MOODY'S
INVESTORS SERVICE

CREDIT OPINION
29 September 2022

Update

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RATINGS

**Oldenburgische Landesbank AG**

| | |
|---|---|
| Domicile | Oldenburg, Germany |
| Long Term CRR | Baa1 |
| Type | LT Counterparty Risk Rating - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Debt | Not Assigned |
| Long Term Deposit | Baa2 |
| Type | LT Bank Deposits - Fgn Curr |
| Outlook | Positive |

*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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# Oldenburgische Landesbank AG

## Update following rating affirmation and outlook change to positive

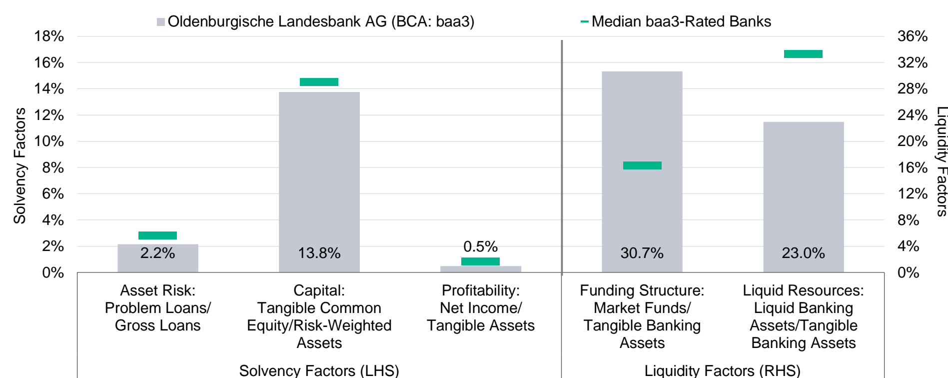
## Summary


On 15 September, we affirmed the Baa2 deposit and issuer ratings of Oldenburgische Landesbank AG (OLB) and changed the outlook to positive from stable. At the same time, we affirmed all other ratings and rating inputs of OLB.

OLB's Baa2 (positive) deposit and issuer ratings reflect the bank's baa3 Baseline Credit Assessment (BCA) and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, which indicates a low loss given failure and results in one notch of rating uplift. OLB's ratings do not benefit from a government support uplift because of its small size in the context of the German banking sector.

OLB's baa3 BCA reflects the bank's sound financial fundamentals, underpinned by its strong access to retail deposit funding and its solid capitalisation. At the same time, the baa3 BCA incorporates our expectation that OLB will continue to tightly manage its liquidity buffers while restructuring its retail operations and increasing the importance of its specialised lending portfolios, which will increase asset concentration risks.


Exhibit 1
**Rating Scorecard — Key financial ratios**




*Source: Moody's Investors Service*

## Credit strengths

» Low dependence on wholesale funding as a result of its strong access to retail deposits

» Moderate problem loan ratio as a result of the bank's clear focus on the domestic market

» A developing track record of improving profitability amid a difficult operating environment

## Credit challenges

» OLB is exposed to additional asset risks from non-retail lending activities.

» Rising capital requirements reduce the bank's solid capital buffers.

» OLB is exposed to concentration risks as a result of its asset-based finance-focused business model.

## Outlook

The positive rating outlook reflects the strengthening of OLB's pre-provision income generation capacity that has gained traction, and the supportive effects of the acquisition on the bank's funding and liquidity base, which may result in a one notch upgrade.

## Factors that could lead to an upgrade

» We could upgrade OLB's Baa2 long-term deposit and issuer ratings in case of an upgrade of its baa3 BCA or following an increase in the stock of bail-in-able liabilities.

» We could raise the BCA if the bank sustainably improved its standalone intrinsic strength by maintaining its achieved solvency, which is principally subject to keeping sound levels of capitalization, and to the extension of a track record of profit generation without incurring significant renewed asset risks, overseen by a stable management team.

## Factors that could lead to a downgrade

» We could downgrade OLB's Baa2 long-term deposit and issuer ratings if the bank's BCA is downgraded or if the bank did not replace maturing junior senior unsecured liabilities by other unsecured liabilities to the extent currently expected by the rating agency, because this could lead to a less favourable outcome under our Advanced LGF analysis.

» As indicated by the positive outlook, a downgrade of OLB's BCA is currently unlikely. It could however result from a pronounced negative deviation of OLB's future financial performance from the solvency and liquidity metrics that we currently expect, for instance if the integration of Degussa Bank proved to be disruptive to OLB's financial. Alternatively, a BCA downgrade could result from continued high turnover in OLB's management team in case Moody's concludes this is indicative of a lack of coherent strategic direction or of weak governance at OLB.

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

## Key indicators

Exhibit 2

**Oldenburgische Landesbank AG (Consolidated Financials) [1]**

| | 06-22[2] | 12-21[2] | 12-20[2] | 12-19[2] | 12-18[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (EUR Billion) | 24.1 | 23.1 | 20.1 | 19.2 | 19.1 | 6.9[4] |
| Total Assets (USD Billion) | 25.2 | 26.2 | 24.6 | 21.6 | 21.8 | 4.2[4] |
| Tangible Common Equity (EUR Billion) | 1.3 | 1.2 | 1.1 | 1.1 | 1.0 | 7.3[4] |
| Tangible Common Equity (USD Billion) | 1.4 | 1.4 | 1.4 | 1.3 | 1.2 | 4.6[4] |
| Problem Loans / Gross Loans (%) | 1.6 | 1.9 | 2.7 | 2.5 | 2.7 | 2.3[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 13.8 | 12.6 | 13.3 | 12.7 | 11.9 | 12.9[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 19.8 | 23.8 | 32.0 | 30.2 | 32.0 | 27.5[5] |
| Net Interest Margin (%) | 1.8 | 1.7 | 1.7 | 1.6 | 1.8 | 1.7[5] |
| PPI / Average RWA (%) | 3.0 | 2.1 | 1.7 | 1.2 | 1.4 | 1.9[6] |
| Net Income / Tangible Assets (%) | 0.8 | 0.5 | 0.3 | 0.3 | 0.2 | 0.4[5] |
| Cost / Income Ratio (%) | 49.0 | 62.8 | 67.4 | 75.0 | 77.1 | 66.3[5] |
| Market Funds / Tangible Banking Assets (%) | 30.5 | 30.7 | 27.0 | 25.6 | 29.9 | 28.7[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 24.6 | 23.0 | 19.5 | 15.5 | 24.7 | 21.5[5] |
| Gross Loans / Due to Customers (%) | 123.9 | 121.5 | 120.7 | 120.2 | 124.5 | 122.2[5] |

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [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

Oldenburgische Landesbank AG (OLB) is a regional universal bank in Germany's north-western Weser-Ems region in Lower Saxony, where it had a network of 51 branches as of year-end 2021. As of December 2021, OLB employed around 1,648 full-time equivalent employees. Its network caters primarily to regional, retail, and small and medium-sized enterprise (SME) banking activities. The bank has eight offices in major cities of Germany, which complement the Oldenburg-based headquarters in sourcing corporate and specialised lending opportunities on a national scale.

In Q1 2022, OLB closed another 11 branches to arrive at its target size of 40 branches. In parallel, the bank reduced the number of full-time equivalent employees by 16% to 1,381, which brings it close to achieving its year-end 2022 target of 1,250.

On 14 September 2022, OLB announced its acquisition of German mortgage lender and worksite bank Degussa Bank AG (Degussa Bank) for a €220 million cash consideration. Upon the closing of this transaction around half-year 2023, OLB expects to merge with Degussa Bank.

In 2018, OLB, which was founded in 1869, had merged with Bremer Kreditbank AG (BKB) and Bankhaus Neelmeyer AG (BHN), and maintained the OLB and Bankhaus Neelmeyer brands. As of year-end 2019, the bank completed its merger with the smaller Wuestenrot Bank AG Pfandbriefbank (WBP).

The bank's operations are split into two segments, Private & Business Customers (with subdivisions Private Customers, SME Customers, and Private Banking & Wealth Management), and Corporates & Diversified Lending.

As a preparatory measure for a potential public stock listing, the bank started to report its financials under International Financial Reporting Standards (IFRS) as of June 2022, in addition to its current local GAAP (HGB) reporting.

## Weighted macro profile of Strong +

OLB has a clear focus on the German market and, therefore, we assign the bank a weighted macro profile of Strong +, which is in line with the Strong + macro profile of Germany.

## Detailed credit considerations

### Reduced non-retail asset growth will help OLB maintain problem loans at a low level

OLB's ba1 Asset Risk score is five notches below the a2 initial score. Our assessment of OLB's Asset Risk score incorporates its strong German market concentration within the retail and SME business, the bank's growing exposure to more cyclically sensitive asset-based lending activities, and our expectation that problem loans across the German banking industry will increase moderately in 2022 and in particular in 2023.

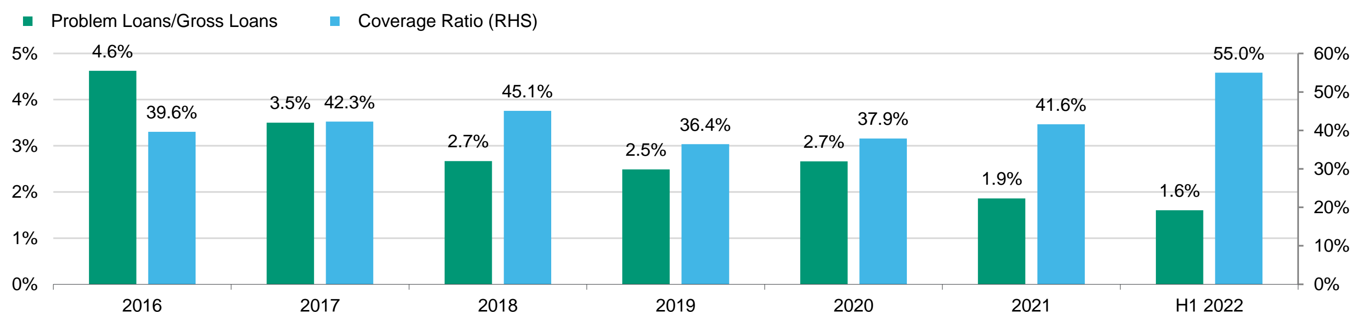
Through the announced acquisition of Degussa Bank, OLB will mainly add residential mortgage loans to its portfolio, together with some consumer and multifamily housing loans. The acquisition will provide some geographic diversification, also in terms of branch network footprint, to OLB's regionally concentrated retail and SME lending book. OLB aims for a balanced mix between its retail and SME lending exposures, and its corporates and diversified lending activities. Organic growth of OLB's residential mortgage loan book will be more difficult to achieve after a pronounced increase in German mortgage lending rates and significantly weaker housing affordability for German households. Earlier this year, OLB announced an expansion of its mortgage lending options with its entry into the Dutch market via a platform partnership.

Amid the difficult economic environment, we consider OLB's corporate and diversified lending activities to expose the bank to higher problem loans, particularly in 2023, when we forecast Germany will undergo a recession. In underwriting loans in this segment, OLB benefits from the in-house specialist expertise of, for example, its commercial real estate lending and acquisition finance teams, which maintained sound credit costs even in the difficult economic environment following the coronavirus pandemic.

As of 30 June 2022, OLB's problem loan ratio was 1.6%, down from 1.9% as of year-end 2021, reflecting both a solid performance of the corporate lending book and positive mix effects from the growth in OLB's strongly performing residential mortgage book. With the adoption of IFRS9, the bank significantly improved the loan loss reserve coverage of its problem loans to a sound 55% (as of December 2021 under local GAAP: 41.6%), supported by €62 million of general loan loss reserves (€42 million as of year-end 2021 under local GAAP and €63 million under IFRS as of 1 January 2022).

Exhibit 3

**OLB's problem loan ratio has continued to decline; reserve coverage was strengthened upon the adoption of IFRS9 in 2022**
**Data in percentages**



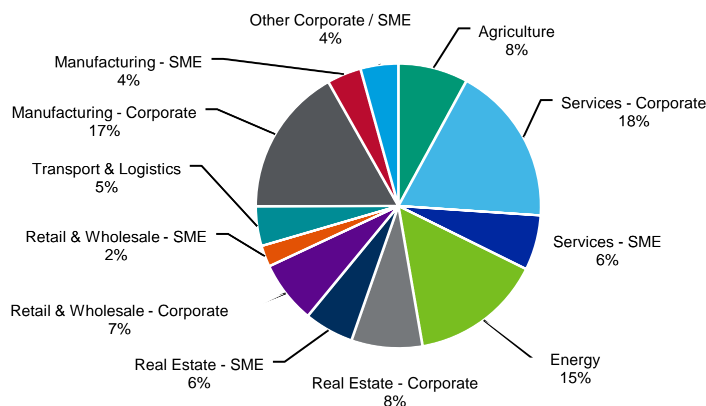

The problem loan ratio is in accordance with our definition. The coverage ratio compares total loan loss reserves with problem loans.
*Sources: Company and Moody's Investors Service*

OLB's main corporate sector concentrations as of year-end 2021 included €4.1 billion of exposures to the services sector (including €0.5 billion to SMEs) and €2.8 billion to the manufacturing sector (including €0.5 billion to SMEs). In aggregate, OLB's exposures to SMEs represented close to 2x the bank's year-end 2021 tangible common equity (TCE). SMEs active in the services sector could experience further strain on their solvency and liquidity as a result of weaker consumer confidence in reaction to the military conflict between Russia and Ukraine, and inflationary pressures. For companies and SMEs in the manufacturing sector, rising energy costs and possible gas rationing measures would increase cash flow and solvency risks, in particular for firms with weak pricing power.

Exhibit 4

**OLB's corporate lending exposures are well diversified by industry, but a renewed downturn will weaken its asset quality**

**Breakdown of OLB's €13.1 billion corporate credit exposures as of year-end 2021 by industry**




Each 10% of credit exposure accounted for around 1x the bank's TCE as of year-end 2021.
*Sources: Company reports and Moody's Investors Service*

Complementing the current industry exposures, OLB added the niche business segment of football financing in 2020. This primarily consists of purchasing receivables and, to a lesser extent, traditional lending. The bank aims to expand its business volume to €500 million in the medium term. In 2021, OLB's football financing amounted to around €400 million.

On 13 June, OLB announced it has reached an agreement to acquire a performing leveraged loan portfolio from NIBC Bank N.V. (Baa1/Baa1 stable, baa3)[1]. OLB will acquire half of a €500 million portfolio of loans to mid-market private equity-owned companies, with OLB's share of 17 loans being focused on the German market, whereas a.s.r. Asset Management, a subsidiary of insurer a.s.r. Nederland, will acquire mainly the loans to Dutch companies. It was agreed to transfer the loans in several steps to both acquirers over the course of the next months.

In 2019, OLB transferred the largest part of its defined benefit pension liabilities to an externally managed pension fund, which allowed the bank to reduce its pension reserves to €39 million as of December 2021 from €197 million in 2018. OLB booked a €0.8 million reserve against transferred liabilities in 2021 (€0.8 million booked in 2020), and the bank remains liable for the fulfilment of the transferred pension obligations in case the assets transferred to the fund fail to cover future obligations. As of year-end 2021, the value of these assets was €36.8 million below the local GAAP book value of the obligation.

## Rising regulatory requirements reduce OLB's solid capital leeway

OLB's sound capitalisation is reflected in its baa1 assigned Capital score, two notches below the initial score. Whether OLB's TCE ratio, our core metric for the assessment of a bank's capital strength, as well as its regulatory Common Equity Tier 1 (CET1) capital ratio, will surpass management's CET1 ratio target level of 12.25% following the acquisition of Degussa Bank, will depend on the successful execution of profit retention and risk-weighted asset (RWA) optimisation measures.

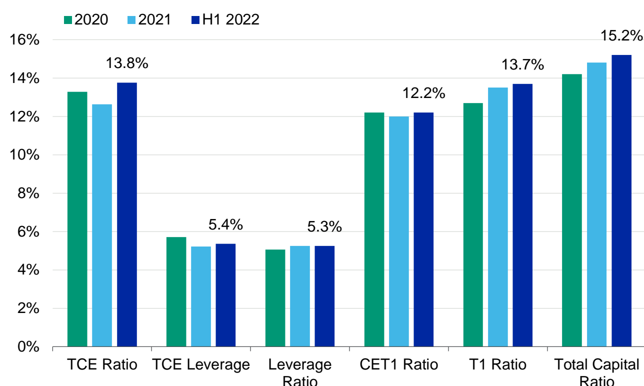
OLB has broadened the use of internal models for the calculation of credit risk weights, which we expect to result in weakening leverage ratios. In parallel, higher regulatory capital requirements in 2022-23 will reduce OLB's so far ample leeway.

OLB applies the standardised approach to calculate credit risk weights for most portfolios contributed by BKB, which overall leads to a still comparatively high RWA density. We expect the bank to gradually reduce its current RWA density over the next four years by maintaining a broadly stable mix between retail and SME assets and corporates and diversified lending, in conjunction with beneficial effects from regulatory changes and RWA optimisation measures, including a further extension of the use of internal models. During H1 2022, OLB started to use its internal models for the calculation of credit risk weights on additional parts of its corporate and diversified lending segment.

As of 30 June 2022, OLB's TCE ratio of 13.8% was up from 12.6% as of year-end 2021. It was above the bank's transitional CET1 capital ratio of 12.2%, partly because of additional regulatory deductions. In February 2022, the Germany Federal Financial Supervisory

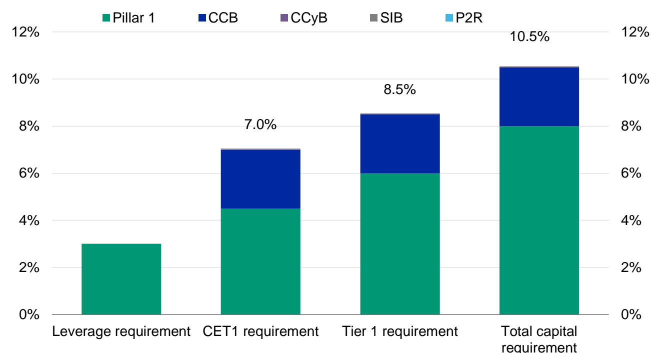
Authority (BaFin) informed OLB that it will add a 1.0% additional total capital requirement as a result of the Supervisory Review and Evaluation Process. For 2023, we expect the CET1 requirement to increase by around 85 basis points because BaFin has announced the introduction of a 0.75% countercyclical buffer requirement plus a specific 2% add-on requirement for residential housing loans.

Exhibit 5
**OLB's risk-weighted capitalisation declined moderately in 2021**
**As a percentage of RWA**




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

Exhibit 6
**OLB's regulatory total capital requirements for 2021, including the announced 1% add-on for 2022**
**As a percentage of RWA**




*Sources: Company and Moody's Investors Service*

## Macroeconomic volatility could delay net income improvements

We assign OLB a ba1 score for Profitability, at the level of the initial score. It reflects our expectation that OLB's cost reduction measures will help the bank absorb and likely overcompensate earnings pressure and additional risk costs in the volatile economic environment.

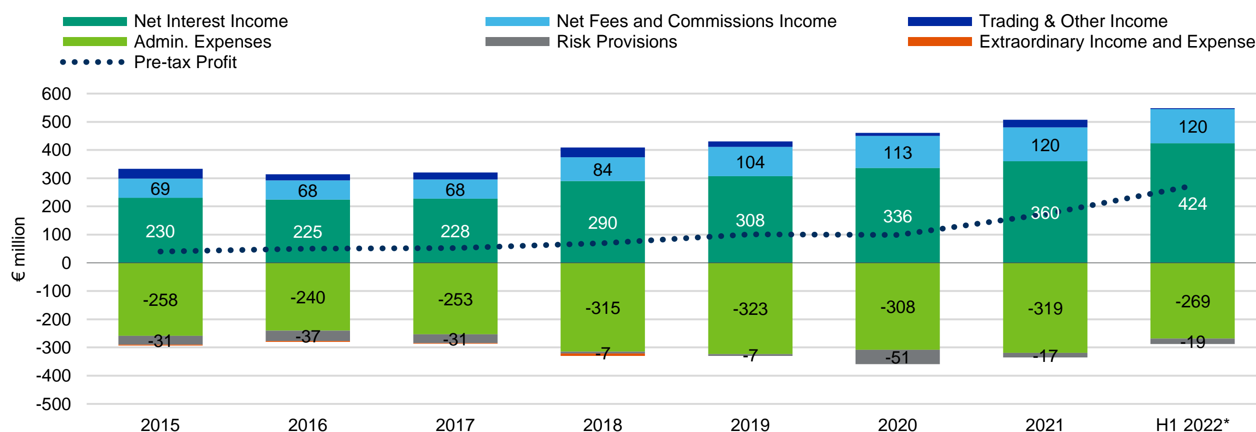
In an environment of rising interest rates, we expect OLB to benefit from higher variable rates on interest rate swaps, as well as from a repricing of its non-mortgage loan book. The €7.5 billion of mortgage loans that the bank had granted to customers as of year-end 2021 will reprice very gradually because they are mostly long-term fixed rate loans. At the same time, the benefit from charging negative rates on deposits will decline because the bank has already announced a significant increase in the maximum deposit allowance per customer exempt from negative rates. Overall, as of the end of April 2022, OLB anticipated a positive effect of €7 million in 2022 that would rise to €40 million in 2024, supported by the higher interest rate level than its prior planning. OLB's cost reduction measures have been increasingly reflected in an improving cost-to-income ratio of 49% in H1 2022, down from 63% in 2021 and 75% in 2019. We expect the bank to make additional progress towards its target cost-to-income ratio of 40%, which will result in a much improved capacity to absorb future cost inflation or unexpectedly high credit losses.

The acquisition of Degussa Bank focuses on significant cost reduction opportunities at that bank. We expect integration risks to be moderate because Degussa Bank's setup will already have been simplified through the sale of non-banking subsidiaries before the closing of the acquisition. In addition, both banks operate the same core banking systems, which reduces IT integration risks. Additional revenue potentials for OLB may be present in Degussa Bank's lowly remunerated retail deposit base and in its “digital bank shops”. These are an advanced bank customer online journey platform that Degussa Bank has been rolling out in cooperation with large German corporates on whose premises Degussa Bank had traditionally offered retail banking services for the workforce (“worksite banking”).

Exhibit 7

**OLB's efficiency measures and revenue growth have been driving its improving pretax profit**

**Data in € millions, German local GAAP until 2021 and IFRS for H1 2022**




Operating expenses include personnel and administrative expenses, and depreciation and amortisation. * Semiannual values from H1 2022 have been annualised to improve comparability.
*Sources: Company and Moody's Investors Service*

In H1 2022, OLB achieved a Moody's-adjusted net income of €93.1 million compared with €50.2 million in H1 2021. OLB reported €283.6 million in operating revenue because of strong customer business in H1 2022, but the bank's reported net interest income of €212 million (H1 2021: €179 million) increased mainly as a result of the interest bonus received from the European Central Bank's (ECB) targeted longer-term refinancing operations (TLTRO III). It was, however, also supported by continued strong growth in mortgage lending.

Only 49% (€134.4 million) of operating revenue was consumed by operating expenses and regulatory charges, whereas loan loss provisions remained at a low level of €9.3 million. A significant reduction in its workforce helped OLB lower its staff expenses to €70 million (H1 2021: €84.2 million).

## Strong access to retail deposits limits the bank's dependence on wholesale funding

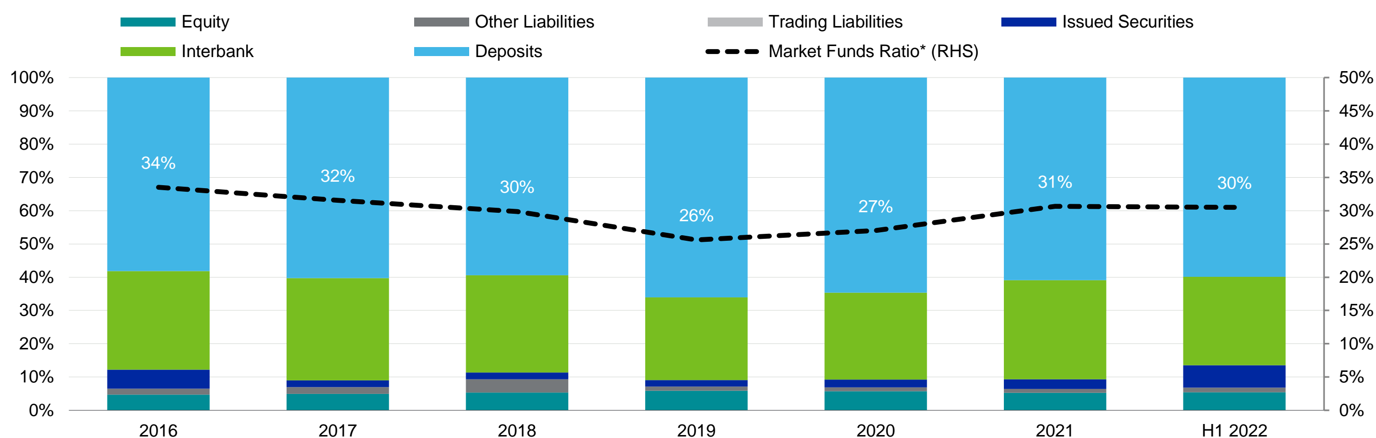
We assign OLB an a3 score for Funding Structure, four notches above the initial score. The score reflects the strong focus on deposit funding and the fact that a large share of the current funding received from banks represents maturity-matched pass-through funding from development banks, in particular from the German federal development bank Kreditanstalt fuer Wiederaufbau (KfW, Aaa/Aaa stable)[2].

The integration of Degussa Bank will add around €5 billion of customer deposits to OLB's funding base, which the bank will seek to diversify further with select capital market issuances. One such tool is OLB's mortgage covered bond programme, launched in 2019. In April 2022, OLB issued a €350 million covered bond, bringing the overall outstanding amount under its programme to €881 million. With the purpose of creating collateral eligible for ECB funding purposes through the retained senior notes, OLB sponsored several securities backed by SME loans (SME ABS). In July 2021, OLB replaced its inaugural €400 million transaction under the Weser Funding label with Weser Funding S.A., Compartment No. 3 (Class A rated Aa2(sf)). OLB's other on-balance-sheet cash securitisation transaction, Weser Funding S.A., Compartment No. 2 (Class A rated Aa2(sf)), also remains outstanding in full, and the issuer plans to increase its size to €1.3 billion from currently €1.1 billion.

The TLTRO III drawings of OLB will at least in part be temporary and repaid once the currently attractive terms offered by the ECB expire.

Exhibit 8

**OLB is largely depositor-funded, and the temporary increase in market funding reflects TLTRO drawings**
**As a percentage of tangible banking assets**




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

## Liquidity has been efficiently managed with sound buffers to regulatory requirements

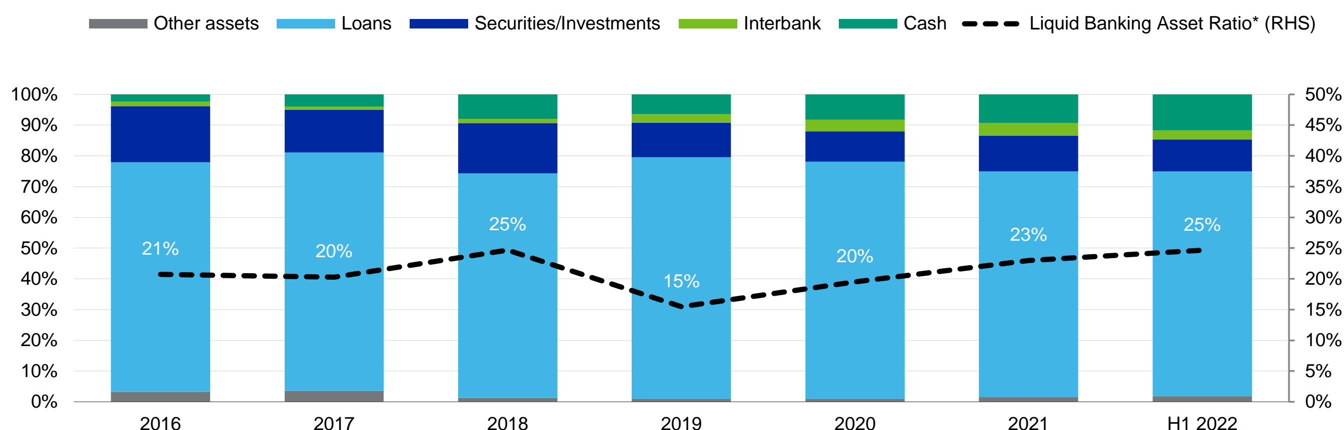
We assign OLB a baa3 score for Liquidity, two notches below the initial score, to reflect in particular the fact that its year-end 2021 liquid resource levels were inflated above normal levels because of the liquidity offered through the TLTRO III participation. Therefore, our assigned score is based on our understanding that OLB targets lower levels of liquid resources than reflected on its year-end 2021 balance sheet.

As of June 2022, OLB's liquidity coverage ratio (LCR) was a solid 146.1% (as of year-end 2021: 142.5%). Upon the repayment of the temporary TLTRO III funding, we expect liquid resources to recede, while OLB will likely maintain ample buffers to regulatory funding and liquidity ratio limits. Following the increase in the ECB's policy rates in 2022, the maintenance of additional liquid resource balances will involve lower opportunity costs for banks.

Following the establishment of OLB's mortgage covered bond programme, the bank could in principle add further collateral to the programme's cover pool, which would improve its ability to source additional funds, if required, through new covered bond placements. As of 31 December 2021, €838 million of mortgage loans had been added to the cover pool, providing security for €531 million of outstanding covered bonds. OLB used most of the issuance leeway under this programme in April 2022 with a €350 million new issue and €697 million outstanding as of June 2022.

Exhibit 9

**Liquidity levels following TLTRO III drawings continue to exceed future targets**
**As a percentage of tangible banking assets**




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

## ESG considerations

In line with our general view of the banking sector, OLB has low exposure to environmental risks (see our environmental risk heat map for further information). OLB is exposed to indirect carbon transition risk as a result of its corporate and SME lending activities. OLB is placing stronger emphasis on funding alternative energy sources, mostly wind.

For social risks, we also place OLB in line with our general view of the banking sector, which indicates moderate exposure. OLB has embraced the transition towards a customer-interaction model with a stronger focus on remote channels rather than in-person meetings at the declining number of branches it operates. Digital disruption could nevertheless put its control of customer relationships at risk. The bank suffered a widely reported cyberattack in 2019 when it first launched a new set of credit cards but maintained no direct financial liability for the €1.5 million damage caused to customers. The bank has managed its far-reaching staff cut plans successfully and almost contracted all of the necessary staff departures without major objections from workforce or works council. For further information, see our social risk heat map.

Governance[3] is highly relevant for OLB, as it is to all banks. OLB has experienced a high turnover in top management ranks over the course of the past few years and now operates with a core management team around the CEO, the members of which mostly have a rather short tenure at the bank. The bank's strategic setup is sufficiently stable, and it is not exposed to key-person risk. Also, it is adequately staffed at the operating level to operate in the higher-margin lending business without causing outsized credit losses because of weak risk controls.

## Support and structural considerations

### Affiliate support

There is a low probability that OLB's owners — the Teacher Retirement System of Texas, Apollo Global Management Inc. and Grovepoint Investment Management — would support the bank in case of need, which does not result in any uplift for OLB's ratings. Support from its owners is illustrated by their degree of involvement in OLB's strategy, management and operations, but we do not expect further capital injections, in case of need.

### Loss Given Failure analysis

OLB is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider 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. We further assume a residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits. These ratios are in line with our standard assumptions. In the case of OLB, we further assume that only a small percentage (10%) of the bank's deposit base can

actually be considered junior and held by institutional investors. Our Advanced LGF analysis for OLB incorporates an approximation of the junior senior unsecured debt stack as of December 2021, combined with our forward expectation about the near-term run-off of these liabilities.

For OLB's deposit and issuer ratings, at Baa2, our LGF analysis indicates a low loss given failure, leading to a one-notch uplift from its baa3 Adjusted BCA.

**Additional notching for Additional Tier 1 (AT1) instruments**

We assign a Ba3(hyb) rating to the €100 million AT1 notes issued by OLB. This rating is three notches below OLB's baa3 Adjusted BCA and reflects our assessment of the instruments' undated deeply subordinated claim in liquidation, the issuer's ability to redeem under certain conditions the securities at a level below par in case they have been affected by a write-down, as well as the securities' non-cumulative coupon deferral features. The securities' principal is subject to a partial or full write-down on a contractual basis if OLB's CET1 ratio at the consolidated or single entity level falls below 5.125%; the issuer receives public support; or OLB's supervisory authority determines that the conditions for a full write-down of the instrument are fulfilled and orders such a write-down as a precautionary measure to prevent insolvency.

### Government support considerations

Since the introduction of the BRRD, we have only very selectively assigned moderate expectations of support that the government might provide to a bank in Germany in times of need. Because of its small size relative to the German banking system and its limited degree of interconnectedness, we continue to assign a low government support probability to OLB, which does not result in any rating uplift.

### Counterparty Risk Ratings (CRRs)

**OLB's CRRs are Baa1/P-2**

The CRRs are two notches above OLB's baa3 Adjusted BCA, based on the very low loss given failure from the moderate volume of instruments that are subordinated to CRR liabilities. OLB's CRRs do not benefit from government support, in line with our support assumptions on deposits.

### Counterparty Risk (CR) Assessment

**OLB's CR Assessment is A3(cr)/P-2(cr)**

OLB's A3(cr) CR Assessment is three notches above the baa3 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, primarily senior unsecured debt and junior deposits. Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

## Methodology and scorecard

### Methodology

The principal methodology we use in rating OLB was the Banks Methodology, published in July 2021.

### 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 10

**Oldenburgische Landesbank AG**

| 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 | 2.2% | a2 | ↔ | ba1 | Geographical concentration | Sector concentration |
| Capital | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in) | 13.8% | a2 | ↔ | baa1 | Risk-weighted capitalisation | Expected trend |
| Profitability | | | | | | |
| Net Income / Tangible Assets | 0.5% | ba1 | ↔ | ba1 | Return on assets | Expected trend |
| Combined Solvency Score | | a3 | | baa3 | | |
| Liquidity | | | | | | |
| Funding Structure | | | | | | |
| Market Funds / Tangible Banking Assets | 30.7% | ba1 | ↔ | a3 | Market funding quality | Deposit quality |
| Liquid Resources | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 23.0% | baa1 | ↔ | baa3 | Asset encumbrance | Expected trend |
| Combined Liquidity Score | | baa3 | | baa1 | | |
| Financial Profile | | | | baa2 | | |
| Qualitative Adjustments | | | | Adjustment | | |
| Business Diversification | | | | 0 | | |
| Opacity and Complexity | | | | 0 | | |
| Corporate Behavior | | | | 0 | | |
| Total Qualitative Adjustments | | | | 0 | | |
| Sovereign or Affiliate constraint | | | | Aaa | | |
| BCA Scorecard-indicated Outcome - Range | | | | baa1 - baa3 | | |
| Assigned BCA | | | | baa3 | | |
| Affiliate Support notching | | | | 0 | | |
| Adjusted BCA | | | | baa3 | | |

| Balance Sheet | in-scope (EUR Million) | % in-scope | at-failure (EUR Million) | % at-failure |
|---|---|---|---|---|
| Other liabilities | 6,843 | 30.2% | 7,930 | 35.0% |
| Deposits | 14,419 | 63.6% | 13,409 | 59.1% |
| Preferred deposits | 12,977 | 57.2% | 12,328 | 54.4% |
| Junior deposits | 1,442 | 6.4% | 1,081 | 4.8% |
| Senior unsecured bank debt | 15 | 0.1% | 15 | 0.1% |
| Junior senior unsecured bank debt | 421 | 1.9% | 343 | 1.5% |
| Dated subordinated bank debt | 152 | 0.7% | 152 | 0.7% |
| Preference shares (bank) | 142 | 0.6% | 142 | 0.6% |
| Equity | 680 | 3.0% | 680 | 3.0% |
| Total Tangible Banking Assets | 22,672 | 100.0% | 22,672 | 100.0% |

| Debt Class | De Jure waterfall | | De Facto waterfall | | Notching | | LGF Notching Guidance vs. Adjusted BCA | Assigned LGF notching | Additional Notching | Preliminary Rating Assessment |
|---|---|---|---|---|---|---|---|---|---|---|
| | Instrument volume + subordination | Sub-ordination | Instrument volume + subordination | Sub-ordination | De Jure | De Facto | | | | |
| Counterparty Risk Rating | 10.6% | 10.6% | 10.6% | 10.6% | 2 | 2 | 2 | 2 | 0 | baa1 |
| Counterparty Risk Assessment | 10.6% | 10.6% | 10.6% | 10.6% | 3 | 3 | 3 | 3 | 0 | a3 (cr) |
| Deposits | 10.6% | 5.8% | 10.6% | 5.9% | 1 | 1 | 1 | 1 | 0 | baa2 |
| Senior unsecured bank debt | 10.6% | 5.8% | 5.9% | 5.8% | 1 | 0 | 1 | 1 | 0 | baa2 |
| Non-cumulative bank preference shares | 3.6% | 3.0% | 3.6% | 3.0% | -1 | -1 | -1 | -1 | -2 | ba3 |

| Instrument Class | Loss Given Failure notching | Additional notching | Preliminary Rating Assessment | Government Support notching | Local Currency Rating | Foreign Currency Rating |
|---|---|---|---|---|---|---|
| Counterparty Risk Rating | 2 | 0 | baa1 | 0 | Baa1 | Baa1 |
| Counterparty Risk Assessment | 3 | 0 | a3 (cr) | 0 | A3(cr) | |
| Deposits | 1 | 0 | baa2 | 0 | Baa2 | Baa2 |
| Senior unsecured bank debt | 1 | 0 | baa2 | 0 | Baa2 | Baa2 |
| Non-cumulative bank preference shares | -1 | -2 | ba3 | 0 | Ba3 (hyb) | |

[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 11

| Category | Moody's Rating |
|---|---|
| **OLDENBURGISCHE LANDESBANK AG** | |
| Outlook | Positive |
| Counterparty Risk Rating | Baa1/P-2 |
| Bank Deposits | Baa2/P-2 |
| Baseline Credit Assessment | baa3 |
| Adjusted Baseline Credit Assessment | baa3 |
| Counterparty Risk Assessment | A3(cr)/P-2(cr) |
| Issuer Rating | Baa2 |
| Pref. Stock Non-cumulative -Dom Curr | Ba3 (hyb) |
| ST Issuer Rating | P-2 |

*Source: Moody's Investors Service*

## Endnotes

1 The ratings shown are NIBC Bank N.V.'s deposit/senior unsecured debt ratings and outlook, and BCA.

2 KfW's ratings shown are the bank's backed deposits and backed senior unsecured debt ratings and its issuer outlook.

3 Corporate governance is a well-established key driver for banks, and the related risks are typically included in our evaluation of banks' financial profiles. Further factors such as 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 bank's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates because of poor governance, such as a 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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