Annual Report

2007

NORD/LB
COVERED FINANCE BANK S.A.

NORD/LB
COVERED FINANCE BANK S.A.

Members of the Board of Directors

Jürgen Kösters
Member of the Board of Directors
Norddeutsche Landesbank Girozentrale

Uwe Rossmannek
Global Head Capital Markets
Norddeutsche Landesbank Girozentrale

Dirk Vormberge
Managing Director
NORD/LB COVERED FINANCE BANK S.A.
(until 31-01-2008)

Markus Thesen
Managing Director
NORD/LB COVERED FINANCE BANK S.A.
(since 01-02-2008)

Management

Administrateur-Délégué
Markus Thesen
(since 01-02-2008)

Dirk Vormberge
(until 31-01-2008)

Directeur
Christian Veit
(since 01-02-2008)

Markus Thesen
(until 31-01-2008)

Organization chart

ALM/Credit Analysis
Nico Lüttke
(until 29-02-2008)

ALM/Treasury
Oliver Mazur

ALM/Public Finance
René-Christian Rindert
Timo Anthes

All functions in respect of back office procedures, organisation and administration are performed by the parent company, Norddeutsche Landesbank Luxembourg S.A.

NORD/LB
COVERED FINANCE BANK S.A.

Mitglieder des Verwaltungsrates

Jürgen Kösters
Mitglied des Vorstandes
Norddeutsche Landesbank Girozentrale

Uwe Rossmannek
Global Head Capital Markets
Norddeutsche Landesbank Girozentrale

Dirk Vormberge
Administrateur-Délégué
NORD/LB COVERED FINANCE BANK S.A.
(bis 31.01.2008)

Markus Thesen
Administrateur-Délégué
NORD/LB COVERED FINANCE BANK S.A.
(ab 01.02.2008)

Geschäftsleitung

Administrateur-Délégué
Markus Thesen
(ab 01.02.2008)

Dirk Vormberge
(bis 31.01.2008)

Directeur
Christian Veit
(ab 01.02.2008)

Markus Thesen
(bis 31.01.2008)

Organigramm

ALM/Credit Analysis
Nico Lüttke
(bis 29.02.2008)

ALM/Treasury
Oliver Mazur

ALM/Public Finance
René-Christian Rindert
Timo Anthes

Sämtliche Marktfolge-, Organisations- und Verwaltungsfunktionen werden im Rahmen von Geschäftsbesorgungsverträgen von der Muttergesellschaft, der Norddeutsche Landesbank Luxembourg S.A., erbracht.

Administrateur-Délégué of NORD/LB Luxembourg
Hans Hartmann

Loans
Franz-Josef Glauben

Human Ressources
Christian Ehrismann

Internal Audit
Michael Erbelding

Legal & Compliance
Dr. Ursula Hohenadel

Directeur of NORD/LB Luxembourg
Christian Veit

Accounting
Peter Heumüller

Controlling
Roman Lux

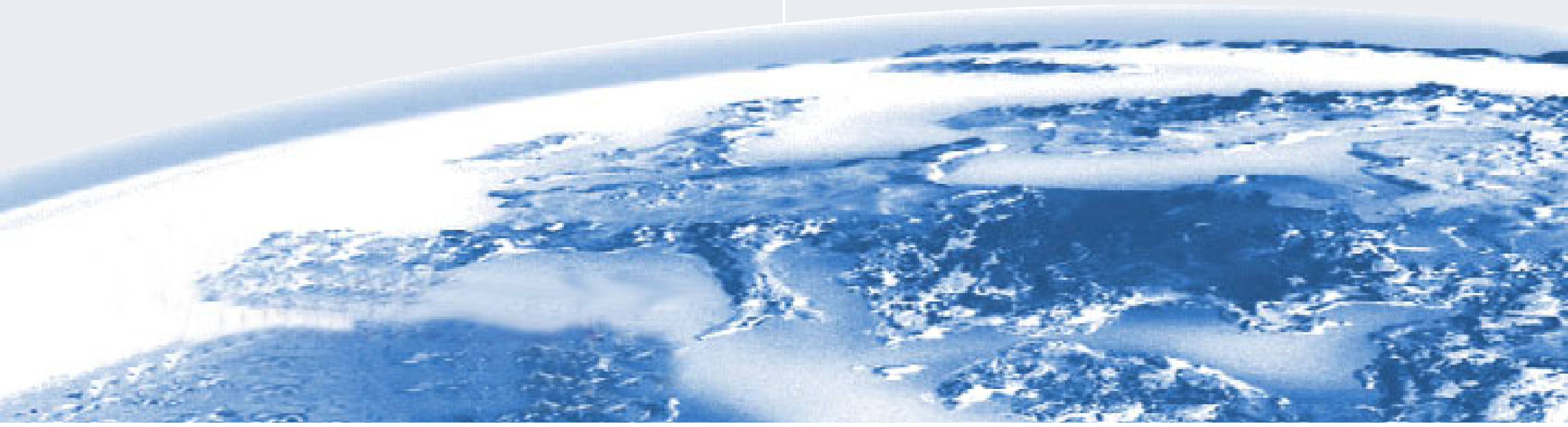
Settlements
Rita Kranz
(since 01-03-2008)

Information Technology
Romain Wantz

Organization & Project Management
Frank Seeberger

Administration
David Gunson

Security
Jos Jemmeng



Report of the Administration Board to the Annual General Meeting of Shareholders on 10 March 2008 concerning the financial year 2007

International economic development

Sub-prime crisis detracts from the overall positive development

2007 was again characterised by strong growth in the world economy. Global economic performance improved for the fourth time in succession by around 5%. While growth in the industrial countries slowed down slightly, in the emerging markets it remained as strong as ever. As a result of the worldwide boom the oil price rose to new record levels. After still being quoted at the beginning of 2007 at around 55 USD per barrel for North Sea Brent oil, by year-end it had increased to around 95 USD per barrel. While the global economy was hardly affected by the strong increase in energy prices, there was a noticeable rise in inflation rates over the year. This was due to exceptionally sharp increases in the price of food, too.

A shadow was cast over the generally positive picture of the world economy by the sub-prime crisis in the US mortgage market which from summer onwards led to significant distortions in the international financial markets. The trigger was an increase in defaults by borrowers with a weak credit rating who found themselves under increasing pressure from higher interest charges and falling property prices. With increasing securitisation, international credit trading had seen very rapid expansion in recent years, as a result of which the risks in the US sub-prime market were passed on to financial institutions all over the world. As it was not clear how much had to be written off, there was a crisis of confidence in the banking system that made the refinancing of institutions considerably more difficult. The liquidity shortages prompted a strong increase in interbank money market rates. Central banks throughout the world were forced to provide liquidity to the banks on a massive scale in order to prevent a collapse of the financial system. The effects of the crisis on economic growth were hardly felt in 2007. The outlook for 2008, however, is clearly clouded by the greater uncertainty about the real economic consequences of the financial crisis.

Economic development in the USA

There was a noticeable slowdown in the pace of the US economy in 2007. Economic growth fell to 2.2% after reaching 2.9% in the previous year. An obvious slump in new housing investments had a dampening effect while commercial construction continued to show positive development. The most important pillars of the US economy were still private households, whose consumption expenditure re-mained relatively unaffected by the property market crisis. This was supported by a renewed positive trend in the labour market and increased household incomes. Over the year, however, the consumer mood became distinctly gloomier. There was a noticeable rise in the inflation rate in the latter half of the year that was caused primarily by significantly higher food and energy prices. While the overall inflation rate rose to over 4% towards the end of the year, the core rate remained at just over 2%.

In the latter half of 2007 the sub-prime crisis caused the US central bank to change its monetary policy. In view of the turbulence in the financial markets and the resulting risks to the US economy, the Fed cut its base rate by 50 basis points in September. Two more smaller moves then reduced the Fed funds target rate to 4.25%. Capital market yields had continued to rise strongly in the period to mid-year, but then fell significantly in the latter half of the year due to the sub-prime crisis. Yields on 10-year treasury bonds dropped from 5.3% in mid-June to 4.1% at year-end.

… in Asia

The Japanese economy lost momentum in 2007. The gross domestic product only grew by 1.9%, after 2.4% in the previous year. Despite slower economic growth there were positive developments in the labour market. Wage increases, however, remained low, so private consumption was able to increase but not build up strong momentum. In spite of the robust economic situation the Japanese economy did not succeed in finally shaking off deflation. The inflation rate did increase towards the year-end to 0.6% but over the year as a whole prices just stagnated. While

the Japanese central bank continued to move towards monetary normalisation by increasing its base rate in February to 0.50%, in view of the US subprime crisis it refrained from any further interest rate hikes. Capital market yields rose to just nearly 2% in the period to mid-year, but by December they had dropped back to around 1.5%. The yen strengthened significantly against the US dollar.

The driver of growth in Asia was once again China, whose economy grew by slightly less then 12%. Gross capital investment continued to be the most important driving force, while private consumption lagged behind the growth in other areas. Since then the Chinese economy has been showing clear signs of overheating. Therefore economic policy has taken steps to curb the economy's rapid growth, especially as inflation performance is also threatening to go off course.

The other Asian economies also experienced strong economic expansion in 2007. India grew by around 9%, South Korea by almost 5% and the Philippines by approximately 7%. Overall the emerging markets in Asia showed themselves to be relatively resistant to the international turbulence in the financial markets that had come into play in the latter half of the year.

... in Europe

In Europe economic growth in 2007 continued with somewhat less momentum. The Euro zone economy grew by 2.6%. The German economy was almost able to maintain its pace of growth despite a sizeable tax increase. As in the previous year, Germany's economy received considerable support from investments and exports. Private consumption, which had made a tentative recovery in 2006, slumped again as a result of the VAT increase and did not move beyond stag-nation over the year as a whole. The gross domestic product in Germany grew in real terms by around 2.5%. Economic growth in France and Italy was weaker missing the 2%-mark slightly. Significantly higher growth rates – just below 4% – were recorded in the Netherlands and Spain. Luxembourg again recorded the highest growth rate in Euroland, at around 5.5%.

The British economy continued to expand strongly again in 2007, by a good 3%, though economic growth slowly fell in the second half of the year. After Britain's inflation rate rose to 3.1% in spring, the Bank of England increased the base rate to 5.75% in the period to mid-year. Against the background of the financial market crisis and signs of a weakening economy, however, it started to change its monetary policy as early as December and cut interest rates again by 25 basis points.

ECB puts higher interest rates on hold

In view of the robust economic growth seen in the Eurozone the European Central Bank (ECB) continued to move towards higher interest rates in the first half of 2007. By June the tender rate had been increased in two stages to 4.00%. A further interest rate rise that had been expected to take place in September was abandoned because of the financial crisis. Against the background of an inflation rate that increased to just over 3% towards the end of the year, the ECB has kept up its strong rhetoric but refrained from more increases in interest rates. Changes in capital market yields were again shaped by what was happening in the USA. After the yield on 10-year federal bonds had increased in the period to mid-2007 to just over 4.6%, by the end of the year it had fallen to around 4.3%. At the same time the bond markets were exceptionally volatile. The decline in yields in Euroland was much less pronounced than in the USA, so that at year-end Euroland bonds had a positive yield spread against US treasury bonds for the first time since 2004.

Diverging performance of shares

Stock market performance was also strongly influenced by the sub-prime crisis in 2007. After the first concerns about a crisis in the US mortgage market emerged in February/March, global markets slumped, but were able to make a notable recovery by summer. Due to the financial crisis and looming fears of recession the second half of the year then saw volatile movements with very significant international variation. While the DAX managed a rise of 22.3% over the whole year, there were much smaller increa-

ses in the Eurostoxx 50 (+6.5%) and Dow Jones (+6.4%). The Japanese stock market was particularly weak, with the Nikkei falling over the year by 11.1%.

Euro still flying high

In 2007 the EU currency again continued to strengthen against the US dollar. The exchange rate rose from 1.32 USD/EUR at the beginning of the year to 1.46 at the end of the year. The Euro hence strengthened by nearly 11%. The principal reasons for this were the different directions taken by the central banks with regard to monetary policy. While the Fed showed an increasing tendency to cut interest rates in the course of 2007, the ECB remained inclined to increase rates. The Euro also rose strongly against the British pound, while its gains against the Japanese yen and the Swiss franc were more moderate.

Management report NORD/LB COVERED FINANCE BANK Pioneer Work for Public Customers and Associated Savings Banks

Competitive frequent issuer within the NORD/LB Group

NORD/LB COVERED FINANCE BANK S.A. (NORD/LB CFB) was founded on 9 May 2006 by Norddeutsche Landesbank Luxembourg S.A. within the scope of an investment in kind. As a result the NORD/LB Group is the first and only Landesbank (Federal State Bank) in Luxembourg to own a Banque d'Emission de Lettres de Gage – a special credit institution with the privilege to issue covered bonds.

Ownership

The Bank is a wholly owned subsidiary of Norddeutsche Landesbank Luxembourg S.A. and is included in the Luxembourg subconsolidated accounts and the consolidated accounts of Norddeutsche Landesbank Girozentrale, Hanover.

Norddeutsche Landesbank Girozentrale, Hanover, provided a letter of comfort for NORD/LB COVERED FINANCE BANK S.A. in its Annual Report.

AAA for the Lettre de Gage A for the Bank

After the short financial year 2006 was very much set against the background of establishing the Bank, setting up the organisational and staff infrastructure and building up a credit portfolio that was sufficient to obtain a rating, in its first full financial year 2007 the Bank consistently continued to pursue its development towards becoming one of the frequent issuers in the capital markets.

The primary objective for 2007 was to issue a Lettre de Gage Publique that had obtained a premium rating. The first milestone here was discussions with the rating agency Standard & Poor's, which on 18 April 2007 assigned the best rating of AAA to the planned covered issues. Due to its full integration and strategic relevance for the NORD/LB Group, during the year the Bank also received a rating of A (stable outlook), the same classification as the Group's parent company Norddeutsche Landesbank Girozentrale, Hanover.

NORD/LB CFB first came into the public eye as an issuer in June 2007 with a transaction worth USD 500 million and a 10-year term. After a carefully prepared roadshow, the Banks goals were met with considerable interest, particularly from international central banks and fund managers.

In December 2007 NORD/LB CFB made a first public appearance in Switzerland with a CHF 200 million issue with an 8-year term. With issue sizes of CHF 200 million to CHF 400 million and a broad spectrum of maturities, this market is also excellently suited to a Luxembourg covered bond bank orientated towards organic growth.

The NORD/LB Group thus has a further AAA issuer that has made a successful entrance into the capital markets and that has particular competence in international public finance and in cooperation with companies associated with the public sector and savings banks.

Link to the Group

From an organisational point of view NORD/LB CFB is fully integrated in the Group. The acquisition, market analysis and refinancing of public sector lending is dealt with by the employees of NORD/LB CFB. All the back office, organisational and administrative functions are handled by the parent company, Norddeutsche Landesbank Luxembourg S.A., or the Group's parent company, Norddeutsche Landesbank Girozentrale, Hanover, as part of service level agreements.

Business Development 2007

Public Finance

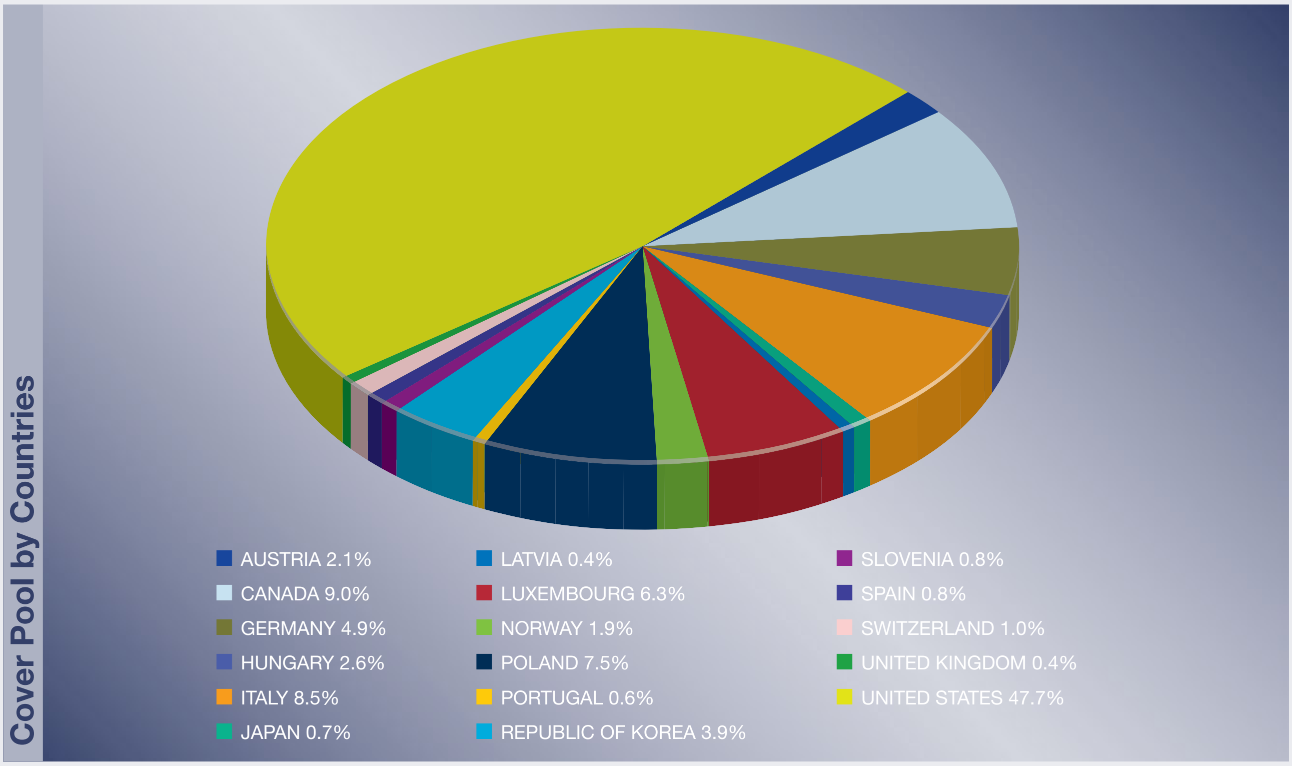
The organic growth of the public finance portfolio to approximately EUR 3 billion that was planned for 2007 was achieved during the financial year. The main focus when acquiring business was on first-class quality (investment grade ratings) and profitability (return on equity).

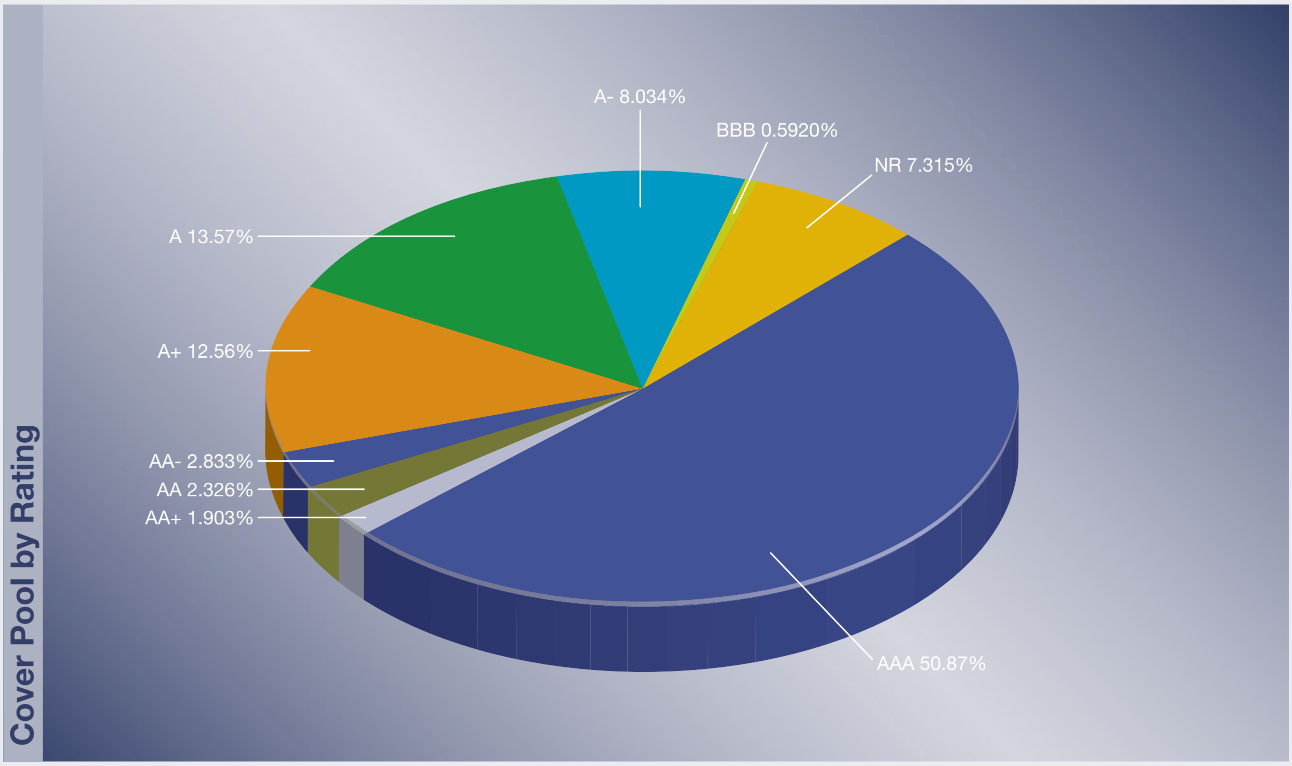
With assets from 17 OECD countries, the Bank's cover pool (Deckungsstock) is one of the most geographically diversified public sector portfolios of its kind.

Furthermore, with credit ratings exclusively from the investment grade spectrum and a high proportion of AAA and AA rated borrowers, it is of outstanding quality.

The US assets that make up part of the Bank's cover pool are, without exception, owed or guaranteed by public entities. In contrast to European public entities, the vast majority of these credits or borrowers have an external rating from the rating agencies Standard & Poor's, Fitch Ratings or Moody's. This means that as far as NORD/LB CFB is concerned, over 80% of credits and borrowers are externally rated, and these consist entirely of investment grade ratings. In addition, US municipal transactions traditionally have an additional guarantee from a monoline insurer. In this respect the eligibility of these credits for cover is not threatened by a downgrade or the discontinuation of the credit insurance, and on the basis of detailed analysis and credit rating assessments, there is no cause to make any fundamental changes to our decision for this credit portfolio.

With an average credit spread of approximately 20 basis points, NORD/LB CFB has a credit portfolio that as well as being profitable was also free from rating downgrades and performance problems throughout the financial year 2007.





The intensive marketing activities undertaken by NORD/LB CFB together with the numerous discussions and presentations to the account managers of cus-tomers associated with the public sector and the savings banks associated with the NORD/LB Group have ensured that business with this group of customers has also developed very pleasingly in the second half of the year. The widening spread differential between covered and unsecured refinancing in the same pe-riod clearly increased the attractiveness of NORD/LB CFB for these customers. The highlight of this development was signing a syndicated loan agreement worth EUR 160 million for a company associated with the public sector, for which NORD/LB CFB was able to act as the lead arranger for the first time in its young history.

Refinancing

Refinancing was undertaken, on the one hand, by the issue of Lettres de Gage in different currencies in the medium and longterm maturity range and, on the other hand, by means of Norddeutsche Landesbank Luxembourg S.A. term deposits. In addition repurchase transactions in securities were undertaken with the ECB and credit institutions.

Derivatives

Derivatives were used solely for hedging purposes within the framework of a micro-hedge strategy. The instruments used were interest rate swaps and interest rate currency swaps without complex structures.

Schedule of Assets and Financial Data

The balance sheet total at the end of the financial year 2007 amounts to EUR 3,089.4 million.

The asset side of the balance sheet is made up of EUR 120.0 million for treasury bills and similar securities, EUR 582.0 million for loans and advances to creditinstitutions, EUR 177.4 million for loans and advances to customers, EUR 2,105.4 million for bonds and other fixed income transferable securities, and EUR 104.6 million for other assets, primarily prepayments and accrued income.

The liability side mainly comprises, apart from the Bank's equity, amounts owed to credit institutions (EUR 1,565.5 million) and debts evidenced by certificates (EUR 1,253.7 million).

Equity

The share capital of the company amounts to EUR 50.0 million and comprises 500,000 registered no-par value shares. In addition there are subordinated liabilities amounting to USD 40 million and reserves amounting to EUR 1.7 million.

At the end of the reporting year the solvency ratio was 14.37%, which means that it by far exceeded the regulatory requirement of 8%. The core capital ratio was 9.58% on 31 December 2007.

Earnings

NORD/LB CFB is showing a profit of EUR 3.3 million for 2007, compared to a loss of EUR 0.3 million for the previous year.

At the end of the year the net interest income added up to EUR 6.8 million. Commission income amounted to EUR -0.2 million in the year under report and mainly comprises portfolio costs for custodian services.

General administrative expenses of EUR 2.9 million are approximately EUR 1.1 million above those of the previous (short) financial year.

Other operating results

The balance of other operating income and expenses amounted to EUR -0.2 million at the end of the year and fundamentally comprises fees relating to internal cost allocations for service level agreements in the Group.

Risk loss provisions

The Bank adequately took into account all of the discernible risks. No lump sum provisions were made.

Outlook for 2008

Further high margin growth

In 2008 the Bank will continue to focus consistently on the development and management of a public finance portfolio that concentrates on aspects of profitability.

However, NORD/LB CFB will pay special attention to business with savings banks and companies associated with the public sector. With a credit portfolio that benefits from wide international diversification, NORD/LB CFB is outstandingly well prepared for this exclusively German business. It is to be expected as a result that, in a portfolio growing as a whole, 2008 will see particularly strong growth in the share of the portfolio with German origins, at the expense of the international share that until now has been large.

Refinancing by NORD/LB CFB will continue to be based primarily on the Lettre de Gage Publique. Future issue activities will also concentrate on the medium and longterm maturity range. However, in response to the increasing level of lending business denominated in euros, NORD/LB CFB may also have the opportunity, alongside the private placements and registered covered bonds that will continue to be offered, to use a public transaction to present itself for the first time to investors in euros.

Dirk Vormberge left the service of the Bank 1 February 2008. Markus Thesen took over as Managing

Director on this date. Christian Veit was appointed to join the Management as Director on 1 February 2008.

There were no occurrences that merited reporting after the balance sheet date.

Risk Report

The Bank has implemented risk management arrangements that correspond to the objectives of its risk strategy. This includes an organisational structure that constantly ensures there is regular teamwork between all the divisions involved in the risk control process. In addition efficient risk procedures with clearly defined duties and responsibilities, supported by appropriate IT infrastructure and qualified staff, guarantee that everything runs smoothly. An effective internal control and monitoring system ensures that there is proper compliance. The objective is to improve the risk management arrangements and adapt them to current requirements on an ongoing basis.

In line with the business model and the applicable business strategy, the Management has set out the risk strategy that covers all the main types of risk. The risk strategy is reviewed at least once a year and adapted where necessary. It is distributed to and discussed with the Board of Directors.

The Bank differentiates between the following types of risk:

- market price risks
  (interest, currency and volatility risks),
- liquidity risks
  (refinancing and market liquidity risks),
- credit risks
  (mainly shown as borrower's default risks and country risks)
- operational risks
  (including legal risks)

A detailed description of the risk management system for various risk categories as well as quantitative information on financial instruments are contained in the Notes.

The Bank's business policy and risk strategy are stipulated by the Board of Directors or the Management. Overall bank management is carried out within the framework of a risk strategy which is aligned towards business requirements and is defined by the Management in conjunction with the Board of Directors.

During the financial year instruments aimed at controlling and monitoring credit spread risks and liquidity risks were implemented or improved.

The market liquidity disruption caused by the subprime crisis confirms the requirement for rigorous liquidity management. All the essential information in this respect is provided by the bank's liquidity control instruments, described in more detail in the Notes, that have also proved themselves in a turbulent market environment. Recent findings arising from the crisis were used to further improve the instruments and refinancing policy.

At no time were there any shortages of cash. The liquidity provision was guaranteed at all times.

Employees

The Board of Directors of the Bank thanks all the employees for their commitment and their contribution to the satisfactory operating result.

It is proposed that the General Meeting approves the annual financial statements and the appropriation of profits for the 2007 financial year.

Luxembourg, 11-02-2008 The Board of Directors

NORD/LB COVERED FINANCE BANK S.A.

Balance sheet as at 31-12-2007

Assets (amounts shown in EUR)	31-12-2007	31-12-2006
Cash, balances with central banks and post office banks	**4,053.07**	**9,077.69**
Treasury bills and other bills eligible for refinancing with the central bank	**119,969,051.81**	**119,360,603.62**
a) Treasury bills and similar securities	119,969,051.81	119,360,603.62
b) Other bills eligible for refinancing with the central bank	0.00	0.00
Loans and advances to credit institutions	**581,980,113.93**	**148,692,446.28**
a) Repayable on demand	138,352,750.31	48,060,739.58
b) Other loans and advances	443,627,363.62	100,631,706.70
Loans and advances to customers	**177,366,354.99**	**58,425,780.04**
Bonds and other fixed-income transferable securities	**2,105,381,467.17**	**618,945,489.36**
a) Issued by public bodies	1,495,702,360.76	324,060,611.50
b) Issued by other borrowers	609,679,106.41	294,884,877.86
Intangible assets	**252,092.55**	**264,053.01**
Tangible assets	**48,798.26**	**58,613.27**
Other assets	**6,750.00**	**0.00**
Prepayments and accrued income	**104,347,746.43**	**15,392,397.85**
Total assets	**3,089,356,428.21**	**961,148,461.12**

NORD/LB COVERED FINANCE BANK S.A.

Balance sheet as at 31-12-2007

Liabilities (amounts shown in EUR)	31-12-2007	31-12-2006
Amounts owed to credit institutions	**1,565,541,098.64**	**895,333,013.49**
a) Repayable on demand	368,343,227.78	184,120,387.24
b) With agreed maturity dates or periods of notice	1,197,197,870.86	711,212,626.25
Amounts owed to customers	**108,202,234.86**	**0.00**
a) Savings deposits	0.00	0.00
b) Other debts	108,202,234.86	0.00
ba) Repayable on demand	23,910.08	0.00
bb) With agreed maturity dates or periods of notice	108,178,324.78	0.00
Debts evidenced by certificates	**1,253,691,285.24**	**0.00**
a) Debt securities in issue	1,253,691,285.24	0.00
b) Other	0.00	0.00
Other liabilities	**946,557.97**	**21,748.12**
Accruals and deferred income	**78,421,573.81**	**13,681,800.32**
Provisions for liabilities and charges	**661,728.02**	**679,665.64**
a) Provisions for pensions and similar obligations	0.00	0.00
b) Provisions for taxation	6,273.58	18,228.64
c) Other provisions	655,454.44	661,437.00
Subordinated liabilities	**27,172,067.12**	**0.00**
Subscribed capital	**50,000,000.00**	**50,000,000.00**
Reserves	**1,719,882.55**	**1,719,882.55**
Profit brought forward	**-287,649.00**	**0.00**
Profit for the financial year	**3,287,649.00**	**-287,649.00**
a) Profit for the financial year	3,287,649.00	-287,649.00
b) Prepaid dividends	0.00	0.00
Total liabilities	**3,089,356,428.21**	**961,148,461.12**

NORD/LB COVERED FINANCE BANK S.A.

Balance sheet as at 31-12-2007

Liabilities (amounts shown in EUR)	31-12-2007	31-12-2006
Credit risks	**366,650,839.00**	**28,267,688.60**
of which: commitments arising out of repurchase agreement	0.00	0.00

NORD/LB COVERED FINANCE BANK S.A.

Profit and Loss account for the fiscal year 2007 (amounts shown in EUR)	2007	2006
Interest receivable and similar income	**211,924,580.03**	**13,574,916.21**
Of which: that are arising from fixed-income securities	99,195,679.76	6,873,279.30
Interest payable and similar charges	**-205,102,346.39**	**-11,978,934.06**
Commission receivable	**121,218.68**	**19,996.23**
Commission payable	**-305,440.61**	**-1,542.04**
Net profit or net loss on financial operations	**623,962.17**	**-2,781.65**
Other operating income	**17,790.56**	**0.00**
General administrative expense	**-2,946,076.85**	**-1,805,103.88**
a) Staff costs	-787,634.66	-374,711.64
Of which: wages and salaries	-709,374.09	-341,313.08
social security costs	-75,462.75	-17,460.42
relating to pensions	-24,721.05	-882.53
b) Other administrative expenses	-2,158,442.19	-1,430,392.24
Value adjustments in respect of tangible and intangible assets	**-78,397.78**	**-25,371.47**
Other operating charges	**-213,182.77**	**-50,219.36**

NORD/LB COVERED FINANCE BANK S.A.

Profit and Loss account (amounts shown in EUR)

	2007	2006
for the fiscal year 2007		
Earnings from value adjustments in respect of securities held as financial fixed assets, participating interests and shares in affiliated undertakings	173,160.63	-18,495.48
Tax on profit on ordinary activities	-927,290.67	0.00
Profit on ordinary activities after tax	3,287,977.00	-287,535.50
Other taxes not shown under the preceding items	-328.00	-113.50
Profit for the financial year	3,287,649.00	-287,649.00

NORD/LB COVERED FINANCE BANK S.A.

Appropriation of profit (amounts shown in EUR)	2007	2006
Profit for the financial year	3,287,649.00	-287,649.00
Profit carried forward	-287,649.00	0.00
TOTAL	3,000,000.00	-287,649.00
Dividend payment	0.00	0.00
Transfer to legal reserves	3,000,000.00	0.00
Transfer to the other reserves	0.00	0.00
Profit carried forward	0.00	-287,649.00

A. General

The Bank was founded on 9 May 2006 as a public limited company under Luxembourg law. The company was incorporated for an unlimited duration. The object of the company is to carry out all business that a covered bond bank is permitted to undertake in accordance with the Law of the Grand Duchy of Luxembourg.

The subscribed capital of the company amounted to EUR 50 million at 31 December 2007. It comprises 500,000 registered no-par value shares and is held in its entirety by Norddeutsche Landesbank Luxembourg S.A., Luxembourg.

The Bank is a member of the NORD/LB Group and is included in its consolidated accounts through the Luxembourg sub-consolidated accounts. The headquarters of the Group is in Hanover. The Group also maintains registered offices in Braunschweig and Magdeburg. The consolidated accounts are available at all of the offices.

An accounting period is equivalent to a calendar year. The Bank reports in euros.

B. Valuation and Accounting Principles

The annual financial statements are prepared in accordance with statutory regulations and in compliance with the generally accepted accounting principles for the banking sector of the Grand Duchy of Luxembourg. On preparing the annual financial statements the following principles were in particular observed

- going concern
- continuity
- accrual accounting of expenses and income
- caution
- individual valuation of assets and liabilities
- balance sheet consistency.

The Bank applies the following accounting principles and methods:

Currency conversion

The Bank applies a multi-currency accounting system. Assets and liabilities in foreign currencies are carried in the currency in which the transaction is originated. Expenses and income are accounted for in the balance sheet currency after daily conversion at the respective exchange rates.

Spot exchange transactions and balance sheet items

Assets and liabilities in foreign currencies are converted into the balance sheet currency at the average rate of exchange of the European Central Bank on the balance sheet date.

Futures transactions

Outstanding futures transactions in foreign currencies are valued at the forward exchange rate for the residual term on the balance sheet date.

Currency gains and losses

Currency gains and losses resulting from spot transactions hedged with forward transactions and forward transactions hedged with spot transactions are offset by means of including them under deferred expenses and accrued income or deferred income and accrued expenses. Differences between the spot rate and the futures rate (swap premiums) are reported pro rata temporis in recognition of profit or loss.

Currency gains and losses resulting from unhedged spot transactions are reported in the income statement.

Valuation losses resulting from unhedged forward transactions are offset against previously accrued valuation gains. A provision is established for any remaining valuation losses.

Currency valuation gains and losses from foreign currency interest cash flow (including interest hedging) are shown in net interest income.

Valuation of other derivative instruments (IRS, FX swaps, futures, FRAs and options)

These are always valued individually at market price on the basis of general commercial valuation rules and in consideration of the realisation and imparity principle. The results of individual transaction valuations are offset per product and currency upon observation of the regulations of the Luxembourg bank supervisory authorities provided that gains are accrued prior to the occurrence of losses to be offset. The imparity principle is taken into account in that an earnings balance remains unappropriated, while a negative balance will result in the creation of a provision.

In deviation of this principle and to the extent permitted, valuation units are created for the purpose of hedging balance sheet items and expenses and income and for ownaccount trading. Transactions in securities and derivatives concluded within the framework of overall bank management are regulated in terms of profit and risk in a combined portfolio covering all products and currencies.

Fixed assets other than financial assets

Fixed assets other than financial assets are valued at cost. The cost of fixed assets with a limited useful life is reduced by depreciation calculated to ensure that the value of assets is depreciated on a scheduled basis over the period of the useful life of the assets. Assets of minor value are fully reported as expenditure in the year of acquisition.

Intangible assets

The Bank depreciates immaterial assets, in particular software programs purchased, at a rate of 25% per annum.

Tangible assets

Tangible assets are always depreciated on a pro rata basis in accordance with their presumed useful life as follows:

20.00% - 33.33%	IT hardware (IT equipment, PCs and printers)
25.00%	Other technical equipment and machines
10.00% - 25.00%	Operating and office equipment and the fleet of vehicles
10.00%	Safes

Financial assets

Financial assets are participating interests, shares in affiliated companies, debt securities and other fixed-interest securities and the debt instruments of public authorities which serve the purpose of permanently supporting the business activities of the Bank and which appear under financial assets by an express decision of the Management.

Valuation of securities

Securities held as financial assets are always reported at cost or at the lower market value. The applicable value is based on market rates or determined using a valuation model. Values are adjusted in order to report them at the lower value to be attributed to the securities at the balance sheet date, even if it is probable that impairment will not be permanent. The Bank utilises the option to maintain the value of securities. Securities linked to interest rate swaps in valuation units – so-called synthetic floating rate notes – are valued at cost, as are floating rate notes.

Premiums and discounts

Premiums and discounts resulting from the acquisition of debt securities and other fixedinterest securities or from the acquisition of debt instruments issued by public authorities are always amortised on a pro rata basis.

Marketable securities

Securities which do not serve the purpose of permanently supporting the business activities of the Bank represent current assets.

Marketable securities (trading portfolio and liquidity portfolio) are valued at cost (measured in accordance with the average cost principle) or at the lower market values. Values are adjusted in order to report them at the lower value to be attributed to the securities at the balance sheet date, even if it is probable that impairment will not be permanent.

Option to maintain the value of securities

The Bank principally waives the option entitlement to write-ups (on the basis of temporary positive price developments) that it could apply for carrying amounts which had been impaired by depreciation in previous accounting periods.

Loans
Account receivables
Outstanding accounts

Loans are reported at cost. It is the policy of the Bank to create value adjustments for doubtful debts, depending on the circumstances. The volume of these value adjustments is specified by the organs responsible. Allowances for loan losses are deducted from the respective asset items. Premiums and discounts are always amortised on a pro rata basis.

Liabilities

Liabilities are shown in the amounts repayable. Premiums are amortised pro rata over the term of liabilities. Discounts are entered as interest payable on a pro rata basis.

Tax group

The Bank and Norddeutsche Landesbank Luxembourg S.A. form a tax group in accordance with Article 164 of the Luxembourg income tax law. Tax consolidation is applicable for corporation tax and business tax purposes. The Bank acts as the consolidated company.

C. Detailed notes

Debt securities and other fixed-interest securities and debt instruments of public authorities

In 2008 securities amounting to EUR 20,721 thousand will mature.

Debt securities and other fixed-interest securities and the debt instruments of public authorities are to be allocated to financial assets to the amount of EUR 2,225.4 million.

Listed and unlisted securities

(amounts shown in kEUR)

	Listed securities Amounts	Unlisted securities Amounts	Total Amounts
Debt instruments of public authorities	119,969	0	119,969
Debt securities and other fixed-interest securities	966,476	1,138,905	2,105,381
Shares and other variable-yield securities	0	0	0
Participating interests	0	0	0
Shares in affiliated companies	0	0	0
Total	1,086,445	1,138,905	2,225,350

Financial assets reported at an amount in excess of fair value without taking up the option of making an allowance for loan losses

(amounts shown in kEUR)

	Carrying amount	Market value	Difference
Debt securities and other fixed-interest securities	1,902,641	1,878,056	-24,585

The carrying amount was not reduced since all of the securities in question are hedged with a micro hedge (assets swaps), i.e. the lower market values of the securities are compensated for by positive valuation results from the asset swaps, or the securities are used for equity investment or are subject to variable interest rates. It is assumed that there is no permanent impairment with regard to these securities.

FIXED ASSETS

Statement of fixed assets 2007

(amounts shown in kEUR)

Development of fixed assets vermögens	Gross value 01-01-2007	Additions	Disposals	Foreign exchange adjustment +/-	Gross value 31-12-2007	Value adjustments/ accumulated depreciation 31-12-2007	Additions for the financial year	Net value 31-12-2007
Debt instruments of public authorities	119,361	25,289	24,681	0	119,969	0	0	119,969
Debt securities and other fixed-interest securities	618,971	1,557,294	41,942	-28,932	2,105,391	10	0	2,105.381
Participating interests	0	0	0	0	0	0	0	0
Shares in affiliated companies	0	0	0	0	0	0	0	0
Intangible assets	285	51	0	0	336	84	0	252
Land and buildings	0	0	0	0	0	0	0	0
Operating and office equipment	63	5	0	0	68	19	0	49
Total	738,680	1,582,639	66,623	-28,932	2,225,764	113	0	2,225,651

Other assets

Other assets mainly comprise the following:

Loans and liabilities relating to affiliated companies in which an equity investment exists, and subordinated assets

(amounts shown in kEUR)

	Affiliated companies	Companies in which an equity investment exists	Subordinated receivables from affiliated companies
	Amounts	Amounts	Amounts
Loans			
Loans to banks	193,457	0	0
Loans to customers	0	0	0
Debt securities and other fixed-income securities	0	0	0
Liabilities			
Liabilities to banks	900,189	0	0
Liabilities to customers	0	0	0
Subordinated liabilities	27,172	0	0

Assets and liabilities in foreign currencies

The current value of assets and liabilities in foreign currencies is kEUR 1,634,726 and kEUR 1,773,956 respectively.

Repurchase transactions

On the balance sheet date repurchase transactions in securities had been accounted for at respective costs of kEUR 300,707 (repurchase seller).

Accumulated deferred premiums

Accumulated deferred premiums from debt securities and other fixed-interest securities and the debt instruments of public authorities reported in financial assets amount to kEUR 479 at the balance sheet date.

- Preferential liabilities kEUR 19
- Liabilities from the tax group kEUR 928

Subscribed capital

The fully paid-in share capital amounts to EUR 50 million and comprises 500,000 registered no-par value shares.

Profits for the financial year

Earnings for the accounting period amount to kEUR 3,288 and, after offsetting the loss brought forward from the previous year (kEUR -288), will be allocated in full to the legal reserves.

Legal reserve

In accordance with Article 72 of the law dated 10 August 1915, 5% of the annual profit is to be allocated to the legal reserve, until the reserve is equivalent to 10% of the subscribed capital. The legal reserve may not be paid out.

Subordinated loans

The Bank reports subordinated borrowed funds amounting to EUR 27.2 million at the balance sheet date. These loans resulted in expenses to the amount of EUR 0.02 million in the accounting period.

The following is an overview of the subordinated loans of the Bank:

Type of loan	Amount	Term in years	Interest rates in %	Due date
Other loans	USD 40.0 Mio.	15	6.40*	27-12-2022

* On a roll-over basis at EURIBOR or LIBOR rates (interest rates applicable at the balance sheet date)

Deposit guarantee and investor compensation scheme

The Bank is a member of the Association pour la Garantie des Dépôts in Luxembourg (deposit guarantee association, abbreviated AGDL). The corporate object of the AGDL was originally to establish a system to mutually secure customers' deposits of the AGDL member institutes.

As the Bank does not accept deposits from natural persons or small corporations, there is no obligation in the event of loss caused by the failure of another bank. Therefore, no provision has been made for this.

Assets pledged as collateral

The Bank has pledged assets to the nominal amount of EUR 500 million as collateral at the Banque Centrale du Luxembourg.

Contingent liabilities

There are no contingent liabilities reported at the balance sheet date.

Credit risks

The following credit risks are reported: (amounts shown in kEUR)

Type	31-12-2007 Amount
- Forward purchases of assets	0
- Forward sales of assets	339,651
- Loan commitments	27,000

Outstanding forward transactions and derivative financial instruments

Type (Nominal volume in EUR m) as at 31-12-2007	Hedging	Trading	Total
Exchange rate related transactions			
- Forward exchange contracts (swaps, outright)	50	0	50
- Interest rate currency swaps	723	0	723
- Options	0	0	0
- Other exchange rate related transactions	0	0	0
Interest rate related transactions			
- Interest rate swaps	2,510	0	2,510
- Future or forward rate agreements	0	0	0
- Interest rate futures	0	0	0
- Options	0	0	0
- Other interest rate related transactions	0	0	0
Total	3,283	0	3,283

Appendix D shows primary and derivative financial instruments classified according to residual terms. There are no significant concentrations of risk associated with primary financial instruments or for derivatives.

Management and representation services

The Bank provides no management and representation services for third parties.

Other operating income

	kEUR
Non-periodic income (income not relating to the period)	20

Other operating expenses

	kEUR
Handling fees (accounting for group – internal cost allocations)	192
Other expenses	21
Total	213

Auditors' fees (net/excl. VAT)

	amounts shown in kEUR
Annual statutory audit	95
Other audit services	50
Total	145

Classification of income according to geographical markets

The Bank generates its earnings solely on markets in OECD countries (primarily Europe and North America).

Average number of employees

The following shows the average number of Bank employees in the accounting period:

Group	Number
Management	1.0
Senior staff	3.0
Employees	1.0
Total	5.0

D. Further details concerning maturities/credit risks of financial instruments

(all amounts in kEUR)

Primary non-trading instruments non-trading instruments (current assets)

The values of the primary and derivative financial instruments in the financial asset portfolio have been calculated on the bases of the nominal amount less value adjustments. For derivative financial instruments in the trading portfolio we have shown the current replacement costs in addition to the nominal amounts. These replacements costs have been calculated on the basis of market prices. They show the potential additional expenses or decreased income which would occur in the event of the default of the counterparty, because of the necessary replacement transactions (see tables, item D).

Classes of instruments (financial assets)	Payable on demand demand	<=3 months	>3 months <=1 year	>1 year<=5 years	>5 years	Total	Total previous year
Cash, balances with central banks	4	0	0	0	0	**4**	9
treasury bills	0	0	0	24,680	95,289	**119,969**	119,361
Loans and advances to credit institutions	138,353	0	0	185,455	258,172	**581,980**	148,692
Loans and advances to customers	3	0	0	17,000	160,363	**177,366**	58,426
Debtsecurities and other fixed-income securities	0	0	20,721	245,483	1,839,177	**2,105,381**	618,945
Shares and other variable-yield securitiess	0	0	0	0	0	**0**	0
Other Assets	0	0	0	0	0	**104,656**	15,715
Total	**138,360**	**0**	**20,721**	**472,618**	**2,353,001**	**3,089,356**	**961,148**
Classes of instruments (financial liabilities)							
Amounts owed to credit institutions	368,343	876,891	320,307	0	0	**1,565,541**	895,333
Amounts owed to customers	24	0	0	0	108,178	**108,202**	0
Debts evidenced by certificates	0	0	0	155,908	1,097,783	**1,253,691**	0
Other liabilities	0	0	0	0	0	**161,922**	65,815
Total	**368,367**	**876,891**	**320,307**	**155,908**	**1,205,961**	**3,089,356**	**961,148**
Common off balance liabilities							
Contingent liabilities out of guarantees and assets pledged as collateral security	0	0	0	0	0	0	0
Commitments arising out of forward sale of assets	0	339,651	0	0	0	**339,651**	24,874
Firm loan commitment	0	8,250	0	0	18,750	**27,000**	3,393
Total	**0**	**347,901**	**0**	**0**	**18,750**	**366,651**	**28,267**

The calculation for measuring the credit riskarising from financial items (solvency) breaks down as follows

Weighting	Amount
0%	796,232
10%	251,783
20%	1,899,793
100%	141,368
	3,089,176

Derivative instruments non-trading instruments (all amounts in kEUR)

OTC transactions	<= 3 months		> 3 months <= 1 year		> 1 year <= 5 years		> 5 years		Total	Total previous year
Classes of instruments (financial assets)	Nominal amount	Current replacement costs	Nominal amount	Current replacement costs	Nominal amount	Current replacement costs	Nominal amount	Current replacement costs	Nominalvolumen	
Operations linked to interest rates										
Interest Rate Swaps	0	0	30,416	204	60,123	824	935,429	69,779	**1,025,968**	**293,840**
Operations linked to currency exchanges rate										
Forward currency transactions	49,810	1,351	0	0	0	0	0	0	**49,810**	**0**
Interest Rate Currency Swaps	0	0	0	0	105,908	2,914	254,994	12,557	**360,902**	**49,000**
Subtotal	**49,810**	**1,351**	**30,416**	**204**	**166,031**	**3,738**	**1,190,423**	**82,336**	**1,436,680**	**342,840**
Classes of instruments (financial liabilities)	**<= 3 months**		**> 3 months <= 1 year**		**> 1 year <= 5 years**		**> 5 years**		**Total**	**Total previous year**
Operations linked to interest rates										
Interest Rate Swaps	57,000	85	303	1	96,594	3,606	1,330,072	151,411	**1,483,969**	**243,325**
Operations linked to currency exchanges rate										
Forward currency transactions	0	0	0	0	0	0	0	0	0	**0**
Interest Rate Currency Swaps	0	0	0	0	91,995	9,531	270,068	21,286	**362,063**	**40,000**
Subtotal	**57,000**	**85**	**303**	**1**	**188,589**	**13,137**	**1,600,140**	**172,697**	**1,846,032**	**283,325**
Total:	**106,810**	**1,436**	**30,719**	**205**	**354,620**	**16,875**	**2,790,563**	**255,033**	**3,282,712**	**628,165**

Current replacement costs of financial assets (liabilities) are calculated using marketprices. These represent the potential additional expenditure (income) or lower income (expenditure) that would arise in the event of the counterparty, as a result of the necessary replacement transactions.

Credit Risk on OTC-derivative instruments (use of market risk method) (all amounts in kEUR)

Solvabilität der Kontrahenten (bases on external valuations)	Nominal amount*	Nominal amount previous year	Current replacement costs**	Potential future replacement costs**	Overall replacement costs provisions	Collateral	Netrisk exposure	Netrisk exposure after counterparty weighting
OECD credit institutions	**3,282.711**	**626,166**	**16,399**	**62,265**	**78,664**	**0**	**78,664**	**15.873**
of which credit institutions from GB	1,403,588		154	18,961				
of which credit institutions from DE	1,132,075		11,131	17,144				
of which credit institutions from LU	200,753		4,783	12,106				
of which credit institutions from CA	181,200		0	2,634				
of which credit institutions from CH	138,998		0	641				
of which credit institutions from NO	125,660		0	9,424				
of which credit institutions from US	100,437		331	1,355				

* before netting ** after netting

E. Supplements to the Risk Report
Market price risks

Definition and method

Each open position in products, whose value depends on current market parameters (interest rates, exchange rates, volatility or similar) entails the risk that changes in these market parameters could lead to an impairment of the position. The potential losses from changes in the market parameters are hereafter called market price risk.

Depending on the varying market parameters, the Bank currently differentiates between three kinds of market price risk: interest rate risk, currency risk and volatility risk. The interest rate risk consists of the components general interest rate risk and specific interest rate risk (credit spread risk).

Interest rate risk

A general interest rate risk always exists when the value of a position or portfolio is influenced by changes in one or more interest rates or by changes in complete interest rate curves and changes in interest rates or interest rate curves could lead to an impairment of the position.

For the general interest rate risk, the relevant valuation interest rates are determined in each case by the currency and the term of the instrument as well as by the market segment to which the instrument relates. The principal trading currencies of NORD/LB Luxembourg are the euro, the US dollar, the yen, the British pound and the Swiss franc.

The objective is to undertake maturity transformations and to participate in general market trends within the framework of the risk limits.

Credit spread risk

Specific interest rate risks or credit spread risks refer to changes in value that arise when there is a change in the relevant additional interest for the issuer (for securities) or reference borrower (for credit derivatives) concerned that is added to the "risk-free" interest rate within the framework of the market valuation of the position.

The Bank aims to receive the credit spread until the final maturity of the commitment or to participate in an improvement in the credit rating of the issuer or reference entity. This means striving to achieve maturity matching refinancing of investments as well as a healthy diversification of the portfolios.

Currency risk

There are always currency risks when the value of a position or portfolio is influenced by changes in exchange rates and the change in exchange rates can lead to an impairment of the position. Therefore, as well as the classical currency transactions and their derivatives, foreign currency loans and securities not listed in euros are exposed above all to currency risks.

In general, the Bank distinguishes between three categories of trading currencies: principal trading currencies, opportunistic currencies and hedging currencies. Positions are constantly entered in principal trading currencies, while they are only periodically held in opportunistic currencies. No active positions are taken in hedging currencies. Transactions undertaken with customers are settled immediately.

Volatility risk

For options the price is established by the volatility of the valuation and the price of the underlying asset. These valuation volatilities are subject to own market fluctuations. Volatility risks always exist when the value of the option position or a portfolio is influenced by changes in these valuation volatilities.

Market price risks are quantified and monitored independently of trade in the Controlling organisational unit (OU) of Norddeutsche Landesbank Luxembourg S.A. The management of the Bank is informed in detail here on a daily basis.

A value-at-risk (VaR) procedure is implemented to calculate risk for the internal control and monitoring

of market price risks. Market price risks are in this case measured in accordance with Group-wide standards with the help of the historical simulation method. Calculations are based on the following parameters:

- A confidence level of 95%
- A holding period of one trading day
- An historical observation period of one year

The model implicitly takes into account correlation effects between risk factors, types of risk, currencies and sub-portfolios. For risks that are not yet included in the VaR approach, appropriate add-on values are specified by the Risk Controlling division.

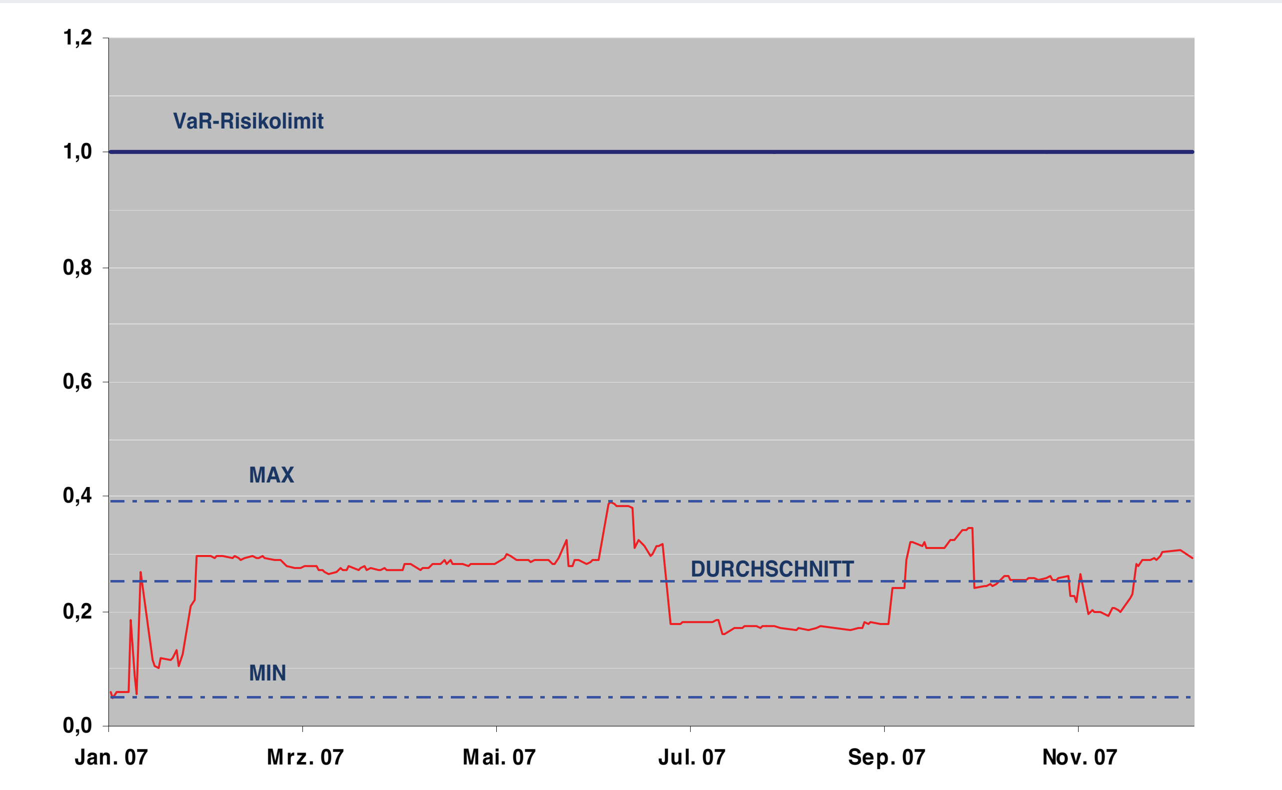
Trade transactions conducted by the organisational unit responsible for these transactions are monitored by means of an allocated loss limit. The limit was stipulated by the Board of Directors of the Bank. On the one hand the limit has been calculated to ensure that there is sufficient scope for trading on national and international markets in order to secure and reinforce market positions. On the other hand the defined limit ensures that the ratio between the risk of losses relating to trade transactions and the equity resources and earnings of the Bank is appropriate.

Development in 2007

The market price risk limit may not be exceeded without the agreement of the management and the Board of Directors of the Bank. In the accounting year 2007 this limit was not exceeded. At the balance sheet date 31 December 2007 the utilisation of the VaR was calculated at 29.2% (previous year 6.5%).

Development of VaR in EUR millions (95 percent, 1 day)

In order to ensure that the VaR calculated adequately reflects possible changes in the value of the risk items, the Bank implemented regular back testing for the first time in the 2007 accounting year. The back testing method is applied on the basis of a "clean Profit & Loss Statement" (without any distortion due to changes in portfolios having occurred in the meantime).



Liquidity risk

Definition and method

Malfunctions in the liquidity of individual market segments (e. g. in crises) and unexpected occurrences in the lending and investment lines of business (withdrawal of investments, delayed receipt of payments, etc.) or a worsening of the Bank's own refinancing basis (e. g. as a result of downgrading), may have a negative effect on the earnings of the Bank. The Bank includes all of these potential losses or risks under liquidity risks.

Refinancing risk

Refinancing risks are the potential trading losses that NORD/LB Luxembourg may experience as a result of the worsening of the Bank's own refinancing conditions. This affects positions in the money market and the capital market. The aim is not to avoid the refinancing risk but to undertake a structured liquidity maturity transformation.

Two different methods are applied for the internal measurement and control of refinancing risks:

- Limiting liquidity cash flows by **volume-based structural limits** in the individual maturity bands. The limit structure and level also stem from the need to be able to implement definite arrangements to control the risk of changes in interest rates and take temporary measures in day-to-day business. In addition there is also the opportunity here to generate income as a result of active liquidity management.
- In addition to a volume-based consideration, the refinancing risk is also analysed on a **cash-equivalent basis**, i.e. the costs which would need to be paid for measures to elimi-nate current liquidity risks are determined on the inclusion of a risk premium. Risk parameters relating to maturity specified by the Risk Controlling division of NORD/LB GZ are applied when calculating the risk premium.

The liquidity risk is monitored and measured (volume-based and cash equivalent approach) on a weekly basis by the Controlling OU of Norddeutsche Landesbank Luxembourg S.A. and is reported to the management. The liquidity situation is discussed in the Liquidity and Disposition Committee of the Bank on a monthly basis.

The control system is continually developed in close cooperation with NORD/LB GZ. The ALM Treasury OU is responsible for liquidity control in the Bank.

When measuring internal liquidity risk, the cash equivalent refinancing costs at the end of 2007 are calculated at EUR 0.1 million, compared to the unchanged risk premiums for the previous year (previous year EUR 1.2 million). The liquidity ratio for external reporting is determined in accordance with Luxembourg banking supervisory requirements (minimum ratio of 30%). The liquidity ratio was maintained for the entire accounting period and at the end of 2007 it amounted to 61.32% (minimum coefficient 30%).

Classical liquidity risk

Classical liquidity risk is the danger that the Bank will no longer be able to meet its short-term payment obligations because of market problems due to external causes or unexpected occurrences in the lending and investment lines of business. The objective is essentially to avoid classical liquidity risk by maintaining sufficient liquid assets. This means favouring investment grade securities that can be cashed in immediately in the event of a crisis.

In order to be able to assess the liquidity situation of the Bank in extreme market situations, three static and one dynamic liquidity stress test scenarios (LST scenarios) have been estab-lished at Group level as part of the Liquidity Contingency Funding Plan. These scenarios take into account internal Bank problems and problems that are market-related.

The static **LST scenarios** represent standard scenarios in which the following scenarios are simulated:

- Market-wide Liquidity Disruption:
  A significant shortage of cash on financial markets in the main trading currencies; central banks are in operation and help on the market.
- NORD/LB Credit Event:
  Downgrading the credit rating of NORD/LB with significant effects on liquidity.
- Market-wide Liquidity Crisis:
  International financial crisis triggered by individual banks, bank groups, branches or materially significant asset classes that cause a liquidity crisis in the financial market.

The **dynamic LST scenario** reflects the crisis situation that is most likely in the current environment. The dynamic scenario can be equivalent to a static scenario but in most cases will represent a combination of different static scenarios.

In each of these scenarios the possible changes in lending, deposit and off-balance transactions (in particular credit approvals) are analysed in respect of the liquidity situation of the Bank. The dynamic scenario is reported on a daily basis. The static scenarios are calculated and reported on a monthly basis.

NORD/LB COVERED FINANCE BANK S.A. is one of the credit and financial institutions for which NORD/LB GZ provided a letter of comfort in its Annual Report.

Credit risks/Borrower’s de-fault risks

A borrower’s default risk is the risk of a loss that arises when a business partner does not fulfil its obligations, either in full or in part, due to default or impairment because of deterioration in credit rating. The definition comprises conventional credit business together with issuer risks arising out of securities transactions and counterparty risks from commercial transactions. Cross-border capital services also entail a national risk as well as the credit risk related to the borrower.

In order to regulate borrowers’ default risks, the Norddeutsche Landesbank Luxembourg S.A. Controlling division has included the Bank in its credit risk reporting to ensure that the risks remain within acceptable limits. The objective is to identify and highlight risks in good time so that the appropriate countermeasures can be taken at an early stage. Since June 2007 the Bank's credit risk reporting has been taking place on a monthly basis.

On assessing risks, a portfolio is examined in accordance with various aspects such as an assessment of the borrower in terms of credit rating, loan periods and branch and national risks. The results are recorded in the credit risk report of the Bank. In addition a watch list of critical exposures is drawn up and, together with the credit risk report these critical exposures are then dealt with in the quarterly meeting of the credit risk committee.

The assessment carried out with regard to credit rating is based on the expertise of the ALM Credit Analysis OU and the back office vote of the credit risk management division of NORD/LB GZ. In the overall assessment of exposures, reference is made to the external ratings assigned by the rating agencies.

Within the framework of the credit monitoring process, the individual credit exposures undergo regular monitoring, depending on their volume, creditworthiness and available collateral.

Borrower's default risk in the case of asset/liability management activities

The Bank deals with other credit risks relating to asset/liability management with a comprehensive system of limits and controls. For this purpose the Bank has issued limits and has stipulated working guidelines for the Asset/Liability Management division. These limits determine the type and the scope of activities with respective products and with different borrowers. Transactions may at all times only be conducted within the approved limits. The term for money market and currency transactions is also limited. All of the borrower's default risks relating to counterparties and to issuers of the Bank are incorporated in the NORD/LB GZ limit process.

When collateral agreements are concluded, the securing of risk potentials (positive net replacement va-

lues, approval from the bank supervisory authority CSSF for regulatory netting is in place) are agreed on in addition to basic agreements within the framework of collateral management.

The development of new ideas for overall bank management and changes in banking supervision mean that improving the methods and procedures in lending business has become a dynamic process. The systems currently in use at the Bank are constantly being tested and are subject to consistent adjustment in order to adequately account for risks.

The Bank has taken into consideration all of the known risks by establishing provisions for loan losses if necessary. There are no significant concentrations of risk.

Operational and other risks

Operational and other risks

The Bank understands operational risks to constitute the risk of losses incurred as a result of the inadequacy of internal procedures, employees and technology or their failure or of losses which occur as a result of external influences. The definition includes legal risks and – as consequent and secondary risks – reputation risks.

Operational risks are inherent in all business activities. As a rule these risks are not paid for by the market. If necessary they are reflected in the unit cost when prices are set. The objective is therefore to avoid operational risks. This means that the fundamental idea in the business calculation is to protect oneself from operational risks as far as possible without the cost of the protection exceeding the cost of risks that may occur.

Information on losses incurred as a result of operational risks has been collected since mid-2005. The losses are categorised on the basis of their causes and effects and entered into the IT application "Operational Risk Center" (ORC). Since 2006 the losses incurred have been included in anonymous form in the data consortium "DakOR" initiated by the Association of German Public Centre Banks (VÖB), through which a wider data basis is created and a requirement for the introduction of an advanced measurement approach (AMA) is met. The losses provided by the consortium are used to finalise the internal VaR model for operational risks that is currently under development and to carry out scenario analysis.

Using the self-assessment method that is undertaken on an annual basis, future elements can be added to information on past losses. Expert assessments are used to provide detailed insights into the risk situation in specialist areas and to derive the measures to be taken where necessary. Results from the loss databank and self-assessment are analysed on a regular basis.

An explicit calculation and allocation of equity for operational risks is being carried out as a result of the implementation of Basel II. The standard approach is being used initially with regard to the equity provision for operational risk. With the methods and procedures that have been introduced to control operational risk, the Bank is already complying with the relevant requirements of Basel II. In the medium-term the Bank is working towards using an AMA, because of the associated positive effects, and is putting the required conditions in place for this.

On the basis of the data that are already available, an operational value-at-risk (OpVaR) was already calculated by 30-09-2007. OpVaR gives a risk measurement that shows which value of unexpected loss from operational risks is not exceeded within a given timescale (holding period) with a given probability.

Earnings risks represent unexpected fluctuations in results which may occur when expenses cannot be reduced to the same extent as declines in earnings. The Bank meets the earnings risk with a comprehensive system of financial indicators and with instruments for cost analysis, with the segmental report and with the annual earnings and expenses projections covering several accounting periods. The Controlling OU draws up segment reports and regular planned/actual comparisons etc for the purpose of budget control in order to regulate short-term earnings risks.

A special Bank committee also deals with the issue of controlling and regulating operational risks, also in the context of overall Bank management. This committee for operational and other risks meets twice a year.

Insofar as concrete indications are present, any risks arising will be included in the annual financial statements

Independent author's report

To the Board of Directors of NORD/LB COVERED FINANCE BANK S.A.

Report on the annual accounts

Following our appointment by the Board of Directors we have audited the accompanying annual accounts of NORD/LB COVERED FINANCE BANK S.A., Luxemburg which comprise the balance sheet as at December 31, 2007, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the Auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Auditor considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these annual accounts give a true and fair view of the financial position of NORD/LB COVERED FINANCE BANK S.A., Luxemburg as of December 31, 2007, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

Luxemburg, February 11, 2008

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