stable Pfandbrief funding through its mortgage and public-sector cover pools. In our view, NORD/LB’s membership of the SFG is an important factor to ensure stable access to liquidity. A large part of the Bank’s funding comes from interbank funding from affiliated Sparkassen. This intra-group lending is helped by regulatory zero-risk weighting within the Group and can reduce the dependence on volatile wholesale market funding. Equally important, the market takes into account the intra-group support, which add to confidence and strengthens the Bank’s access to external funding sources.

**Exhibit 11 Funding Mix Evolution**



Source: Morningstar DBRS; Company Documents.

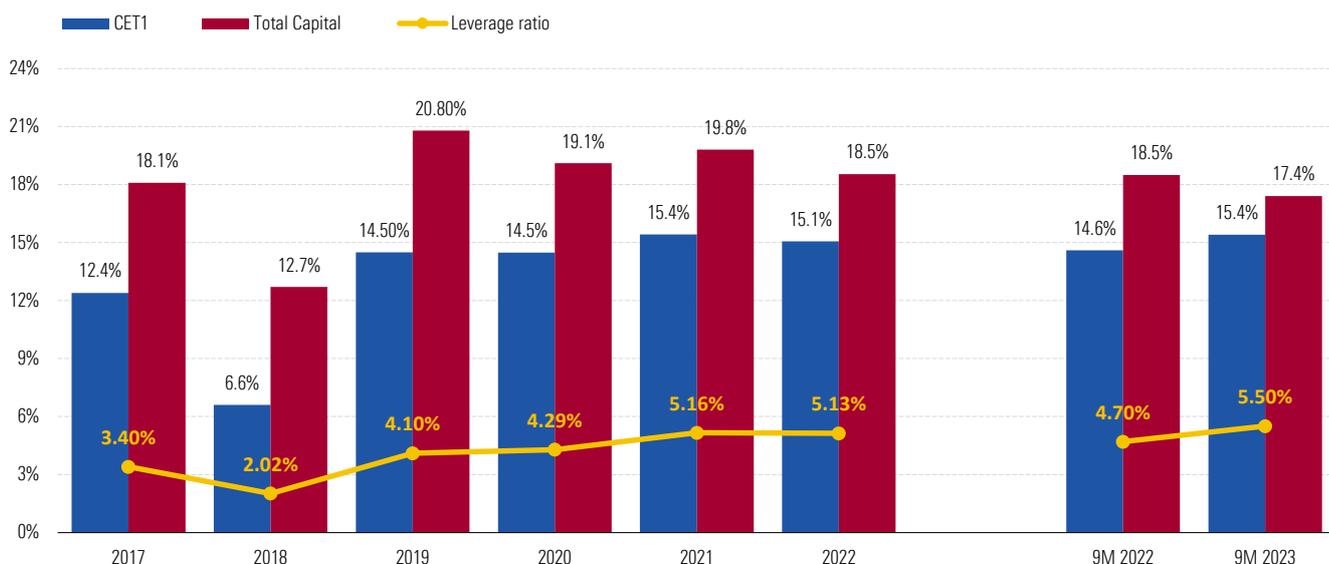
### Capitalisation

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Moderate/Weak	Moderate	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 9.36% and positions NORD/LB at the upper end of its peer group. 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 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. As of 30 June 2023, the CET1 SREP requirement was 9.36% compared to 8.68% a year ago, driven among others by the introduction of the countercyclical and sectoral systematic capital buffer, and set increased further in 2024.

The total capital ratio (including H1 earnings) was 18.5% at end-H1 2023 up from 17.6% at end-2022 and NORD/LB's MREL ratio was 45.6% at H1 2023 well above the regulatory requirement of 20.35%. Guarantees that were put in place at the time of NORD/LB's recapitalisation in December 2019, have been significantly reduced and are set to expire by 2024. Due to the significant reduction in high-risk assets we do not expect this to have a material impact on capital ratios.

Exhibit 12 Capital Ratios



Source: Morningstar DBRS, Company Documents.

## Norddeutsche Landesbank Girozentrale

### ESG Checklist

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis: Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*		
<b>Environmental</b>		<b>Overall:</b>	<b>N</b>	<b>N</b>
<b>Emissions, Effluents, and Waste</b>	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Carbon and GHG Costs</b>	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long-term credit profile?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Climate and Weather Risks</b>	In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially under key IPCC climate scenarios up to a 2°C rise in temperature by 2050?	<b>N</b>	<b>N</b>	<b>N</b>
	In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2°C rise in temperature?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Climate and Weather Risks:</b>		<b>N</b>	<b>N</b>	<b>N</b>
<b>Passed-through Environmental credit considerations</b>	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Social</b>		<b>Overall:</b>	<b>N</b>	<b>N</b>
<b>Social Impact of Products and Services</b>	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Human Capital and Human Rights</b>	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts, that could result in a material financial or operational impact?	<b>N</b>	<b>N</b>	<b>N</b>
	Do violations of rights create a potential liability that could negatively affect the issuer's financial wellbeing or reputation?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Human Capital and Human Rights:</b>		<b>N</b>	<b>N</b>	<b>N</b>
<b>Product Governance</b>	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Data Privacy and Security</b>	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Community Relations</b>	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Access to Basic Services</b>	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Passed-through Social credit considerations</b>	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Governance</b>		<b>Overall:</b>	<b>Y</b>	<b>R</b>
<b>Bribery, Corruption, and Political Risks</b>	Are there any political risks that could impact the issuer's financial position or its reputation?	<b>N</b>	<b>N</b>	<b>N</b>
	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	<b>N</b>	<b>N</b>	<b>N</b>
	Are there any political risks that could affect the issuer's financial position or its reputation?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Bribery, Corruption, and Political Risks:</b>		<b>N</b>	<b>N</b>	<b>N</b>
<b>Business Ethics</b>	Do general professional ethics pose a financial or reputational risk to the issuer?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Corporate / Transaction Governance</b>	Does the issuer's corporate structure allow for appropriate board and audit independence?	<b>N</b>	<b>N</b>	<b>N</b>
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	<b>Y</b>	<b>R</b>	<b>R</b>
	Does the board and/or management have a formal framework to assess climate-related financial risks to the issuer?	<b>N</b>	<b>N</b>	<b>N</b>
<b>Corporate / Transaction Governance:</b>		<b>Y</b>	<b>R</b>	<b>R</b>
<b>Passed-through Governance credit considerations</b>	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	<b>Y</b>	<b>R</b>	<b>R</b>
<b>Consolidated ESG Criteria Output:</b>		<b>Y</b>	<b>R</b>	<b>R</b>

\* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.

A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

**Environmental**

The Environmental factor does not affect the rating or trend assigned to the Bank. The Bank is a signatory of the UNEP Principles for Responsible Banking, the UN Global Compact and the Climate Commitment of the German Financial Sector. The Bank has an ESG framework that stipulates minimum ESG standards and has more specific policies for a number of exposed sectors. The ECB climate risk stress-test's results were published on July 8, 2022. While they did not provide detailed indications on the geographies potentially affected under the selected scenarios, participating European banks were told they need to enhance their climate risk stress testing framework. Results will be integrated into two SREP elements in a qualitative manner: (i) business model assessment, and (ii) internal governance and risk management.

**Social**

The Social factor does not affect the rating or trend assigned to the Bank. We are not aware of any major product governance issues. The Bank has not reported any violation of privacy and personal data to date. However, since the invasion of Ukraine, there is a heightened risk of cyber-attacks targeted towards banks, and any significant data breach or cybersecurity attack could have significant reputational and financial consequences.

**Governance**

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. We view certain weaknesses in SFG's 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, have 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 also note, that aggregate financial information for the Group is limited. In addition, the Bank is developing a new bank steering system, which entails execution risk.

# Norddeutsche Landesbank Girozentrale

		1	2	3	4	5
Financial Data through 2023H1	Scorecard Indicator	Scorecard Indicator Data	Scorecard Indicator Assessment	Scorecard Building Block (BB) Assessment	Grids BB Assessment	Combined BB Assessment
<b>Franchise</b>	Adjusted Assets	116	G/M	<b>G</b>	<b>M</b>	<b>G/M</b>
	Sovereign Rating Category	20	VS			
<b>Earnings</b>	Return on Equity	1.81%	W/VW	<b>W/VW</b>	<b>M/W</b>	<b>W</b>
	Return on Assets	0.11%	W			
	IBPT/Avg.Assets	0.17%	W			
<b>Risk</b>	Net NPLs/Net Loans	0.23%	VS/S	<b>VS/S</b>	<b>G/M</b>	<b>S/G</b>
	Provisions/IBPT	-0.38%	VS			
<b>Funding &amp; Liquidity</b>	Sovereign-Adjusted Funding Ratio	101.5%	S/G	<b>S/G</b>	<b>G/M</b>	<b>G</b>
	Sovereign-Adjusted Capital Ratio	14.96%	S			
<b>Capitalisation</b>	NPL/[Equity + Loan Loss Reserves]	13.52%	S/G	<b>M/W</b>	<b>M</b>	<b>M/W</b>
	5-Year Accumulated Net Income/Total Assets	0.21%	W/VW			
		<b>6</b>	<b>7</b>			<b>8</b>
		<b>Overall Assessment</b>	<b>Intrinsic Assessment Range (IAR)</b>			<b>Assigned IA</b>
		G/M	A (low)	BBB (high)	BBB	<b>BBB</b>

Notes: (1) based on financial data as of H1 2023. (2) For more information see Global Methodology for Rating Banks and Banking Organizations published on 22 June 2023. (3) IAR and IA refer to bank level rating

## Annual Financial Information

	For the Year Ended December 31 (IFRS)						
	H1 2023	H1 2022	2022	2021	2020	2019	2018
<b>Balance Sheet (EUR Millions)</b>							
Cash & Cash Equivalents*	15,565	19,067	15,397	20,581	20,507	23,503	26,121
Investments in Financial Assets	21,344	23,332	21,848	24,026	30,180	32,284	36,404
Gross Loans to Customers	71,696	69,073	71,318	69,494	74,994	83,605	93,021
Loan Loss Reserves	(648)	(815)	(706)	(877)	(1,014)	(1,595)	(3,971)
Net Lending to Customers	71,048	68,258	70,612	68,617	73,980	82,010	89,050
Total Assets	109,438	112,257	109,325	114,631	126,176	139,594	154,012
Deposits from Customers	72,177	73,822	72,100	73,699	52,414	57,887	62,447
Debt & Capital Lease Obligations	22,066	21,461	21,281	23,071	27,393	29,979	34,618
Total Liabilities	102,895	106,097	103,025	108,783	120,401	133,790	150,650
Total Equity	6,543	6,160	6,300	5,848	5,775	5,804	3,362
<b>Income Statement (EUR Millions)</b>							
Net Interest Income	516	438	896	816	1,286	1,024	1,229
Non Interest Income	145	(81)	121	300	242	300	(106)
Equity Method Results	13	50	41	17	(24)	37	22
Total Operating Income	674	407	1,058	1,133	1,504	1,361	1,145
Total Operating Expenses	531	518	1,015	1,032	1,025	1,041	1,094
Income Before Provisions and Taxes (IBPT)	144	(111)	43	101	479	320	51
Loan Loss Provisions	(23)	(67)	(140)	(11)	419	(22)	1,894
Irregular Income/Expenses	24	46	79	83	87	409	264
Net Attributable Income	109	(63)	89	32	19	(109)	(2,364)
<b>Growth (%) - YoY Change</b>							
Net Interest Income	17.81%	2.34%	9.80%	-36.55%	25.59%	-16.68%	-13.27%
Total Operating Income	65.60%	-26.80%	-6.62%	-24.67%	10.51%	18.86%	-55.71%
Total Operating Expenses	2.51%	-7.99%	-1.65%	0.68%	-1.54%	-4.84%	-14.26%
IBPT	-229.73%	1485.71%	-57.43%	-78.91%	49.69%	527.45%	-96.10%
Net Attributable Income	-273.02%	23.53%	178.13%	68.42%	-117.43%	-95.39%	-3092.41%
Gross Loans & Advances	3.80%	-2.81%	2.62%	-7.33%	-10.30%	-10.12%	-1.87%
Deposits from Customers	47.86%	-0.35%	-2.17%	40.61%	-9.45%	-7.30%	0.37%
<b>Earnings (%)</b>							
Net Interest Margin	0.96%	0.80%	0.82%	0.70%	0.99%	0.70%	0.78%
Non-Interest Income / Total Revenue	21.51%	-19.90%	11.44%	26.48%	16.09%	22.04%	-9.26%
Cost / Income ratio	78.78%	127.27%	95.94%	91.09%	68.15%	76.49%	95.55%
LLP / IBPT	-15.97%	60.36%	-325.58%	-10.89%	87.47%	-6.88%	3713.73%
Return on Avg Assets (ROAA)	0.20%	-0.11%	0.08%	0.03%	0.01%	-0.07%	-1.51%
Return on Avg Equity (ROAE)	3.40%	-2.10%	1.46%	0.55%	0.33%	-2.59%	-45.09%
IBPT over Avg RWAs	0.72%	-0.60%	0.11%	0.26%	1.18%	0.74%	0.11%
Internal Capital Generation	3.40%	-2.10%	1.46%	0.55%	0.33%	-2.59%	-45.09%
<b>Risk Profile (%)</b>							
Cost of Risk	-0.07%	-0.20%	-0.20%	-0.02%	0.54%	-0.03%	2.09%
Gross NPLs over Gross Loans	0.99%	1.29%	1.14%	1.55%	1.90%	3.25%	2.97%
NPL Coverage Ratio	91.53%	91.16%	86.63%	81.51%	71.06%	58.77%	143.62%
Net NPLs over Net Loans	0.08%	0.12%	0.15%	0.29%	0.56%	1.36%	-1.35%
NPLs to Equity and Loan Loss Reserves Ratio	9.85%	12.82%	10.39%	14.03%	21.17%	33.95%	84.91%
<b>Funding &amp; Liquidity (%)</b>							
Net Loan to Deposit Ratio	98.44%	139.84%	97.94%	93.10%	141.15%	141.67%	142.60%
Liquidity Coverage Ratio	137%	137%	139%	139%	158%	167%	150%
Net Stable Funding Ratio	116%	119%	113%	127%	NA	NA	NA
<b>Capitalization (%)</b>							
CET1 Ratio	14.77%	15.10%	15.07%	15.42%	14.48%	14.45%	6.63%
Tier1 Ratio	14.89%	NA	15.20%	15.56%	14.61%	15.25%	7.53%
Total Capital Ratio	17.85%	19.30%	18.54%	19.81%	19.09%	20.67%	12.67%
Leverage Ratio	5.41%	5.00%	5.13%	5.16%	4.29%	4.11%	2.02%
Dividend Payout Ratio	0.0%	NA	0.0%	0.0%	0.0%	NA	NA

Source: Morningstar Inc., Company Documents

\*Includes Loans to Banks

## Rating Methodology

The applicable methodologies are the *Global Methodology for Rating Banks and Banking Organisations (22 June 2023)* and *DBRS Morningstar Criteria: ESG Factors in Credit Ratings (4 July 2023)*, which can be found on our website under Methodologies.

## Credit Ratings

Issuer	Debt	Rating Action	Rating	Trend
Norddeutsche Landesbank Girozentrale	Long-Term Issuer Rating	Confirmed	A (high)	Stable
Norddeutsche Landesbank Girozentrale	Long-Term Senior Debt	Confirmed	A (high)	Stable
Norddeutsche Landesbank Girozentrale	Long-Term Deposits	Confirmed	A (high)	Stable
Norddeutsche Landesbank Girozentrale	Senior Non-Preferred Debt	Confirmed	A	Stable
Norddeutsche Landesbank Girozentrale	Subordinated Debt	Confirmed	A (low)	Stable
Norddeutsche Landesbank Girozentrale	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stable
Norddeutsche Landesbank Girozentrale	Short-Term Debt	Confirmed	R-1 (middle)	Stable
Norddeutsche Landesbank Girozentrale	Short-Term Deposits	Confirmed	R-1 (middle)	Stable
NORD/LB Luxembourg S.A. Covered Bond Bank	Long-Term Issuer Rating	Confirmed	A (high)	Stable
NORD/LB Luxembourg S.A. Covered Bond Bank	Long-Term Senior Debt	Confirmed	A (high)	Stable
NORD/LB Luxembourg S.A. Covered Bond Bank	Long-Term Deposits	Confirmed	A (high)	Stable
NORD/LB Luxembourg S.A. Covered Bond Bank	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stable
NORD/LB Luxembourg S.A. Covered Bond Bank	Short-Term Debt	Confirmed	R-1 (middle)	Stable
NORD/LB Luxembourg S.A. Covered Bond Bank	Short-Term Deposits	Confirmed	R-1 (middle)	Stable

## Credit Ratings History

Issuer	Debt	2023	2022	Dec. 2021	Mar. 2021	Dec. 2020
Norddeutsche Landesbank Girozentrale	Long-Term Issuer Rating	A (high)	A (high)	A (high)	A (high)	A
Norddeutsche Landesbank Girozentrale	Long-Term Senior Debt	A (high)	A (high)	A (high)	A (high)	A
Norddeutsche Landesbank Girozentrale	Long-Term Deposits	A (high)	A (high)	A (high)	A (high)	A
Norddeutsche Landesbank Girozentrale	Senior Non-Preferred Debt	A	A	A	A	A (low)
Norddeutsche Landesbank Girozentrale	Subordinated Debt	A (low)	A (low)	A (low)	A (low)	BBB (high)
Norddeutsche Landesbank Girozentrale	Short-Term Issuer Rating	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Norddeutsche Landesbank Girozentrale	Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Norddeutsche Landesbank Girozentrale	Short-Term Deposits	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
NORD/LB Luxembourg S.A. Covered Bond Bank	Long-Term Issuer Rating	A (high)	A (high)	--	--	--
NORD/LB Luxembourg S.A. Covered Bond Bank	Long-Term Senior Debt	A (high)	A (high)	--	--	--
NORD/LB Luxembourg S.A. Covered Bond Bank	Long-Term Deposits	A (high)	A (high)	--	--	--
NORD/LB Luxembourg S.A. Covered Bond Bank	Short-Term Issuer Rating	R-1 (middle)	R-1 (middle)	--	--	--
NORD/LB Luxembourg S.A. Covered Bond Bank	Short-Term Debt	R-1 (middle)	R-1 (middle)	--	--	--
NORD/LB Luxembourg S.A. Covered Bond Bank	Short-Term Deposits	R-1 (middle)	R-1 (middle)	--	--	--

## Previous Actions

- [DBRS Morningstar Confirms NORD/LB's LT Issuer Rating at A \(high\), Stable Trend, and Upgrades Intrinsic Assessment to BBB, 1 December 2023.](#)
- [DBRS Morningstar Confirms NORD/LB's Issuer Ratings at A \(high\)/R-1 \(middle\), Stable Trend, 2 December 2022.](#)
- [DBRS Morningstar Assigns First-Time Ratings NORD/LB Luxembourg S.A. Covered Bond Bank, LT Issuer Rating at 'A' \(high\), Stable Trend, 1 August 2022.](#)
- [DBRS Morningstar Confirms NORD/LB's Long-Term Issuer Rating at A \(high\)/R-1 \(middle\), Stable Trend, 3 December 2021.](#)
- [DBRS Morningstar Upgrades NORD/LB's Long-Term Issuer Rating to A \(high\), Trend Stable, 18 March 2021.](#)
- [DBRS Morningstar Confirms NORD/LB's Issuer Ratings at A/R-1 \(low\), Trend Remains Positive, 8 December 2020.](#)
- [DBRS Morningstar confirms NORD/LB's Issuer Ratings at A/R-1 \(low\), Trend returned to Positive, 6 January 2020.](#)
- [DBRS Places NORD/LB's Ratings Under Review – Negative Implications, 31 January 2020.](#)

**Related Research**

- [German CRE—Risks Are Rising, But Likely to Remain Under Control](#), 14 December 2023.
- [Troubles at Julius Baer Hint at Challenges for Banks' Commercial Real Estate Exposures](#), 29 November 2023.
- [European Banking Outlook for 2024 – Ongoing Good Performance, but Pressure on Deposit Margins and Asset Quality Increasing](#), 27 November 2023.
- [Net Interest Income Rally at European Banks—Will It Last?](#), October 18, 2023.
- [Snapshot: Banks and Climate Change from a Credit Perspective](#), 10 October 2023.
- [European Banks Shed Light on Their CRE Exposures Amid Rising Concerns for the Sector](#), 20 September 2023.
- [Deterioration in Cost of Risk Yet to Materialise at European Banks](#), 19 September 2023.
- [Gender Diversity: The Glass Ceiling Remains Thick at European Banks](#), 11 September 2023.
- [Lower European Capital Market Revenues In Q2, Although Debt Underwriting Showed Some Improvement](#), 10 August 2023.
- [EU Banks Proved Resilient in the 2023 EBA Stress Test](#), 7 August 2023.
- [Can EU Banks Maintain Deposit Rates at Current Levels? A Test for European Banks' Structural Profitability](#), 20 June 2023.
- [European Banks' Cost of Risk Remained Low In 2022; But With Signs of Deterioration](#), 20 April 2023.
- [ESG Risk Factors for European Banks: Review of 2022](#), 31 January 2023.
- [European CRE: FIG and CMBS Analysis Indicates Risks are Rising](#), 19 January 2023.

**Previous Reports**

- [Norddeutsche Landesbank Girozentrale: Rating Report](#), 16 December 2022.
- [Norddeutsche Landesbank Girozentrale: Rating Report](#), 3 December 2021.
- [Norddeutsche Landesbank Girozentrale: Rating Report](#), 18 December 2020.

**European Bank Ratios & Definitions**

- [Bank Ratio Definitions](#), 14 March 2022.

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