

**Norddeutsche Landesbank
Girozentrale**

Corporate Communication
Friedrichswall 10
D – 30159 Hanover

Email: presse@nordlb.de
www.nordlb.com
www.facebook.com/nordlb
www.twitter.com/nord_lb

Hanover, 24 March 2020

NORD/LB: Restructuring puts strain on financial income for 2019

- > **Losses before taxes EUR 30 million**
- > **Profit/loss before restructuring and taxes EUR 429 million**
- > **Ratings on the way up after capital reinforcement**
- > **Transformation of bank in full swing**
- > **Coronavirus complicating outlook for 2020**

NORD/LB Norddeutsche Landesbank finished the financial year 2019 with a loss before taxes of EUR 30 million. Consolidated profit after taxes was minus EUR 69 million. As already announced, high restructuring expenses were generated for the realignment of the bank in 2019, which put a significant strain on financial income. At EUR 429 million, earnings before restructuring, reorganisation and taxes were at a very respectable level.

"We came out of the financial year 2019 significantly better than we expected a year ago. The loss we have announced has therefore remained manageable. Meanwhile, the restructuring of NORD/LB is now in full swing," said Thomas Bürkle, Chairman of the Managing Board of NORD/LB. "The transformation we have initiated is already bearing the first fruits. The significant reduction in costs confirms that we are on the right track. At the same time, we are on a good path operationally speaking. After largely eliminating the vessel financing risks from our balance sheet, we can once again devote all of our energy to our customers."

Comprehensive measures were implemented at the end of 2019 to reinforce the capital of NORD/LB. The capital measures of the previous owners of the bank and of the S-finance group are having a positive total capital effect of around EUR 3.6 billion. As a result, the capital ratios of the bank have improved noticeably. Common Equity Tier 1 ratio was 14.54 per cent as at 31 Dec. 2019 and thus significantly above the regulatory requirements. The rating agencies reacted to the reinforcement of capital as early as January, meaning that all of NORD/LB's important ratings are once more Investment Grade.

NORD/LB has set itself ambitious targets for the future. In order to achieve them, the bank will become smaller, more streamlined and more efficient. Total assets should decrease to around EUR 95 billion by 2024. A corresponding transformation programme was already set up for this purpose last year.

Profit and loss statement for the financial year 2019

Net interest income within the Group in the financial year 2019 was EUR 1,024 million (previous year: EUR 1,229 million). The decrease compared to the previous year is primarily due to the significant reduction in the shipping portfolio and the associated decrease in interest income. Additionally, the consistently low interest-rate level on the financial and capital market has softened the effect.

The risk provisioning result had a positive value of EUR 29 million, whereby minor net reversals occurred in risk provisioning in 2019. Compared to the previous year (minus EUR 1,893 million), when extensive adjustments were made to the ship financing portfolio, there was thus a significant improvement in the risk provisioning result.

At EUR 71 million, **net commission income** was slightly higher than in the previous year (EUR 52 million). The bank also profited from the **fair-value income** (including hedge accounting) which totalled EUR 223 million (minus EUR 273 million). In particular, valuation effects of financial assets had a positive impact here.. **Profit/loss from shares in companies** totalled EUR 17 million (EUR 1 million), whilst **profit/loss from investments accounted for using the equity method** remained almost unchanged at EUR 20 million (EUR 21 million).

Administrative expenses fell once more last year and decreased to EUR 970 million in 2019 (EUR 999 million). Since 2017, therefore, when the One Bank transformation programme was launched as part of the integration of the Bremer Landesbank, annual administrative costs have already fallen by some EUR 200 million. This massive reduction in costs is essentially due to the measures from the One Bank programme. There was a reduction in staff expenses as well as in other administrative expenses, such as IT costs, compared to the previous year.

Other operating profit increased to EUR 45 million (minus EUR 57 million). This is largely due to the successful disposal of investments to the amount of EUR 124 million (EUR 4 million).

Expenses for **restructuring**, or reorganisation, have increased as planned. In the financial year 2019 they totalled EUR 459 million, meaning more than twice as much as in the previous year (EUR 219 million). These expenses are directly related to the extensive restructuring of the bank that has been initiated. Alongside consulting services, this primarily relates to provisions for the further planned reduction in staff numbers at NORD/LB. The **income taxes** calculated according to IFRS totalled EUR 39 million (EUR 297 million).

The balance sheet total of the NORD/LB Group fell once more in the financial year 2019 and totals EUR 139.6 billion as at 31/12/2019 (year-end 2018: EUR 154.0 billion). The reduction in the balance sheet total, which began some years ago, was thus continued consistently last year as well. The **total risk exposure amount** relevant for the calculation of the capital ratios was also significantly reduced last year. As at 31 Dec. 2019, this figure was EUR 39.8 billion, which corresponds to a decrease of 11 per cent compared to the previous year (EUR 44.9 billion).

As a result of the implementation of the capital measures at the end of 2019, the capital ratios at NORD/LB have increased significantly. NORD/LB's **Common Equity Tier 1 ratio** was 14.54 per cent as at 31 December 2019 and thus significantly above the required regulatory minimum (10.60 per cent). The **total regulatory capital ratio** also increased to 20.76 per cent (previous year: 12.67 per cent).

Development of segments in the financial year 2019

NORD/LB was profitable in almost all segments in 2019. Having had to establish high valuation allowances in the **ship financing** segment in 2018, NORD/LB will withdraw from this segment completely and wind down its shipping portfolio altogether. Thanks to the successful sales of vessels and thanks to interest payments and repayments on vessels already written off, this segment achieved earnings before taxes of EUR 196 million in the financial year 2019. As at 31 Dec. 2019, the shipping portfolio has decreased to a volume of EUR 4.6 billion (31 Dec. 2018: EUR 10.3 billion). The NPL portfolio totalled EUR 2.5 billion as at year-end 2019. The entire shipping portfolio is to be fully wound down by the end of 2021.

NORD/LB has **corporate customers** all across Germany. This segment includes not only medium-sized corporate customers, but also the segments of agricultural banking, social real estate and housing. Thanks to

an expanded sector approach, the bank is able to also provide its customers with comprehensive technical expertise. **NORD/LB** also supports its customers with innovative financing alternatives. In a highly competitive segment, the bank achieved earnings before taxes of EUR 119 million in 2019.

In the **Energy and Infrastructure Customers** segment, earnings before taxes were EUR 71 million in the financial year 2019. The focus in this segment is on tailor-made financing solutions for project-based transactions. **NORD/LB** has more than thirty years of expertise in this field. Last year, project financing was arranged both nationally and internationally to a total volume of EUR 2.8 billion. **NORD/LB** continues to be one of the Top 3 project financing banks worldwide for wind and solar farms.

Developments in the **Real Estate Banking Customers** segment are significantly influenced by Deutsche Hypo, the competence centre for commercial property financing within the **NORD/LB** Group. Highlights for the financial year 2019 include the financing of the Gerling Quarter with the 25hours Hotel in Cologne, the "Woodwork" office building in the Paris metropolitan area and the financing of a logistics centre in Bavaria. Total pre-tax profit of EUR 136 million was achieved in the Real Estate Banking Customers segment.

The capital market segment, with institutional customers, is reported in the **Markets** segment. Pre-tax profit of EUR 35 million was achieved in this segment last year. Noteworthy international transactions in the last year include involvement in an issue of a covered bond benchmark from Banco Santander with a volume of EUR 1.75 billion and the issue of a comprehensive EUR 2 billion bond from DNB Bank ASA. **NORD/LB** also successfully brought a number of transactions to the market for states and municipalities across Germany.

In the **Aircraft Customers** segment, earnings before taxes of EUR 44 million were achieved. This result is based first and foremost on stable revenue development at a high level. In this segment, property-related financing for aircraft of renowned manufacturers is undertaken for aviation and leasing companies. Thanks to the successful acquisition of new customers, the client base was further expanded last year.

The products and services for private and commercial customers in the area around the Braunschweigische Landesbank (BLSK), in Hanover and Hamburg and in Bremen and Oldenburg are bundled together in the **Private and Commercial Customers** segment. With a pre-tax profit of EUR 57 million, last year's excellent profit (EUR 50 million) was once more

exceeded. For 16 years now, NORD/LB has been commended by Elite Report for its asset management. As a result, the bank has firmly established itself as a premium provider of asset management services in the German-speaking area.

The **Savings Banks Network segment** includes business with savings banks in Lower Saxony, Saxony-Anhalt, Mecklenburg-Vorpommern and parts of Schleswig-Holstein and Brandenburg. The cooperation with savings banks in the credit segment as well as the municipal financing segment are also represented here. The challenging market environment in this segment is also characterised by increasing competition. The operating result of the segment in 2019 was minus EUR 15 million, meaning it was not able to follow up on the strong result the previous year (EUR 23 million).

New business model solidifying

The impending restructuring of the bank will lead to adjustments in the business model. In future, the bank will focus on five business segments: Private and Commercial Customers including Savings Banks Network Customers, Special Financing, Real Estate, Markets and Corporate Customers. It will therefore essentially maintain its diversification approach. NORD/LB will continue to have a regional focus in future, but will also accompany its customers on international markets. There will also be an even stronger focus on linking together credit customers, institutional investors and NORD/LB in future. This will allow us to generate new product solutions for customers and additional commission income for the bank.

Restructuring of bank progressing

After reinforcing its capital, NORD/LB is undergoing an extensive transformation. The bank already created its own transformation programme, NORD/LB 2024, for this purpose last year. At the end of this process, the bank will be significantly smaller and less exposed to risks, though at the same time also more efficient and more effective. All of the bank's structures and processes have been critically interrogated and optimised for this purpose. The number of employees will also decrease significantly in this regard. The Group's workforce is to be reduced to 2,800 employees by the end of 2023. It is intended that this reduction of the workforce will be as socially acceptable as possible and will be done primarily on a voluntary basis. It currently looks as if the staff reduction targets can be achieved through the voluntary adoption of corresponding measures.

At the same time, however, the bank will also invest significantly in future technologies. A total of around EUR 500 million has been set aside for investments in new IT systems and a range of digitisation initiatives.

Outlook 2020

NORD/LB has got off to a good start in the new year. Rating improvements were accompanied by a positive trend in new business. On the current financial year, Bürkle said, "I am confident that on the back of the capital reinforcement and the rating improvements, we will build on old strengths. The restructuring of NORD/LB will, of course, continue to keep us busy this year too. We will also continue our course for transformation in 2020, and the corresponding restructuring expenses will once again put a strain on income. However, any profit forecast in the current circumstances would be unreliable. The as yet unknown economic impacts of coronavirus are in particular making it very difficult to look forward at the present time."

Contact: Mario Gruppe, tel. 0511 361 9934, mario.gruppe@nordlb.de

Consolidated financial statements for financial year 2019

INCOME STATEMENT ¹ (IFRS in € million)	2019 ¹	2018 ²	Change in € million	Change in %
Net interest income	1,024	1,229	-205	-17
Risk provisioning	29	-1,893	1,922	> 100
Net commission income	71	52	19	37
Profit/loss at fair value (including hedge accounting)	223	-273	496	> 100
Result from financial instruments not measured at fair value through profit/loss	-30	31	-61	> 100
Profit/loss from shares in companies	17	1	16	> 100
Profit/loss from investments accounted for using the equity method	20	21	-1	-5
Administrative expenses (-)	970	999	-29	-3
Other operating profit/loss	45	-57	102	> 100
Earnings before restructuring, reorganisation and taxes	429	-1,888	2,317	> 100
Expenses for restructuring and reorganisation (-)	459	219	240	> 100
Earnings before taxes (EBT)	-30	-2,107	2,077	-99
Income taxes (-)	39	297	-258	-87
Consolidated profit	-69	-2,404	2,335	-97

¹ Final and audited figures; ² Figures for 2018 adjusted.

BALANCE SHEET FIGURES (IFRS in € million)	31.12. 2019 ¹	31.12. 2018 ²	Change in € million	Change in %
Balance sheet total	139,619	154,012	-14,393	-9
Reported equity	5,838	3,362	2,476	74

¹ Final and audited figures; ² Figures for end of 2018 adjusted.

KEY FIGURES	31.12. 2019	31.12. 2018	Change in %
Cost-Income-Ratio (CIR, in %)	71.7	99.5	-28
Return-on-Equity (RoE, in %)	-0.5	-34.1	-99

REGULATORY RATIOS (CRR / CRD IV / IFRS)	31.12. 2019	31.12. 2018	Change in € million	Change in %
Common equity tier 1 capital (in € million)	5,792	2,976	2,816	95
Regulatory capital (in € million)	8,270	5,687	2,583	45
Total risk exposure (in € million)	39,840	44,895	-5,055	-11
CET1 capital ratio, in %	14.54	6.63		
Total capital ratio, in %	20.76	12.67		
Common equity tier 1 capital ratio ¹ (fully loaded, in %)	14.46	6.57		
Total regulatory capital ratio ² (fully loaded, in %)	20.68	12.57		
Leverage ratio (in %)	4.1	2.0		

¹ CET1 capital ratio; ² Total regulatory capital ratio; ³ Figures for end of 2017 adjusted.