



RATING ACTION REPORT

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## Dagong Global Affirms the Long-Term Credit Rating of NRW.BANK at 'AA+', Outlook 'Stable'

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Dagong Global has affirmed the Long-Term Credit Rating of NRW.BANK at 'AA+', with Outlook 'Stable'. The equivalent Short-Term Credit Rating is 'A-1'. In addition, we affirm the ratings to the current debt programmes and all issuances under the programmes.

### RATING RATIONALE

The Long-Term Credit Rating takes into account the External Support Assessment (ESA) of 'Very High' potential to receive Local Government Support, due to the existing explicit, unconditional and irrevocable guarantees to the bank's liabilities provided by its owner, the state of North Rhine-Westphalia (NRW). The ratings also reflect NRW.BANK's strong financial profile, characterised by an excellent capital level with a Tier 1 ratio of 41.3% as of YE17. Our credit opinion is based on the following factors:

#### Sustainable franchise as the promotional bank for the state of NRW

NRW.BANK targets a specific market segment with a strategy that is purely focused on lending for economic development. We recognise the bank's strong competitive position within its market niche of economic development financing (considering that within its mission the bank is 'competition-neutral'), with a track record of adequate financial return and relatively low risk-taking reflected in the very low risk-weighting of assets, of 31% as of YE17.

#### Very strong operational environment

In evaluating the operational environment we take into account the regulatory, legal and economic settings. NRW.BANK is supervised by the ECB which we view as a transparent and consistent regulatory framework. The bank benefits from the positive economic development in the state of NRW and Germany (71% of total exposure), which show strong economic growth and very low unemployment. The legal environment is viewed as well-established, stable and predictable.

#### Excellent capitalisation and strong asset quality

The bank's excellent capitalisation (Tier 1 ratio of 41.3% and leverage ratio at 12.2% based on Dagong calculations at YE17) reflect both the underlying solid nominal capital levels and the low risk-weighting of its assets (31%) as a result of the nature of its promotional business and its conservative approach for managing its excess liquidity. Non-performing loans are very low at 0.6% as of YE17 (2016: 0.5%), showing the prudent management of the lending portfolio. We expect these characteristics to remain in the medium-term.

#### Market based funding, with excellent access to international markets

NRW.BANK's funding has been historically concentrated on capital market debt (53% of total funding), which we view as potentially more volatile. However, thanks to the refinancing guarantee from the state of NRW, the bank's market access is excellent, with NRW.BANK's bonds seen as a safe haven in distressed markets. The remaining funding sources are interbank loans (33% of total funding) and deposits (13%), which stem from corporates, including other public sector entities and affiliated companies.

### Moderate profitability

As per the bank's public mission, profitability is not its main focus, but at the same time it is the bank's mandate to remain self-sustainable. Pre-provision income decreased to EUR 395Mn in 2017 (2016: EUR 465Mn) or 0.27% of average total assets (0.33% in 2016) and reflects the low margins from the bank's subsidised promotion business (mainly social housing and SME financing) and liquidity management. Pre-provision income is mainly composed by income from 'Other Promotions and Liquidity Management' (82% of pre-provision income for 2017), which bundles municipal direct loans and capital market investments, characterised by low-yielding and high-rating quality securities, which had shown some volatile results in the past.

Following the bank's conservative risk approach and no dividend payout policy, most of the income is allocated to allowance reserves, leaving a net income of EUR 10.2Mn for 2017, slightly less than the EUR 12.0Mn recorded in 2016, required by the state of NRW for interest payments on federal subordinated debt.

### External Support Assessment

Under our External Support Assessment framework, we assess the possibility of Local Government support for NRW.BANK to be 'Very High' as a result of the explicit and unconditional guarantee provided by its owner, the state of NRW. We view the state of NRW as having sound credit strength and we derive the potentially very high possibility of support to the bank due to the existence of:

- The refinancing guarantee from the state of NRW, which is explicit, unconditional and irrevocable, and for an unlimited period payable upon first demand (applicable e.g. on all debt issuances, senior and subordinated bond issues);
- Institutional liability (Anstaltslast), which is the obligation of the public law guarantor to secure the financial basis of a bank, to keep it functional and cover any potential financial gaps (limited neither in terms of the amount or duration); and
- Guarantor liability (Gewährträgerhaftung), which is the direct obligation based on the law of the public-law institution of NRW towards the creditors of NRW.BANK for all the bank's liabilities (it obliges the guarantor to step-in in case of insolvency or liquidation of the bank).

It is worth noting that before the implementation of the BRRD on the 1st January 2016, the Federal Republic of Germany transposed into law the EU Directive related to the BRRD Implementation Act and stated that Development Agencies (as it is considered NRW.BANK) are exempt from bail-in. Therefore, we view that the guarantees provided by the state of NRW supersede the BRRD in the case of NRW.BANK.

### RATING OUTLOOK

The stable outlook reflects the stable credit strength of the bank's guarantee provider and owner, the state of NRW.

### RATING SENSITIVITIES

The Long-Term Credit Rating could be upgraded in the event of a further improvement in the credit strength of the state of NRW.

The Long-Term Credit Rating could be downgraded in the events of a change in our ESA resulting in a lower notching uplift due to: 1) a weakening of the credit strength of the state of NRW; and/or 2) a weakening of the characteristics of the explicit guarantee provided by the owner. We see such an event as unlikely at present, reflected in the stable outlook.

### COMPANY PROFILE

Headquartered in Düsseldorf and Münster, NRW.BANK is the promotional bank of the state of North Rhine-Westphalia. It has a full banking license and the legal status of a public law bank. As such, its priority is to fulfil its public mission by assisting the state in its structural and economic tasks. NRW.BANK was established after the split-up of "Westdeutsche Landesbank Girozentrale" in 2002. In 2002 public-interest activities were transferred to the new public law bank NRW.BANK (until 2004 "LandesBANK NRW") and competitive commercial banking activities remained at "Westdeutsche Landesbank Girozentrale" (known as WestLB, now Portigon AG), which was converted into a joint-stock company.

NRW.BANK is wholly owned by the state of North Rhine-Westphalia, which includes the Ruhr industrial region and is the most populous state in Germany (17.9Mn inhabitants). North Rhine-Westphalia has the highest nominal GDP of all the German states ("Länder"), and contributes 21% of total German national output (EUR 692Bn in 2017).

NRW.BANK is the second-largest development bank in Germany in terms of assets (EUR 147.6Bn as of YE17), after Kreditanstalt fuer Wiederaufbau (KfW) and fourth-largest in Europe. Its business volume (comprising total assets, contingent liabilities, other commitments and administered funds) stood at EUR 166.5Bn in 2017.

## FULL LIST OF SOLICITED RATINGS

Long-Term Credit Rating (FC&LC)	AA+
Outlook	Stable
Short-Term Credit Rating (FC&LC)	A-1
Long-Term Credit Rating - Debt Issuance Programme (FC&LC)	AA+
Short-Term Credit Rating - Debt Issuance Programme (FC&LC)	A-1
Short-Term Credit Rating - Global Commercial Paper Programme (FC&LC)	A-1
Long-Term Credit Rating - Australian and New Zealand MTN Programme (FC&LC)	AA+
FC&LC: Foreign Currency and Local Currency	
Note: IFSA not disclosed in cases of a 'Very High' support assessment for the ESA.	

## RATINGS HISTORY

### Ratings affirmed 07 June 2017:

NRW.BANK	AA+/A-1/Stable
Australian and NZ Debt Programme	AA+/Stable
Global Commercial Paper Programme	A-1
Debt Issuance Programme	AA+/A-1/Stable

### Ratings affirmed 22 June 2016:

NRW.BANK	AA+/A-1/Stable
Australian and NZ Debt Programme	AA+/Stable
Global Commercial Paper Programme	A-1
Debt Issuance Programme	AA+/A-1/Stable

### Ratings affirmed 29 March 2016:

NRW.BANK	AA+/A-1/Stable
Global Commercial Paper Programme	A-1
Debt Issuance Programme	AA+/A-1/Stable

### Ratings assigned 29 March 2016:

Australian and NZ Debt Programme	AA+/Stable
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### Ratings affirmed 21 October 2015:

NRW.BANK	AA+/A-1/Stable
Debt Issuance Programme	AA+/A-1/Stable

### Ratings assigned 21 October 2015:

Global Commercial Paper Programme	A-1
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### Ratings affirmed 16 July 2015:

NRW.BANK	AA+/A-1/Stable
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### Ratings assigned 16 July 2015:

Debt Issuance Programme	AA+/A-1/Stable
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### Ratings assigned 22 June 2015:

NRW.BANK	AA+/A-1/Stable
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## CRITERIA APPLIED

Criteria for Rating Financial Institutions (10 July 2017)

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– The ratings above are solicited and Dagong has received compensation for providing these ratings.

- In determining the ratings, Dagong uses public and non-public information provided by the issuer, public information from reliable third-party sources and internally developed models and analytical tools. Dagong’s analytical team does not take into consideration sources of information deemed not reliable.
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