

Luxembourg
Update

NORD/LB Covered Finance Bank S.A.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Support Rating	1

Sovereign Risk	
Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency	Stable
Long-Term IDR	
Sovereign Local-Currency	Stable
Long-Term IDR	

Financial Data

NORD/LB Covered Finance Bank S.A.

	31 Dec 09	31 Dec 08
Total assets (USDm)	8,544	8,625
Total assets (EURm)	5,931	6,198
Total equity (EURm)	64.3	43.5
Operating profit (EURm)	2.6	7.0
Published net income (EURm)	6.4	5.6
Operating ROAA (%)	0.04	n.a.
Operating ROAE (%)	4.9	n.a.
Tier 1 ratio (%)	7.4	5.7

Analysts

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Related Research

Applicable Criteria

- Global Financial Institutions Rating Criteria (December 2009)

Other Research

- Norddeutsche Landesbank Girozentrale (January 2010)
- Fitch Rates NORD/LB Covered Finance Bank 'A'; Outlook Stable (July 2010)
- Fitch Rates NORD/LB Covered Finance Bank's Lettres de Gage Publique 'AAA' (July 2010)

Rating Rationale

- The Long-Term and Short-Term IDRs of NORD/LB Covered Finance Bank S.A. (NORD/LB CFB) have been equalised with those of Norddeutsche Landesbank Girozentrale (NORD/LB, rated 'A'/Stable), the bank's ultimate owner. The ratings reflect the extremely high likelihood of support for NORD/LB CFB from its parent, if ever required. NORD/LB's Long-Term IDR, in turn, is at its Support Rating Floor and is based on the extremely high likelihood of support from its owners, particularly the State of Lower-Saxony (rated 'AAA'/Stable).
- NORD/LB CFB was established by NORD/LB as a specialised bank in 2006 to enable access to an alternative funding vehicle, the Lettre de Gage Publique (covered bonds according to Luxembourg legislation). Hence, its activities are almost exclusively focused on international public sector business, which is eligible as a cover pool asset for this funding instrument. The bank forms part of NORD/LB's financial market activities and is fully integrated into existing processes and systems. Central functions are performed through other group entities. As a result, the bank currently operates with only nine employees.
- Although NORD/LB CFB is considered as a core strategic entity, its size is still small, accounting for only 2.5% of NORD/LB group's total assets. Fitch expects the bank's activities to grow gradually.
- Profitability is low, reflecting the bank's focus on low-margin, but high-quality public sector business. Hence, Fitch expects NORD/LB CFB to remain a small, but stable profit contributor in the short to medium term. At the same time, it faces heightened volatility of public sector investment securities in the current market environment. Whereas the bank is not exposed to Greece, its exposure to Spain, Ireland, Italy and Portugal amounted to EUR0.7bn or 12% of the total.
- As a result of its focus on public sector business, which generally carries low risk-weights, the bank's leverage is high; its capitalisation is adequate. Unless there are regulatory changes, its absolute equity base is likely to remain low, as capital is managed at group level. At the same time, Fitch would expect NORD/LB to inject capital in case of need or to support growth.

Support

- NORD/LB CFB is 100%-owned by Norddeutsche Landesbank Luxembourg S.A., which, in turn, is fully owned by NORD/LB. NORD/LB has provided a declaration of backing (Patronatserklärung) to NORD/LB CFB, expressing its commitment that it will ensure that the bank will meet its obligations at all times.

Key Rating Drivers

- NORD/LB CFB's Outlook is Stable, in line with that of NORD/LB. Any change in NORD/LB's ratings, in NORD/LB CFB's ownership structure or in Fitch's view on the likelihood of support, is likely to trigger a rating action.

Profile

Luxembourg-based NORD/LB CFB is focused on public financing business.

NORD/LB COVERED FINANCE BANK S.A.

Income Statement

	31 Dec 2009			31 Dec 2008	
	Year End	Year End	As % of	Year End	As % of
	USDm	EURm	Earning	EURm	Earning
	Unqualified	Unqualified	Assets	Unqualified	Assets
1. Interest Income on Loans	95.9	66.6	1.12	65.0	1.05
2. Other Interest Income	449.2	311.8	5.26	338.1	5.46
3. Dividend Income	n.a.	n.a.	-	n.a.	-
4. Gross Interest and Dividend Income	545.1	378.4	6.38	403.1	6.51
5. Interest Expense on Customer Deposits	n.a.	n.a.	-	n.a.	-
6. Other Interest Expense	532.6	369.7	6.24	390.9	6.31
7. Total Interest Expense	532.6	369.7	6.24	390.9	6.31
8. Net Interest Income	12.5	8.7	0.15	12.2	0.20
9. Net Gains (Losses) on Trading and Derivatives	0.1	0.1	0.00	0.4	0.01
10. Net Gains (Losses) on Other Securities	n.a.	n.a.	-	0.0	0.00
11. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	-	n.a.	-
12. Net Insurance Income	n.a.	n.a.	-	n.a.	-
13. Net Fees and Commissions	-1.3	-0.9	-0.02	-1.1	-0.02
14. Other Operating Income	0.1	0.1	0.00	0.1	0.00
15. Total Non-Interest Operating Income	-1.0	-0.7	-0.01	-0.6	-0.01
16. Personnel Expenses	1.6	1.1	0.02	0.8	0.01
17. Other Operating Expenses	5.8	4.0	0.07	3.5	0.06
18. Total Non-Interest Expenses	7.3	5.1	0.09	4.3	0.07
19. Equity-accounted Profit / Loss - Operating	n.a.	n.a.	-	n.a.	-
20. Pre-Impairment Operating Profit	4.2	2.9	0.05	7.3	0.12
21. Loan Impairment Charge	0.4	0.3	0.01	0.3	0.00
22. Securities and Other Credit Impairment Charges	n.a.	n.a.	-	n.a.	-
23. Operating Profit	3.7	2.6	0.04	7.0	0.11
24. Equity-accounted Profit / Loss - Non-operating	n.a.	n.a.	-	n.a.	-
25. Non-recurring Income	7.8	5.4	0.09	n.a.	-
26. Non-recurring Expense	n.a.	n.a.	-	n.a.	-
27. Change in Fair Value of Own Debt	n.a.	n.a.	-	n.a.	-
28. Other Non-operating Income and Expenses	n.a.	n.a.	-	n.a.	-
29. Pre-tax Profit	11.5	8.0	0.13	7.0	0.11
30. Tax expense	2.3	1.6	0.03	1.4	0.02
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	-
32. Net Income	9.2	6.4	0.11	5.6	0.09
33. Change in Value of AFS Investments	9.4	6.5	0.11	n.a.	-
34. Revaluation of Fixed Assets	n.a.	n.a.	-	n.a.	-
35. Currency Translation Differences	n.a.	n.a.	-	n.a.	-
36. Remaining OCI Gains/(losses)	9.4	6.5	0.11	n.a.	-
37. Fitch Comprehensive Income	27.9	19.4	0.33	5.6	0.09
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	-	n.a.	-
39. Memo: Net Income after Allocation to Non-controlling Interests	9.2	6.4	0.11	5.6	0.09
40. Memo: Common Dividends Relating to the Period	n.a.	n.a.	-	n.a.	-
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	-	n.a.	-

Exchange rate

USD1 = EUR0.69416

USD1 = EUR0.71855

NORD/LB COVERED FINANCE BANK S.A.

Balance Sheet

	31 Dec 2009			31 Dec 2008	
	Year End USDm	Year End EURm	As % of Assets	Year End EURm	As % of Assets
Assets					
A. Loans					
1. Residential Mortgage Loans	n.a.	n.a.	-	n.a.	-
2. Other Mortgage Loans	n.a.	n.a.	-	n.a.	-
3. Other Consumer / Retail Loans	n.a.	n.a.	-	n.a.	-
4. Corporate & Commercial Loans	n.a.	n.a.	-	n.a.	-
5. Other Loans	1,234.3	856.8	14.45	746.0	12.04
6. Less: Reserves for Impaired Loans/ NPLs	1.4	1.0	0.02	0.8	0.01
7. Net Loans	1,232.9	855.8	14.43	745.2	12.02
8. Gross Loans	1,234.3	856.8	14.45	746.0	12.04
9. Memo: Impaired Loans included above	0.0	0.0	0.00	0.0	0.00
10. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	-
B. Other Earning Assets					
1. Loans and Advances to Banks	1,649.2	1,144.8	19.30	1,668.4	26.92
2. Trading Securities and at FV through Income	n.a.	n.a.	-	n.a.	-
3. Derivatives	345.6	239.9	4.05	325.1	5.25
4. Available for Sale Securities	611.4	424.4	7.16	84.2	1.36
5. Held to Maturity Securities	n.a.	n.a.	-	n.a.	-
6. At-equity Investments in Associates	n.a.	n.a.	-	n.a.	-
7. Other Securities	4,699.2	3,262.0	55.00	3,367.6	54.34
8. Total Securities	5,656.2	3,926.3	66.20	3,776.9	60.94
9. Memo: Government Securities included Above	n.a.	n.a.	-	n.a.	-
10. Investments in Property	n.a.	n.a.	-	n.a.	-
11. Insurance Assets	0.0	0.0	0.00	0.0	0.00
12. Other Earning Assets	n.a.	n.a.	-	n.a.	-
13. Total Earning Assets	8,538.2	5,926.9	99.94	6,190.5	99.89
C. Non-Earning Assets					
1. Cash and Due From Banks	0.0	0.0	0.00	0.2	0.00
2. Memo: Mandatory Reserves included above	n.a.	n.a.	-	n.a.	-
3. Foreclosed Real Estate	n.a.	n.a.	-	n.a.	-
4. Fixed Assets	0.0	0.0	0.00	0.0	0.00
5. Goodwill	0.0	0.0	0.00	0.0	0.00
6. Other Intangibles	0.0	0.0	0.00	0.2	0.00
7. Current Tax Assets	n.a.	n.a.	-	n.a.	-
8. Deferred Tax Assets	5.2	3.6	0.06	6.5	0.10
9. Discontinued Operations	n.a.	n.a.	-	n.a.	-
10. Other Assets	0.1	0.1	0.00	0.1	0.00
11. Total Assets	8,543.6	5,930.6	100.00	6,197.5	100.00
Liabilities and Equity					
D. Interest-Bearing Liabilities					
1. Customer Deposits - Current	530.0	367.9	6.20	229.8	3.71
2. Customer Deposits - Savings	n.a.	n.a.	-	n.a.	-
3. Customer Deposits - Term	n.a.	n.a.	-	n.a.	-
4. Total Customer Deposits	530.0	367.9	6.20	229.8	3.71
5. Deposits from Banks	2,824.7	1,960.8	33.06	2,291.1	36.97
6. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	-
7. Total Deposits, Money Market and Short-term Funding	3,354.7	2,328.7	39.27	2,520.9	40.68
8. Senior Debt Maturing after 1 Year	4,368.9	3,032.7	51.14	2,882.1	46.50
9. Subordinated Borrowing	66.0	45.8	0.77	58.8	0.95
10. Other Funding	n.a.	n.a.	-	n.a.	-
11. Total Long Term Funding	4,434.9	3,078.5	51.91	2,940.9	47.45
12. Derivatives	622.3	432.0	7.28	686.7	11.08
13. Trading Liabilities	30.1	20.9	0.35	2.1	0.03
14. Total Funding	8,442.0	5,860.1	98.81	6,150.6	99.24
E. Non-Interest Bearing Liabilities					
1. Fair Value Portion of Debt	0.0	0.0	0.00	0.0	0.00
2. Credit impairment reserves	n.a.	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	0.3	0.2	0.00	0.0	0.00
4. Current Tax Liabilities	0.0	0.0	0.00	0.0	0.00
5. Deferred Tax Liabilities	n.a.	n.a.	-	n.a.	-
6. Other Deferred Liabilities	n.a.	n.a.	-	n.a.	-
7. Discontinued Operations	n.a.	n.a.	-	n.a.	-
8. Insurance Liabilities	0.0	0.0	0.00	0.0	0.00
9. Other Liabilities	8.6	6.0	0.10	3.4	0.05
10. Total Liabilities	8,450.9	5,866.3	98.92	6,154.0	99.30
F. Hybrid Capital					
1. Pref. Shares and Hybrid Capital accounted for as Debt	0.0	0.0	0.00	0.0	0.00
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-
G. Equity					
1. Common Equity	105.6	73.3	1.24	59.0	0.95
2. Non-controlling Interest	n.a.	n.a.	-	n.a.	-
3. Securities Revaluation Reserves	-13.0	-9.0	-0.15	-15.5	-0.25
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	-	n.a.	-
5. Fixed Asset Revaluations and Other Accumulated OCI	n.a.	n.a.	-	n.a.	-
6. Total Equity	92.6	64.3	1.08	43.5	0.70
7. Total Liabilities and Equity	8,543.6	5,930.6	100.00	6,197.5	100.00
8. Memo: Fitch Core Capital	92.6	64.3	1.08	43.3	0.70
9. Memo: Fitch Eligible Capital	n.a.	n.a.	-	n.a.	-

Exchange rate

USD1 = EUR0.69416

USD1 = EUR0.71855

NORD/LB COVERED FINANCE BANK S.A.
Summary Analytics

	31 Dec 2009	31 Dec 2008
	Year End	Year End
A. Interest Ratios		
1. Interest Income on Loans / Average Gross Loans	8.50	n.a.
2. Interest Expense on Customer Deposits / Average Customer Deposits	n.a.	n.a.
3. Interest Income/ Average Earning Assets	6.36	n.a.
4. Interest Expense/ Average Interest-bearing Liabilities	6.26	n.a.
5. Net Interest Income/ Average Earning Assets	0.15	n.a.
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	0.14	n.a.
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	0.15	n.a.
B. Other Operating Profitability Ratios		
1. Non-Interest Income/ Gross Revenues	-8.75	-5.17
2. Non-Interest Expense/ Gross Revenues	63.75	37.07
3. Non-Interest Expense/ Average Assets	0.09	n.a.
4. Pre-impairment Op. Profit / Average Equity	5.51	n.a.
5. Pre-impairment Op. Profit / Average Total Assets	0.05	n.a.
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	10.34	4.11
7. Operating Profit/ Average Equity	4.94	n.a.
8. Operating Profit/ Average Total Assets	0.04	n.a.
9. Taxes/ Pre-tax Profit	20.00	20.00
10. Pre-Impairment Operating Profit / Risk Weighted Assets	n.a.	n.a.
11. Operating Profit / Risk Weighted Assets	n.a.	n.a.
C. Other Profitability Ratios		
1. Net Income/ Average Total Equity	12.17	n.a.
2. Net Income/ Average Total Assets	0.11	n.a.
3. Fitch Comprehensive Income/ Average Total Equity	36.88	n.a.
4. Fitch Comprehensive Income/ Average Total Assets	0.33	n.a.
5. Net Income/ Av. Total Assets plus Av. Managed Assets	n.a.	n.a.
6. Net Income/ Risk Weighted Assets	n.a.	n.a.
7. Fitch Comprehensive Income/ Risk Weighted Assets	n.a.	n.a.
D. Capitalization		
1. Fitch Eligible Capital/ Fitch Adjusted Weighted Risks	n.a.	n.a.
2. Tangible Common Equity/ Tangible Assets	1.08	0.70
3. Tangible Common Equity/ Total Business Volume	1.08	0.70
4. Tier 1 Regulatory Capital Ratio	7.40	5.70
5. Total Regulatory Capital Ratio	12.40	11.40
6. Fitch Eligible Capital/ Tier 1 Regulatory Capital	n.a.	n.a.
7. Equity/ Total Assets	1.08	0.70
8. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.
9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	n.a.
10. Net Income - Cash Dividends/ Total Equity	9.95	12.87
E. Loan Quality		
1. Growth of Total Assets	-4.31	n.a.
2. Growth of Gross Loans	14.85	n.a.
3. Impaired Loans (NPLs)/ Gross Loans	0.00	0.00
4. Reserves for Impaired Loans / Gross loans	0.12	0.11
5. Reserves for Impaired Loans / Impaired Loans	n.a.	n.a.
6. Impaired Loans less Reserves for Imp Loans/ Equity	-1.56	-1.84
7. Loan Impairment Charges/ Average Gross Loans	0.04	n.a.
8. Net Charge-offs/ Average Gross Loans	n.a.	n.a.
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	0.00	0.00
F. Funding		
1. Loans/ Customer Deposits	232.89	324.63
2. Interbank Assets/ Interbank Liabilities	58.38	72.82

NORD/LB COVERED FINANCE BANK S.A.

Reference Data

	31 Dec 2009			31 Dec 2008	
	Year End USDm	Year End EURm	As % of Assets	Year End EURm	As % of Assets
A. Off-Balance Sheet Items					
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	-
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	-	n.a.	-
3. Guarantees	n.a.	n.a.	-	n.a.	-
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	-	n.a.	-
5. Committed Credit Lines	0.1	0.1	0.00	0.0	0.00
6. Other Contingent Liabilities	n.a.	n.a.	-	n.a.	-
7. Total Business Volume	8,543.7	5,930.7	100.00	6,197.5	100.00
8. Memo: Total Weighted Risks	1,308.1	908.0	15.31	929.0	14.99
9. Fitch Adjustments to Weighted Risks.	n.a.	n.a.	-	n.a.	-
10. Fitch Adjusted Weighted Risks	1,308.1	908.0	15.31	929.0	14.99
B. Average Balance Sheet					
Average Loans	1,128.4	783.3	13.21	n.a.	-
Average Earning Assets	8,577.4	5,954.1	100.40	n.a.	-
Average Assets	8,590.2	5,963.0	100.55	n.a.	-
Average Managed Assets (OBS)	n.a.	n.a.	-	n.a.	-
Average Interest-Bearing Liabilities	8,506.5	5,904.9	99.57	n.a.	-
Average Common equity	87.6	60.8	1.03	n.a.	-
Average Equity	75.8	52.6	0.89	n.a.	-
Average Customer Deposits	378.7	262.9	4.43	n.a.	-
C. Equity Reconciliation					
1. Equity	92.6	64.3	1.08	43.5	0.70
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-
3. Add: Other Adjustments	n.a.	n.a.	-	n.a.	-
4. Published Equity	92.6	64.3	1.08	43.5	0.70
D. Fitch Eligible Capital Reconciliation					
1. Total Equity as reported (including non-controlling interests)	92.6	64.3	1.08	43.5	0.70
2. Fair value effect incl in own debt/borrowings at fv on the B/S- CC only	0.0	0.0	0.00	0.0	0.00
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.00	0.0	0.00
4. Goodwill	0.0	0.0	0.00	0.0	0.00
5. Other intangibles	0.0	0.0	0.00	0.2	0.00
6. Deferred tax assets deduction	0.0	0.0	0.00	0.0	0.00
7. Net asset value of insurance subsidiaries	0.0	0.0	0.00	0.0	0.00
8. Embedded value of insurance business	0.0	0.0	0.00	0.0	0.00
9. First loss tranches of off-balance sheet securitizations	0.0	0.0	0.00	0.0	0.00
10. Fitch Core Capital	92.6	64.3	1.08	43.3	0.70
11. Eligible weighted Hybrid capital	0.0	0.0	0.00	0.0	0.00
12. Government held Hybrid Capital	n.a.	n.a.	-	n.a.	-
13. Fitch Eligible Capital	n.a.	n.a.	-	n.a.	-
14. Eligible Hybrid Capital Limit	39.8	27.6	0.47	18.6	0.30

Exchange Rate

USD1 = EURO.69416

USD1 = EURO.71855