

Norddeutsche Landesbank Girozentrale

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Outlook

Related Research

Norddeutsche Landesbank Girozentrale

Major Rating Factors

Strengths:

- High systemic importance to the States of Lower Saxony, Saxony – Anhalt, and Germany.
- State ownership support, demonstrated by an arrangement with Lower Saxony and Saxony - Anhalt that allows the issuance of guaranteed debt.
- Generally less aggressive risk appetite and less exposure to traded credit investments compared with other Landesbank peers.

Counterparty Credit Rating

A-/Negative/A-2

Weaknesses:

- Significant tail risk from sizable exposures to cyclical corporate banking business, namely ship finance, commercial real estate, and large corporate lending.
- Limited buffers to absorb credit losses, owing to modest preprovision earnings and capitalization.
- High confidence sensitivity as a wholesale bank, which makes the business model relatively vulnerable to stress in credit and funding markets.

Rationale

The ratings on Norddeutsche Landesbank Girozentrale (NORD/LB) and its 100% core subsidiaries Norddeutsche Landesbank Luxembourg S.A. (NORDLB LUX) and NORD/LB COVERED FINANCE BANK S.A. (NCFB) are based on Standard & Poor's Ratings Services' assessment of NORD/LB's high systemic importance to its key shareholders, the German States of Lower Saxony (not rated) and Saxony - Anhalt (AA-/Stable/A-1+), and to the Federal Republic of Germany (AAA/Stable/A-1+). We believe that in times of severe stress NORD/LB would receive extraordinary financial support, if needed, from Lower Saxony and Saxony - Anhalt, which together own 50% of NORD/LB. These factors grant the ratings a three-notch uplift.

We do not apply our enhanced criteria for rating government-related entities because NORD/LB performs a minor public policy role in its home markets in Northern Germany. NORD/LB's owners, including the savings banks in Lower Saxony, Saxony - Anhalt, and Mecklenburg-Western Pomerania (not rated), which together hold the other 50% stake, are jointly and severally liable for NORD/LB's still sizable amount of grandfathered obligations incurred until July 2005, which underlines the owners' commitment. Although we consider NORD/LB's financial profile to be superior to that of some Landesbank peers, owing to the higher quality of its structured-credit investment portfolio and, in our opinion, more prudent underwriting standards, we believe that NORD/LB's sizable exposure to cyclical asset classes and high confidence sensitivity as a wholesale bank make it highly reliant on implicit state support for the foreseeable future.

As a result of the still weak, albeit recovering, global economic conditions, NORD/LB is, in our view, vulnerable to a deterioration of asset quality in its very cyclical structured finance and corporate lending business, namely ship finance, commercial real estate, corporate finance, and large corporate lending. Through its 49% stake in Copenhagen-based DnB Nord A/S (not rated), NORD/LB is also significantly exposed to the Baltic region, which is particularly economically weak. Concerns about significantly rising risk costs are somewhat mitigated by our

assessment of NORD/LB's less aggressive risk appetite, satisfactory risk governance, and long-standing expertise in asset-based lending. NORD/LB's stricter risk standards are also reflected in the generally above-average quality of its about €40 billion credit investment portfolio, which has shown relative resilience during the market dislocation compared with that of other Landesbank peers whose losses from credit-spread widening and impairments on outsized exposures have required sizable tangible ownership support.

Nevertheless, we believe that NORD/LB's medium-term earnings prospects for 2009-2011 remain weak because we expect credit losses and, to a lesser extent, impairments on securities to increase substantially (see "Assumptions For Credit Stress Testing German Banks," published on Aug. 21, 2009, on RatingsDirect). Consequently, we factor into the ratings the probability of bottom-line losses during this period, albeit on a smaller scale than our forecasts for other Landesbanks with more aggressive growth strategies. These losses could potentially erode NORD/LB's capitalization, reflected in a risk-adjusted-capital (RAC) ratio of 5.5% after diversification effects, which we consider moderate given NORD/LB's relatively low underlying preprovision earnings capacity and potential tail risk from its wholesale lending business. We note, however, that earnings development will be influenced by a number of variables, including various economic parameters, financial market developments, and accounting treatment.

These uncertainties underpin the importance of implicit government support to safeguard NORD/LB's solvency and liquidity in a potentially prolonged stress situation. We believe that support, if needed, would likely be forthcoming mainly from the two state owners instead of from the savings banks. State ownership support has been demonstrated by an arrangement with Lower Saxony and Saxony - Anhalt--approved by the European Commission (EC)--to issue debt guaranteed by the two states against a fee and on a collateralized basis. NORD/LB's issuance has been less than expected since the recent market recovery, and we understand that it does not currently intend to make further use of these instruments. Furthermore, in our opinion, NORD/LB's focus on wholesale commercial banking has limited strategic importance for the retail-oriented savings banks. Moreover, we have recently observed that savings banks in several other regions have not provided needed support to their respective Landesbanks.

Our assessment of NORD/LB's stand-alone credit profile also considers the strategic challenges for NORD/LB from its strong focus on wholesale corporate banking and its structural reliance on wholesale funding. We still believe that, in line with peers, NORD/LB's business model remains relatively vulnerable to stress in credit and funding markets.

Outlook

The negative outlook reflects our view of the short- to medium-term challenges NORD/LB is likely to face in coping with still very difficult global economic and financial market conditions, their impact on its corporate-customer-dominated loan book, and the need to address the weaknesses of its wholesale-oriented business model. The ratings could be lowered if NORD/LB's financial profile were to weaken more than we expect and if, as a result, NORD/LB were to need substantial extraordinary government support and restructuring. Any rating action would also take into consideration the ties between NORD/LB and its owners and their ongoing commitment to support NORD/LB if necessary.

Positive rating actions could result if NORD/LB shows relative resilience throughout the negative credit cycle, which could, absent other countervailing factors, mitigate our views about its business model and asset quality.

The negative outlooks on subsidiaries NORD/LB LUX and NCFB mirror the outlook on NORD/LB because of their

core strategic group status.

Profile: A Selective Wholesaler With Strong Market Positions In International Transportation Financing

NORD/LB's business profile displays its regional home market franchise in Germany's northern states; selective wholesale business on an international scale, with strong market positions in asset-based lending to the shipping and aviation sectors; corporate banking services to large and midsize corporate clients; and small domestic retail-customer base.

NORD/LB as the parent company of the NORD/LB group consolidates a range of domestic subsidiaries; Bremer Landesbank (92.5% stake) and LBS Norddeutsche Landesbausparkasse Berlin-Hannover (44% stake; the fourth-largest building-savings bank in Germany) are among the largest. Following the acquisition of Deutsche Hypothekenbank (Actiengesellschaft) (Deutsche Hypo; not rated) in 2008, NORD/LB has significantly expanded its commercial real estate (CRE) lending activities to more than €25 billion. Geographically, NORD/LB has widened its international presence to northeastern Europe, thanks to a joint venture called DnB NORD with Norway-based DnB NOR Bank ASA (A+/Stable/A-1) since December 2005. The Scandinavian bank holds a 51% stake in DnB NORD, which is mainly active in the Baltic States and Poland, and NORD/LB holds the remainder. In Luxembourg, the NORD/LB group fully owns NORDLB LUX, which focuses on banking services to private and institutional customers and securities business, and NCFB, a public-sector-focused covered bond bank established in 2006 (for more details see the section below on bank subsidiaries).

NORD/LB also acts to a lesser extent as a regional savings bank in Lower Saxony. NORD/LB performs various central-bank services for its owner savings banks, which hold market-leading positions in lending to individuals and small and midsize enterprises in Lower Saxony, Saxony - Anhalt, and Mecklenburg-Western Pomerania. Because NORD/LB's focus on wholesale commercial banking has limited strategic importance for the savings banks, collaboration with these retail-oriented institutions contribute only a small portion of the NORD/LB group's total revenues.

Support And Ownership: High Systemic Importance To Germany And The Federal States

The ratings on NORD/LB reflect our view of its high systemic importance to the German States of Lower Saxony and Saxony - Anhalt, which hold stakes of 41.75% and 8.25%, respectively, and to the Federal Republic of Germany. The ratings therefore benefit from a three-notch uplift above our assessment of NORD/LB's stand-alone credit quality. We believe that extraordinary support in a severe stress scenario, if needed, would likely be forthcoming, mainly from the two state owners rather than NORD/LB's savings-bank owners--the savings banks associations of Lower Saxony (37.25%), Saxony-Anhalt (7.53%), and Mecklenburg-Western Pomerania (5.22%). Albeit only partly used as a result of recovering market conditions, state ownership support has been underpinned by an arrangement with Lower Saxony and Saxony - Anhalt that allows NORD/LB to issue debt guaranteed by the two states against a fee and on a collateralized basis. The states' expected commitment is based on NORD/LB's importance for the local economy and, in our view, also reflects that the states along with the bank's co-owners remain responsible for all of NORD/LB's outstanding debt as of July 18, 2005, under a grandfathered statutory guarantee. This guarantee was abolished for new commitments incurred by NORD/LB after this date.

Strategy: Focus On Selected Wholesale Niches

NORD/LB's business model will continue to undergo a severe test, in our view, in light of a potentially prolonged period of difficult economic and capital market conditions. However, we do not expect material changes, owing to the limited options available to the bank. Although NORD/LB's business growth has stemmed mainly from asset-collateralized lending such as ship, aircraft, and CRE financing and is in line with what we regard as a generally conservative risk culture, NORD/LB primarily remains a wholesale bank in terms of assets and liabilities. Overlapping activities with its owner savings banks continue to be comparatively small. Moreover, the dominance of revenues from structured finance and volatile financial markets activities leave the bank vulnerable to stress situations, in our view. NORD/LB's efforts in recent years to improve its geographic and business diversification by expanding into northeastern Europe and widening its CRE activities have recently suffered significant setbacks, resulting in the need to cover sizable losses at DNB Nord and only minor earnings contributions from Deutsche Hypo. Overall, we believe that market and regulatory developments could require NORD/LB to significantly reduce the debt leverage on its balance sheet and strongly align its size with its risk-taking and funding capacity.

Risk Profile And Management: Credit Risks On Concentrated Exposures Could Weigh Heavily On NORD/LB's Earnings Capacity

NORD/LB's risk profile remains dominated by its less-diversified wholesale loan book, in particular, sizable single-obligor exposures, higher-risk commercial property and transport lending, and specialized niches. Credit-spread movements on NORD/LB's large credit investment portfolio of about €40 billion had a substantial impact on market-sensitive earnings from 2007 to 2009. Because we regard NORD/LB's investment approach as more conservative than some peers, as reflected in only small direct exposures to the U.S. subprime market, we expect ultimate investment losses to remain manageable. NORD/LB's wholesale funding structure is a particular weakness under stressed global liquidity conditions, but our concerns are mitigated by our expectation of further ownership support if necessary and the sizable proportion of asset-based lending eligible for secured refinancing.

Enterprise risk management: Generally adequately managed

We consider NORD/LB's enterprise risk management (ERM) and risk appetite generally adequate, but--in line with the industry--insufficient to capture tail risk from abnormal market conditions. The group's relatively complicated structure, with a range of subsidiaries active in the same fields, raises, in our opinion, corporate governance issues. A fraud case in 2008 displayed weaknesses in NORD/LB's ERM, which seem to have been addressed. NORD/LB's comprehensive risk-management system, which uses a value-at-risk (VAR) model, frequently measures and reports credit, market, and operational risk across the group. Embedded sublimitations, back-testing, and stress-scenario calculations complement this risk review and NORD/LB's internal economic capital allocations.

Credit risk: Asset quality likely to stay resilient

NORD/LB's less-diversified wholesale portfolio is particularly vulnerable to an economic downturn, in our opinion. It is significantly exposed to cyclical developments in international special financing; for example, transportation segments (ships and aircrafts) have suffered a severe setback from collapsing international trade. Substantial exposure also stems from domestic and foreign property markets, corporate finance, and domestic midsize corporates domiciled in German states that are comparatively weaker, both structurally and economically. In addition, NORD/LB is significantly exposed to the Baltic region, which has been hard hit by a recession, through its

participation in DnB Nord. We believe that NORD/LB could indirectly incur high credit losses through potential needs to inject capital into DnB Nord and write down the value of its participation.

Risk costs until the third quarter of 2009 still indicate, in our view, a relatively resilient credit portfolio. This is despite a significant increase from extremely low levels, partly reflecting a substantial proportion of portfolio-based risk provisions. Nevertheless, we expect the negative trend in the global credit cycle--despite the current economic recovery--to strongly depress medium-term earnings, owing to the typical time lag between deteriorating capital markets and economic conditions and risk-provisioning needs. Although many variables may influence the final outcome in our base scenario, risk costs could surpass NORD/LB's earnings for 2009-2011. Loan restructuring agreements with clients--for example, the extension of deadlines for the repayment of principal--could delay the recognition of problems and problem loans and help spread risk provisioning needs over a longer period of time if the expected economic recovery takes longer than banks expect. However, given our assessment of NORD/LB's less aggressive risk appetite, improved risk management, more prudent underwriting standards, and long-standing expertise in asset-based financing, we believe that credit losses could be significantly lower than those of other Landesbanks and may remain below our loss assumptions for different asset categories in the entire German banking sector (see "Assumptions For Credit Stress Testing German Banks," published on Aug. 21, 2009, on RatingsDirect).

Market risk: Vulnerable to credit-spread volatility

NORD/LB remains vulnerable to volatile market risks stemming from its sizable credit investment portfolio of about €40 billion. Nevertheless, we understand the bank aims to significantly reduce this portfolio over time to limit the realization of current market losses on exposures assessed as ultimately default remote. Although the portfolio is generally of good quality and contains high exposures to banks, credit-spread movements continue to have a considerable impact on reported earnings. NORD/LB's generally lower-risk appetite, in our view, has prevented the bank from holding exposures on high-risk credit investments such as U.S. subprime exposures and lower-ranked tranches of asset-backed securities. NORD/LB manages and limits its trading and banking books with a VAR approach. This includes several scenario analyses in light of the failure of the VAR approach to adequately capture tail risk under market-stress situations, for example because of market illiquidity and abnormal credit spread widening. We regard moderate interest rate risk in the banking book as adequately controlled.

Liquidity risk: Wholesale funding remains a significant weakness

Owing to its very limited direct access to retail deposits, NORD/LB's reliance on wholesale funding will remain a constraint, in our view. This is because of tighter access to wholesale markets and higher funding costs under stress conditions. Our concerns are mitigated by expected further ownership support if necessary. The States of Lower Saxony and Saxony - Anhalt provided NORD/LB with extraordinary support in 2009 through an EC-approved facility, which allows NORD/LB to issue debt guaranteed by the two states on a collateralized basis against a fee. NORD/LB has only used part of this facility, owing to improving market conditions. Compared with other Landesbanks, NORD/LB receives a relatively low share of its total funding from its owner savings banks, estimated at about 20%. This means there is some unused potential from access to the savings banks' excess liquidity and sales of NORD/LB's funding instruments to their large retail customer base. Another mitigator is NORD/LB's portfolio of unencumbered high-quality securities eligible for refinancing by the European Central Bank. Access to refinancing in Germany's Pfandbrief market was still relatively good during turbulent market conditions. In the second half of 2009, NORD/LB was able to issue a \$500 million hybrid capital instrument, thanks to significantly improving spread levels and its still-good capital market standing.

Profitability: Weak Prospects In A Potentially Prolonged Period Of Difficult Operating Conditions

In our view, the negative effects of the capital market dislocation and the resulting severe economic downturn would likely put NORD/LB's earnings under significant pressure in the medium term. Given NORD/LB's moderate prerisk profitability, the expected substantial rise in risk provisioning needs in our base scenario, which assumes a prolonged phase of very difficult underlying economic conditions, could lead to bottom-line pretax losses and weakening capitalization in 2009-2011. However, we believe that NORD/LB's more prudent underwriting standards and enhanced credit-investment quality could result in a better performance compared with Landesbanks with a more aggressive risk appetite. NORD/LB's cost-containment efforts, the currently improved environment for achieving additional treasury results, and margin improvements in new business will only help to stabilize operating profitability before risk, in our opinion. This is because we consider medium-term business growth prospects constrained and expect NORD/LB to reduce its debt leverage and risk levels by decreasing its financial market and credit exposures.

We believe that NORD/LB may need to make significant changes to its wholesale-centered business to achieve longer-term improvement in profitability by addressing weaknesses such as the comparatively low level of recurring revenues from customer relationships and the considerable share of potentially volatile and highly market-sensitive earnings. However, we believe that this is difficult to achieve. Compared with NORD/LB's dominant Financial Markets and Structured Finance divisions, revenues from private and corporate customers remain underdeveloped, in our view.

Capital: Moderate Capitalization Given NORD/LB's Wholesale-Dominated Business Model

We regard NORD/LB's capitalization as moderate in light of its wholesale-dominated business model and relatively low total regulatory capital ratio. This is despite sizable and, in our view, unreasonable Basel II benefits. We expect these benefits to diminish in the coming years, however, as NORD/LB incorporates higher loss assumptions into its internal-rating-based approach. This will likely require NORD/LB to significantly increase its underlying capital and therefore constrain business-growth prospects.

In view of the expected trend toward higher regulatory capital requirements in the coming years as risk buffers against adverse environments, we regard NORD/LB's financial flexibility to improve its capital strength as relatively limited in view of weak profitability prospects. Although we believe that the owners will provide support to NORD/LB in case of need, we are uncertain about whether the states and the savings banks would inject substantial capital resources in response to higher investors' and regulators' demands.

Our RAC ratio of 5.5% after diversification adjustments (5.4% before the diversification impact) as of year-end 2008 has not materially changed during the first nine months of 2009 because of only small movements in assets and equity. It is significantly below NORD/LB's regulatory Tier 1 capital ratio of 8.1% as of Dec. 31, 2008. The difference highlights, in our view, the understated risk weightings of various corporate credit exposures and our significantly higher loss assumptions from equity risk in the banking book (for example from participations and public and private equity). The RAC ratio is also below the 6.7% average for 45 major global banks, which is also below the 8% we consider consistent with adequate capitalization to deal with the stress scenarios we apply.

Table 1

Norddeutsche Landesbank Girozentrale--Risk-Adjusted Capital Data*						
	Exposure at default	Basel II risk-weighted assets (RWA)	Average Basel II risk weight (RW) (%)	Standard & Poor's RWA	Average S&P RW (%)	
Credit risk						
Government and central banks	108,333	1,625	2.0	6,765	6.0	
Institutions	77,456	13,150	17.0	15,677	20.0	
Corporate	77,504	58,088	75.0	67,348	87.0	
Retail	4,982	3,488	70.0	3,802	76.0	
Of which mortgage	0	0	0.0	0	0.0	
Securitization	7,816	2,913	37.0	5,592	72.0	
Other assets	1,200	1,800	150.0	1,800	150.0	
Credit risk total	277,291	81,063	29.0	100,984	36.0	
Market risk						
Equity in the banking book¶	1,767	2,488	215.0	17,278	978.0	
Trading-book market risk	--	3,100	--	4,650	--	
Market risk total	--	5,588	--	21,928	--	
Operational risk						
Operational risk RWA	--	3,175	--	3,388	--	
		Basel II RWA		Standard & Poor's RWA	Percentage of S&P RWA	
Total before diversification						
RWA before diversification		89,825		126,301	100.0	
Diversification and concentration adjustments						
Total RWA adjustment		--		(3,177)	(3.0)	
Total after diversification						
RWA after diversification		89,825		123,123	97.0	
		Tier 1 Capital	Tier 1 ratio	Total adjusted capital	S&P RAC ratio	
Capital ratio						
Capital ratio before adjustments		7,235	8.1	6,821	5.4	
Capital ratio after adjustments¶		7,235	8.1	6,821	5.5	

*As of Dec. 31, 2008. ¶Equity exposure includes the minority equity holdings in financial institutions. RAC--Risk-adjusted capital.

Bank Subsidiaries: Norddeutsche Landesbank Luxembourg S.A. And NORD/LB COVERED FINANCE BANK S.A.

Rationale

The ratings on NORDLB LUX and NCFB are based on their core strategic status to their ultimate owner, NORD/LB, and reflect their very close integration and relationship with NORD/LB. This is underpinned by a letter of comfort ("Patronatserklärung") for both banks issued by NORD/LB, which does not, however, constitute a guarantee of timely repayment, in our view.

NORDLB LUX was incorporated in 1972 as a limited liability company ("société anonyme") under Luxembourg law and is a 100%-owned direct subsidiary of NORD/LB. NORDLB LUX had total assets of €23 billion, representing 14% of its parent's consolidated assets at midyear 2009. As part of the group, the bank is fully integrated into NORD/LB's operations and primarily focuses on private customers, deposits and loans in the euro market, and money-market, foreign exchange, and asset-management business.

NCFB is a public-sector-focused covered bond bank set up in 2006 to issue Lettres de Gage publiques (LDGP; Luxembourg covered bonds). It is regulated by the Luxembourg CSSF (Commission de Surveillance du Secteur Financier) and is 100% owned by NORDLB LUX. Owing to its specialist role and complementary activities within the NORD/LB group, NCFB predominantly focuses on international, prime LDGP-eligible businesses. The latter also allow for the refinancing of senior secured debt of savings banks in Luxembourg. With total assets of €6.2 billion on Dec. 31, 2008, NCFB is still in its start-up phase, and we expect it to continue its organic growth at moderate rates, with low costs and staffing.

Outlook

The stable outlook on NORDLB LUX and NCFB mirror the outlook on NORD/LB, owing to what we regard as their unchallenged core strategic group status.

Related Research

- Assumptions For Credit Stress Testing German Banks, Aug. 21, 2009
- S&P Ratio Highlights Disparate Capital Strength Among The World's Biggest Banks, Nov. 30, 2009

Table 2

Norddeutsche Landesbank Girozentrale--Asset Quality, Funding, And Liquidity Ratios					
	--Year-ended Dec. 31 --				
(%)	2009*	2008	2007	2006	2005
Gross nonperforming assets/customer loans plus other real estate owned	2.5	2.1	2.2	3.6	0.0
Net nonperforming assets/customer loans plus other real estate owned	1.2	1.1	0.9	1.8	(2.3)
Loan loss reserves/gross nonperforming assets	51.0	50.0	56.9	52.3	N.M.
Loan loss reserves/customer loans	1.3	1.1	1.2	1.9	2.2
New loan loss provisions/average customer loans	0.7	0.3	0.0	N.M.	N.M.
Net charge-offs/average customer loans	0.3	0.2	0.5	N.M.	N.M.
Customer deposits/funding base	30.8	29.0	18.1	28.1	27.7
Total loans/customer deposits	240.9	255.3	401.1	255.4	267.6

Table 2

Norddeutsche Landesbank Girozentrale--Asset Quality, Funding, And Liquidity Ratios (cont.)					
Total loans/customer deposits plus long-term funds	104.1	110.0	110.3	112.1	115.2
Customer loans (net)/assets (adjusted)	45.0	45.5	43.4	38.9	39.9

*Data as of Sept. 30. N.M.--Not meaningful.

Table 3

Norddeutsche Landesbank Girozentrale--Profitability Ratios					
	--Year-ended Dec. 31 --				
(%)	2009*	2008	2007	2006	2005
Net interest income/average earning assets	0.5	0.7	0.7	0.6	0.6
Net interest income/revenues	62.1	92.8	77.4	71.7	70.7
Fee income/revenues	8.2	11.9	9.0	11.1	9.8
Market-sensitive income/revenues	24.5	(50.4)	(24.9)	3.8	2.9
Personnel expense/revenues	24.3	30.5	23.8	30.6	34.3
Noninterest expenses/revenues	54.4	93.2	72.6	60.7	64.0
New loan loss provisions/revenues	36.3	17.6	2.1	N.A.	N.A.
Net operating income before loan loss provisions/loan loss provisions	125.5	38.7	1,303.2	N.M.	N.M.
Net operating income after loan loss provisions/revenues	9.3	(10.8)	25.3	39.3	36.0
Pretax profit/revenues	9.3	(1.3)	25.6	57.7	25.4
Tax/pretax profit	16.4	680.7	42.8	18.1	26.1
Core earnings/revenues	7.7	N/A	14.5	32.2	26.6
Core earnings/average adjusted assets	0.1	N/A	0.1	0.2	0.2
Noninterest expenses/average adjusted assets	0.4	0.6	0.6	0.5	0.5
Core earnings/average risk-weighted assets	0.3	N/A	0.3	0.6	0.5
Core earnings/average adjusted common equity	3.0	N/A	5.1	9.7	11.3
Pretax profit/average common equity (%)	3.7	(0.4)	8.5	17.4	10.9

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Norddeutsche Landesbank Girozentrale--Capital Ratios					
	--Year-ended Dec. 31 --				
(%)	2009*	2008	2007	2006	2005
Adjusted common equity/risk assets (%)	N.M.	5.0	5.0	6.4	6.0
Tier 1 capital ratio	8.2	8.1	7.0	7.7	7.9
Adjusted total equity/adjusted assets	2.4	2.5	2.9	2.8	2.5
Adjusted total equity/managed assets	2.4	2.5	2.9	2.8	2.5
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	6.6	6.6	7.8	9.0	8.5
Common dividend payout ratio	69.7	107.3	0.0	0.0	0.0

*Data as of Sept. 30. N.M.--Not meaningful.

Table 5

Norddeutsche Landesbank Girozentrale--Summary Balance Sheet					
--Year-ended Dec. 31 --					
(Mil. €)	2009*	2008	2007	2006	2005
Assets					
Cash and money market instruments	1,361.0	2,227.0	2,485.0	4,588.7	2,967.0
Securities	71,201.0	68,798.0	58,161.0	55,766.0	52,433.7
Trading securities (marked to market)	7,505.0	7,412.0	N/A	N/A	N/A
Nontrading securities	63,696.0	61,386.0	58,161.0	55,766.0	52,433.7
Loans to banks (net)	45,143.0	46,121.0	44,851.0	49,851.0	51,404.4
Customer loans (gross)	112,310.0	112,172.0	88,442.0	80,477.3	80,721.4
Loan loss reserves	1,411.0	1,204.0	1,089.0	1,516.4	1,795.9
Customer loans (net)	110,899.0	110,968.0	87,353.0	78,960.9	78,925.5
Earning assets	229,474.0	228,208.0	192,863.0	190,498.8	187,106.9
Equity interests/participations (nonfinancial)	811.0	1,086.0	1,060.8	851.4	690.8
Investments in unconsolidated subsidiaries (financial companies)	774.0	608.0	785.2	455.2	593.5
Intangibles (nonservicing)	108.0	123.0	94.0	N/A	N/A
Fixed assets	391.0	377.0	397.0	290.3	319.3
Derivatives credit amount	10,865.0	11,400.0	5,587.0	0.0	0.0
Accrued receivables	N.A.	N.A.	0.0	821.1	855.7
All other assets	5,074.0	2,557.0	766.0	11,508.1	9,620.5
Total assets	246,627.0	244,265.0	201,540.0	203,092.7	197,810.4
Intangibles (nonservicing)	108.0	123.0	94.0	N/A	N/A
Adjusted assets	246,519.0	244,142.0	201,446.0	203,092.7	197,810.4
Liabilities					
Total deposits	127,832.0	132,794.0	95,163.0	114,591.2	111,153.2
Noncore deposits	62,466.0	70,796.0	61,931.0	63,556.7	61,776.3
Core/customer deposits	65,366.0	61,998.0	33,232.0	51,034.5	49,376.9
Other borrowings	48,414.0	40,602.0	82,541.0	66,773.6	67,337.1
Other other borrowings	1,881.0	2,054.0	2,829.0	1,793.7	1,793.7
Other liabilities	27,685.0	23,810.0	10,790.0	14,978.4	13,266.6
Total liabilities	239,706.0	237,683.0	194,315.0	196,343.2	191,756.9
Total equity	6,921.0	6,582.0	7,225.0	6,379.2	5,694.6
Minority interest-equity	91.0	64.0	97.0	108.1	103.6
Common shareholders' equity (reported)	5,179.0	4,867.0	5,477.0	5,371.1	4,691.0
Share capital and surplus	1,085.0	1,085.0	1,085.0	1,136.6	1,136.6
Revaluation reserve	(49.0)	(338.0)	331.0	N/A	N/A
Retained profits	117.0	151.0	305.0	162.8	69.9
Total liabilities and equity	246,627.0	244,265.0	201,540.0	202,722.4	197,451.4

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable.

Table 6

Norddeutsche Landesbank Girozentrale--Equity Reconciliation Table					
--Year-ended Dec. 31 --					
(Mil. €)	2009*	2008	2007	2006	2005
Common shareholders' equity (reported)	5,179.0	4,867.0	5,477.0	5,371.1	4,691.0
Plus minority interest (equity)	91.0	64.0	97.0	108.1	103.6
Minus dividends (not yet distributed)	(93.0)	(120.0)	(207.0)	(162.8)	(69.9)
Minus revaluation reserves	49.0	338.0	(331.0)	N/A	N/A
Minus nonservicing intangibles	(108.0)	(123.0)	(94.0)	N/A	N/A
Adjusted common equity	5,118.0	5,170.0	4,942.0	5,316.4	4,724.7
Plus admissible preferred and hybrids	1,651.0	1,651.0	1,630.9	900.0	900.0
Minus equity in unconsolidated subsidiaries	(774.0)	(608.0)	(785.2)	(455.2)	(593.5)
Minus other adjustments	0.0	(144.0)	0.0	N/A	N/A
Adjusted total equity	5,995.0	6,213.0	5,787.7	5,761.1	5,031.2

*Data as of Sept. 30. N/A--Not applicable.

Table 7

Norddeutsche Landesbank Girozentrale--Profit And Loss					
--Year-ended Dec. 31 --					
(Mil. €)	2009*	2008	2007	2006	2005
Net interest income	938.0	1,400.1	1,399.2	1,086.1	1,073.7
Interest income	7,571.0	13,412.0	10,887.0	9,192.5	8,392.5
Interest expense	6,633.0	12,012.0	9,487.8	8,106.3	7,318.8
Operating noninterest income	573.0	109.0	408.0	428.0	444.2
Fees and commissions	124.0	180.0	162.0	168.8	148.2
Trading gains	485.0	(743.0)	(295.0)	58.0	44.4
Other market-sensitive income	(115.0)	(17.0)	(155.0)	N.A.	N.A.
Net insurance income	52.0	106.0	111.0	(656.0)	(642.0)
Equity in earnings of unconsolidated subsidiaries	(124.0)	85.0	127.0	63.0	62.5
Other noninterest income	151.0	498.0	458.0	794.2	831.2
Operating revenues	1,511.0	1,509.1	1,807.2	1,514.1	1,517.9
Noninterest expenses	822.0	1,406.0	1,312.0	918.5	970.9
Personnel expenses	367.0	460.0	430.0	463.7	521.0
Other general and administrative expense	402.0	882.0	819.0	418.4	413.8
Net operating income before loss provisions	689.0	103.1	495.2	595.7	547.0
Credit loss provisions (net new)	549.0	266.0	38.0	N.A.	N.A.
Net operating income after loss provisions	140.0	(162.9)	457.2	595.7	547.0
Nonrecurring/special income	0.0	144.0	5.0	292.4	0.0
Nonrecurring/special expense	0.0	0.0	0.0	15.0	161.9
Pretax profit	140.0	(18.9)	462.2	873.0	385.0
Tax expense/credit	23.0	(129.0)	198.0	158.3	100.5
Net income (before minority interest)	117.0	110.1	264.2	714.7	284.6
Minority interest in consolidated subsidiaries	7.0	1.0	9.0	7.3	11.4
Net income before extraordinary	110.0	109.1	255.2	273.4	137.2
Net income after extraordinary	110.0	109.1	255.2	273.4	137.2

Table 7

Norddeutsche Landesbank Girozentrale--Profit And Loss (cont.)

*Data as of Sept. 30. N.A.--Not available.

Table 8

Norddeutsche Landesbank Girozentrale--Core Earnings Reconciliation Table

(Mil. €)	--Year-ended Dec. 31 --				
	2009*	2008	2007	2006	2005
Net income (before minority interest)	117.0	110.1	264.2	714.7	284.6
Minus nonrecurring/special income	0.0	(144.0)	(5.0)	(292.4)	0.0
Plus nonrecurring/special expense	0.0	0.0	0.0	15.0	161.9
Plus or minus tax impact of adjustments	0.0	N/A	2.1	50.3	(42.3)
Core earnings	117.0	N/A	261.3	487.6	404.3

*Data as of Sept. 30. N/A--Not applicable.

Ratings Detail (As Of February 4, 2010)*

Norddeutsche Landesbank Girozentrale

Counterparty Credit Rating	A-/Negative/A-2
Certificate Of Deposit	A-/A-2
Commercial Paper	
<i>Foreign Currency</i>	A-2
Senior Unsecured (12 Issues)	A-
Subordinated (1 Issue)	BBB+

Counterparty Credit Ratings History

06-May-2009	A-/Negative/A-2
02-Feb-2009	A/Negative/A-1
12-Nov-2007	A/Stable/A-1
17-Jul-2007	A/Positive/A-1
19-Jul-2005	A/Stable/A-1

Sovereign Rating

Germany (Federal Republic of)	AAA/Stable/A-1+
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Related Entities

Norddeutsche Landesbank Luxembourg S.A.

Issuer Credit Rating	A-/Negative/A-2
Certificate Of Deposit	A-/A-2
Commercial Paper	A-2

NORD/LB COVERED FINANCE BANK S.A.

Issuer Credit Rating	A-/Negative/A-2
Senior Secured (1 Issue)	A-1+/Watch Neg
Senior Secured (44 Issues)	AAA/Watch Neg
Senior Unsecured (1 Issue)	A-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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