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CREDIT OPINION
21 December 2020

Update

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RATINGS

Norddeutsche Landesbank GZ

Domicile	Hannover, Germany
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A3
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	A3
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 GZ

Update to credit analysis

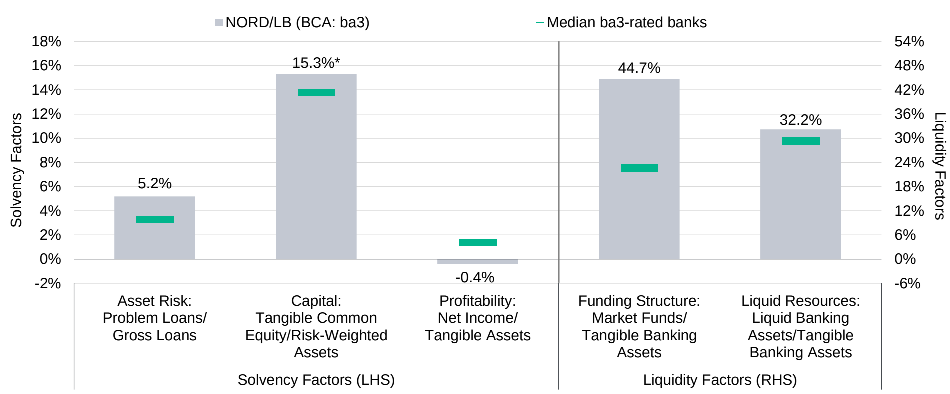
Summary

We assign A3 (stable)/P-2 deposit and A3 (stable) senior unsecured debt ratings to Norddeutsche Landesbank GZ (NORD/LB). We further assign a Baseline Credit Assessment (BCA) of ba3, an Adjusted BCA of ba1, as well as Baa2/P-2 Counterparty Risk Ratings (CRRs) to NORD/LB.

NORD/LB's ratings reflect its ba3 BCA, two notches of rating uplift from its membership in the institutional protection scheme of Sparkassen-Finanzgruppe (Aa2 negative, a2)[1], the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities and one notch for government support, given its membership in Sparkassen-Finanzgruppe.

NORD/LB's ba3 BCA reflects the group's improved solvency after the capital injection in 2019 strengthening asset quality after exiting ship finance and re-sizing activities in accordance with the medium-term plan, termed NORD/LB 2024. The bank's BCA remains constrained by the execution risks of NORD/LB 2024 transition plan and challenges the bank faces to restore its profitability in a weakening economic environment. Our view on NORD/LB's BCA could change if the prolonged coronavirus credit shock leads to a sustained erosion of the bank's solvency strengths.

Exhibit 1
Rating Scorecard - Key financial ratios



Asset-risk and profitability ratios are averages of the last three years' values.
Source: Moody's Financial Metrics

Credit strengths

» NORD/LB's improved solvency after the capital injection, reflects the strengthened capital, supported by asset guarantees, as well as the achieved reduction in ship loans

» Support from membership in Sparkassen-Finanzgruppe

» In the unlikely event of a resolution, senior unsecured creditors to benefit from large volume of junior senior and subordinated debt outstanding

Credit challenges

» High execution risks during an extended period to implement NORD/LB's ambitious transition plans, including the targeted balance-sheet reduction, in an already volatile economic environment

» Restoring a moderate level of profitability during a period of slower economic growth and ultralow interest rates

» Dependence on confidence-sensitive market funding, which is mitigated by NORD/LB's access to funding and liquidity from Germany's savings banks sector

Outlook

The stable outlook reflects that the bank needs to develop a track record on its path toward a more balanced risk profile, thereby reducing the currently significant execution risks and raising the credibility of its profitability targets before a further rating upgrade can be warranted.

Factors that could lead to an upgrade

» A rating upgrade for NORD/LB's senior unsecured debt and deposit ratings depends on an upgrade of the bank's BCA.

» An upgrade of NORD/LB's BCA is likely when the bank successfully executes the planned measures under its transformation program until 2024, leading to a significantly smaller and de-risked balance sheet, including the disposal of remaining loans relating to ship and aircraft finance; maintained or even increased capitalization; and a restored moderate level of profitability.

Factors that could lead to a downgrade

» NORD/LB's ratings could be downgraded if the bank's BCA or Adjusted BCA is downgraded, or if there is a shift in its liability structure, resulting in decreasing volumes of bail-in-able debt instruments, which increases the expected loss under our Advanced LGF analysis.

» NORD/LB's BCA could be downgraded if the bank faces difficulties in maintaining its franchise during the extended phase of transformation, or if its capital significantly declines below the improved levels following the capital injection.

Key indicators

Exhibit 2

Norddeutsche Landesbank GZ (Consolidated Financials) [1]

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	128.4	133.9	148.2	158.0	166.6	(7.2)[4]
Total Assets (USD Billion)	144.2	150.3	169.4	189.7	175.7	(5.5)[4]
Tangible Common Equity (EUR Billion)	6.4	6.4	3.5	5.5	5.1	6.2[4]
Tangible Common Equity (USD Billion)	7.1	7.1	4.0	6.6	5.4	8.1[4]
Problem Loans / Gross Loans (%)	2.7	3.1	7.0	8.0	9.1	6.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.3	16.0	7.8	11.7	8.6	11.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	26.5	31.5	84.0	84.3	107.1	66.7[5]
Net Interest Margin (%)	0.8	0.7	0.8	0.9	1.0	0.8[5]
PPI / Average RWA (%)	0.6	0.7	-0.2	2.1	1.5	0.9[6]
Net Income / Tangible Assets (%)	0.0	0.0	-1.6	0.0	-1.2	-0.6[5]
Cost / Income Ratio (%)	81.2	80.6	106.2	53.1	62.7	76.7[5]
Market Funds / Tangible Banking Assets (%)	44.8	44.7	47.9	49.9	51.7	47.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	31.5	32.2	33.3	36.5	32.4	33.2[5]
Gross Loans / Due to Customers (%)	153.5	152.2	152.4	168.4	184.4	162.2[5]

[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 Investors Service and company filings

Profile

Norddeutsche Landesbank GZ (NORD/LB) is a larger Landesbank in Northern Germany. The bank provides services as a regional-focused commercial bank (addressing private, corporate and institutional customers) and an asset-based financier. NORD/LB's lending activities focus on corporates as well as the energy, infrastructure, aircraft and real estate sectors. In addition, the bank serves as the state bank in German federal states of Lower Saxony and Saxony-Anhalt, and as a central bank for the savings banks in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania.

NORD/LB plans to significantly transform its activities by 2024. It is committed to shrinking its assets to around €95 billion, compared with €128.9 billion as of 30 September 2020 and €139.6 billion as of 31 December 2019.

For more information, please see NORD/LB's Issuer Profile and our German Banking System Profile.

Weighted Macro Profile is Strong+

NORD/LB's credit profile benefits from its Strong+ Macro Profile, which is in line with the Strong+ Macro Profile of Germany. We expect NORD/LB's Macro Profile to remain stable during the period of transformation until 2024, reflecting further reduction in its exposure to the global shipping sector as well as the refocusing of lending activities on Germany and other European Union (EU) countries.

Recent developments

The coronavirus will cause an unprecedented shock to the global economy. The full extent of the economic downswing will be unclear for some time; however, G-20 economies will contract in 2020. In Europe, the coronavirus pandemic adds to late-cycle risks for European banks. The recession in 2020 will weigh on banks' asset quality and profitability. We expect fiscal policy measures, as already announced by a variety of euro-area governments, to mitigate the economic contraction caused by the pandemic. In the current coronavirus-induced recession and its aftermath, capital levels will be a key differentiator of credit profiles among banks. Generally, banks are facing a sharp deterioration in asset quality and reductions in profitability from already low levels, while central banks are providing extraordinary levels of liquidity and governments have strong incentives to support banking systems to foster an eventual recovery. Thus, when comparing a bank to its peers, the level of capital with which it entered this recession and its ability to retain capital throughout the next several years take on particular importance.

The European Central Bank (ECB) announced a series of measures to help EU economies weather the widening effects of the coronavirus pandemic, temporarily increasing banks' liquidity provisions, as well as lowering regulatory capital and liquidity requirements. As part of these temporary measures, the ECB increased its targeted long-term refinancing operations (TLTRO III) under more favorable terms as well as its financial asset purchase program, while refraining from lowering the ultralow interest rates further. The temporary suspension of buffer requirements for regulatory capital and the liquidity coverage ratio (LCR) gives banks greater flexibility and additional leeway to absorb the economic impact, such as asset-quality declines. Overall, the package aims to help banks continue to finance corporates and small and medium-sized businesses suffering from the effects of the coronavirus. We believe that the ECB's measures will provide limited relief for banks and their borrowers, and that it will require meaningful fiscal policy measures by the EU and its member states to avert higher default rates in banks' lending books.

Germany launched a large stimulus package and the government's support is crucial for corporate borrowers in industries immediately hurt by the pandemic such as airlines, tourism, retail and the shipping sector, as well as smaller companies experiencing weak liquidity and high leverage. The scale of the support package is unprecedented and is far larger than the support provided during the 2008 financial crisis. At the same time, the government made it easier to access its short-work scheme ("Kurzarbeit") and extended it to a broader pool of workers, which will limit the spike in unemployment and the fall in domestic consumption. The measures, which are adapted according to the evolution of the economic effects of the pandemic, add to Germany's already expansionary fiscal policy stance as well as to automatic stabilizers that support household incomes when unemployment increases.

On 25 November 2020, NORD/LB confirmed the termination of its hybrid capital instruments because the instruments will fully lose their regulatory recognition as Additional Tier 1 capital in 2022 and also announced further business model adjustments in the near future as part of its transformation plan.

On 14 December 2020, NORD/LB announced its intention to fully integrate and to merge its subsidiary Deutsche Hypothekenbank (Actien-Gesellschaft)(Deutsche Hypo, A3 stable/A3 stable, ba3)[2] into the parent entity as part of its transformation program. The merger shall become effective in July 2021.

Detailed credit considerations

High execution risks in a volatile macroeconomic environment remain

NORD/LB's transformation during the extended period until 2024 results in high uncertainty regarding its banking franchise. Therefore, we adjust NORD/LB's BCA downward by one notch at ba3, which is one notch below the bank's ba2 Financial Profile score. NORD/LB's management needs to develop a track record on its path toward a more balanced risk profile, thereby reducing the currently significant execution risk and raising the credibility of its profitability targets. Execution risks are particularly high during the early stages of the transformation, which includes the disposal of remaining loans related to shipping finance and additional challenges arising from corona-virus related pressures.

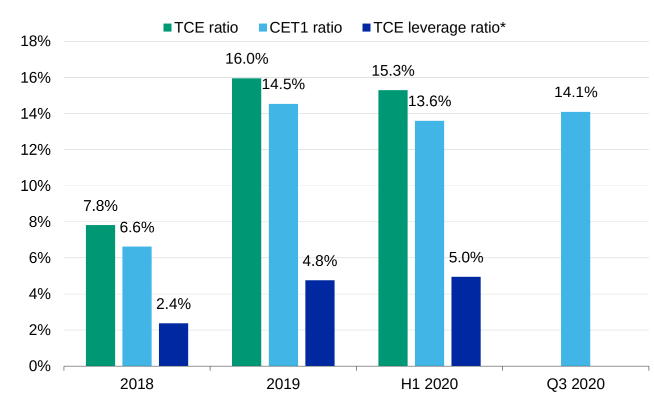
Improved capital provides headroom for NORD/LB's transformation plan

We assign a baa1 Capital score to NORD/LB, which is four notches below the initial score (based on year-end 2019 data). The negative adjustments reflect our expectation of prolonged earnings pressure and still-moderate leverage. NORD/LB's improved capitalization was a key driver for the upgrade of the BCA to ba3 from b2 in January 2020, which allows the bank to further de-risk and resize its activities in accordance with its transition plan, NORD/LB 2024.

The fresh capital injection of €2.835 billion and capital-relieving measures from asset guarantees, equivalent to €800 million, improved NORD/LB's CET1 ratio to 14.5% as of year-end 2019, compared with 6.5% as of September 2019. After an increase to €42.1 billion in March 2020, risk-weighted assets came down to €40.3 billion as of the end of September 2020 (September 2019: €39.8 billion). NORD/LB'S CET1 ratio declined moderately to 14.1% from 14.5% as of year-end 2019. However, the re-injection of the guarantee fee by the Land of Lower Saxony into the bank's capital at year end will partially mitigate returning pressure on NORD/LB's capitalization[3].

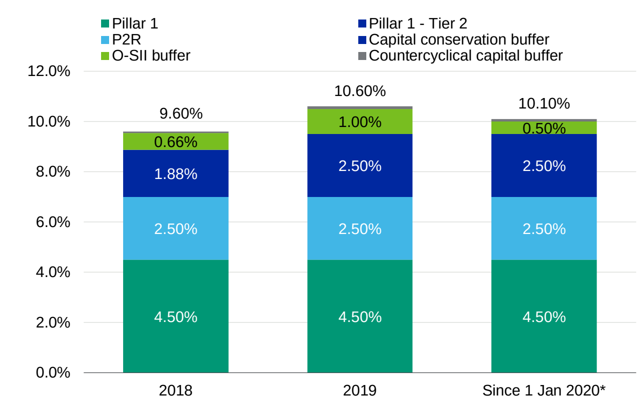
The capital increase also improved NORD/LB's leverage ratio (defined as Tier 1 capital compared with exposure at default) to 4.1% as of the end of 2019, compared with 2.0% in 2018. The leverage ratio remained stable at 4.1% in the third quarter of 2020.

Exhibit 3
Increased RWA resulted in a moderate decline of CET1 ratio to 14.1%...
As a percentage of risk-weighted assets



TCE = Tangible common equity (Moody's calculation). CET1 = Common Equity Tier 1. *The leverage ratio compares TCE with tangible banking assets.
Sources: Company reports and Moody's Investors Service estimates

Exhibit 4
...but still well above regulatory capital requirements.
As a percentage of risk-weighted assets



*Due to its balance sheet reduction, NORD/LB must comply with a lower systemic risk buffer since 1 January 2020.
Sources: Company reports and Moody's Investors Service estimates

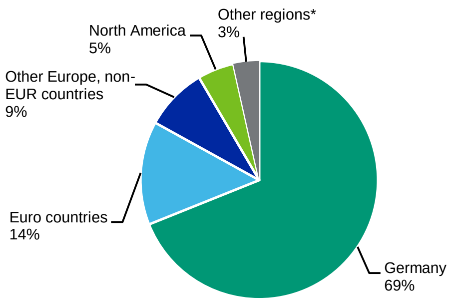
Strategic decision to dispose shipping loans improved NORD/LB's asset quality

NORD/LB's Asset Risk score is ba3, which includes a downward adjustment of four notches from the baa2 initial score. Our assessment takes into account NORD/LB's still-weak, but recovering problem loan ratio that reduced to 2.7% by the end of June 2020, compared with 3.1% as of year-end 2019, as the bank continues to dispose of shipping loans. Our view also reflects the bank's sizeable sector concentration in commercial real estate (CRE) and the anticipation of future deterioration in credit quality caused by the coronavirus pandemic and not yet fully reflected in the bank's problem loan ratio.

NORD/LB's historically high problem loan ratio was driven mostly by the bank's underperforming shipping finance book, while its other segments displayed sound asset performance, benefitting from the benign pre-pandemic macroeconomic environment in Germany.

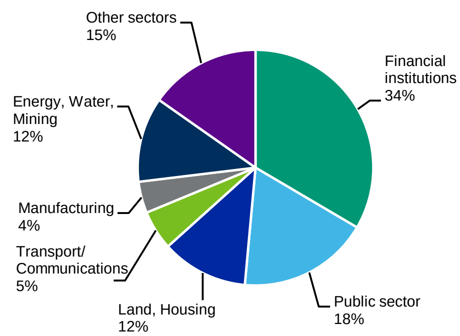
Similar to other German Landesbanks, NORD/LB's credit exposures largely relate to Germany and euro countries, accounting for around 83% of the total exposure. As of the end of 2019, around 48% of the bank's credit exposure related to activities with corporates, which are broadly spread across sectors, as well as financial institutions (35%) and the public sector (17%).

Exhibit 5
NORD/LB's exposure to default by region
Data in % as of the end of June 2020



*Other regions include Middle- and South America, Middle East and Africa and Asia/ Australia.
Sources: Moody's Financial Metrics and company reports

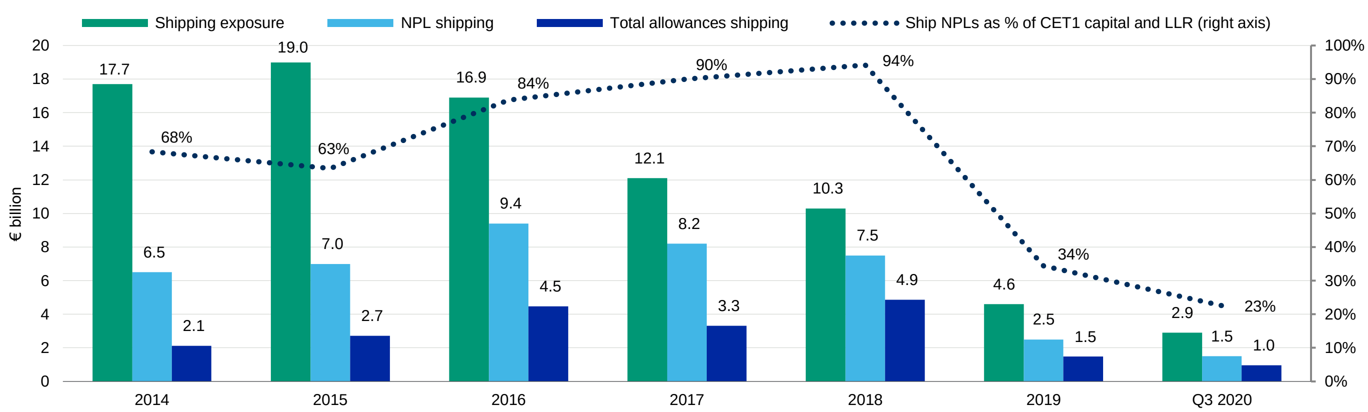
Exhibit 6
NORD/LB's exposure to default by sector
Data in % at the end of June 2020



Sources: Moody's Financial Metrics and company reports

In 2019, NORD/LB initiated steps to reduce assets in order to reach its balance sheet target of €95 billion by 2024. The bank's gross loans declined to €77.0 billion as of the end of June 2020, compared with €81.6 billion as of year-end 2019, largely reflecting the reduction of its exposure to the shipping industry, which dropped to €2.9 billion as of 30 June 2020 from €4.6 billion as of year-end 2019. NORD/LB intends to reduce its problematic shipping loans to approximately €1 billion by the end of 2020 and to completely eliminate by 2021. NORD/LB's non-performing ship loans are covered by loan-loss-reserves of around 65%, compared with around 33% to 40% for the period between 2014-17.

Exhibit 7
Strategic decision to dispose of ship loans triggered a sizeable reduction in 2019, in combination with a much better reserve coverage
Data in € billion



Total allowances include specific and portfolio-based allowances.
Sources: Moody's Investors Service and company data

NORD/LB's past difficulties were rooted in its sizeable exposure to shipping loans. The vast majority of aggregate credit provisions, around €7.3 billion over 2014-18, related to the provisioning for its shipping loans. While the bank is on a good path to reduce its ship exposures, we believe that NORD/LB's remaining most volatile asset exposures arise from CRE loans and aircraft finance.

CRE loans are housed in its wholly owned subsidiary, Deutsche Hypo. At the group level, total CRE exposures accounted for €14.1 billion as of 30 September 2020. Aircraft exposures accounted for €4.1 billion and contain a diversified portfolio of 372 aircrafts and 31 engines as of 30 September 2020. A significant part, 55%, is guaranteed by the State of Lower Saxony or securitized, partially mitigating the risks arising from the aircraft portfolio.

NORD/LB's transformation yields first results

NORD/LB's assigned Profitability score is caa1, which is in line with its initial score. Our assessment reflects the ongoing strain on the bank's profitability, in particular during the early stages of the bank's transformation until 2024, additionally hampered by the pandemic.

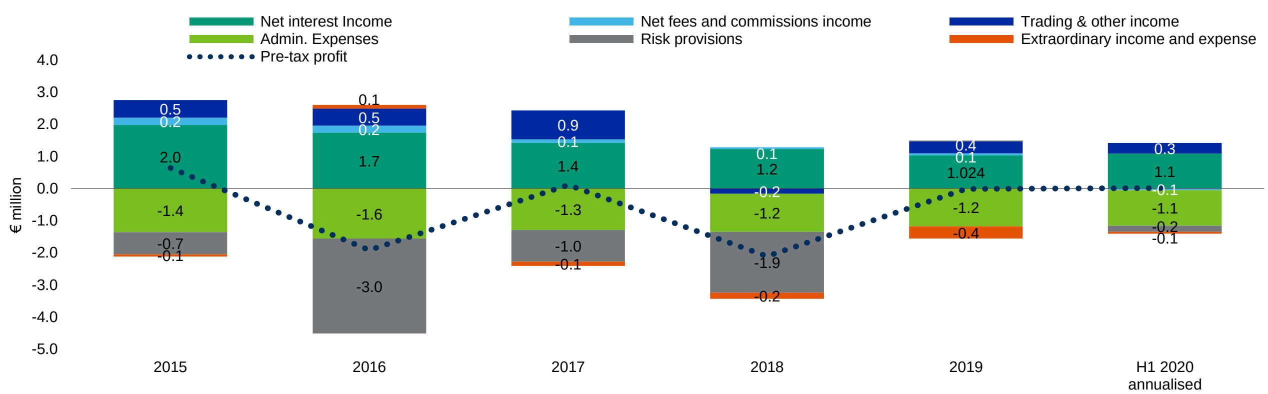
Over the first nine months of 2020, NORD/LB reported a 3% increase in net interest income to €769 million (first nine months in 2019: €750 million) and lower administrative expenses (a reduction of 5%). However, a sharp increase in precautionary risk provisions of €275 million (compared with €4 million during the same period last year) and higher fee expenses for the asset guarantee schemes resulted in a net loss of €74 million (compared with a net profit of €215 million for the previous year's period). For the full-year, NORD/ LB also expects a net loss because of a combination of additional coronavirus-related loan loss provisions, restructuring efforts and investment costs.

High risk provisions significantly impaired the bank's pretax result in the first nine months of 2020. While CRE provisions have been moderate (€28 million over the 9 months period), risk provisions allocated for the aircraft portfolio accounted for €83 million year-to-date. The most significant part of the total €275 million total risk provisions is allocated to model adjustments of €180 million.

Exhibit 8

Risk provisions have persistently impaired NORD/LB's profitability

Data in € billion



Sources: Moody's Investors Service and company reports

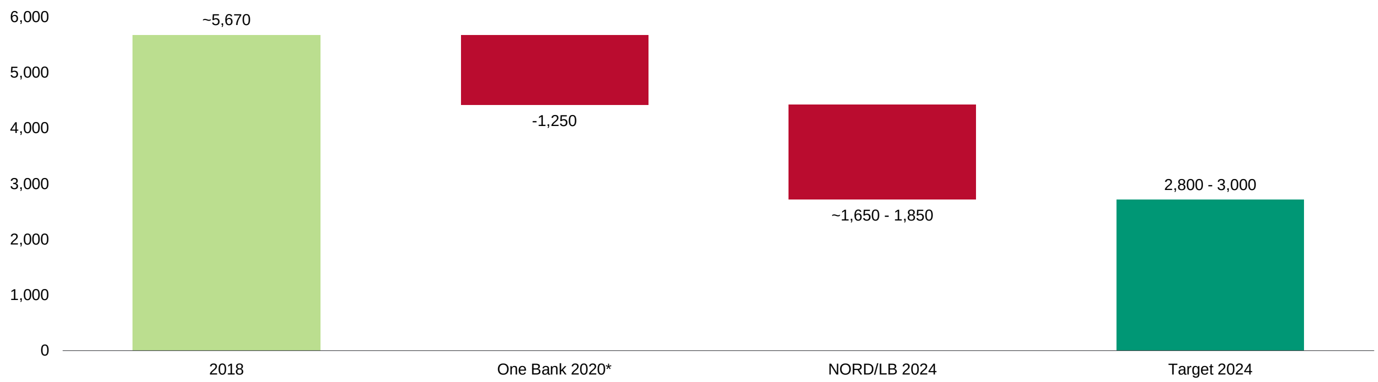
According to its transformation program, NORD/LB will downsize all business segments until 2024, reduce its assets to assets to around €95 billion and lower operating expenses to €625 million by 2024, compared with €970 million in 2019. The main driver is the reduction of its work force to 2,800-3,000 employees by 2024 from 4,498 as of September 2020. We consider the bank's plan to restore profitability targets ambitious, including the targeted cost-to-income ratio of around 46%, in particular because of the presently slower economic growth and the extension of an ultralow interest rate environment.

As of September 2020, NORD/LB demonstrates that the transformation process is on track. The bank reduced its assets to €128.9 billion in accordance with its medium-term transition plan, reducing its balance sheet by 9.2% since December 2019 and reduced its administrative expenses by 4.7% to €684 million (first nine months of 2019: €718 million). The implementation of its transformation plan resulted in a combined €38 million restructuring and reorganization expenses, compared with €98 million during the first nine months of 2019.

Exhibit 9

NORD/LB's transformation program expects a reduced work force

Full-time equivalent number of employees



*One Bank reflects NORD/LB's internal transformation program, aimed at simplifying its group structure following the merger of Bremer Landesbank Kreditanstalt Oldenburg in 2017. The figure includes an already achieved staff reduction of 762 as of 30 September 2020.

Sources: Moody's Investors Service and company reports

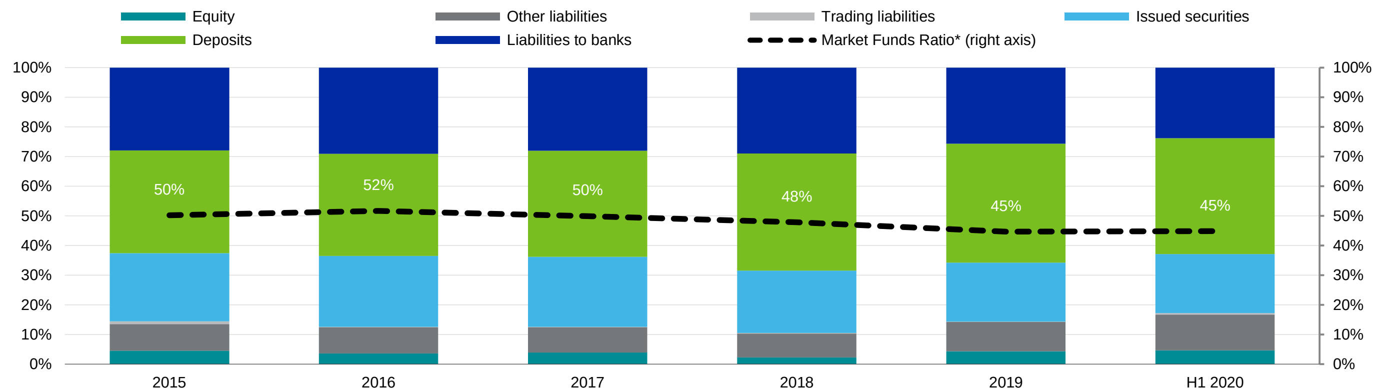
Achieving a moderate level of profitability will be a key milestone for NORD/LB until 2024. The adequate compensation of the existing and new owners for their capital contributions was also an important element for the European Commission to consider the capital injection free of state aid.

Pro rata reduction in liabilities means NORD/LB's wholesale funding dependence will remain

NORD/LB's Funding Structure score is b1, which is in line with the initial score. Our assessment reflects NORD/LB's heavy reliance on wholesale funds, which we expect to remain unchanged as the bank gradually transitions to lower assets. However, we also take into consideration several mitigating factors, including the bank's broadly matched asset and liability structure; its good access to mainly German-domiciled investor base, including access to Germany's savings banks; and additional funding from covered bonds.

We anticipate that NORD/LB's funding structure will not materially change during its transformation. Without a significant retail deposit franchise outside Braunschweigische Landessparkasse, which NORD/LB consolidated, the bank will continue to rely on interbank and capital markets, as reflected by its loan-to-deposit ratio of around 154% as of 30 June 2020 (2019: 152%). However, we expect NORD/LB's funding costs to improve as the bank adjusts its size and thus benefits from declining spreads, in particular compared with its German Landesbanken peers.

Exhibit 10
NORD/LB's funding remains highly dependent on access to capital markets
Liability breakdown in % of assets (left); Market Funds Ratio (right)



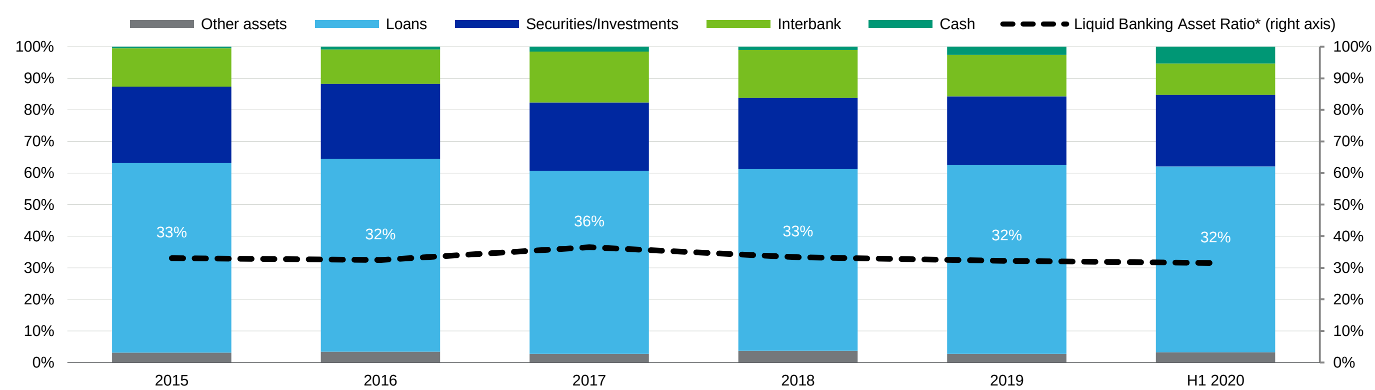
*Market funds ratio = Market funds/tangible banking assets.
Sources: Company reports and Moody's Investors Service estimates

Adequate liquidity, but ongoing alignment of business model may limit liquidity access at reasonable costs

NORD/LB's Liquidity score is baa2, which includes a negative adjustment from the a2 initial score because we take into account pledged assets, which are included in the bank's reported liquid assets. NORD/LB's transition to a smaller balance sheet size will also lead to a moderate decline in liquidity, in particular because maintaining liquidity comes with high costs and is, therefore, a burden on profitability. Asset sales will offer the bank an opportunity to redeem some of its higher-cost liabilities.

As of 30 June 2020, NORD/LB had around €40.4 billion of liquid assets, compared with €43.0 billion as of year-end 2019. Our assessment takes into account cash, loans to banks and financial securities. We consider this a moderate reduction when taking into account that the bank also reduced its assets over the same period, as expressed by our Liquid Banking Assets ratio, which remained unchanged at 32% as of the end of June 2020. NORD/LB's adequate liquidity is also reflected by the LCR of 162% as of 30 June 2020, compared with 167% in 2019.

Exhibit 11
NORD/LB has sound liquidity
Asset breakdown in % of assets (left); Liquid Banking Asset Ratio (right)



*Liquid banking assets ratio = Liquid assets/tangible banking assets.
Sources: Company reports and Moody's Investors Service estimates

Environmental, social and governance considerations

Environmental considerations

NORD/LB's exposure to environmental risks is low, consistent with our general assessment for the global banking sector.[4] See our environmental risk heat map for further information.

Social considerations

Overall, we consider banks to face moderate social risks.[5] See our social risk heat map for further information.

Corporate governance considerations

Governance[6] is highly relevant for NORD/LB, as it is to all institutions in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit a bank's credit profile. Governance risks are largely internal rather than externally driven. Corporate governance remains a key credit consideration and requires ongoing monitoring. For NORD/LB, we do not have any particular governance concern. However, we apply a negative adjustment to the bank's ba2 Financial Profile score to reflect the high execution risks under its transformation plan until 2024.

Support and structural considerations

Affiliate support

We expect high affiliate support for NORD/LB from Germany's Sparkassen-Finanzgruppe, which provides two notches of rating uplift from NORD/LB's BCA, lifting its Adjusted BCA to ba1. This view is supported by the significant capital contribution for the bank from the sector, in combination with the €1.1 billion capital injection, alongside NORD/LB's other owners (the federal states of Lower Saxony and Saxony-Anhalt).

NORD/LB benefits from cross-sector support from Sparkassen-Finanzgruppe, which reduces the probability of default. Support would be available to stabilize a distressed member bank and not just to compensate for losses in resolution. Our unchanged high support assumption assigned to NORD/LB also reflects the bank's prominent service function for savings banks in its main business regions, as well as membership in Sparkassen-Finanzgruppe's institutional protection scheme.

Loss Given Failure (LGF) analysis

NORD/LB is subject to the EU Bank Recovery and Resolution Directive, which we consider to be an operational resolution regime. Therefore, we 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 line with our standard assumptions, we further assume a residual tangible common equity of 3%, post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits.

» For deposits and senior unsecured debt, our LGF analysis indicates an extremely low loss given failure, leading to a three-notch uplift from the bank's ba1 Adjusted BCA.

» For junior senior unsecured debt, our LGF analysis indicates a very low loss given failure, leading to a two-notch uplift from the bank's ba1 Adjusted BCA.

» For subordinated debt instruments, our LGF analysis indicates a high loss given failure. Accordingly, NORD/LB's subordinated debt is rated Ba2, one notch below the bank's ba3 Adjusted BCA.

Hybrid securities ratings

NORD/LB's silent participations (non-cumulative preferred stock), which are issued by Fuerstenberg Capital Erste GmbH and Fuerstenberg Capital II GmbH, are rated Ca(hyb).

The ratings of the instruments reflect their unchanged status as an impaired security and take into account both an expected-loss rating approach for rating the hybrid instruments and our LGF notching approach from NORD/LB's Adjusted BCA. The assigned Ca(hyb) ratings reflect our view of very high expected losses associated with further coupon skips and additional write-downs based on the German GAAP result of NORD/LB.

Government support considerations
Because of its size and importance to financial stability in Germany, we consider member institutions of Sparkassen-Finanzgruppe systemically significant. Therefore, we assume a moderate probability of government support for all members of the sector, in line with our support assumptions for other systemically relevant banking groups in Europe.

For NORD/LB, we include one notch of uplift stemming from government support for the senior unsecured debt and deposit ratings. For the junior senior unsecured debt, subordinated debt and hybrid instruments, the potential for government support is low and these ratings do not benefit from any uplift stemming from government support.

Counterparty Risk Ratings (CRRs)
CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements.

NORD/LB's CRRs are positioned at A3/P-2
The CRRs, before government support, are positioned three notches above NORD/LB's ba1 Adjusted BCA, reflecting the extremely low loss severity from the high volume of instruments that are subordinated to CRR liabilities. NORD/LB's CRRs benefit from one notch of rating uplift stemming from government support, in line with our support assumptions for deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment
CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default; and apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

NORD/LB's CR Assessment is positioned at A3(cr)/P-2(cr)
The CR Assessment, before government support, is positioned three notches above NORD/LB's ba1 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 senior unsecured debt. NORD/LB's CR Assessment benefits from one notch of rating uplift stemming from government support, in line with our support assumptions for deposits and senior unsecured debt.

Methodology and scorecard
The principal methodology used in rating NORD/LB was our Banks Methodology, published in November 2019.

About Moody's Bank Scorecard
Our 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 output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output 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 12

Norddeutsche Landesbank GZ

Macro Factors						
Weighted Macro Profile	**Strong +**	**100%**				

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.2%	baa2	↔	ba3	Collateral and provisioning coverage	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.3%	aa3	↔	baa1	Capital retention	Nominal leverage
Profitability						
Net Income / Tangible Assets	-0.4%	caa1	↔	caa1	Expected trend	Return on assets
Combined Solvency Score		baa2		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	44.7%	b1	↔	b1	Market funding quality	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	32.2%	a2	↔	baa2	Asset encumbrance	Stock of liquid assets
Combined Liquidity Score		ba1		ba2		
Financial Profile				ba2		
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				ba2 - b1		
Assigned BCA				ba3		
Affiliate Support notching				2		
Adjusted BCA				ba1		

Balance Sheet is not applicable.

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	-	-	-	-	-	-	-	3	0	baa1
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	baa1 (cr)
Deposits	-	-	-	-	-	-	-	3	0	baa1
Senior unsecured bank debt	-	-	-	-	-	-	-	3	0	baa1
Junior senior unsecured bank debt	-	-	-	-	-	-	-	2	0	baa2
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	ba2

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	baa1	1	A3	A3
Counterparty Risk Assessment	3	0	baa1 (cr)	1	A3(cr)	
Deposits	3	0	baa1	1	A3	A3
Senior unsecured bank debt	3	0	baa1	1	A3	A3
Junior senior unsecured bank debt	2	0	baa2	0	Baa2	Baa2
Dated subordinated bank debt	-1	0	ba2	0	Ba2	Ba2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 13

Category	Moody's Rating
NORDDEUTSCHE LANDESBANK GZ	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	A3/P-2
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
Junior Senior Unsecured	Baa2
Junior Senior Unsecured MTN -Dom Curr	(P)Baa2
Subordinate	Ba2
Commercial Paper	P-2
Other Short Term -Dom Curr	(P)P-2
NORDDEUTSCHE LANDESBANK GZ, NEW YORK BRANCH	
Counterparty Risk Rating	A3/P-2
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Commercial Paper	P-2
FUERSTENBERG CAPITAL II GMBH	
Pref. Stock Non-cumulative -Dom Curr	Ca (hyb)
FUERSTENBERG CAPITAL ERSTE GMBH	
Pref. Stock Non-cumulative -Dom Curr	Ca (hyb)

Source: Moody's Investors Service

Endnotes

1 The ratings shown are Sparkassen-Finanzgruppe's corporate family rating and outlook and its BCA.

2 The ratings shown are Deutsche Hypo's deposit rating and outlook, its senior unsecured debt rating and outlook, as well as the bank's BCA.

3 As confirmed by the State Chancellery of the state Lower Saxony.

4 Environmental risks can be defined as environmental hazards encompassing the impact of air pollution, soil/water pollution, water shortages and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. In our environmental risk heat map, we scored 84 sectors according to their overall exposure to environmental risks.

5 The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Social trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, aging population concerns in several countries impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base.

6 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Further factors like specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors and dividend policy may be captured in individual adjustments to the BCA, if deemed applicable. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates because of poor governance, such as breakdown in controls resulting in financial misconduct, it can take a long time to recover. Governance risks are also largely internal rather than externally driven.

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