Norddeutsche Landesbank Luxembourg S.A.


# Annual Report per 31.12.2012

NORD/LB
Luxembourg

# Summary of Key Data

| Performance | 31.12.2012 (EUR Million) | 31.12.2011 (EUR Million) | Increase/Decrease (EUR Million) | (%) |
|---|---|---|---|---|
| Loans and Advances to Banks | 4,063.9 | 4,324.6 | −260.6 | −6 |
| Loans and Advances to Customers | 4,314.3 | 3,853.8 | 460.5 | 12 |
| Risk Provisions | −32.8 | −26.2 | −6.6 | 25 |
| Financial Assets | 6,339.4 | 6,313.0 | 26.5 | 0 |
| Other Assets | 739.2 | 927.0 | −187.8 | −20 |
| **Balance Sheet Total – Assets** | **15,424.0** | **15,392.1** | **31.9** | **0** |
| Liabilities to Banks | 10,993.9 | 9,443.1 | 1,550.8 | 16 |
| Liabilities to Customers | 1,554.5 | 2,379.7 | −825.1 | −35 |
| Securitised Liabilities | 1,249.7 | 2,209.0 | −959.4 | −43 |
| Other Liabilities | 951.5 | 748.2 | 203.2 | 27 |
| Reported Equity | 674.5 | 612.1 | 62.4 | 10 |
| **Balance Sheet Total – Liabilities** | **15,424.0** | **15,392.1** | **31.9** | **0** |

| Profit/Loss Performance | 2012 (KEUR) | 2011 (KEUR) | Increase/Decrease (KEUR) | (%) |
|---|---|---|---|---|
| Net Interest Income | 108,830 | 107,202 | 1,629 | 2 |
| Net Commission Income | −1,562 | −13,375 | 11,813 | −88 |
| Profit/Loss from Financial Assets | −1,488 | −14,368 | 12,880 | −90 |
| Other Profit/Loss | −2,865 | 4,133 | −6,998 | > 100 |
| **Earnings before Costs** | **102,915** | **83,591** | **19,324** | **23** |
| Administrative Expenses | −44,061 | −34,588 | −9,474 | 27 |
| Profit/Loss from Changes in Valuation and Risk Provision | −15,538 | 11,485 | −27,023 | > 100 |
| Taxes | −8,936 | −14,537 | 5,601 | −39 |
| **Earnings after Taxes** | **34,380** | **45,952** | **−11,572** | **−25** |

| Key Economic Data | 2012 | 2011 | Increase/Decrease | |
|---|---|---|---|---|
| Cost-Income-Ratio in % *) | 42.8 % | 41.4 % | 1.4 % | 3 % |
| RoRaC in % **) | 20.6 % | 27.5 % | −6.9 % | −25 % |

*) The Cost-Income-Ratio (CIR) is equal to the quotients from administrative expenses and the earnings before costs
**) The RoRaC is equal to the quotients from the earnings before taxes and the maximum value from limit for tied-up capital or tied-up capital

| Regulatory Figures | 31.12.2012 (EUR Million) | 31.12.2011 (EUR Million) | Increase/Decrease (EUR Million) | (%) |
|---|---|---|---|---|
| Risk-weighted Asset Values | 3,743.5 | 3,604.6 | 138.9 | 4 |
| Core Capital | 653.0 | 653.3 | −0.2 | 0 |
| Equity Capital | 719.7 | 740.6 | −20.9 | −3 |
| Core Capital Ratio | 17.4 % | 18.1 % | −0.7 % | −4 |
| Overall Coefficient | 19.2 % | 20.6 % | −1.3 % | −6 |

| Changes in Employee Numbers | 2012 | 2011 | Increase/Decrease | (%) |
|---|---|---|---|---|
| Number of Employees | 185 | 170 | 15 | 9 |


330
320
340 350
N
10
20

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# Annual Report per 31.12.2012

Norddeutsche Landesbank Luxembourg S.A.
7, rue Lou Hemmer
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R.C.S. Luxembourg B 10405

This Annual Report is a translation of the original German version. In all matters of interpretation the original German version shall prevail.

Annual Report 2012


NORD/LB Luxembourg

# Members of the Supervisory Board

**Dr. Gunter Dunkel**
Chairman of the Board of Directors
NORD/LB Norddeutsche Landesbank Girozentrale
(Chairman)

**Christoph Schulz**
Member of the Board of Directors
NORD/LB Norddeutsche Landesbank Girozentrale
(Deputy Chairman)

**Ulrike Brouzi**
Member of the Board of Directors
NORD/LB Norddeutsche Landesbank Girozentrale

**Dr. Johannes-Jörg Riegler**
Deputy Chairman of the Board of Directors
NORD/LB Norddeutsche Landesbank Girozentrale

**Walter Kleine**
Chairman of the Board of Directors
Sparkasse Hannover

# Board of Directors

**Chairman of the Board of Directors/**
**Chief Executive Officer**
Harry Rosenbaum

**Deputy Chairman of the Board of Directors/**
**Chief Financial-/Risk-/Operations Officer**
Christian Veit

**Member of the Board of Directors**
Thorsten Schmidt

# Organisation
# (Effective 28 February 2013)

**Financial Markets**
Thomas Keith

**Business Development**
Olaf-Alexander Priess

**Credit Management**
Maik Mittelberg

**Private Banking**
Markus Linnert

**Finance**
Peter Heumüller

**Credit Risk Management**
Jörg Janisch

**ORG/IT**
Frank Seeberger
Romain Wantz

**Operation Services**
Rita Kranz

**Administration**
David Gunson

**Human Resources**
Christian Ehrismann

**Internal Audit**
Frank Steingrube

**Legal/Compliance**
Dr. Ursula Hohenadel

**Security**
Jürgen Werner

**Chairman of the Board of Directors/ Chief Executive Officer**
Harry Rosenbaum

**Deputy Chairman of the Board of Directors/ Chief Financial-/Risk-/Operations Officer**
Christian Veit

**Member of the Board of Directors**
Thorsten Schmidt

# Annual Report 2012

NORD/LB Luxembourg

# Norddeutsche Landesbank Luxembourg S.A.

Norddeutsche Landesbank Luxembourg S.A. (hereinafter referred to as “NORD/LB Luxembourg” or in short “the bank”), Luxembourg, is a full subsidiary of Norddeutsche Landesbank Girozentrale with principal offices in Hanover, Braunschweig and Magdeburg (hereinafter referred to in short as “NORD/LB”). The bank is included in the consolidated financial statements of NORD/LB. The parent company has issued a letter of comfort for NORD/LB Luxembourg.

The consolidated financial statements of NORD/LB can be viewed on the Internet at www.nordlb.de.

NORD/LB Luxembourg itself is the parent company of a group that includes NORD/LB Covered Finance Bank S.A. (hereinafter referred to in short as NORD/LB CFB), Luxembourg and Skandifinanz AG, Zurich. NORD/LB Luxembourg holds 100 % of the shares of both subsidiaries. NORD/LB Luxembourg has issued a letter of comfort for NORD/LB Covered Finance Bank S.A. (see Note 62).

NORD/LB Luxembourg’s business sectors are Financial Markets, Loans Management and Private Banking.

The corporate purpose of NORD/LB Covered Finance Bank S.A. is to conduct all of the transactions that are permissible for a covered finance bank according to the laws of the Grand Duchy of Luxembourg. It is fully controlled by NORD/LB Luxembourg in terms of organisation and personnel (see also “Development of the Business Sectors”).

The business activities of Skandifinanz AG were already fully restored or transferred to the parent company in 2011.

This report relates to the non-consolidated annual financial statements of NORD/LB Luxembourg in compliance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as implemented by the EU.

# International
# Economic Development

## Global Economic Setting

The global economy became increasingly worse in 2012. The effects of this slowdown were evident in almost every major economy. At the same time, world trade also lost momentum. Meanwhile, the renewed deepening of the debt crisis in the Eurozone between April and July further increased the burden on the world economy. Against this background, business and consumer confidence fell, especially in the euro area. The effects of the consolidation measures and structural reforms have triggered a serious adjustment recession in Southern Europe. The common currency area therefore also slid into a downturn, which lasted until the end of the year.

In the USA, the economy proved relatively stable, despite the fact that, just as in Europe, it also experienced occasional falls in the most important confidence indicators. Although unemployment is still proving to be really persistent and the unemployment rate is only falling at a very low speed, there are clear trends for improvement on the US American real estate market. These include an upturn in private residential building, which has been supporting growth again for several quarters, for example. Moreover, the indicators for the development of the property market suggest that this recovery phase is likely to continue, as are the numbers of planning approvals and building projects commenced. On the whole, however, at 2 %, the economic recovery in 2012 remained significantly behind the momentum of earlier expansion phases.

The global economic slowdown also did not spare the emerging markets last year. At the beginning of 2012, growth started to slow down in China. Despite the improvements seen during the rest of the year, the growth rate for 2012 was far below the 10 % mark. The growth dynamics in the Southeast Asian tiger states, which are heavily influenced by the Chinese economy, also slowed down. This caused a corresponding reduction in global economic growth, which, against this background, is likely to be just above 3 % in 2012.

### Economic Development in Germany

While the economy in Germany performed significantly better than in the rest of the Eurozone last year, it also suffered a gradual decline over the course of the year. Real gross domestic product (GDP) only increased by 0.7 % in 2012 over the previous year. In 2011 economic growth was still at a healthy 3 %. Following a really robust start to the year, growth weakened continuously over the course of 2012 in Germany. The provisional figures provided by the German Federal Statistical Office indicate that the German economy shrank again by about 0.3 % in the fourth quarter compared to the previous quarter for the first time in a year. This is in line with the picture painted by the hard economic indicators available by the reporting month of November. Industrial production in particular was significantly below the third-quarter average during the months of October and November.

It is thanks to the enduring strength of exports and solid trend in consumption that growth did not turn out to be even weaker in 2012. Whilst at 0.8 % real private consumption only increased half as much as in the previous year, a stronger rise was hardly to be expected against the background of the negative impacts of the debt crisis and slightly increased inflation at 2.1 % yearly average. The still relatively stable situation on the employment market also contributed to the positive economic development. Whilst unemployment has been rising slowly again for a few months, the unemployment rate had only climbed slightly to 6.9 % by the end of the year. Employment rose to a new record level last year, however. The number of people in work rose to an average of about 41.6 million for the year. Thanks to the growth in employment and further increases in gross and net pay, the available income of private households increased accordingly by 2.3 % in comparison to the previous year.

Exports reached a new record level and export trade contributed 1.1 % to the real growth of the gross domestic product – despite the strong decline in demand from the Eurozone. This was compensated for by the continuing high purchase orders for German export goods from countries outside Europe. However, the debt crisis and the recession in many countries in the Eurozone caused companies to act a lot more cautiously than in the previous year, which was reflected in a marked reluctance to invest. So despite the extremely low interest rate, investments in equipment were down 4.4 % from the previous year. There was even a slight fall of 1.1 % in construction investments overall,

despite the sustained boom in private residential building. Nevertheless, the signs of an imminent economic recovery were increasing by the end of the year and the outlook for the German economy therefore looked brighter again. Order receipts in industry stabilised by the end of the year, for example, and the business expectations of the companies improved significantly. This may well be a result of the renewed better global economic outlook of recent times as well as the clear stabilisation of the financial markets. Several factors have contributed to this development. Above all, the European Central Bank (ECB) has removed the basis for extreme crisis scenarios for the time being with its announcement of a new programme for buying government bonds (“Outright Monetary Transactions”, OMTs). In addition, the rescue infrastructure improved with the commencement of the work of the European Stability Mechanism (ESM), which the German Federal Constitutional Court had cleared the way for with its ruling on the fiscal package and the ESM.

## … in Euroland

Even if the stress on the financial and capital markets has lessened significantly recently, the improvement of the rescue infrastructure alone will not yet lead to overcoming the crisis that has been ongoing for the past three years. The ongoing adjustments in the public and private sectors greatly dampen aggregate demand in the crisis states. Real gross domestic product in the Eurozone has not grown any more since the third quarter of 2011.

Looking back, one has to say that the Eurozone hardly held any surprises in store with regard to economic development in 2012. Thus not only the prediction of a recession in the European currency union turned out to be correct with hindsight, but also the extent of the fall in gross domestic product was within the realm of the expectations at an anticipated 0.4 %. In the first quarter, the still relatively robust development in Germany offered support, meaning that it almost totally compensated for the fall in economic performance in the rest of the Eurozone. However, in the rest of the year, the momentum of the German economy was then no longer sufficient to prevent a respective shrinking of the economy in the Eurozone in comparison to the previous quarter.

As was to be expected, the austerity measures and temporary increase in the stringency of refinancing conditions in the crisis states in particularly had a negative impact. On top of this came a temporarily extremely high uncer-

tainty regarding the progress of the debt crisis. The slump in mood indicators turned out to be equally strong: Both consumer and industrial confidence fell over the course of these developments to their respective lowest levels since the crisis year of 2009. The indicators available by the reporting month of November also point to a further fall in GDP in the final quarter too, which may well turn out to be greater than that of the previous quarter as well. Therefore the Eurozone turned out to be a zero growth zone in 2012 – at least at the level of the total aggregate.

Nevertheless, the regional disparities for aggregate development remained high in 2012. If one takes Germany out of the equation, this results in a significantly more sensitive fall in GDP of about 1.0 % in comparison to the previous year for the rest of the euro area. However, as well as Germany, a number of smaller member states were also able to defy the negative impact from the debt crisis and austerity policies. Moreover, France, the second largest economy and also experiencing economic stagnation, was more of a pillar of stability than a burden to the Eurozone. As expected, Spain and Italy, on the other hand, have gone into a deep recession, and their economic performance fell by about 1.5 % and 2 % respectively in the year ending. The picture in the countries with full adjustment programmes remained similar to the previous year: Ireland’s economy was able to grow slightly again in 2012, while the disastrous development in Greece continued and the contraction in Portugal was even greater than in the previous year.

The downturn in private consumption was primarily due to the high and still growing unemployment rates. In November, almost 18.9 million people in the Eurozone were unemployed. This is equivalent to a seasonally adjusted unemployment rate of 11.8 %. As there are currently no indications yet that this trend will stabilise or break, consumer confidence continues to be very low. However, investments also suffered under the weak economic conditions of many

member states. In contrast, net exports developed positively. Although this is partly due to a fall in imports caused by the recession, Eurozone countries were actually able to notably increase their exports at the same time, which speaks for a gradual improvement in competitiveness.

## … in the USA

Following a growth of 2.4 % in 2010 and 1.8 % in 2011, the USA is likely to report an economic growth rate of slightly more than 2 % over the whole of 2012. The biggest economy of the world thus stands out positively from many other regions of the world, particularly Europe and Japan, and continues the trend for a moderate, albeit less dynamic recovery following its real estate and financial market crisis.

It was apparent once more over the course of 2012 that private consumption was an important pillar of the American economy. Consumer confidence brightened increasingly during the second half of the year, which may well be attributable in particular to an improvement in the situation on the real estate market as well as stock market gains. The successive increases in employment in every single month of 2012 are to be highlighted in particular, accompanied by a fall in the unemployment rate from 8.5 % down to 7.7 %. It was only in the second quarter that the brighter situation on the employment market floundered a little. While the processing sector started the year still quite confidently, an increasing uncertainty towards the middle of the year brought about a “wait and see” attitude among companies. The European debt crisis, the clear weakening of the Chinese economy and the concerns about the possibly imminent negative impact of an adjustment of the US fiscal policy were responsible for this. In the second half of the year, for example, new orders in the processing sector especially were limited to what was necessary and production reduced slightly. 2012 was also marked by the US presidential elections, from which Barack Obama emerged as the winner on 6 November.

In order to support the economy, the Federal Reserve continued its expansive monetary policy unabated in 2012. In the processes, the “QE3” programme has been running since late summer with the purchase of USD 40 billion monthly of mortgage-backed bonds. During the phasing out of Operation Twist, an additional purchase of USD 45 billion of US treasuries a month was announced in December (“QE3.5”). These measures are intended to keep long-term interest rates low. Moreover, the Federal Reserve wishes to keep to the extremely low base rate until the unemployment rate has fallen below 6.5 % and the inflation expectations have risen above 2.5 %. At the moment inflation does not present any burdens to the US central bank.

As at the beginning of 2012, the euro was listed again near the 1.30 USD mark at the end of the year. While in the first quarter the euro was able to increase to 1.35 USD, there was a fall to only just above 1.20 USD in the second quarter in the wake of uncertainty in the context of the European government debt crisis. Weaker economic figures from the USA also played a role here, as they brought about a greater risk aversion among investors who sought refuge in the US dollar. The common currency climbed in the second half of the year up to the level of 1.30 USD, driven by a receding risk aversion of investors and a correspondingly positive stock market performance. The upwards trend of the euro continued after the beginning of the new year.

## Financial Markets and Movements in Interest Rates

The debt crisis continued to dominate the Eurozone in 2012. The focus was still mainly on Greece. In March the haircut was carried out among private creditors of Greek government bonds (PSI). Whilst it was possible to reduce Greece’s debt burden initially – including through the activation of Collective Action Clauses (CACs) that were retrospectively introduced – the accompanying credit package from the European Financial Stability Facility (EFSF) and a renewed poorer economic development than forecast by the International Monetary Fund (IMF) and the European lenders of capital hardly left any significant net effect in the debt ratio. In addition, the country’s consolidation floundered because of the long election campaign resulting from the repeated parliamentary elections in the spring. Because of the new financing shortfalls, Greece had to commit to new spending cuts in order to enjoy the benefits of a further package of measures. As well as interest rate reductions, deferment of repayments and loan period extensions, this included a debt buy-back programme, which allowed the Greek government to clear a good EUR 20 billion net of its debt mountain by the end of the year. This meant that, for the time being, Greece was able to continue to secure financial support from the IMF.

Furthermore, in the middle of the year Spain assured itself of the willingness of its European partners to support it with regard to its stricken national banking sector. Moreo-

ver, the conditions associated with taking up aid were loosened under pressure from Spain and Italy at the summit at the end of June. Furthermore, in order to facilitate direct bank recapitalisation, negotiations began regarding a European unified system of banking supervision. Therefore, in 2012, European politics remained faithful to the basic pattern of “muddling through” in the way it tackles crises. Nevertheless, the first consolidation successes and structural improvements did appear in individual countries, and are visible both with reference to the development of primary balances and the improvement of the trade and current account balances. Moreover, governance within the Eurozone was strengthened with the implementation of the fiscal package and the start of the permanent rescue mechanism, ESM. Before this, expedited motions against the ESM by the German Federal Constitutional Court had been quashed with the exception of smaller substantiations of the set of agreements.

The European Central Bank once again proved to be the only emergency service ready to take action. At the turn of the year 2011/12, it had opened the liquidity sluice gates and tried to stabilise the markets with the unconventional measure of two three-year tenders with a total volume of over one billion euros. The summit in June and the unusually heterogeneous interpretation of the results, however, did not bring about a stabilisation of the markets – quite the reverse. The uncertainty about the progress of the debt crisis culminated in the middle of the year in growing doubts about the continued existence of the common currency. The capital flight from the Southern European countries to regions and asset classes that were regarded as safe was correspondingly considerable. Amidst these developments, the fresh reduction in the base rate to a new historical low of 0.75 % almost foundered. As a consequence, the European Central Bank once again saw the need for it to intervene on a large scale.

At the end of July, ECB President Mario Draghi had already indicated what was substantiated in September as the new purchase programme for European government bonds by the ECB governing council. According to this, the ECB is prepared to intervene in the markets for government bonds to an unrestricted extent under stricter conditions if there is a need in terms of monetary policy. According to Mario Draghi, these Outright Monetary Transactions (OMTs) give ECB an effective set of instruments “to avoid destructive scenarios with potentially severe challenges for price stability in the euro area”. He also emphasised to his critics: “We act strictly within our mandate to maintain price stability over the medium term; we act independently in determining monetary policy; and the euro is irreversible.” The most prominent critic of this policy also sits on the ECB governing council: the president of the German Federal Bank, Jens Weidmann. His reservations regarding an uncontrollable commingling of monetary policy and public sector financing are certainly to be taken seriously. Initially, simply the announcement by the ECB had stopped the flight from Southern European government bonds and led to a noticeable stabilisation of the markets. Fresh massive distortions, which cannot be ruled out, could prove to be the litmus test for the ECB's willingness and capability to act and for the extent of possible interventions by the markets. However, it is anticipated that, in this event, the ECB would respond with a determined action.

The situation on the financial markets has stabilised significantly recently. The yields of government bonds from the crisis states have fallen noticeably, meaning that the spreads have reduced in comparison to German Bunds too. Over the course of the year, the yields of German government bonds with ten years to maturity fluctuated between nearly 2.1 % in the middle of March and the new all-time low of 1.17 %, which was recorded at the beginning of June and again in the middle of July. Towards the end of the year, ten year federal bonds brought a return of 1.32 %, before a noticeable rise above the 1.5 % mark began at the turn of the year. Even on the stock markets a more optimistic view asserted itself over the course of the second half of the year. The German stock index, DAX, climbed by 1,700 points from the year’s low of 5,969 points recorded at the beginning of June to the year’s highest value of 7,672 points on 20 December.

The yields of government bonds from the crisis states have fallen significantly since the end of July. The ECB has continued its expansive monetary policy. In July it lowered the main refinancing operations rate to the historic low of 0.75 %. The interest rates for the deposit facility and the

marginal lending facility were also lowered in parallel by 25 base points. As a result, the money market rates continued to fall, the three-month Euribor was quoted significantly below the tender rate because of the sustained full allotment policy and fell below the 0.2 % mark for the first time at the end of October. Following the rejection of a further reduction in interest rates for the near future at the beginning of 2013, the decline in the money market rates came to a stop or even started a slight counter movement.

## Forecasts and Other Statements on Anticipated Developments

### Global Economic Outlook

The prospects for global growth have finally brightened again recently. Industrial production, for example, seems to have bottomed out at the end of 2012. The development of the early indicators and the increase in momentum seen in China again speak for an imminent overcoming of the global economic downturn. At the same time, however, the risks of the financial and debt crisis still exist in many industrial nations. In particular the progress of the structural adjustments in the Eurozone will be watched intensely by the capital markets.

A solid growth of a good 2 % is expected in GDP in the USA in 2013. This is, however, based on the assumption that the politicians in Washington will find a final compromise for the fiscal cliff so that only some of the tax increases and cuts in expenditure of USD 150 to 200 billion will come into force. In this case, the national budget will be sending a slightly negative signal in the first quarter and slightly dampen the growth in GDP. However, it is likely that this will be followed by higher growth rates in the following quarters. This would also have the consequence of a continued improvement on the employment market.

The prospects for economic development in the Eurozone have improved slightly recently. The most important mood indicators were able to improve – albeit from a very low level. The debt crisis remains the greatest economic risk for the Eurozone despite the recent stabilisation of the markets. The recession is currently continuing unabated in particular in the southern crisis states. For a number of states in the currency area, the original consolidation targets will therefore also be unattainable, which bears the risk of a new impetus of mistrust on the markets. Primarily the two large economies of Spain and Italy will therefore remain in focus in the context of the debt crisis. Because of the weak final quarter of 2012 and its negative impact, it is anticipated that 2013 will see a stagnation of economic performance. However, this does obscure the fact that the European economy may well begin on a gradual recovery over the course of the year. The recent slight improvements in the early indicators – albeit from a very low level – and the rise in real money supply M1 give hope for a bottoming out in the spring. The fact that the additional discretionary fiscal burdens will be lower in 2013 than before is also indicative of this. The deficit ratio of the Eurozone will fall below the level of 3 % of GDP again in 2013 for the first time thanks to the consolidation efforts. All of this, however, is subject to successful avoidance of new shock waves on the financial markets.

The outlook for the German economy is divided. Now the sensitive period of economic gloom of the winter half of the year is past, it is likely that recovery is imminent. The signs that the weakness in the winter half of the year has bottomed out are increasing. Order receipts in the processing industry, for example, were able to stabilise to the level of the previous quarter in October and November. While it is too early to call a change in the trend, the development of the order books may well have already had a positive influence on the mood indicators. At least the business expectations of the companies surveyed by the ifo Institute surprisingly clearly brightened recently, which also corresponds to the pleasing ZEW economic forecast. Accordingly, although it is anticipated that the economy will be week during the winter half of the year, it is not expected to go into recession.

Moreover, exports will profit from the renewed momentum in the world economy. Investments in equipment may well only start up belatedly at first however, in view of capacity utilisation being significantly below the long-term average. In the case of residential building investments on the other hand, the favourable economic recovery will continue as a result of low interest rates and the flight to real property. In addition to the above, public and private consumer spending will continue to be important growth pillars in 2013. The latter are profiting from a triad of relatively robust employment market conditions, falling inflationary pressure and a further upward movement in real available income. This outlined development is however subject to new burdens from the debt crises on both sides of the Atlantic being avoided. Overall, a moderate growth in GDP of 0.8 % over the previous year is anticipated for 2013.

The employment market performance will remain relatively stable in 2013 as well. The declining economic momentum and also more cautious corporate employment

policies have, however, led to a slight but continuing rise in the number of unemployed in the last few months. In the current year, the number of unemployed will still rise a little further as a result of the weakening of the economy. At the same time the discrepancy between the development of the unemployment and employment figures, which has been observed for some time, may well reduce as with a slower economic momentum the mobilisation of the silent reserve falls too. Migration to the German employment market remains high, however. Overall, a slight rise in the unemployment rate to 7.0 % is expected in 2013. Income prospects for private households thus remain stable, which is a prerequisite for a sustained growth in consumption.

Inflationary pressure will remain low both in the Eurozone and in Germany in the coming year. Over the course of the year the inflation rate of consumer prices in Germany and the Eurozone will return to below the level of 2.0 % Y/Y. The consolidation of the state finances will suffer a slight setback in 2013. Following the successful achievement of a balanced net lending/borrowing balance at aggregate level (Maastricht) in 2012, the temporary cooling of the economy and a number of reductions in the incomes of the social insurances are expected to have a negative effect on the public purse. However, this may well only lead to a slight rise in the deficit ratio. The extraordinarily low interest rate is continuing to provide support.

## Financial Market Development and Interest Rate Forecast

US monetary policy will remain extremely expansive in the entire year of 2013, even if the economy should develop surprisingly positively. A change in monetary direction can only be considered in 2014 at the earliest. Thus the potential for an increase in the yields of ten-year US treasuries also remains limited, even if a gradual rise to over 2.0 % is to be expected during the economic revival. The euro rate will still be determined by the European government debt crisis and the question of the American and global economic recovery in the coming year. The increasingly restrictive budgetary policies this side of the Atlantic compared to the other side may well hugely increase the growth opportunities of the USA, which would be accompanied by a moderate increase in the value of the greenback. The euro is therefore expected to be 1.25 USD at the end of 2013.

The financial markets should initially retain their positive mood. A slight rise in yields of German government bonds in all maturity brackets is expected over the course of the year, because the safe-haven motif may well lose weight gradually. If there is severe tension on the capital markets again however, a renewed fall in yields towards the recorded lows is possible. Due to economic concerns and the debt crisis in the Eurozone, the monetary policy of the most important central banks will remain expansionary for a long time. No interest rate increase is expected either at the US central bank (Fed), the Bank of England (BoE), the Swiss National Bank (SNB) or the European Central Bank (ECB) in the long term.

# Development
# of Business Sectors

## Organisational Changes

NORD/LB CFB was integrated still further into the structures and procedures as well as the control mechanisms of the parent bank NORD/LB Luxembourg in the first half of 2012. The objective is the harmonisation of corporate policy and the standardisation of the control of both banks in the group as well as the use of savings potentials on the cost side. As NORD/LB CFB's back office activities, organisational and administrative functions are already being performed by the parent company, NORD/LB Luxembourg, or the parent company of the group, NORD/LB, on the basis of agency agreements, its front office activities will now also be performed by the corresponding offices at NORD/LB Luxembourg from1 April on the basis of corresponding agency agreements. The strong integration into the group was further deepened with the synchronisation of personnel on the supervisory board and board of directors (the responsibilities for “Financial Markets and Loans" and “Finance, Risk, Operations” respectively lie with the same boards) of NORD/LB CFB with those of NORD/LB Luxembourg as of 1 April. This means that NORD/LB CFB continues to be a legally independent subsidiary that is fully integrated into the organisational structure and steering of NORD/LB Luxembourg. Resulting structural changes are described in the following details of the business sectors.

## Financial Markets

Sales, funding and bank control were the core elements of Financial Markets at NORD/LB Luxembourg again in 2012. The focus was on the development of sales especially. The “Client Relationship Management” and “Risk Distribution & Solutions” initiatives started in the past were transferred to “Fixed Income/Structured Products”. This sales division serves to strengthen and develop the pooling of the European sales capacities of the NORD/LB Group. Together with Corporate Sales, Fixed Income/Structured Products represents the strengthened focus towards customer-orientated business.

The internal service functions close to trading continue to be undertaken by “ALM/Treasury”. In 2012, this line-up was supplemented by Cover Pool Management, which is responsible for the new issue business of Luxembourg covered bonds (“Pfandbriefe” or “Lettres de Gage”) via NORD/LB CFB. Lettres de Gage represent an additional covered refinancing source for the NORD/LB Group.

Financial Markets is therefore continuing the active shift towards internal and external customers and delivers a valuable contribution to the bank’s management for NORD/LB Luxembourg and additionally for NORD/LB.

### ALM/Treasury

ALM/Treasury is a service provider for the Group and is a solution provider for all matters regarding supply of liquidity and interest rate and currency management. It is responsible for the management of the balance sheet, purchases and sells securities for the purpose of managing liquidity and interest rate risks, and generates an additional contribution to the results within the framework of risk limits set by the Board of Directors through an active management of client flows. Its core function is to secure the sub-group's liquidity supply at all times.

ALM/Treasury is an integral component of the funding activities of the NORD/LB Group and is involved in committees and coordination processes across the whole institution. It ensures a broad diversification of the refinancing sources for the lending business and a high flexibility with regard to currencies, maturities and redemption structures. It does so by using deposits by banks and institutional investors, the ECP programme, open market transactions and internal group funding for long-term maturity brackets over 24 months.

Exclusive value is added via the network in Switzerland, which has grown. In addition, NORD/LB Luxembourg is the only member of the NORD/LB Group to participate in the open market business of the Swiss National Bank via the Eurex repo platform.

The bank actively operates as a lender in repo transactions in order to increase its share in the collateralised lending business.

In order to support the control of the liquidity ratios and interest rate risks, the bank also uses the trading book, primarily through derivatives. In the case of derivatives there is a concentration on interest rate swaps, currency futures including currency swaps and futures. The bank does not enter into any risks pertaining to complex derivative products.

### Cover Pool Management (via NORD/LB CFB)

The direction of impact of the business with so-called "Lettres de Gage" is aimed at the use of regulatory advantages of the Luxembourg Pfandbrief (covered bond) Act. These are brought to bear in particular with the customer groups municipal undertakings, savings banks and institutional investors.

The covered bond business is being further strengthened from Luxembourg as a complementary component of the funding of NORD/LB. This business sector is furthermore used to expand the investor base.

Cover Pool Management (CPM) is responsible for the management of the cover pool and the issue of covered bonds in NORD/LB CFB. The issue of such covered bonds in accordance with Luxembourg law is only carried out in consultation with ALM/Treasury and the funding requirements of the bank and Group.

### Corporate Sales

Corporate Sales works in close cooperation with NORD/LB.

Corporate Sales is a product specialist for interest rate and currency management and offers evaluation of potential and processing of proposals for individual solutions for corporate clients. As well as the acquisition of new customers, it also focuses on the use of cross selling potentials within existing customer relations in the corporate customer sector of NORD/LB. It offers products from both the Group and NORD/LB Luxembourg.

### Fixed Income/Structured Products Sales

Fixed Income/Structured Product Sales also acts in close cooperation with the Group and sells standardised and structured financial products to European institutional customers and banks.

The objective of the standardised product segment ("flow products") is to support primary market activities and increase the turnover rate in the Group's trading book. It is also responsible for ensuring the geographical diversification of the sources of refinancing by recruiting European investors via NORD/LB Luxembourg.

Structured loan products ("non-flow products") are developed on the basis of the business activities of the various market units of the Group. The aim here is to actively use the customer relations of the NORD/LB lending divisions in order to satisfy customer requirements for "alternative investments".

None of these activities involve the bank putting itself at risk.

### Performance

Despite the sustained market instability caused by the European debt crisis and the consistent low interest rate phase, ALM/Treasury was able to deliver a significant contribution to the results. This contribution was achieved through maturity transformation and efficient security portfolio management. The refinancing of the business activities and the liquidity supply of the bank were guaranteed at all times.

Combining the capital and money market business of NORD/LB CFB and the business of NORD/LB Luxembourg has enabled the sub-group to manage its sources of refinance even more effectively. Although Lettres de Gage business has been largely dormant, the cover pools was further optimised in 2012. In doing so, special attention was given to rating requirements.

In sales, Corporate Sales was able to further develop the structures of the constructive cooperation with NORD/LB. As a result of the sustained low interest rates the potential for new business was, however, restricted; a sideways movement is to be reported. The new division Fixed Income/Structured Product Sales also successfully established itself. In cooperation with the Markets division of NORD/LB, the Sales Team placed the first mandates of the bank with customers and also arranged transactions between customers. This cooperation primarily involved NORD/LB Hanover and its foreign branches.

## Private Banking

The Private Banking activities within the NORD/LB Group are coordinated from Luxembourg. The Private Banking Board was established as the control body, in which representatives from the relevant group units are integrated.

At NORD/LB Luxembourg, customer relationships are always based on close, fair cooperation and on a focus on the different needs of customers.

The Private Banking division offers a comprehensive consulting service to customers with an interest in international investments. In addition to a traditional consulting service aimed at the needs of customers (with regard to investment style, risk preferences and time frame), there is also the option of using various asset management concepts.

In terms of asset management, which has a successful 10-year track record, investors choose between individual asset management concepts, which are tailored to different client preferences.

In addition to the above, the bank is also active as an approved insurance broker in Luxembourg. In this context, Private Banking arranges insurance contracts in which the investment and risk mentality of the customers are accommodated in regard to the cover values. The bank also acts as asset manager for the insurance company.

In addition to this, the range of services offered by the bank also includes the conception, launch and management of public funds both for the bank's own Private Banking clientele, the clientele of other Private Banking units within the Group and for external parties if appropriate. In January 2012, another fund was floated, following on from the first one, which was successfully launched in 2009, for which the bank acts both as initiator and fund manager at the same time. The activities of the bank are limited to fund management and the role of initiator; the custodian bank and consolidated fund administration activities are outsourced to service providers. The Group-wide marketing of the fund is achieved by including representatives from NORD/LB and Bremer Landesbank in the launch of the fund via an investment committee, which can make recommendations, and a Group-wide steering committee for Private Banking for products sold jointly.

2012 was characterised by a noticeably increased risk aversion of customers in comparison to 2011. The uncertainties in relation to the further economic development in the Eurozone and the USA and the ongoing discussions on the further development of the pension markets, in particular including government bonds here, led to rather reticent investment behaviour among the clientele. This development was accompanied by a further significant reduction in interest rates so that totally risk-averse customers were not able to compensate the overall moderate devaluation of money using interest income. Supposedly conservative bonds and fixed deposits clearly lost their attractiveness as a haven for investors seeking security in 2012. The described development led to an increased demand of customers for asset management mandates in 2012 and thereby an increased delegation of investment decisions to the bank.

## Lending

In the credit management of NORD/LB Luxembourg, the streamlining of the structural organisation was driven forward successfully. The Lending and Loans Service Management sectors were combined under one common management.

As a classic business segment, the lending business represents an important pillar of income for the bank. The aspiration here is to be recognised as an experienced and efficient quality service provider, especially with standard products but also in structured transactions.

The lending business in Luxembourg comprises the business sectors Allied Lending Business with other units of the Group and Savings Banks guaranteed Lending Business and customer business with entities close to municipal undertakings.

The focus of the business sector illustrates the complementary character of the services in the lending business of NORD/LB Luxembourg and NORD/LB CFB within the NORD/LB Group.

### Allied Lending Business

The allied lending business is the heart of the lending business of NORD/LB Luxembourg. The most important cooperation partners are the sectors Corporate Clients and Structured Finance of NORD/LB and the Deutsche Hypothekenbank, with regard to which the real estate portfolio will be phased out over the course of time due to the Group's strategy change.

At the centre of business activities are variable interest loans and short-term fixed rate loans in particular, coupled with drawing down currency where applicable. Servicing is also performed within the scope of more complex consortium financing with the assumption of the Facility Agent function. The personnel and technical infrastructure of NORD/LB Luxembourg is geared up for the administration of these types of loan. NORD/LB provides a comprehensive loans administration process for all sites with a specialised division of labour and clear responsibilities. This prevents redundancies in processing.

Accounts receivable purchases (single and pool purchases) in the NORD/LB Group are operated exclusively from NORD/LB Luxembourg.

### Lending Business with Municipal Customers (primarily via NORD/LB CFB)

This business is dedicated to lending business with entities close to municipal undertakings in Germany.

The sub-group NORD/LB Luxembourg is the Centre of Competence for this business within the NORD/LB Group and actively defines customer relations and the respective transactions. At the same time, this business closely co-operates with the respective corporate account managers in the Group. The aim is to use the loans thus created to issue covered bonds in accordance with Luxembourg law. The refinancing of these loans is thus done on favourable terms and enables competitive conditions for this customer sector. The business with municipal undertakings is to be pushed further.

### Allied Business with Savings Banks

The allied business with savings banks is a classic niche product. The product range comprises loans granted in foreign currencies to savings bank customers. In the context of the loan transactions arranged and guaranteed by the savings bank, loans are available to customers in the short-term sector starting from a minimum amount of EUR 100,000 (or equivalent value) and in the long-term sector starting from a minimum amount of EUR 250,000 (or equivalent value). Loans are granted with an interest term of one month to ten years. Direct access to the customers remains fully with the savings bank in these transactions.

### Performance

The downward trend in the portfolios of the allied lending business of the previous years was turned around in 2012. The volume of credit was expanded slightly and new business development is still proceeding positively. The operating profit/loss of the business is distinctly satisfactory. Clear allocation criteria, which were newly agreed with the allied partners of NORD/LB in 2012, support performance. In addition, the processes applicable to all sites were dovetailed further in a process review and cooperation thereby improved, especially with the Corporate Customers sector.

The business with entities close to municipal undertakings (primarily provided via NORD/LB CFB) was integrated organisationally into the loans management division of NORD/LB Luxembourg via service agreements as part of the more closely integrated control (cf section entitled "Organisational Changes"). Performance in this sector progressed satisfactorily and was at about the same level as the previous year.

The allied business with savings banks recorded a restrained performance in the financial year. As a result of the sustained low interest rates, the use of foreign currency loans as a favourable alternative for financing lost much of its attraction in the customer business.

## Outlook

With the introduction of new standard bank software at NORD/LB Luxembourg, which went according to plan and on schedule, a very important milestone in the overhaul of the IT system landscape was achieved.

The project was supported by the entire workforce of the bank, especially during the first half of 2012, and led along the path to success together with the external partners. The IT roadmap will continue to be implemented in 2013 and the new system landscape rolled out at NORD/LB CFB. The aim is to develop a modern, client-capable system landscape for the efficient support of the business activities of NORD/LB Luxembourg, NORD/LB CFB and, starting from 2014, other units, if applicable.

Based on the milestones achieved in 2012 through Business Process Reengineering, administrative costs are expected to significantly drop as early as 2013.

In the core business sectors, the bank will continue to offer its customers and business partners a professional and reliable service in the future.

In the lending sector, the bank is expecting a moderate growth in the allied lending business. The new processes put in place in 2012 in loans processing and the accompanying agreed allocation criteria will support performance. Corporate customer business in particular, in which evolved cooperation with efficient processes is pursued, is a central business sector at NORD/LB that shows potential for growth. The bank supports growth in this strategic business sector of the Group with its expertise. The business with entities close to municipal undertakings will also remain in the focus of the bank. Refinancing via Lettre de Gage will facilitate competitive conditions in a highly competitive market in this customer group. It is anticipated that the savings bank allied business will move sideways while interest rates remain low. The intention is to review business processes in 2013 and optimise them further.

In Private Banking, the interest rate, which has been low for some time now in all standard investment currencies, and/or good credit ratings, coupled with the uncertainties surrounding the smouldering euro crisis has caused curbed customers' propensity to invest. As a consequence, customers continue to prefer investment vehicles with a risk buffer. There is still potential for growth in the lending business, supported by the customer desire for security in the form of real estate. Furthermore, Private banking intends to nurture the currency area in the investment business.

For the Financial Markets business sector the focus is on the development of the Sales Initiatives started in previous years and the efficient management of the liquidity and interest rate rates. At the same time, the continuously low interest rate and flat interest curves present a challenge to earnings performance. In addition, the increasingly more stringent supervisory regulations require the establishment of new processes and put restrictions on the ability to act at times. The adoption and implementation of these provisions will have a considerable effect on the progress of business in the coming financial year.

Following the successful integration of the covered bond business, the business with Lettres de Gage Publiques (Luxembourg public sector covered bonds), issued via NORD/LB CFB, will continue to stay in focus. 2013 will be marked by the standardisation of business processes and the harmonisation of the market presence. The traditional focus will remain intact – the refinancing of the public sector lending business complementary to the other business activities in the NORD/LB group of companies.

Overall, the bank expects another satisfactory result in 2013, despite the continuing difficult economic situation and high degree of uncertainty on the financial markets.

# Earnings

The financial statements of NORD/LB Luxembourg as at 31.12.2012 were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as implemented by the EU.

The bank was able to achieve a satisfactory operational result against the background of the market environment, which was difficult in this year under report too. The operating result before changes in valuation, risk provisioning and taxes rose in comparison to the previous year from EUR 49.0 million to EUR 58.9 million and was therefore 20 % above the figure for the previous year.

For computational reasons, the following tables may contain rounding differences.

The components of the income statement for the years under report 2012 and 2011 performed as follows:

| | 2012 (KEUR) | 2011 (KEUR) | Increase/Decrease[1] (KEUR) |
|---|---|---|---|
| Net interest income | 108,830 | 107,202 | 1,629 |
| Risk provisions in lending business | –18,254 | 18,201 | –36,455 |
| Commission expenses/net income | –1,562 | –13,375 | 11,813 |
| Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting | 2,716 | –6,716 | 9,433 |
| Other operating profit/loss | –2,865 | 4,133 | –6,998 |
| Administrative expenses | –44,061 | –34,588 | –9,474 |
| Profit/loss from financial assets | –1,488 | –14,368 | 12,880 |
| **Earnings before income taxes** | **43,316** | **60,488** | **–17,173** |
| Income taxes | –8,936 | –14,537 | 5,601 |
| **Net income for the year** | **34,380** | **45,952** | **–11,572** |

*) The prefix in the Increase/Decrease column indicates effects on the results.

Net interest income rose slightly in comparison with the previous year by EUR 1.6 million to EUR 108.8 million.

The risk provision was extended in reporting year 2012. In the previous year, it was possible to achieve a positive result due to the sale of itemised allowances for bad debts.

Compared to the previous year, net interest income improved by EUR 11.8 million to EUR –1.6 million. This was largely due to a fall in expenses from the lending and guarantees business.

Profit/loss from financial instruments stated at fair value through profit or loss shows both trading profit/loss in the true sense and profit/loss from financial instruments that are voluntarily designated under the fair value option. Profits/losses from hedge accounting are also shown here.

The other operating result is slightly negative, caused in particular by the internal group accounting for services and depreciation. Administrative expenses rose in comparison to the previous year by EUR 9.5 million, primarily due to higher costs in connection with the strategic IT project. In addition, personnel expenditure rose as a result of the increase in personnel. The negative result from financial investments is mainly due to the reduction in individual risk positions. The significant loss in the previous year was due to a value-adjusted security from the Greek central government.

Before taxes, the bank reports a profit for 2012 in the sum of EUR 43.3 million; after taxes the net profit for the year is EUR 34.4 million. The individual items making up the result are as follows:

## Net Interest Income

| | 2012 (KEUR) | 2011 (KEUR) | Increase/Decrease*) (KEUR) |
|---|---|---|---|
| Interest income | 490,382 | 557,811 | −67,430 |
| Interest expense | −381,551 | −450,610 | 69,058 |
| **Net interest income** | **108,830** | **107,202** | **1,629** |

*) The prefix in the Increase/Decrease column indicates effects on the results.

Both interest income and interest expense fell in the year under report in comparison to the previous year. This is attributable on the one hand to changes in the balance sheet structure between the reporting dates and on the other to changes in the market interest rate. However, it has been possible to stabilise net interest income and it is slightly above the previous year's level.

## Risk Provisions in Lending Business

The level of risk provision was further increased in the financial year.

## Net Commission Income

| | 2012 (KEUR) | 2011 (KEUR) | Increase/Decrease*) (KEUR) |
|---|---|---|---|
| Commission income | 23,727 | 24,021 | −294 |
| Commission expense | −25,289 | −37,395 | 12,106 |
| **Net commission income** | **−1,562** | **−13,375** | **11,813** |

*) The prefix in the Increase/Decrease column indicates effects on the results.

Net commission income only includes income and expense from banking. In particular the fall in expenses from the lending and guarantees business was significant for the positive development. This includes expenses from margin splitting in the case of mediatory transactions.

## Profit/loss from Financial Instruments Stated at Fair Value through Profit or Loss and Hedge Accounting

| | 2012 (KEUR) | 2011 (KEUR) | Increase/Decrease*) (KEUR) |
|---|---|---|---|
| Trading profit/loss | 1,055 | –1,477 | 2,531 |
| Profit/loss from initial recording as financial instruments stated at fair value through profit or loss | 315 | –1,227 | 1,542 |
| Profit/loss from hedge accounting | 1,347 | –4,012 | 5,359 |
| **Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting** | **2,716** | **–6,716** | **9,433** |

*) The prefix in the Increase/Decrease column indicates effects on the results.

The trading profit/loss primarily comprises the profit/loss from derivative transactions, which do not satisfy the restrictive criteria of hedge accounting. Opposing valuation changes in underlying transactions cannot be offset.

## Other Operating Profit/Loss

| | 2012 (KEUR) | 2011 (KEUR) | Increase/Decrease*) (KEUR) |
|---|---|---|---|
| Other operating income | 3,007 | 17,893 | –14,887 |
| Other operating expenses | –5,872 | –13,761 | 7,889 |
| **Other operating profit/loss** | **–2,865** | **4,133** | **–6,998** |

*) The prefix in the Increase/Decrease column indicates effects on the results.

The other operating income was characterised by the liquidation of prepaid expenses and accrued liabilities from previous years.

The other operating expense includes depreciation to “value in use” of an IT project (KEUR 2,505, previous year KEUR 10,049) and the expenses for accounting of services with NORD/LB (KEUR 2,609, previous year KEUR 3,102).

## Administrative Expenses

| | 2012 (KEUR) | 2011 (KEUR) | Increase/Decrease*) (KEUR) |
|---|---|---|---|
| Wages and salaries | 18,278 | 15,249 | 3,029 |
| Other staff expenses | 3,208 | 2,313 | 895 |
| **Staff expenses** | **21,486** | **17,562** | **3,924** |
| **Other administrative expenses** | **19,606** | **15,182** | **4,424** |
| **Depreciation and value adjustments** | **2,969** | **1,844** | **1,125** |
| **Administrative expenses** | **44,061** | **34,588** | **9,474** |

*) The prefix in the Increase/Decrease column indicates effects on the results.

The administrative expenses including depreciation show a rise by a total of EUR 9.5 million to EUR 44.1 million. The increase in personnel in connection with the continued restructuring of the business model led to an increase in personnel expenditure. In comparison to the previous year the other administrative expenses increased by EUR 4.4 million. This is primarily the result of increased costs for operating and business equipment and IT.

## Profit/Loss from Financial Assets

| | 2012 (KEUR) | 2011 (KEUR) | Increase/Decrease*) (KEUR) |
|---|---|---|---|
| Profit/loss from financial assets classified as LaR | 1,934 | –239 | 2,173 |
| Profit/loss from financial assets classified as AfS (without participating interests) | –3,422 | –14,130 | 10,707 |
| **Profit/loss from financial assets** | **–1,488** | **–14,368** | **12,880** |

*) The prefix in the Increase/Decrease column indicates effects on the results.

Profit/loss from financial assets in the previous year resulted exclusively from the disposal of financial instruments to reduce selected risk positions. The negative previous year's result on the other hand was caused by an impairment on a security from the Greek central government (EUR –18.5 million).

## Income Taxes

| | 2012 (KEUR) | 2011 (KEUR) | Increase/Decrease*) (KEUR) |
|---|---|---|---|
| Current taxes | –8,860 | –999 | –7,861 |
| Deferred taxes | –76 | –13,538 | 13,462 |
| **Income taxes** | **–8,936** | **–14,537** | **5,601** |

*) The prefix in the Increase/Decrease column indicates effects on the results.

The bank and NORD/LB CFB form a tax group in accordance with Article 164bis of the Luxembourg income tax law. The responsible entity within the group is NORD/LB Luxembourg.

## Proposal for Appropriation of Earnings

The profit of the year under report including profit carried forward amounts to EUR 34.5 million. The Board of Directors proposes to the annual general meeting the following appropriation of earnings:

| | 2012 (KEUR) | 2011 (KEUR) | Increase/Decrease (KEUR) |
|---|---|---|---|
| Profit/loss for the year under report | 34,380 | 45,952 | –11,572 |
| Profit carried forward from previous year | 169 | 9,217 | –9,048 |
| **Sub-total** | **34,548** | **55,169** | **–20,620** |
| Dividend payment | –15,000 | –40,000 | 25,000 |
| Allocation to the legal reserve | 0 | 0 | 0 |
| Transfer to the other reserves | 0 | –15,000 | 15,000 |
| Retained profit brought forward for year under report | 19,548 | 169 | 19,379 |

| | 2012 | 2011 | Increase/Decrease |
|---|---|---|---|
| Dividends (EUR) | 15,000,000.00 | 40,000,000.00 | –25,000,000.00 |
| Number of shares | 820,000 | 820,000 | 0 |
| Dividends per share (EUR) | 18.30 | 48.78 | –30.48 |

# Schedule of Assets and Financial Data

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/Decrease (EUR million) |
|---|---|---|---|
| Loans and advances to banks | 4,063.9 | 4,324.6 | –260.6 |
| Loans and advances to customers | 4,314.3 | 3,853.8 | 460.5 |
| Risk provisions | –32.8 | –26.2 | –6.6 |
| Financial assets at fair value through profit or loss | 507.6 | 604.8 | –97.2 |
| Financial assets | 6,339.4 | 6,313.0 | 26.5 |
| Equity-accounted investments | 0.0 | 0.0 | 0.0 |
| Other assets | 231.6 | 322.2 | –90.6 |
| **Total assets** | **15,424.0** | **15,392.1** | **31.9** |
| Liabilities to banks | 10,993.9 | 9,443.1 | 1,550.8 |
| Liabilities to customers | 1,554.5 | 2,379.7 | –825.1 |
| Securitised liabilities | 1,249.7 | 2,209.0 | –959.4 |
| Financial liabilities at fair value through profit or loss | 453.9 | 347.6 | 106.3 |
| Provisions | 22.6 | 12.8 | 9.8 |
| Other liabilities | 475.0 | 387.9 | 87.1 |
| Reported equity | 674.5 | 612.1 | 62.4 |
| **Total equity and liabilities** | **15,424.0** | **15,392.1** | **31.9** |

The balance sheet total is on par with that of the previous year. Loans and advances to banks fell slightly (EUR 0.3 billion) but are still influenced by a significantly increased volume of collateral services for derivative transactions (EUR 0.4 billion) and by the gross statement of the nostro accounts (EUR 0.7 billion) of NORD/LB CFB. Both are due to changes in the requirements of the rating agencies for NORD/LB CFB.

The bank was able to achieve a significant rise in loans and advances to customers (EUR 0.5 billion). On the liabilities side, the primary increase was in liabilities to banks. Like the assets side, this is due primarily to increased collateral for derivatives. On the other hand, liabilities to customers (EUR 0.8 billion) and securitised liabilities (EUR 1.0 billion) in particular fell significantly. Financial assets remained almost unchanged in comparison to the previous year.

The financial assets stated at fair value through profit or loss include trading assets at EUR 0.5 billion as at the reporting date of 31 December 2012 (previous year EUR 0.6 billion).

Other assets include the cash reserves at EUR 0.1 billion, which are at the same level as the previous year.

Financial liabilities at fair value through profit or loss as at the reporting date only comprise trading liabilities of EUR 0.5 billion (previous year EUR 0.3 billion).

The bank’s reported equity on 31 December 2012 was EUR 674.5 million (previous year EUR 612.1 million). The bank does not have any branches and does not hold any of its own shares.

# Risk Report

The risk report of NORD/LB Luxembourg as of 31 December 2012 was prepared on the basis of IFRS 7.

The bank does not enter into any noteworthy risks from complex structured derivatives.

## Risk Management

### Risk Management – Policy

The business activities of a bank are inextricably linked to the conscious taking of risks. Efficient risk management in terms of a risk and yield-orientated equity allocation is therefore a central component of modern bank management and is of great importance to NORD/LB Luxembourg.

From a business point of view, the bank defines risk as being potential direct or indirect financial losses due to unexpected negative deviations between actual and projected results of business activity. The identification, assessment, reporting, controlling and monitoring of these risks is a fundamental prerequisite for the sustainable success of the business.

To identify risks, NORD/LB Luxembourg has drawn up a multi-level process to derive an overall risk profile, which defines the risk types relevant to the bank and, for greater differentiation, distinguishes between significant and insignificant risks. In this context, significant risks are all relevant types of risk which could significantly impair the capital resources, the income situation, the liquidity situation or the achievement of strategic targets of NORD/LB Luxembourg.

The overall risk profile is the result of the business activities that are defined in the bank's business strategy for the segments Financial Markets, Lending and Private Banking. The overall risk profile is reviewed at least once a year in relation to events (risk stocktaking) and adjusted if necessary.

As a result of the last risk stocktaking, the following risks continue to be deemed significant: credit risk, participation risk, market price risk, liquidity risk and operational risk. In addition, the following risks are deemed to be relevant: business and strategic risk, reputational risk, syndication risk, real estate risk and model risk. Appropriate precautions were taken for all identified risks.

According to the regulations of the supervisory legislation, institutions must have proper business organisation, which ensures adherence to the statutory provisions to be observed by the institution and its operating requirements. Proper business organisation includes the specification of strategies on the basis of procedures for ascertaining and securing risk-bearing capacity, which comprises both risks and the capital available for covering these risks. For the bank these statutory requirements are firmly established in Luxembourg law as well as German law.

The fourth amendment to MaRisk, which was published in December 2012 and came into force on 1 January 2013, has resulted in changes to the previous requirements governing risk management. The analysis of the new requirements shows that the NORD/LB Luxembourg Group already fulfils a large number of them. The need for action has already been identified and discussed with the specialist departments affected. Implementation will take place over the course of 2013, whereby content that is relevant to the whole group will be processed in close coordination with the corresponding specialist departments at NORD/LB.

### Risk Management – Strategies

The business policies of NORD/LB Luxembourg are conservative in their orientation. Accordingly, NORD/LB Luxembourg's main principle is to responsibly handle risks. The risk strategy formulated accordingly is in keeping with the business model, the business strategy and the specifications of the Group risk strategy and is reviewed at least once a year. It contains statements on the principles of risk policy and the organisation of risk management, as well as risk sub-strategies relating to the significant risk categories specific to the bank.

The core element of the risk strategies is the risk-bearing capacity model (RBC model), on the basis of which the risk appetite is defined and the allocation of the risk capital to the significant risk categories is undertaken.

Through this Group-wide RBC model, it was established conservatively that, in normal cases considering the going concern, a maximum of 80 % of the risk capital may be burdened with risk potential. 20 % of the risk capital is held as a buffer and serves to cover risks arising from stress situations in particular and risks that are not explicitly quantified.

The specification of the maximum allocation of risk capital to the significant risk types is also carried out within the scope of the risk strategy. The majority of the cover pool is thereby allocated to credit risks and reflects the focus of NORD/LB Luxembourg on the customer-orientated lending business.

The risk strategy aims for optimum management of all significant risk categories and their transparent depiction to the company management, the supervisory bodies and other third parties with justified interests. Based on this, NORD/LB Luxembourg has a large number of other instruments available to it on an operational level, which guarantee adequate transparency regarding the risk situation and create the required level of limits and portfolio diversification that can be managed and monitored. This range of instruments is described in detail in the risk handbook of the NORD/LB Group and the documents of the written fixed regulations of NORD/LB Luxembourg, which are based on this.

The risk strategy was reviewed in the year under report and adjusted and discussed in detail with the supervisory bodies after being passed by the Board of Directors.

## Risk Management – Structure and Organisation

The responsibility for risk management is borne by the Board of Directors of NORD/LB Luxembourg, which also defines the risk strategy of the bank. Once the risk strategy has been resolved by the bank's Board of Directors it is then passed on to the Supervisory Board of NORD/LB Luxembourg for information and discussed with it. The responsibility for developing and monitoring the risk strategy is borne by the Chief Risk Officer (CRO). This includes the monitoring of all significant risks including risk reporting.

Risk management is subjected to continuous review and improvement. This involves the use of methods by the bank that are standardised for the Group. Any adjustments that might be necessary comprise regulatory requirements, organisational measures, improvement of procedures of risk quantification and the ongoing updating of relevant parameters.

Responsibility for the implementation for the RBC model, which applies to the whole Group, the ongoing monitoring of compliance and the regular review of the risk strategies lies with the bank's Risk Controlling. The internal auditors are responsible for the risk-related examination of the effectiveness and adequacy of the risk management system.

A risk-related organisational structure, as well as the functions, responsibilities and authorisation of the divisions that deal with risk processes, is clearly defined at employee level. An organisational separation of market and risk management functions is established right up to and including director level.

All front and back office activities of NORD/LB CFB were integrated into NORD/LB Luxembourg as far as possible in the first half-year as part of the realignment of the NORD/LB Luxembourg Group. In its capacity of as the Luxembourg regulatory authority, CSSF agreed to and confirmed this integration in particular with regard to the following points:

- The performance of business activities by the market units of NORD/LB Luxembourg: This is done primarily by the former staff of NORD/LB CFB, who have been provided with the relevant working contracts by NORD/LB Luxembourg.

- As a result of this union of personnel NORD/LB CFB is completely integrated into the risk management and monitoring systems of NORD/LB Luxembourg. As the controlling company of the group, NORD/LB Luxembourg is responsible for implementing the relevant mechanisms for risk management in the individual companies of the Group.

- As of reporting period 2012, the reports on capital adequacy (ICAAP reporting in accordance with CSSF circular 07/301 and its addenda circulars) can be submitted to the regulatory authorities in one single document.

As a result of this realignment the role of the board of directors within NORD/LB CFB is being exercised by the Market and Back Office Board of NORD/LB Luxembourg by way of a union of personnel. In addition to this, the role of the supervisory board in both companies is performed by the same elected representatives. NORD/LB CFB therefore continues to exist as a legal entity.

The following departments are involved in the bank's risk management process:

| Front Office/Back Office | Department |
|---|---|
| Front office | Financial Markets |
| | Business Development |
| | Lending |
| Back office | Finance |
| | Credit Risk Management |
| | Operation Services |
| | Org/IT |
| | Law/Compliance |
| | Security |
| | Administration |
| | Auditing |

The aims of the internal auditors include making a contribution to securing the effectiveness, efficiency and orderliness of the business activities, among other things. They also facilitate the optimisation of business processes as well as the controlling and monitoring of procedures.

Within the scope of the ongoing improvement of the group-wide monitoring instruments, the internal audit departments of NORD/LB and NORD/LB Luxembourg work closely together using a standardised group audit policy and evaluation matrix for the findings of audits. Cross-institutional competence centres were also set up in this regard, in order to develop complex specialised subjects and conduct audits in the banks.

The bank's compliance function is responsible for identifying and assessing the compliance risks within the bank. It is responsible for ensuring that the requirements relating to the Internal Capital Adequacy Assessment Process (ICAAP), in particular those arising from circular CSSF 07/301 and its addenda circulars are fully complied with by NORD/LB Luxembourg. The bank's Compliance Charter describes which tasks and responsibilities were defined.

The handling of new products, new markets, new distribution channels, new services and their variations is regulated within the scope of the New Product Processes (NPP). The essential aim of the NPP is for all potential risks for NORD/LB Luxembourg to be highlighted, analysed and assessed in the run-up to business being established. Associated with this are the integration of all necessary audit areas and documentation of new business activities, their treatment in the overall operational process, the decisions to establish business and any appropriate associated restrictions.

All procedures and responsibilities which are relevant to the risk management process are documented in the risk handbook of the NORD/LB Group and in the working directives of NORD/LB Luxembourg.

## Risk Management – Risk-bearing Capacity Model

The risk-bearing capacity model forms the methodological basis for monitoring adherence to NORD/LB Luxembourg's risk strategy. The monitoring is carried out by the Risk Controlling division of the bank.

The objective of the model is to present an aggregated model of the risk bearing capacity (RBC) within the scope of a comparison of the risk potential arising from the main risks versus the risk capital. Through the regular monitoring and reporting process, it is ensured that the competent governing bodies of the bank are informed promptly of the risk-bearing capacity situation. This model serves to secure risk-oriented corporate management.

The NORD/LB Group employs a scenario-based RBC model, which also fulfils the requirements of the ICAAP in accordance with Basel II. Besides providing the required proof that an adequate amount of capital is available, the model also serves to verify consistency between risk strategies and specific business activities.

The RBC model was extensively improved in the year under report. The changes were based among other things on the extended regulatory requirements on assessing internal bank risk bearing capacity concepts and the current status of the discussions held throughout the sector on the subject. The objective was also to further strengthen risk management within the NORD/LB Group and to take into account changed economic framework conditions and associated higher volatility.

The RBC model comprises three perspectives, Going Concern, Gone Concern and Regulatory, in each of which the significant risks (risk potential) are compared with the defined risk capital.

The Going Concern case represents the authoritative control loop for the assessment of the risk bearing capacity and the adequacy of the equity position (ICAAP). The superior guiding principle of this control loop is the independent going concern as per the bank's existing business model, including if the available cover pool has been drained by risks that have been incurred. It compares economically determined risk potentials to a risk capital fund comprising free regulatory equity i.e. that exceeds the defined overall and core capital ratios, at a confidence level of 95 % (which is lower than the other two perspectives). In addition, other effects on risk capital are also taken into account within the scope of a dynamisation process.

The second and third perspectives are based on a higher confidence level of 99.9 % on the risk potential side. For the Gone Concern perspective, economically calculated risk potentials are used, and for the regulations, the risk potentials calculated according to regulatory provisions. The capital side, both in the Gone Concern and the Regulatory perspective, is based on equity and near-equity components, which, according to regulatory rules on capital stock, must be taken into account. In the Gone Concern, there is an adjustment of the risk capital in relation to various aspects (e.g. by taking into account hidden liabilities). Presuming all other conditions remained the same, once the capital needed to cover risks in the Gone Concern is used up, it would theoretically no longer be possible for the bank to continue to exist.

The Gone Concern approach represents a subsidiary condition within the RBC model, the Regulatory one is a strict subsidiary condition. When defining strategic limits on the basis of this risk bearing capacity analysis, the risk capital allocations for the Going Concern case specified under the bank's risk strategy are taken into consideration.

When determining the risk-bearing capacity, risk concentrations are also taken into account, both within a risk category and across risk categories. Concentrations within a risk category essentially related to credit risks as the most important risk category at NORD/LB Luxembourg. These are integrated into the RBC model via the internal credit risk model and flow into the economic risk potentials.

Concentrations across risk categories are taken into account via the stress test. When selecting the stress scenarios, NORD/LB Group's core business and risks are drawn upon as selection guidelines. Amongst others, this includes selecting sectors, segments, regions and customers that have a decisive influence on the risk situation of the Group. These risk concentrations are regularly determined, reported and monitored with targeted stress tests in the context of risk-bearing capacity.

The relevant scenarios are ascertained at NORD/LB Group level and must be applied as a standard across all individual companies in order to ensure comparability between the banks and to ensure that it is possible to aggregate them into group values.

Both for the requirements of MaRisk (AT 4.3.3) and of Circular CSSF 11/506 of 11 March 2011, inverse stress tests are to be carried out for NORD/LB Luxembourg. Inverse stress tests analyse the kind of events that could threaten the bank's ability to survive should the original business model prove no longer viable or sustainable, or if, for example, there was insufficient equity or liquidity. Inverse stress tests complement the other stress tests by imputing unfavourable events or combinations of unfavourable events which could lead to such a situation. Stress tests are carried out on an annual basis using standard methods across the Group.

The quarterly reports prepared by Risk Controlling on the risk-bearing capacity (RBC reports) constitute the main instrument for risk reporting to the Board and the supervisory bodies at overall bank level. These are used to regularly check compliance with the specifications of the risk strategy regarding the appetite for risk and allocation of the risk capital to the primary risk categories. Furthermore, the bank’s risk-bearing capacity is always assessed during the bank’s regular supervisory board meetings.

Further developments were taken into consideration in the RBC model for the first time as per reporting date 31 March 2012; the comparative reporting date of 31 December 2011 was recalculated on the basis of the changes in method.

## Risk Management – Development in 2012

Following the integration of personnel from NORD/LB CFB into NORD/LB Luxembourg in the first half of 2012, economic management (ICAAP) may be performed solely on a consolidated basis in the NORD/LB Luxembourg Group as of 30 September 2012 with the approval of the CSSF. This also comprises regular reporting on risks and capital to the steering committees, so that only one RBC report is prepared at NORD/LB Luxembourg Group level as of 30 September 2012.

The utilisation of risk capital in the going concern scenario for the NORD/LB Luxembourg Group can be seen from the following table:

| EUR million | Risk-bearing Capacity 31.12.2012 | | Risk-bearing Capacity 31.12.2011[1] | |
|---|---|---|---|---|
| **Risk capital** | **288** | **100 %** | **320** | **100 %** |
| Credit risks | 51 | 18 % | 45 | 14 % |
| Participation risks | 0 | 0 % | 0 | 0 % |
| Market price risks | 15 | 5 % | 20 | 6 % |
| Liquidity risks | 10 | 3 % | 9 | 3 % |
| Operational risks | 2 | 1 % | 3 | 1 % |
| **Total risk potential** | **78** | | **76** | |
| **Utilisation** | | **27 %** | | **24 %** |

[1]) The previous year's figures were recalculated to take account of changes in method.

NORD/LB Luxembourg did not enter into any significant new risk positions over the course of the year. The rise in credit risks, which is primarily the result of the rating downgrade of Spanish banks, is almost totally compensated by the lower market price risks, so that the risk potential in comparison to 31 December 2011 has only risen slightly overall. The downgrade of the ratings of Spanish banks and hence also of the covered bonds they issue, also leads to an increase in risk assets and therefore make a considerable contribution to the reduction of the risk capital. Nevertheless, the utilisation level in the NORD/LB Luxembourg Group is still comfortable at 27 %.

A risk potential in the sum of EUR 66 million on the reporting date is attributable to NORD/LB Luxembourg's portfolio. The most significant risk type here too is credit risks with a share of EUR 35 million. These appeared to be almost unchanged over the course of the year, while the market price risks have fallen significantly and therefore lead to a declining risk potential overall in comparison to 31 December 2011 (–7 %).

### Risk Management – Outlook

The event stress scenarios that apply in the context of the RBC model will be adjusted to the going concern case relevant to control across the Group as at 31 March 2013.

In addition, the group-wide stress test programme will also be revised with regard to the fourth amendment to MaRisk and the minimum requirements for the contents of recovery plans (MaSan) likewise to be observed in 2013. The bank will update its bank-specific stress tests in the process.

## Credit Risk

Credit risk is a component of counterparty risk and is subdivided into classic credit risk and counterparty risk in trading. The classic credit risk describes the risk of a loss occurring because of the failure or decline in creditworthiness of a borrower. The counterparty risk in trading describes the risk of a loss occurring because of the failure or decline in creditworthiness of a borrower or contractual partner in trading transactions. This is sub-divided into the default risk in trading, replacement, settlement and issuer risk:

- Credit risk in trading is the risk of a loss occurring because of the failure or decline in creditworthiness of a borrower. It is equivalent to the classic credit risk and relates to money market transactions.
- Replacement risk is the risk of the contracting partner defaulting in a pending transaction with positive present value and that this transaction with a loss has to be replaced.
- Settlement risk is broken down into advance delivery risk and final settlement risk. Advance delivery risk is the risk of there being no compensation by the contracting partner following the bank's own performance when a trans-

action is settled or of the compensation not being paid upon netting of payments. Processing risk is the risk of it not being possible to settle transactions mutually at or after the contractually agreed time of fulfilment.

- Issuer risk is the risk of a risk being incurred as a result of the failure or decline in creditworthiness of an issuer or a reference debtor.

As well as the original credit risk, there is a country risk (transfer risk) associated with international transactions. This includes the risk of a loss occurring because of overriding state restraints, despite the ability and willingness of the counterparty to fulfil its payment obligations.

## Credit Risk – Management

**Strategy**
NORD/LB Luxembourg sees itself as a Eurobank with a focus on lending business. This is reflected in the availability of resources in general and in the capital allocation specifically. The chosen market presence as a Eurobank means that the bank's loans portfolio has a broad diversification.

The bank's lending business is focussed on the cooperative/transfer lending business with NORD/LB. There has been successful and trusting cooperation for many years in this field.

In the Private Banking sector, the bank issues loans in exchange for assets within the scope of secured private customer lending. Furthermore, the bank offers customers with a private banking background finance for property. Cover is provided by means of land charges or similar securities.

NORD/LB Luxembourg also concentrates on business with good counterparties in the capital market business. Credit risks are managed within the business segment Financial Markets.

**Structure and Organisation**
In accordance with the requirements of the Luxembourg bank supervisory authorities, lending business processes are characterised by a clear organisational separation of the front and back office, right up to board level.

The organisational units Loans (Lending – Market segment) and Credit Risk Management (Lending – Back office activities), Financial Reporting, Risk Controlling, Financial Markets and Business Development in particular are integrated into this system.

## Credit Risk – Control and Monitoring

Early identification and recognition of critical situations form the basis for the effective management of credit risks. For this reason, a number of processes, systems and instructions are in place for portfolios and for individual borrowers, and these correlate to form a system for the early recognition and effective management of risks or the initiation of measures to limit those risks.

The bank's credit risk management is based on the concepts of NORD/LB and is continuously improved in accordance with economic and regulatory criteria and, if necessary, adjusted to the bank's specific characteristics.

In order to assess the credit risk of individual borrowers, a rating or credit rating category is determined for each borrower through an initial or annual creditworthiness assessment or on an ad-hoc basis and provided to NORD/LB Luxembourg.

In order to control the risks at individual transaction level, specific limits are set for each borrower within the scope of the operational limiting, which act as an upper lending limit. A major parameter for determining the limits are the creditworthiness of the debtor, expressed through a rating grade.

Risk concentrations and correlations at portfolio level are portrayed within the scope of the quantification of the credit risk potential in the credit risk model. Moreover, risk concentrations at NORD/LB Group level are limited and monitored via so-called strategic limiting for the identification and monitoring of risk concentrations at country and sector level as well as on the basis of borrower units within the scope of the Large Exposure Management limit model. In addition to this superior limiting, there is also limiting of counterparty, country and sector concentrations at NORD/LB Luxembourg Group level with reference to the RBC of the NORD/LB Luxembourg Group.

The independent monitoring of the portfolio in relation to strategic and operational standards is performed by NORD/LB Luxembourg's Finance division.

For this purpose, the bank's Financial Reporting division creates a quarterly counterparty risk report as part of the management information system for the Board of Directors and for members of the counterparty risk committee, in order to make existing risks or risk concentrations transparent at an early stage and, if required, introduce necessary measures.

The counterparty risk report contains a detailed and comprehensive presentation and analysis of the counterparty risk of the bank at an overall portfolio level according to various aspects. The counterparty risk report also features a stress test. The exposure considered comprises all of the assets, including possible liabilities and approvals, as well as derivatives and repo transactions. The counterparty risk report is based on the data from the regulatory reporting process. All of the above processes are performed on the basis of the IRB base rate.

Financial Reporting creates a so-called counterparty risk reports at bank and group level as an additional instrument to control and monitor the credit risks. The relevant decision-makers are provided with information about the current situation of the group portfolio on a timely basis through the aggregated presentation of the counterparty risks of the NORD/LB Luxembourg Group.

The monthly Credit Risk Watchlist is prepared by Credit Risk Management for the purpose of monitoring borrowers with poor credit ratings. The list is prepared and commented on at NORD/LB Luxembourg Group level.

## Credit Risks – Assessment

Credit risk is quantified on the basis of the risk figures Expected Loss and Unexpected Loss. Expected loss is determined on the basis of one-year default probabilities taking into account recovery rates or resultant loss ratios.

The unexpected loss for the credit risk is quantified across the Group with the aid of an economic credit risk model for different confidence levels and a time horizon of one year. The credit risk model used by the NORD/LB Group incorporates correlations and concentrations into the risk assessment and is subject to an annual review and validation.

The credit risk model determines the unexpected loss at the level of the overall portfolio. The model used is based on the basic model CreditRisk+. It involves representing systematic sector influences on the distribution of loss using correlated sector variables. The estimate of the Probability of Default (PD) draws on the internal rating procedure. The loss quotas (Loss Given Default – LGD) are defined specific to the transactions.

The credit risk model works with a simulation process, which also takes into account specific interdependences among the borrowers themselves, e.g. on the basis of group structures. In addition to losses through default, losses which could emerge from rating migrations are also taken into account.

The methods and procedures for quantifying risk are coordinated among the main companies in the NORD/LB Group in order to ensure a standardised approach within the Group. The current risk management and control procedures are carried out for the bank by the Finance and Credit Risk Management divisions of NORD/LB Luxembourg taking into account any characteristics specific to the bank.

## Credit Risk – Development in 2012

The maximum credit default risk amount for reported and off-balance sheet financial instruments is EUR 16.8 billion on the reporting date and has fallen by 3.3 % in 2012.

| Risk-bearing Financial Instruments<br>EUR million | Maximum Default Risk Amount<br>31.12.2012 | Maximum Default Risk Amount<br>31.12.2011 |
|---|---|---|
| Loans and advances to banks | **3,317** | 4,325 |
| Loans and advances to customers | **4,314** | 3,854 |
| Financial assets stated at fair value through profit or loss | **496** | 605 |
| Positive fair values from hedge accounting derivatives | **48** | 43 |
| Financial assets | **6,339** | 6,313 |
| **Sub-total** | **14,515** | 15,139 |
| Non-utilised loan commitments | **915** | 963 |
| Guarantees for third-party invoices | **1,363** | 1,258 |
| **Total** | **16,793** | **17,360** |

In comparison to the following tables on overall exposure, which are based on the data provided internally to management, the maximum credit default risk amount in the above table is shown at book value.

The differences between the total of the overall exposure according to internal reporting and the maximum credit default risk amount result from the different areas of application, from the definition of the overall exposure for internal purposes and different accounting and valuation methods.

The basis for the calculation of the credit exposure is the drawdown (in the case of guarantees, the nominal value; in the case of securities, the book value) and the credit equivalents from derivatives (including add-on and taking into account netting). Irrevocable lending commitments are included in the credit exposure at 45 % (previous year 61 %) and revocable credit commitments at 25 % (previous year 5 %) while securities are not taken into account.

**Analysis of credit exposure**

The credit exposure as per 31 December 2012 is EUR 21.5 billion (previous year EUR 21.6 billion).

NORD/LB Luxembourg uses the standard IFD rating scale, with is the rating scale agreed by the banks, savings banks and associations who are part of the Initiative Finanzstandort Deutschland (IFD – Initiative of the Financial Centre Germany), to classify the credit exposure according to rating categories. This has been designed to improve the comparability of the various rating levels of the individual financial institutions. The uniform Group-rating categories of the 18-step DSGV rating master scale used by NORD/LB Luxembourg can be transposed directly to the IFD categories.

The following table shows the rating structure of the whole credit exposure – divided into product categories and the totals compared with the structure of the previous year:

| Rating Structure [1) 2)] EUR million | Loans [3)] | Securities [4)] 31.12.2012 | Derivatives [5)] | Other [6)] | Total 31.12.2012 | 31.12.2011 |
|---|---|---|---|---|---|---|
| very good to good | 11,043 | 6,970 | 637 | 0 | 18,650 | 18,609 |
| good/satisfactory | 1,009 | 67 | 4 | 0 | 1,080 | 1,185 |
| still good/adequate | 717 | 189 | 5 | 0 | 910 | 976 |
| increased risk | 472 | 42 | | 0 | 514 | 418 |
| high risk | 123 | | | 0 | 123 | 139 |
| very high risk | 83 | | | 0 | 83 | 82 |
| Default (=NPL) | 182 | 0 | 3 | 0 | 185 | 209 |
| **Total** | **13,629** | **7,267** | **648** | **0** | **21,544** | **21,618** |

1) Classification in accordance with IFD rating categories.
2) Differences in amount are rounding differences.
3) includes loans taken up or loan commitments, guarantees and other non-derivative off-balance sheet assets, with respect to which irrevocable credit commitments are included at 45 % and revocable ones at 25 % as in the internal report.
4) includes the bank’s own stocks of securities of external issuers (investment book only).
5) includes derivative financial instruments, such as financial swaps, options, futures, forward rate agreements and currency transactions.
6) includes other products such as transmitted loans and administrative loans.

The majority of total exposure (86.6 %) is in the “very good to good” rating category. The proportion of this rating, the best rating category, in the total exposure continues to be very high due to the large volume of business conducted with financing institutions and public administrative offices.

The classification of total credit exposure into sectors is as follows:

| Sectors [1) 2)] EUR million | Loans [3)] | Securities [4)] | Derivatives [5)] | Other [6)] | Total 31.12.2012 | Total 31.12.2011 |
|---|---|---|---|---|---|---|
| | 31.12.2012 | | | | | |
| Financial institutes/insurers | 8,924 | 5,690 | 629 | 0 | **15,243** | **16,237** |
| Service industry/other | 1,882 | 1,577 | 4 | | **3,462** | **2,729** |
| of which real estate and residential | 402 | | | | 402 | 476 |
| of which public administration | 540 | 1,577 | | | 2,117 | 1,578 |
| Transport/ news broadcasting | 452 | | | | **452** | **413** |
| of which shipping | 14 | | | | **14** | **14** |
| of which air transport | 30 | | | | **30** | **0** |
| Processing industry | 1,389 | | 3 | | **1,392** | **1,227** |
| Energy, water supply, mining | 653 | | 7 | | **661** | **536** |
| Trade, maintenance, repair | 285 | | 5 | | **290** | **253** |
| Agriculture, forestry and fishing | 4 | | | | **4** | **1** |
| Construction industry | 40 | | | | **40** | **52** |
| Other | | | | | **0** | **169** |
| **Total** | **13,629** | **7,267** | **648** | **0** | **21,544** | **21,618** |

1) Classified as per the internal report according to economic critieria.
2) to 6) see previous table on rating structure.

The table shows that the business with financial institutions/insurers of good creditworthiness, which until now was relatively low-risk, with a total share of 70.8 %, continues to make up a significant share of the total exposure. Including public administration, the proportion of the overall exposure amounts to 80.6 %.

A breakdown of the total credit exposure by region is as follows:

| Regions [1) 2)] EUR million | Loans [3)] | Securities [4)] | Derivatives [5)] | Other [6)] | Total | |
|---|---|---|---|---|---|---|
| | | 31.12.2012 | | | 31.12.2012 | 31.12.2011 |
| Euro states | 11,561 | 6,303 | 472 | 0 | **18,335** | **16,518** |
| of which Germany | 7,765 | 2,012 | 231 | 0 | **10,008** | **7,544** |
| Other Europe | 908 | 609 | 96 | 0 | **1,613** | **2,784** |
| North America | 1,090 | 133 | 80 | 0 | **1,303** | **1,259** |
| Latin America | 8 | 60 | | 0 | **68** | **100** |
| Middle East/Africa | 9 | | | 0 | **9** | **21** |
| Asia | 53 | 162 | 0 | 0 | **216** | **472** |
| Other | | | | 0 | **0** | **464** |
| **Total** | **13,629** | **7,267** | **648** | **0** | **21,544** | **21,618** |

1) Classification in line with internal reporting according to economic critieria.
2) to 6) see previous table for rating structure.

The bank invests almost exclusively in economically strong regions. The country risk tends to be of low importance due to the good country ratings. The euro area, with a high proportion (85.1 %) of the loans, continues to be the most important business region by far.

**Non-Performing Loans (NPL)**
In accordance with the impairment policy, specific value adjustments are established at the bank for acute borrower's default risks in the event of the presence of objective indications. Loan loss provision requirements are based on a cash equivalent consideration of anticipated interest and redemption payments as well as on earnings from the realisation of collateral.

The latent borrower's default risk for the total amount of reported and off-balance-sheet transactions for which there are no specific value adjustments is accounted for by means of portfolio-based provisions for impairments which have already occurred, but were not known at the reporting date.

The risk provision of the bank is EUR 50.6 million on the reporting date and includes portfolio-based loan loss provisions in the sum of EUR 5.4 million as well as individual loan loss provisions in the sum of EUR 27.4 million. EUR 14.5 million of this is attributable to two borrowers from the service industry and EUR 0.4 million to one borrower in the construction industry. For two borrowers from the processing industry sector, there are individual loan loss provisions of EUR 12.5 million and provisions of EUR 3.5 million. In addition, provisions for EUR 14.3 million for off-balance sheet risks were established.

## Credit Risk – Outlook

In 2013, measures are planned for the further optimisation of the models for the quantification and control of credit risks. As well as further developing the economic credit risk model (including implementing idiosyncratic migrations and expansion of the sector schematic), the loss data collection for the validation of the components LGD and Credit Conversion Factor (CCF) will also be further expanded.

## Participation Risk

Participation risk is also a component of counterparty risk. It describes the risk that losses may arise by providing equity to third parties. On top of this, participation risk also includes the risk of a potential loss because of other financial obligations, if it has not been taken into account in other risks.

As well as the original participation risk, there is the country risk in the case of international capital services (transfer risk).

### Participation Risk – Management

**Strategy**
The essential motive behind the investment strategy of NORD/LB Luxembourg is to secure and strengthen its own market position. The secondary aim is to suitably complement the business activities of the NORD/LB Group. Participating interests with no relation to the banking industry are not part of the focus of the business model.

NORD/LB Luxembourg's interests in relation to the investments are protected mainly using centrally-specified key economic figures, (risk) strategic objectives or definite terms of reference. The objectives are the effective control of the NORD/LB Luxembourg Group, ensuring the specifications of a conservative risk policy are met and guaranteeing transparency towards third parties.

**Structure and Organisation**
The measurement, monitoring and reporting of participation risks is the organisational responsibility of the Risk Controlling division, which monitors the participation risk in cooperation with other divisions, particularly Financial Controlling, and provides the necessary information to the relevant decision makers. The operational and strategic control of participations and the associated risks is carried out by the Board of NORD/LB Luxembourg.

As the group's auditor, internal auditing is also integrated into the monitoring of the participations.

### Participation Risk – Control and Monitoring

Participating interests are monitored regularly by analysing reports drawn up during the year, interim and annual financial statements, and audit reports prepared by the external auditors. The bank implements control impulses by despatching representatives of NORD/LB Luxembourg to the companies in operational mandates and/or exercising the function of the administrative board. Moreover, the bank has established Group-wide committees, in which likewise control-relevant subjects are discussed.

### Participation Risk – Development in 2012 and Outlook

The composition of the investment portfolio remained unchanged in the year under report 2012.

In accordance with the resolution of the board of the Swiss bank, Skandifinanz AG in 2010, all business activities had already been reduced in 2011. There is no longer a strategic relevance for this participation.

NORD/LB Luxembourg implemented the full integration of NORD/LB CFB in terms of personnel and organisation into its control on 1 April 2012 whilst maintaining the status of an autonomous legal entity. By synchronising processes, responsibilities and the governing bodies between parent bank and subsidiary, additional efficiency gains can be made. The covered bond business still remains an important strategic component in the business model of the NORD/LB Luxembourg Group.

## Market Price Risk

Market price risks are potential losses which may be incurred as a result of changes in market parameters. The bank has further divided market price risk into interest rate risk, currency risk, volatility risk and credit spread risk.

Interest rate risks will always occur when the value of a position or portfolio reacts sensitively to changes in one or

more interest rates or to changes in complete interest rate curves and these changes may result in an impairment of the position.

Currency risks (or exchange rate risks) arise when the value of a position or portfolio reacts sensitively to changes in one or more currency exchange rates and if changes to the exchange rates could impair the position.

The volatility risk describes the risk that the value of an option position might react to potential price changes resulting from market movements in the volatilities used to value the option, and that these changes could lead to a reduction in value of the position.

The credit spread risk denotes potential price changes which arise if the credit spread applicable to the respective issuer, borrower or reference debtors and used in terms of the market valuation of the position changes.

## Market Price Risk – Management

**Strategy**
The activities of Financial Markets that are associated with market price risks are concentrated on selected markets, customers and product segments. The positioning of NORD/LB Luxembourg in the money, foreign exchange and capital markets should correspond to the importance and size of the bank and is orientated primarily to the needs of clients and towards supporting overall bank management. NORD/LB Luxembourg does not operate any opportunistic positioning beyond this.

The focus of the trading activities is in interest rate products and in particular in the Financial Markets segment. The biggest risk positions result from interest rate derivatives and securities. The aim is to generate results within the scope of the established market price risk limits from maturity transformation or from credit spreads and to participate in the general market developments within the framework of these risk limits.

**Structure and Organisation**
All divisions that manage market price risk bearing positions and bear gains and losses arising from market changes are included in the process of controlling market price risks. Monitoring of the risks is carried out by Risk Controlling.

In accordance with national requirements and the German MaRisk, Risk Controlling operates independently of the divisions responsible for market price risk management, both in terms of function and organisation, and performs various monitoring, limiting and reporting activities for the bank.

## Market Price Risk – Control and Monitoring

In order to control and monitor the market price risks of NORD/LB Luxembourg, a standardised Value-at-Risk (VaR) procedure is used throughout the NORD/LB Group. The credit spread risks of the liquidity reserve and the trading book are integrated into this.

The value-at-risk key figures are determined on a daily basis using the method of historical simulation. A unilateral confidence level of 95 % and a holding period of one trading day are applied throughout the Group. The analysis is based on historical changes to risk factors over the last twelve months. The models take account of direct and indirect correlation effects between the risk factors and subportfolios.

Within the scope of the daily control a limit was set for the value-at-risk value, which is derived from the going-concern perspective of the risk-bearing capacity. Any losses in the trading book and the banking book are immediately added to the loss limits and lead to a reduction of the value-at-risk limits following the principle of self-consumption.

The prediction quality of the value-at-risk model is verified with comprehensive backtesting analyses. This involves the comparison of the daily change in value of the respective portfolios with the value-at-risk of the previous day. A so-called backtesting outlier occurs if the negative change in value observed exceeds the value-at-risk. The number of outliers in the trading and banking books were both in the green region in accordance with the Basel traffic light approach at overall bank level.

The effects of extreme changes on the markets on the risk position of the bank are determined on a daily basis in addition to the value-at-risk. For each of the risk types interest rate, currency, credit spread, and volatility risks various stress scenarios were defined, which approximately reflect the highest changes of the respective risk factors, which were observed in the last five to ten years over a period of ten trading days.

As well as this, interest rate sensitivities are calculated on a daily basis. These are reported in the daily report in aggregated form for each currency at the level of the individual portfolios, for the various product types and in maturity bands.

In order to refine internal control at bank level, a credit spread value-at-risk method is implemented at NORD/LB Luxembourg using the method of historical simulation, which also takes into account the credit spread risks of the asset. This method is based on a unilateral confidence level of 95 % and a holding period of 250 days. The limitation of the liquidity reserve following the principle of self-consumption arises from the aforementioned standard group value-at-risk control. The non-self-consuming limits for the credit spread value-at-risk of the assets are derived from the gone concern scenario of the risk-bearing capacity.

In addition, the credit spread risks are determined via a standard group scenario analysis and limited separately.

## Market Price Risks – Reporting

In compliance with MaRisk requirements, Risk Controlling, which is independent of the divisions responsible for the positions, reports the market price risks to the Board of Directors on a daily basis.

## Market Price Risks – Development in 2012

On 31 December 2012, the value-at-risk limit of NORD/LB Luxembourg is EUR 6.1 million. The value-at-risk (confidence level of 95 % and holding period of 1 day), which is calculated on a daily basis, was EUR 0.8 million on 31 December 2012. (previous year EUR 1.8 million). The utilisation of the market price risk limit (value-at-risk limit) at NORD/LB Luxembourg was 23.2 % on average through the year (previous year 19.1 %); the maximum utilisation was 34.2 % (29.3 %) and the minimum utilisation 9.0 % (11.4 %).

The spread of the overall risk according to risk type as at 31 December 2012 is shown in the following table:

**VaR according to Risk Factor: FX, Interest, Vega and Credit Spread**
Per Portfolio

**as at 31.12.2012 in KEUR**

| Risk Factor | FX | Interest | Vega | Credit Spread |
|---|---|---|---|---|
| **Total bank** | **+221** | **+723** | **+0** | **+733** |
| Total bank excl. EC | +198 | +676 | +0 | +733 |
| Liquidity reserve | +0 | +0 | +0 | +730 |
| Banking book | +222 | +473 | +0 | +0 |
| Trading book | +0 | +19 | +0 | +5 |

Abbreviation: EC = Equity Capital

The security positions connected to the interest rate and liquidity control of the Financial Markets division lead to an emphasis on the market price risks from credit spreads.

As at 31 December 2012 the interest sensitivities are as follows:

**Sensitivities (Interest)**
Present Value of a Basis Point (PVBP) per Portfolio and Currency

as at 31.12.2012 in KEUR

| Currencies | AUD | CAD | CHF | CZK | DKK | EUR | GBP | HKD | HUF | JPY | NOK | NZD | PLN | SEK | TRY | USD | ZAR | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bank total** | **+0** | **+0** | **–7** | **–0** | **+0** | **–171** | **+2** | **+0** | **+0** | **–1** | **+0** | **+0** | **+0** | **+0** | **+0** | **–10** | **+0** | **–187** |
| Bank total excl. EC | +0 | +0 | –7 | –0 | +0 | –119 | +2 | +0 | +0 | –1 | +0 | +0 | +0 | +0 | +0 | –10 | +0 | –135 |
| Banking book | +0 | +0 | –7 | –0 | +0 | –174 | +2 | +0 | +0 | –1 | +0 | +0 | +0 | +0 | +0 | –10 | +0 | –190 |
| Trading book | +0 | +0 | +0 | +0 | +0 | +2 | +0 | +0 | +0 | –0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | +2 |

Abbreviation: EC = Equity Capital

Emphases in the field of interest rate risk are in the main trading currencies, in particular EUR and USD.

With regard to the interest rate risks in the investment book, the effects of a standardised interest rate shock are also analysed monthly in accordance with the requirements of SolvV. The result continues to be far below the regulatory threshold, which provides for a maximum proportion of 20 % of authorised equity capital.

The credit spread risk via the Group's standardised scenario analysis (holding period ten days) at NORD/LB Luxembourg is limited to EUR 40.0 million. The utilisation was an average of 39.9 % in 2012, the maximum utilisation at 58.0 % and the minimum utilisation at 25.6 %. As at 31 December 2012, the credit spread risk via the standard group scenario analysis was EUR 10.3 million (previous year EUR 22.7 million).

The credit spread value-at-risk used at NORD/LB Luxembourg for the purpose of internal control (95 %, holding period 250 days) of the investment assets is limited to EUR 40.0 million. The utilisation was an average of 67.7 % in 2012, the maximum utilisation at 97.5 % and the minimum utilisation at 26.3 %. As at 31 December 2012, the credit spread value-at-risk for the investment assets was EUR 20.2 million (previous year EUR 55.0 million).

### Market Price Risks – Outlook

It is anticipated that market price risks will stay at a stable level in 2013. With respect to the further development of the credit spread risks, we are anticipating a lateral movement or a slight recovery in the credit spread level. In addition, no significant growth in the credit spread risks is expected from new business, since no new transactions are to be conducted against the background of optimising the risk potentials from investment assets in the credit investment book and investments nearing maturity are primarily being replaced by covered bonds.

## Liquidity Risk

Liquidity risks are risks which may result from malfunctions in the liquidity of individual market segments, unexpected events in lending or investment business, or deteriorations in the bank's own refinancing conditions.

The bank differentiates between the following characteristics of liquidity risk within the scope of its liquidity management:

### Classic Liquidity Risk

The classic liquidity risk is defined as the danger that the bank can no longer fulfil its short term payment obligations due to market disturbances induced by external parties or because of unexpected events in the lending or investment business. The aim is to limit the classic liquidity risk by holding sufficient liquid assets in reserve. The observation is focused on the next twelve months.

### Refinancing risk

The refinancing risk is defined as the potential falls in profit which would arise for the bank as a result of the worsening of its own refinancing conditions. This refers to positions

on both the money and capital markets. A period of intraday to indefinite maturity is observed.

## Market Liquidity Risk

Market liquidity risk defines the potential losses that the bank will have to bear if it needs to conclude transactions under conditions which are not in line with the fair market value due to a lack of liquidity in individual market segments. Market liquidity risks can result in the first instance from security positions in the investment books.

## Liquidity Risk – Management

**Strategy**
The liquidity risk strategy of the bank is orientated towards the recommendations published by the EBA on efficient liquidity risk management, the requirements derived therefrom on the part of the Luxembourg regulatory authorities and the Central Bank, as well as the requirements according to MaRisk.

To this end the NORD/LB Luxembourg Group implemented a liquidity strategy, liquidity policy and Contingency Funding Plan, which take these requirements into account.

Ensuring liquidity at all times represents a strategic necessity for the bank.

The focus is essentially on the control of the classic liquidity risk, the control of the refinancing risk and the identification of funding concentrations.

The principles of liquidity control and liquidity control in emergencies are defined in the respective working instructions, in the risk handbook and in the methodology handbook of the NORD/LB Group. As well as this, the Global Group Liquidity Policy (GGLP) describes the strategic guidelines to ensure sufficient liquidity in the NORD/LB Group. The measures for liquidity control in emergencies and crisis situations are described in the GGLP concept (NORD/LB Group).

**Structure and Organisation**
The process of liquidity risk control is the responsibility of the Financial Markets division.

Risk Controlling plays a key role in the introduction and improvement of internal procedures for measuring, limiting, and monitoring liquidity risks, and assumes a control function in the calculation of the refinancing risk as well as in ascertaining and monitoring the classic liquidity risk.

Regular exchanges to improve the models and harmonise methods take place in the form of method boards and telephone conferences.

## Liquidity Risk – Control and Monitoring

The classic liquidity risk is measured with reference to the so-called liquidity stress test (LST), which is generated on a daily basis at NORD/LB Luxembourg Group level.

For this purpose, all liquidity payment flows of the bank are taken into consideration. At the same time, a distinction is made between fixed payments on the one hand and variable/unforeseeable payment flows on the other hand. The amount and due dates of fixed outgoings are known at the time of reporting and are known as deterministic outgoings. The focus is on the modelling of the payment flows that are variable in time and amount in the various scenarios. The selected products are divided into outflows and inflows. The process takes into account, amongst others, externally-induced market distortions and the effects of unexpected events in the lending or deposit businesses in the models.

A distinction is made in the scenarios between one dynamic and three static scenarios.

The dynamic stress test reflects the current or most likely crisis situation.

The static scenarios are split into:

**Market Wide Liquidity Disruption**
On the financial markets, there is a strong financial market-induced liquidity bottleneck which stops inter-bank and customer business. This is significant for the bank in the main trading currencies, which are listed by the competency delegation Financial Markets. This scenario is based on the assumption that the central banks are ready to act and intervene helpfully in the financial market.

**NORD/LB Credit Event:**
NORD/LB's creditworthiness is downgraded or NORD/LB is the subject of negative headlines or rumours. This has a considerable impact on the bank's liquidity situation. The basis for this scenario is currently the loss of the short term ratings A1/P1.

**Market Wide Credit Event**
This event is defined as an international financial crisis, triggered by individual banks or branches and causing a liquidity crisis in the banking world.

Within the scope of the classic liquidity risk, the daily business is managed with reference to the dynamic scenario. For this purpose "Distance-to-Illiquidity" is determined as a factor which must not be fallen short of. Compliance with this key figure is to be reported daily, both to the bank's directors and Risk Controlling (Liquidity Risk) at NORD/LB.

In order to monitor the liquidity risk appetite and risk tolerance using the "Distance-to-Illiquidity", which is calculated at NORD/LB Luxembourg Group level, the bank has defined the following limits:

- risk appetite: 180 days
- risk tolerance: 60 days

These limits are integrated into a group-wide defined traffic light control system of the dynamic scenarios.

There is an escalation process, which ranges from preventative measures when falling below the risk appetite through to triggering the emergency plan when falling below the risk tolerance.

In the context of the refinancing risk and for a more detailed depiction and control of liquidity flows, the whole security portfolio is grouped into different liquidity classes (according to the securities liquidity class concept of the NORD/LB Group) after assessing the liquidity . The resultant liquidity outflow is assessed with reference to the risk of a rise in the cost of refinancing arising from the potential closing of liquidity gaps in the liquidity outflow balance.

A distinction must be made between two drivers here:

- On the one hand, the gap structure of the liquidity outflow balances (all positions), which essentially reflects the normal situation,
- and the refinancing costs in the form of risk spread parameters on the other.

These gaps are assessed and calculated in cash terms at the respective current risk spread parameters. This results in a quantification in cash terms of the liquidity risk within the scope of the risk-bearing capacity concept.

As well as this, volume structure limits are set for the individual maturity bands, which limit the refinancing risk accordingly. The volume structure limits are derived from the risk-bearing capacity and defined at NORD/LB Luxembourg Group level and that of the individual banks.

Furthermore, the limits for the quantification in cash terms of the liquidity risk are calculated on the basis of the (risk) strategy. The bank uses these limits to record a risk appetite in relation to discrepancies. In addition, liquidity outflow balances are generated in relation to individual currencies, in order to obtain the best possible transparency regarding the composition of the positions (currently: USD, CHF, GBP, JPY, REST).

Market liquidity risks are accounted for implicitly by means of distinguishing securities in the liquidity progress review in accordance with their market liquidity. This is undertaken on the basis of the liquidity category concept in operation (consistently across the Group) by classification into various security categories. The illustration in the liquidity maturity balance sheet is undertaken depending on the liquidity category.

## Liquidity Risk – Reporting

The liquidity risk situation in the bank's classic and refinancing liquidity risk is determined daily and provided to the Financial Markets sector as well as the trading board. Any possible overruns in volume structure limits of the refinancing liquidity risk or an amber or red traffic light switch in the classic liquidity risk are reported to the full Board of Directors.

In addition, liquidity outflow balances are prepared on the basis of the refinancing liquidity risk for the monthly asset liability committee meeting at bank and Group level, and are discussed within the scope of the regular meetings.

A liquidity buffer report is calculated at the level of the NORD/LB Luxembourg Group on a daily basis supplementary to the control of the classical liquidity risk in accordance with the requirements of MaRisk. The report provides Trading with daily information on the amount of the free assets, which are available over a period of 7 or 30 days as cover or liquidity buffer.

Within the scope of the monitoring of the refinancing structure, a concentration report is compiled, which contains the analysis of the funding. As well as the liabilities side (balance sheet) concentrations of off-balance sheet obligations

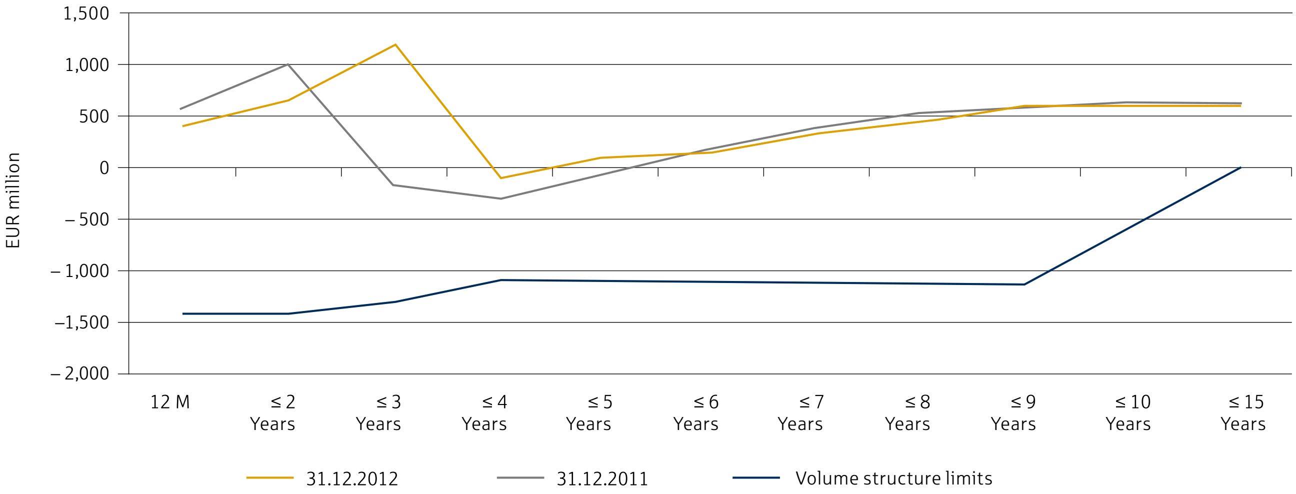
are also reported regularly to the Market division and the directors. The evaluations are consolidated into a group concentration report at Group level.

## Liquidity Risk – Development in 2012

The financial market continues to find itself in a tense mood over the course of 2012. The liquidity resources of NORD/LB Luxembourg were guaranteed at all times. The bank continues to have a balanced funding mix. Due to the business strategy and the local characteristics of the Luxembourg banking centre, there are concentrations with regard to refinancing via banks. As well as this, the cover of the refinancing requirement in the sector "over two years" is carried out predominantly via NORD/LB (uncovered funding).

The aggregated liquidity progress review used for the internal control of the refinancing risk was as follows on the reporting date:

**Cumulative Schedule of Liquidity Flows NORD/LB Luxembourg as at 31.12.2012**




The regulatory requirements were complied with at all times during the year under report.

### Liquidity Risk – Outlook

By managing its liquidity risk to an extent beyond that required by regulatory provisions, the bank ensures that it is always in a position to fulfil its payment obligations on time and that it can raise refinancing funds on the market under reasonable conditions.

The bank is primarily active on liquid markets and maintains a portfolio of high quality securities.

Through careful observation of the markets and active liquidity control it was ensured that the bank was equipped with adequate liquidity at all times during the year under report. For the year 2013, we are not expecting any further substantial increase in the liquidity risks due to active liquidity control.

The methods of risk assessment and the reporting processes are being improved. In particular, new concepts and process for controlling liquidity and liquidity risks regarding the recognition of irrevocable loan commitments and for a stronger consideration of covered refinancing opportunities by separating the liquidity progress review into covered and uncovered sections are being developed.

## Operational Risk

Operational risks are defined as the risk of incurring losses as a result of the inadequacy or the failure of internal procedures, employees and technology, or losses which occur as a result of external influences. This definition includes legal risks as well as reputational risks as consequential risks. As far as the NORD/LB Group is concerned, compliance risk, outsourcing risk, risk associated with the legal validity of receivables and fraud risk are also constituent parts of operational risk. Strategic risks and business risks have not been included.

### Operational Risk – Management

**Strategy**
There are operational risks in every business activity. The aim is therefore to avoid them – so far as is economically reasonable. The economic consideration that must be made here follows the basic idea of protection against operational risks, so that the costs of protection do not exceed the risk costs that may occur. Compliance with the pertinent legal requirements must be guaranteed at all times.

Operational risks are mostly managed on a decentralised basis, supported by a central methodical framework to identify and assess risks. In order to maintain an up-to-date estimate of the risk situation at all times, numerous pieces of information such as loss events, risk indicators and scenarios are evaluated on an ongoing basis. Depending on the occasion, suitable countermeasures are taken by the specialist divisions responsible. The suitability and effectiveness of the internal management system are reviewed at regular intervals.

**Structure and Organisation**
The Board of Directors, the op-risk officer, internal auditors and all other divisions are involved in the process of controlling operational risks. The Board stipulates the basic method of handling operational risks, taking into consideration the risk situation for the bank as a whole. Within the defined framework conditions, the responsibility for controlling operational risks is decentralised and is borne by the individual divisions. The op-risk officer is responsible for central monitoring and independent reporting on operational risks. This person is also responsible, in cooperation with the NORD/LB, for specifying the methods to be applied, for properly implementing centralised methods, and for coordinating the implementation of decentralised methods. The Internal Audit division is in charge of independently auditing the correct implementation and execution of methods and procedures.

### Operational Risk – Control and Monitoring

Safety concepts and contingency concepts have been put in place for the purpose of protecting persons and tangible assets; among other things, they regulate the use of buildings, the procurement of replacement operating and office equipment, and the supply of energy. The top priority is maintaining the health of employees. Therefore the safety officer, for example, is responsible for the promotion of health and safety at work.

The management of operational risks is supported by a methodical framework for risk assessment. Escalation processes are defined in order to introduce timely targeted measures.

Through a continuous analysis of loss events, risk indicators and scenarios, the causes of risks are to be identified and risk concentrations avoided. The suitability and effectiveness of the internal management system (IMS) is checked at regular intervals (IMS control loop) in terms of

risks. Depending on the occasion, suitable countermeasures are taken. Emergency plans serve to limit damage in the event of unexpected extreme events. In the IT division, instructions on procedures, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Safety concepts and contingency plans supplement the pre-emptive measures in order to prevent loss or damage resulting from the failure, tampering or manipulation of systems and information.

Process-related and structural organisational risks are countered with well-organised structures and procedures. Regular interaction between all of the divisions involved in the process of controlling operational risks is continuously guaranteed.

The bank is sufficiently insured. The legal department is to be consulted with regard to securing legal risks, for example when legal steps are to be initiated and when contracts are concluded.

Natural disasters and terrorist attacks are defined as force majeure. These risks are handled with contingency planning and a disaster recovery centre.

## Operational Risk – Assessment

Since as early as 2005, the bank has been compiling data on loss events arising from operational risks and has classified these events according to cause and effect. There is no "insignificant" level, although a simplified reporting process is applied for gross losses of less than EUR 1000. The data for the loss event database provides the starting point for analyses to support risk management and form an essential building block for a statistical and mathematical risk model.

The compilation of loss events is entered into the DakOR data consortium initiated by the German Federal Association of Public Sector Banks (Bundesverband Öffentlicher Banken Deutschlands e. V., or VÖB) in anonymous form.

The collection of historical loss events is supplemented by future components with the aid of the risk-assessment methods carried out annually at NORD/LB Luxembourg. Expert appraisals provide detailed insight into the risk situation of the bank's individual divisions, so that relevant measures can be determined if necessary. The scenarios and scope of collection are selected on the basis of analyses of various data sources (e.g. loss events and audit reports) with a focus on the risks. The results are incorporated into the internal model and therefore increase the accuracy of measurement.

Risk indicators are used in the NORD/LB Group in order to detect potential risks early and to tackle them with counter measures. The indicators are selected with a focus on the risks and are reviewed regularly to ensure they are up-to-date. Loss events, risk indicators and scenarios are furthermore subject to a continuous and comparative analysis in order identify the causes of risks and avoid risk concentrations.

The NORD/LB Group has an internal model to measure the operational risk. It also uses a loss distribution approach, which utilises the elements of the extreme value theory. The distribution parameters are determined on the basis of internal data, scenario analyses and external data from the DakOR consortium. Correlation effects are modelled with the aid of a Gauss copula. Risk indicators in the critical zone are added to the model. The value-at-risk calculated using the model is used as an internal control parameter for operational risks in the RBC model.

An allocation procedure, which combines the size indicators with risk-sensitive elements, is used to distribute the results of the model across the NORD/LB Luxembourg Group.

The methods and procedures introduced in the NORD/LB Group fulfil the requirements of Section 272 of SolvV on the use of the standard approach for operational risks. Amounts qualifying for recognition in terms of operational risk were determined using this approach in the year under report.

## Operational Risk – Reporting

Within the scope of this continuing risk management process, the results from the collection of loss events, risk assessment, risk indicators and the internal model are analysed and communicated to the Board on a quarterly basis and the competent divisions on occasion, but at least once a year. All results are included in the quarterly RBC report.

The Board of Directors and Supervisory Board are informed of the key results about the appropriateness and effectiveness of the internal control system and the analyses of the Compliance department at least once a year.

## Operational Risk – Development in 2012

NORD/LB began to increasingly integrate matters relating to operational risks (such as compliance, fraud preven-

tion, IT risk management, emergency planning, ICS and risk controlling) with one another in the year under report (integrated OpRisk management). Against this background, the first step was to develop a risk matrix, which is aimed at standardising the risk evaluation used across the Group. It will serve as the forerunner for comparable data collections and standard risk reporting, which is scheduled in the second phase.

Within the scope of the improvement of risk monitoring, adjustments were made in the internal reporting and notification processes in the year under report. The control of the operational risk was also further refined and the tracking of measures of the OpRisk management developed more.

As per 31 December 2012, the risk potential for the operational risk according to the internal model (confidence level 95 %, holding period one year) was EUR 2.1 million at NORD/LB Luxembourg.

There were a total of 14 loss events in the NORD/LB Luxembourg Group in the year under report (> EUR 1,000).

### Operational Risk – Outlook 2013

The path to integrated OpRisk management, which was started in 2013, was continued in the NORD/LB Luxembourg Group in 2013. The primary objective is to revise the existing reporting channels and formats and link them closer together and to further extend risk management. The risk matrix compiled in the year under report is also intended to serve as a central management and reporting instrument in the NORD/LB Luxembourg Group.

In terms of security and emergency management, the group-wide standard implementation of the policies and active risk spread in the event of potential deviations will be pushed and developed in the NORD/LB Luxembourg Group. Potential deviations from the security policies are to be recorded in a structured process, documented, evaluated according to a standard schema with regard to their risks and incorporated into the superior reports.

## Other Risks

Apart from the credit, participation, market price, liquidity and operational risks already illustrated, there are no risks identified as significant. The relevant risks of the bank identified as insignificant are however included in a risk buffer in the management of the risk-bearing capacity.

## Summary and Outlook

The bank has accounted for all known risks by employing precautionary measures. The appropriate tools have been implemented in order to identify risks promptly.

The core element of the risk strategy is the risk-bearing capacity model (RBC model). The willingness to take risk is determined on the basis of the risk strategy and risk-bearing capacity; developments are regularly monitored using the RBC model. In the RBC model, the available risk capital is compared with summarised credit, participation, market price, liquidity and operational risks on a quarterly basis. Starting from 30 September 2012, the RBC reporting will only be carried out on a consolidated basis with the approval of the Luxembourg regulatory body. The utilisation rates calculated within the scope of the RBC model during the period under report demonstrate that the risk-bearing capacity was guaranteed at all times. According to the estimation of the bank, there are no risks threatening its existence.

In 2012, NORD/LB Luxembourg fulfilled the regulatory provisions on equity and liquidity at all times. Likewise, the bank accommodated the regulations on large credit limits in accordance with Luxembourg and German law in the past year under report.

The methods and processes that are currently used to control significant risks are subject to ongoing verification and are refined as necessary. More details can be found regarding the risk type-specific improvements being striven for in 2013 in each of the relevant sections.

# Personnel Report

## Number of Employees

NORD/LB Luxembourg expanded its personnel level as follows:

| Reporting Date | 31.12.2012 | 31.12.2011 | Absolute Change | Increase/Decrease (%) |
|---|---|---|---|---|
| NORD/LB Luxembourg | 185 | 170 | 15 | 8.8 % |

With the integration of NORD/LB CFB in terms of processes and structures, the 9 employees of the subsidiary were incorporated into the personnel of the bank on 1 January 2012 and 1 April 2012 respectively.

All members of staff deserve the special recognition of the Board of Directors and Supervisory Board for the company results for the year under report 2012, which can be described as very satisfactory. The bank's success is largely driven by the professionalism and competence of its staff. The Board of Directors and Supervisory Board therefore thank staff for their commitment, motivation and, last but not least, their faithful cooperation.

The further development and qualifications of its staff are very important to the bank. Flat hierarchies enable faster response times, which in a dynamic environment are absolutely essential for lasting success. By offering performance-related pay plus appropriate fringe benefits and promoting an innovative and dynamic team culture, the bank has created opportunities for the personal development of its staff and a motivating and constructive working environment overall.

# Internal Controls and Risk Management within the Framework of Establishing Financial Data and Organisation

## Definition and Objectives

The aim of the internal control system and risk management with respect to financial reporting is for the annual financial statements of NORD/LB Luxembourg to convey a true and fair view of the financial position and performance in accordance with the applicable accounting principles according to the International Financial Reporting Standards, as they are to be applied in the European Union. The term "ICS" (Internal Control System) is used hereinafter.

The aim of proper financial reporting is put at risk by the existence of risks that have an effect on financial reporting. These risks are understood to be the possibility that the above mentioned aim might not be achieved and substantial information in the financial reports could be erroneous. The bank rates information as substantial if its omission or incorrect statement could influence the economic decisions of the addressees. No distinction is made here between individual or cumulative substantial facts.

Risks to financial reporting can arise through errors in business processes. In addition fraudulent conduct can lead to a misrepresentation of information. Therefore the bank must ensure that the risks in relation to erroneous presentation, assessment or reporting of information in financial reports are minimised.

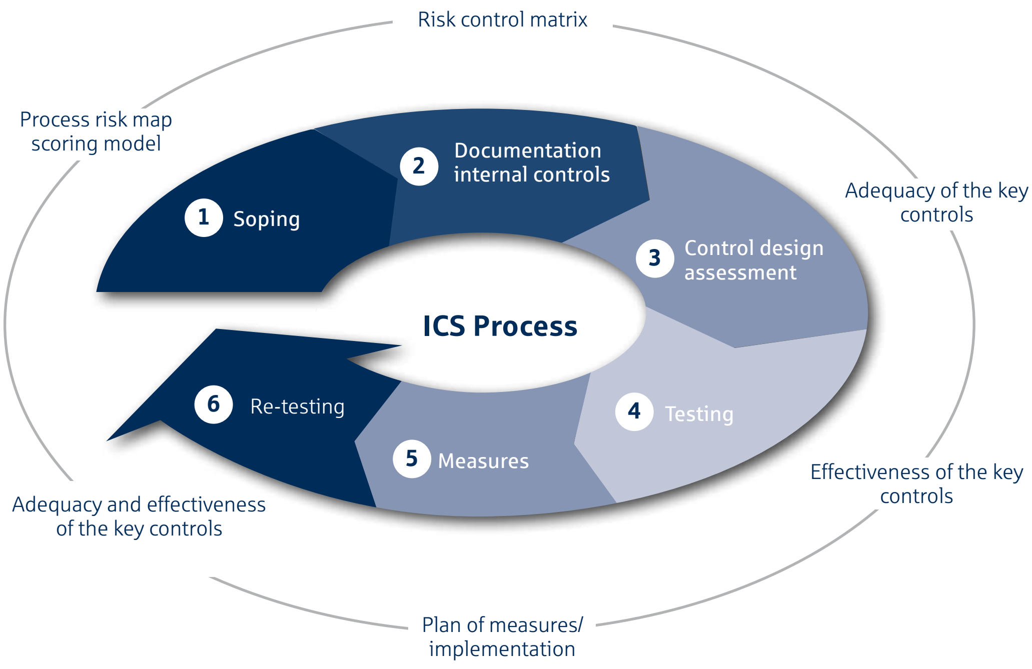
The bank's ICS is designed to ensure adequate reliability in relation to compliance with applicable legal requirements, regularity and sound financial management of the business activities and the completeness and accuracy of the financial reports.

At the same time it must be taken into account that despite all of the bank's measures, the implemented methods and processes of the ICS can never provide absolute reliability but can offer adequate reliability. No substantial changes have been made to the ICS for financial reporting since the reporting date.

## Summary of the Internal Control System (ICS)

The ICS in the NORD/LB Luxembourg sub-group is based on the group-wide methodology of the ICS control loop. This ensures a uniform process for assessing the ICS with reference to the key audits.

### ICS Control Loop



The existing audits are identified using process mapping and/or documentation (scoping). Each key audit is tested with respect to its audit aims (adequacy) and its effectiveness. Measures for rectifying audit weaknesses are created for possible audit gaps and monitored by those responsible for the ICS. Optimised audits with respect to their adequacy and effectiveness are then tested.

The bank's ICS is based on the requirements of the banking supervisory body (CSSF), mainly as specified in circular 98/143, and provides for the following four audit levels:

- daily audits by the personnel performing transactions
- constant critical audits by the persons familiar with the administrative processing of transactions,
- regular audits by the Compliance function and the Members of the Board of Directors,
- checks to be carried out by the internal auditors.

The structural organisation of the bank is defined in an organisational chart, which was created according to the principle of the separation of functions. The joint overall responsibility of the Board of Directors in exercising its powers is borne by the mutual representation of the Member of the Board among other things.

The procedures are regulated in the written organisational rules. They are continually monitored and adjusted with respect to changes in the markets, work procedures and external regulations. Organisational charts, work instructions, process descriptions, forms and informative communications form constituent parts. These binding documents are compiled in the bank's organisational handbook.

The essential business transactions are processed using the 'four eyes principle'. The required separation of functions in the business processes is also safeguarded from an IT point of view. Personal and technical capacities are adapted to the scope and nature of the business activity.

**Compliance Function**

The Compliance function performs its activities in accordance with an audit plan approved by the Board of Directors. The Compliance Officer informs the Board of Directors about the audits carried out and their results on a regular basis.

**Internal Auditing**

The bank has internal auditors whose aims, functions, duties and position within the organisation of the bank are defined by the Board of Directors in an auditing charter. The internal auditors report to the Board of Directors constantly about each audit they have carried out and their findings. The implementation of the necessary measures to rectify deficiencies discovered is monitored by the internal auditors.

# Supplementary Report

There were no significant events between the balance sheet date of 31 December 2012 and the preparation of these financial statements on 28 February 2013 by the Board of Directors.

# Future-related Statements

This report contains future-related statements. They can be recognised through terms such as “expect”, “intend”, “plan”, “seek”, “estimate” and relate to current plans and estimates. These statements contain uncertainties, since a large number of factors that have an effect on the business lie outside the sphere of influence of NORD/LB Luxembourg. These include primarily the development of the financial markets and the changes in interest rates and market prices. The actual results and developments can differ considerably from the statements made today. NORD/LB Luxembourg assumes no responsibility and also does not intend to update the statements relating to the future or to correct them in the event of a development other than that expected.

Luxembourg, 28 February 2013
Norddeutsche Landesbank Luxembourg S.A.

Harry Rosenbaum
Chairman of the Board of Directors
Norddeutsche Landesbank
Luxembourg S.A.

Christian Veit
Deputy Chairman of the Board of Directors
Norddeutsche Landesbank
Luxembourg S.A.

Thorsten Schmidt
Member of the Board of
Directors
Norddeutsche Landesbank
Luxembourg S.A.

Annual Report 2012

NORD/LB Luxembourg

For computational reasons, the following tables may contain rounding differences.
The Notes that follow are an integral part of the Financial Statements.

# Income Statement

Norddeutsche Landesbank Luxembourg S.A., for the year under report from 1 January to 31 December 2012:

| | Notes | 2012 (KEUR) | 2011 (KEUR) |
|---|---|---|---|
| **Net interest income and current income** | **16** | **108,830** | **107,202** |
| Net interest income and current income | | 490,382 | 557,811 |
| Interest expense | | 381,551 | 450,610 |
| **Risk provision in lending business** | **17** | **–18,254** | **18,201** |
| **Net commission income** | **18** | **–1,562** | **–13,375** |
| Commission income | | 23,727 | 24,021 |
| Commission expense | | 25,289 | 37,395 |
| **Profit/loss from financial instruments at fair value through profit or loss** | **19** | **1,369** | **–2,704** |
| Trading profit/loss | | 1,055 | –1,477 |
| Profit/loss from the fair value option | | 315 | –1,227 |
| **Profit/loss from hedge accounting** | **20** | **1,347** | **–4,012** |
| **Profit/loss from financial assets** | **21** | **–1,488** | **–14,368** |
| **Administrative expenses** | **22** | **44,061** | **34,588** |
| Staff expenses | | 21,486 | 17,562 |
| Other administrative expenses | | 19,606 | 15,182 |
| Depreciation of property, plant and equipment | | 2,006 | 1,345 |
| Depreciation on intangible assets | | 962 | 499 |
| **Other operating profit/loss** | **23** | **–2,865** | **4,133** |
| **Earnings before taxes (EBT)** | | **43,316** | **60,488** |
| **Income taxes** | **24** | **8,936** | **14,537** |
| **Net income for the year** | | **34,380** | **45,952** |
| of which attributable to shareholders | | 34,380 | 45,952 |
| of which attributable to non-controlling shares | | 0 | 0 |

The following Notes constitute an integral part of the Financial Statements.

# Overall Profit and Loss Account

The total income for 2012 (2011) of NORD/LB Luxembourg comprises the income and expenses recorded in the profit and loss account and the income and expenses recorded directly in the equity.

Norddeutsche Landesbank Luxembourg S.A., for the year under report from 1 January to 31 December 2012:

| | 2012 (KEUR) | 2011 (KEUR) |
|---|---|---|
| **Net income for the year** | **34,380** | **45,952** |
| Increase/decrease from available for sale (AfS) financial instruments | 97,005 | −92,185 |
| of which unrealised profit/losses | 96,331 | −88,134 |
| of which reclassifications on the grounds of profit/loss realisation | 674 | −4,051 |
| Actuarial gains/losses for defined benefit provisions for pensions | −1,677 | 530 |
| Deferred taxes | −27,303 | 26,397 |
| **Profit/loss recognised directly in equity** | **68,025** | **−65,258** |
| **Total income for the year** | **102,405** | **−19,307** |
| of which due to the shareholders | 102,405 | −19,307 |
| of which attributable to non-controlling shares | 0 | 0 |

The following Notes constitute an integral part of the Financial Statements.

In terms of appropriation of earnings it is intended to pay out a dividend in the sum of EUR 15.0 million to the shareholders. The profit remaining after the payment of dividends will be carried forward.

# Balance Sheet

Norddeutsche Landesbank Luxembourg S.A., for the reporting date 31 December 2012:

| Assets | Notes | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|---|
| Cash reserve | 25 | 75.1 | 138.9 |
| Loans and advances to banks | 26 | 4,063.9 | 4,324.6 |
| Loans and advances to customers | 27 | 4,314.3 | 3,853.8 |
| Risk provisions | 28 | –32.8 | –26.2 |
| Financial assets at fair value through profit or loss | 29 | 507.6 | 604.8 |
| Derivatives – fair values from hedge accounting | 30 | 47.7 | 43.4 |
| Financial assets | 31 | 6,339.4 | 6,313.0 |
| Property, plant and equipment | 32 | 72.2 | 76.5 |
| Intangible assets | 33 | 11.6 | 6.6 |
| Current income tax assets | 34 | 5.1 | 14.6 |
| Deferred income tax assets | 34 | 10.5 | 37.9 |
| Other assets | 35 | 9.5 | 4.2 |
| **Total assets** | | **15,424.0** | **15,392.1** |

| Liabilities | Notes | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|---|
| Liabilities to banks | 36 | 10,993.9 | 9,443.1 |
| Liabilities to customers | 37 | 1,554.5 | 2,379.7 |
| Securitised liabilities | 38 | 1,249.7 | 2,209.0 |
| Financial liabilities at fair value through profit or loss | 39 | 453.9 | 347.6 |
| Derivatives – fair values from hedge accounting | 40 | 334.1 | 260.0 |
| Provisions | 41 | 22.6 | 12.8 |
| Current income tax liabilities | 42 | 5.2 | 2.3 |
| Deferred tax liabilities | 42 | 5.3 | 5.3 |
| Other liabilities | 43 | 35.6 | 23.6 |
| Subordinated capital | 44 | 94.8 | 96.7 |
| **Equity** | 46 | **674.5** | **612.1** |
| Issued capital | | 205.0 | 205.0 |
| Capital reserves | | 0.0 | 0.0 |
| Revenue reserves | | 494.0 | 500.8 |
| Revaluation reserve | | –24.6 | –93.8 |
| Currency translation reserve | | 0.0 | 0.0 |
| **Equity attributable to shareholders** | | **674.5** | **612.1** |
| Shares without controlling influence | | 0.0 | 0.0 |
| Total equity | | **674.5** | **612.1** |
| **Total equity and liabilities** | | **15,424.0** | **15,392.1** |

The following Notes constitute an integral part of the Financial Statements.

# Cash Flow Statement

Norddeutsche Landesbank Luxembourg S.A., for the year under report from 1 January to 31 December 2012:

| | 2012 (EUR million) | 2011 (EUR million) |
|---|---|---|
| **Profit for the year before taxes** | **43.3** | **60.5** |
| Adjustment for non-cash items | | |
| Depreciation, value adjustments and write-ups of property, plant and equipment, write-downs, value adjustments and write-ups of financial assets | 21.2 | 12.2 |
| Increase/decrease in provisions | −0.3 | −1.8 |
| Gains/losses from the disposal of property, plant and equipment and financial assets | 1.5 | −4.3 |
| Increase/decrease in other non-cash items | −1.9 | 6.3 |
| Profit/loss from interest | −108.8 | −107.2 |
| Other adjustments | −2.8 | −56.9 |
| **Sub-total** | **−47.8** | **−91.3** |
| Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items | | |
| Loans and advances to banks and customers | −211.6 | 1,454.9 |
| Other assets and liabilities from operational business activities | 283.0 | −72.9 |
| Liabilities to banks and customers | 334.4 | −1,554.8 |
| Securitised liabilities | −956.3 | −180.5 |
| Interest received | 500.7 | 593.0 |
| Dividends received | 0.1 | 0.0 |
| Interest paid | −388.5 | −484.0 |
| Income taxes paid | 3.5 | 9.9 |
| **Cash flow from operating activities** | **−482.5** | **−325.8** |
| Cash receipts from the disposal of | | |
| Financial assets | 1,608.2 | 1,699.7 |
| Property, plant and equipment and intangible assets | 0.0 | 1.1 |
| Cash payments for the acquisition of | | |
| Financial assets | −1,539.2 | −1,262.2 |
| Property, plant and equipment and intangible assets | −9.6 | −29.3 |
| Increase/decrease in funds from other investment activity | 0.0 | 0.0 |
| **Cash flow from investment activity** | **59.5** | **409.3** |

The following Notes constitute an integral part of the Financial Statements.

| | 2012 (EUR million) | 2011 (EUR million) |
|---|---|---|
| Cash receipts from equity contributions | 0.0 | 0.0 |
| Increase/decrease in funds from other capital | 400.0 | 0.0 |
| Interest expense on subordinated capital | −0.8 | −0.6 |
| Dividends paid | −40.0 | −40.0 |
| **Cash flow from financing activities** | **359.2** | **−40.6** |
| **Cash and cash equivalents at end of the previous year** | **138.9** | **96.0** |
| Cash flow from operating activities | −482.5 | −325.8 |
| Cash flow from investment activity | 59.5 | 409.3 |
| Cash flow from financing activities | 359.2 | −40.6 |
| **Cash flow total** | **−63.8** | **42.9** |
| Effects of exchange rate differences and valuation changes and changes in the basis of consolidation | 0.0 | 0.0 |
| **Cash and cash equivalents at the end of the year under report** | **75.1** | **138.9** |

The following Notes constitute an integral part of the Financial Statements.

# Statement of Changes in Equity

Norddeutsche Landesbank Luxembourg S.A., for the year under report from 1 January to 31 December 2012:

| EUR million | Issued Capital | Capital Reserves | Revenue Reserves | Revaluation Reserve | Currency Translation Reserve | Equity before Shares without Controlling Influence | Shares without Controlling Influence | Equity |
|---|---|---|---|---|---|---|---|---|
| **Equity on 01.01.2011** | **205.0** | **0.0** | **494.5** | **−28.1** | **0.0** | **671.4** | **0.0** | **671.4** |
| Distribution | 0.0 | 0.0 | −40.0 | 0.0 | 0.0 | −40.0 | 0.0 | −40.0 |
| Net income for the year | 0.0 | 0.0 | 46.0 | 0.0 | 0.0 | 46.0 | 0.0 | 46.0 |
| Profit/loss recognised directly in equity | 0.0 | 0.0 | 0.0 | −65.6 | 0.0 | −65.6 | 0.0 | −65.6 |
| Other capital changes | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.4 | 0.0 | 0.4 |
| **Equity on 31.12.2011** | **205.0** | **0.0** | **500.8** | **−93.8** | **0.0** | **612.1** | **0.0** | **612.1** |
| Distribution | 0.0 | 0.0 | −40.0 | 0.0 | 0.0 | −40.0 | 0.0 | −40.0 |
| Net income for the year | 0.0 | 0.0 | 34.4 | 0.0 | 0.0 | 34.4 | 0.0 | 34.4 |
| Profit/loss recognised directly in equity | 0.0 | 0.0 | 0.0 | 69.2 | 0.0 | 69.2 | 0.0 | 69.2 |
| Other capital changes | 0.0 | 0.0 | −1.2 | 0.0 | 0.0 | −1.2 | 0.0 | −1.2 |
| **Equity on 31.12.2012** | **205.0** | **0.0** | **494.0** | **−24.6** | **0.0** | **674.5** | **0.0** | **674.5** |

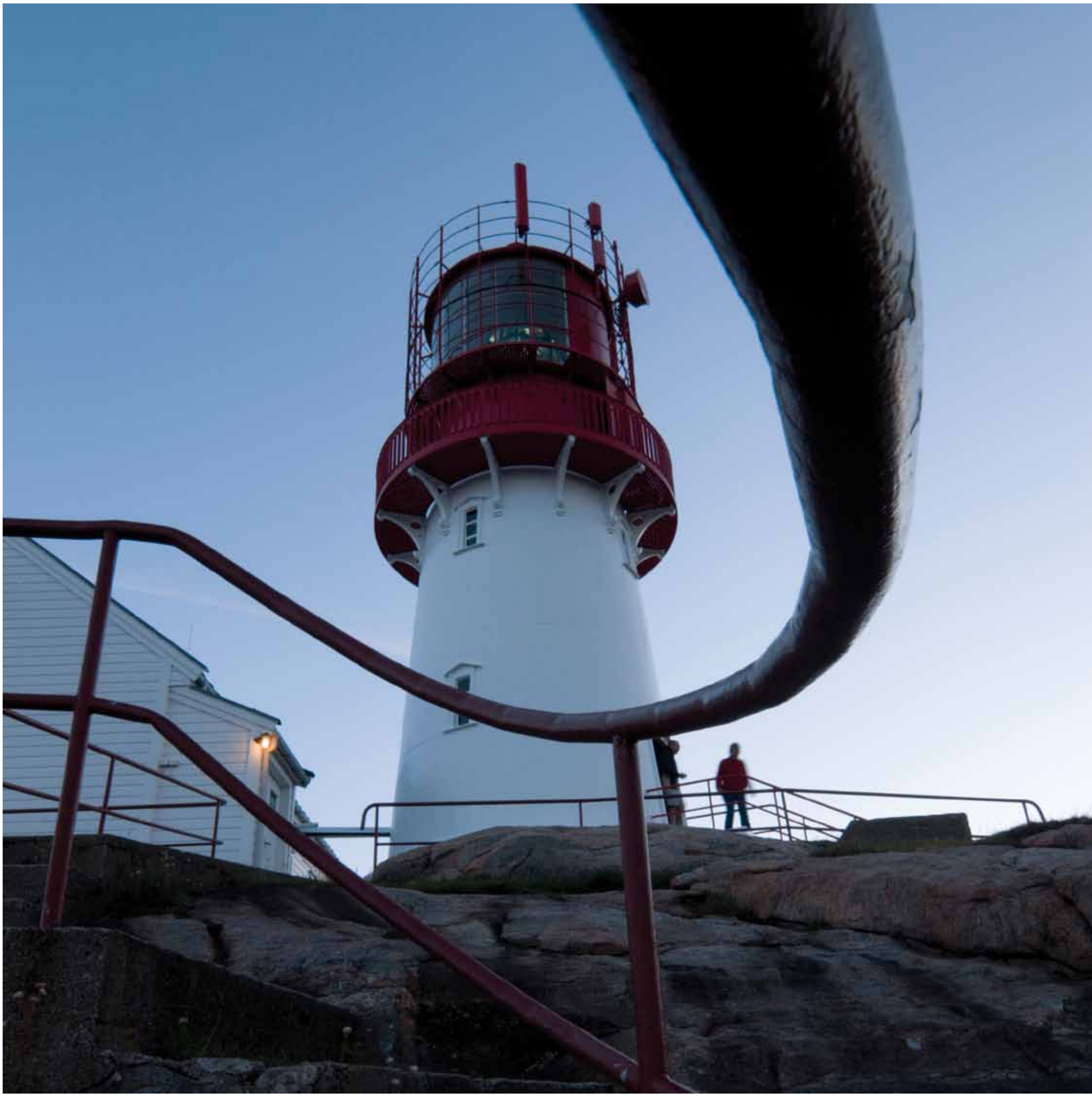
| | In 2012 relating to the year under report 2011 | In 2011 relating to the year under report 2010 |
|---|---|---|
| Dividends (EUR) | 40,000,000.00 | 40,000,000.00 |
| Number of shares | 820,000 | 820,000 |
| Dividends per share (EUR) | 48.78 | 48.78 |

The following Notes constitute an integral part of the Financial Statements.

NORD/LB
Luxembourg

# Notes

Annual Report 2012



NORD/LB Luxembourg

# Accounting Policies

## (1) Principles for the Preparation of the Financial Statements

The financial statements of Norddeutsche Landesbank Luxembourg S.A. (NORD/LB Luxembourg) to 31 December 2012 were prepared in compliance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB). The standards used were those that had been published and adopted by the European Union at the time the financial statements were prepared (see Note (3) Adopted and new IFRS).

The financial statements of the bank to 31 December 2011 were adopted by the general meeting held on 30 March 2012 and formed the basis for the determination and appropriation of profit for the financial year 2011.

The financial statements to 31 December 2012 take into account the national provisions of the Law of 17 June 1992 on the financial statements of banks under Luxembourg law (as amended in March 2009). The financial statements comprise the profit and loss account, the overall profit and loss account, the balance sheet, the capital flow statement, statement of changes in equity and the notes. The reports on the segments are included in the notes. Risk reporting in accordance with IFRS 7 is essentially carried out in the separate report on the risks and rewards of future development (risk report) as part of the management report.

Assets are measured in principle at amortised cost, apart from financial instruments under IAS 39, which are measured at fair value. These financial statements have been prepared under the going concern assumption. Income and expense are amortised on a pro rata basis. They are reported and shown in the period to which they are economically attributable. The fundamental accounting policies are described below.

The reporting and functional currency used in the financial statements is the euro. Unless stated otherwise, all amounts are shown in millions of euros (EUR million) rounded in accordance with sound commercial practice. The statement of percentage differences relates to unrounded figures.

## (2) Discretionary Decisions, Estimates and Assumptions

The estimates and assessments needed from the management in association with the preparation of the balance sheet in accordance with IFRS are in keeping with the respective standard. They are regularly checked and are based on experience and other factors, including expectations regarding future events which appear to be sensible under the given circumstances. If broad estimates were required, the relevant significant assumptions shall be stated. The estimates and judgements themselves, and the factors underlying the judgements and estimating processes, are checked and adjusted to the actual events as they occur. The parameters used are appropriate and tenable. Changes to estimates, if the change concerns only one period, are only taken into account in that period. Where the change concerns the current and subsequent reporting periods, it is taken into consideration in those periods too.

The essential methods are shown below:

### a) Fair Value of Financial Instruments

If there are no active market listings for financial assets or financial liabilities, the fair value is determined using valuation methods. The parameters needed for this are based as far as possible on observed market data. If such input data is not available then valuation methods are used which are based on volatility and market liquidity among other things. Changes in the assumptions relating to these parameters could have an effect on the reported fair value of financial instruments calculated using these methods.

Further information can be found in Notes (5), (6), (52) and (53).

### b) Pension Payments

The expenditure from performance-related plans and the cash value from pension obligations are determined with reference to actuarial calculations. These are based on various wages, salary and pension development, mortality rate and the discount rate assumptions. Because of the long term nature of the underlying assumptions and the complex calculation methods, changes made to those assumptions can have significant consequences.

There is more information in Note (10) and Note (41).

## (3) Adopted and New IFRS

NORD/LB Luxembourg adopts only those IFRS that have been endorsed by the EU.

The financial statements of NORD/LB Luxembourg to 31 December 2012 are based on the conceptual framework of the IASB and the following IFRS:

| | |
|---|---|
| IFRS 1 | First-time adoption of International Financial Reporting Standards |
| IFRS 7 | Financial instruments: disclosures |
| IFRS 8 | Operating segments |
| IAS 1 | Presentation of financial statements |
| IAS 7 | Cash flow statements |
| IAS 8 | Accounting policies, changes in accounting estimates and errors |
| IAS 10 | Events after the balance sheet date |
| IAS 12 | Income taxes |
| IAS 16 | Property, plant and equipment |
| IAS 17 | Leases |
| IAS 18 | Revenue |
| IAS 19 | Employee benefits |
| IAS 21 | The effects of changes in foreign exchange rates |
| IAS 24 | Related party disclosures |
| IAS 27 | Consolidated and separate financial statements |
| IAS 32 | Financial instruments: presentation |
| IAS 36 | Impairment of assets |
| IAS 37 | Provisions, contingent liabilities and contingent assets |
| IAS 38 | Intangible assets |
| IAS 39 | Financial instruments: recognition and measurement (including provisions on the use of the fair value option) |
| IFRIC 4 | Determining whether an arrangement contains a lease |
| SIC 15 | Operating leases – incentives |
| SIC 27 | Evaluating the substance of transactions involving the legal form of a lease |

No account was taken of IFRS 2, 3, 4, 5 and 6, IAS 2, 11, 20, 23, 26, 28, 29, 31, 33, 34, 40 and 41 or IFRIC 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 18 and SIC 7, 10, 12, 13, 21, 25, 29, 31 and 32, because they are not relevant to NORD/LB Luxembourg or because it was not obligatory to apply them to the financial statements as at 31 December 2012.

We were granted permission not to proceed with the early adoption of the following standards, which do not have to be implemented until after 31 December 2012.

- **IAS 19 (rev. 2012) – Employee Benefits**
  The amended IAS 19 was published in June 2011 and comes into effect for financial years that begin on or after 1 January 2013. There will be effects on the recording and valuation of expenses for defined benefit plans resulting from the rules contained therein and payments on the occasion of termination of an employment contract (termination benefits).

  There will be no notable changes for NORD/LB Luxembourg as a result.

- **IFRS 9 – Financial Instruments**
  Within the scope of the project to replace IAS 39, a revised version of IFRS 9, which was issued in November 2009, was published in October 2010. The first of three phases includes regulations on the categorisation and valuation of financial assets and financial obligations. For the categorisation of financial assets in accordance with IFRS 9 there are only two options now, the valuation at net book value or the valuation at fair value. In future, categorisation will be aligned to the business model of the reporting entity and the contractually agreed payment flows of the assets. The requirements for embedded derivatives and reclassification have also been amended. The rules relating to financial obligations are largely unchanged from IAS 39. The most significant difference to the current rule relates to the application of the fair value option. In future, the credit rating related changes in valuation must always be shown in other comprehensive income

(OCI), while the remaining part of the change in value will continue to be recorded in the profit and loss account.

A draft amendment to the categorisation and valuation rules of IFRS 9 published in November 2012 proposes the introduction of a third valuation model for financial assets that comprise debt instruments that includes valuing these instruments at fair value and recording the changes in their value in other comprehensive income (OCI). IASB is expected to publish drafts regarding the other phases covering the subjects of Impairment and Hedge Accounting in the first quarter of 2013. Assuming endorsement by the EU and according to the amendments to IFRS 9 and IFRS 7 issued in December 2011, IFRS 9 will be applicable to, must be applied to and the information on the transition provided for financial years commencing on or after 1 January 2015.

In relation to IFRS 9, considerable influences on accounting, valuation and reporting are expected for future annual accounts. Quantification of the potential effects on NORD/LB Luxembourg can only take place when the final regulations are passed on all phases of IFRS 9 by the IASB.

- **IFRS 10 – Consolidated Financial Statements**
  Published in May 2011, IFRS 10 changes the definition of control and creates standardised rules on the determination of control both for subsidiaries and for structured entities (single purpose entities), which form the basis for assessing whether there is an obligation to consolidate. According to this, control therefore exists if the potential parent companies hold the power of decision over the potential subsidiaries on the basis of voting rights or other rights, it participates in positive or negative variable returns from the potential subsidiary and can influence these returns through its power of decision. The Standard replaces the provisions of the current IAS 27 in this respect as well as SIC-12 and, following endorsement by the EU, comes into effect for financial years beginning on or after 1 January 2014 at the latest.

  For NORD/LB Luxembourg there will be no changes as things stand.

- **IFRS 11 – Joint Arrangements**
  IAS 31 – Interests in Joint Ventures will be replaced by IFRS 11, published in May 2011, and is to be applied from 1 January 2013. IAS 31 regulates the accounting of circumstances in which a company has joint control over a joint venture or is a joint operation. There are two major changes from the current standard. On the one hand, the right to opt for proportionate consolidation of joint ventures has been done away with, i.e. consolidation is only permissible on the basis of the equity method now, similar to IAS 28. On the other hand, a new category called ‘joint operations’ has been included, which is designed for reporting assets and liabilities attributable to the group.

  It is anticipated that there will be no need for NORD/LB Luxembourg to make any adjustments based on the initial application of IFRS 11.

- **IFRS 12 – Disclosure of Interests in Other Entities**
  The new IFRS 12 summarises the disclosure requirements for subsidiaries, joint ventures, affiliated undertakings, and non-consolidated, structured companies in one standard. The aim is the provision of information regarding the type of control options regarding the said companies and the associated risks and effects arising from the influence on balance sheet, profit and loss account and cash flow. It will be mandatory to apply IFRS 12 for the first time to financial years beginning on or after 1 January 2013.

  There will be no notable changes for NORD/LB Luxembourg as a result.

- **IFRS 13 – Fair Value Measurement**
  The IASB published IFRS 13, Fair Value Measurement, in May 2011, which must be applied prospectively to financial years beginning on or after 1 January 2013. In IFRS 13, the various regulations on fair-value measurement in the individual standards have been consolidated into one standard framework for the first time and some sections have simultaneously been modified or broadened; there will only continue to be individual regulations for IAS 17 and IFRS 2.

  The specific rules within the framework of IFRS 13 relate among other things to the definition of fair value and the level valuation, the reporting of a day-one-profit/loss and the application of a bid/ask spread when valuing assets and liabilities.

  The introduction of IFRS 13 in particular affects the application of the fair value hierarchy for measurement purposes, the fair value measurement at portfolio level, the determination of the counterparty risk on the basis of a net risk position, the valuation of mean rates for financial instruments and the specification of relevant markets for financial instruments. Moreover, the disclosure requirements in relation to the fair value are being extended.

- **Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income**
  The amendments to IAS 1, published by the IASB in June 2011 within the scope of the Financial Statement Presentation project, foresees sub-dividing the items of the other comprehensive income (OCI) depending on whether or not they can be recycled in the profit and loss account. In the case of pre-tax presentation of OCI, the procedure should be the same as regards the tax amounts and a division into re-classifiable and non-reclassifiable items should be undertaken.

  The adjustments to IAS 1 will lead to a change in presentation of the statement of comprehensive income of NORD/LB Luxembourg.

- **Amendments to IAS 32 – Balancing of Financial Assets and Financial Liabilities**
  With the publication of the amendments to IAS 32 – Presentation of Financial Instruments - in December 2011, the IASB made its requirements for the balancing of financial instruments clear. The changes, which are intended to resolve the existing inconsistencies in the application of balancing criteria, describe in particular the importance of the "present legal right to offset" and under which conditions systems with gross settlement can be regarded as equivalent to net settlement in terms of the standard. It will be mandatory to apply the amendments retrospectively for financial years which begin on or after 1 January 2014.

  There will be no notable changes for NORD/LB Luxembourg as a result.

- **Amendments to IFRS 7 – Disclosure: Balancing of Financial Assets and Financial Liabilities**
  In connection with the publication of the Amendments to IAS 32 – Financial Instruments: Presentation, the disclosure requirements of IFRS 7 in relation to offsetting were extended in order to allow readers of financial statements to estimate the effects of balancing arrangements, including the rights to balance financial assets and financial liabilities, on the financial position of an entity. The amendments are to be applied retrospectively for interim periods and financial years that begin on or after 1 January 2013.

Under the amendment, the disclosure requirements have been expanded and the required information has to be provided for the first time in annual financial statements ending for years ending 31 December 2013. The new disclosures will facilitate an improved assessment of potential effects from existing agreements on balancing. Comparative disclosures are to be made.

Furthermore, an early application of the following standard amendments and revisions of standards is being refrained from:

- Amendments to IAS 12 – Deferred Taxes: Recycling of underlying assets
- IAS 27 (rev. 2011) – Separate Financial Statements
- IAS 28 (rev. 2011) – Investments in Associates and Joint Ventures
- Improvements of the IFRS (cycle 2009 – 2011) within the scope of the annual improvement process of the IASB

These amendments are obligatory for financial years that begin on or after 1 January 2013 (Amendments to IAS 12 and Improvements to the IFRS) and 1 January 2014 respectively.

No major effects on NORD/LB Luxembourg are expected from the changes to IAS 12, IAS 27 and IAS 28 or the annual improvements to the IFRS (Cycle 2009-2011).

The adoption of IFRS 9 – Financial Instruments and the Amendments relating to the time of the obligatory effectiveness and the disclosures regarding transition and the annual improvements to the IFRS (Cycle 2009-2011) and the transition guidelines regarding the new consolidation regulations (Amendments to IFRS 10, IFRS 11 and IFRS 12) into European law by the EU Commission is still pending.

## (4) Currency Translation

The methods applied to currency translation are described below.

**Translation into the Functional Currency**
When monetary assets and liabilities or non-monetary items at fair value are denominated in foreign currencies, they must be translated at the ECB reference rate on 31 December 2012. Non-monetary items that are valued at cost are translated at the historical rates. Expenses and income in foreign currencies are translated at market rates on value dates. Exchange rate differences on monetary items are reflected in principle in the income statement.

## (5) Financial Instruments

A financial instrument is defined as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. NORD/LB Luxembourg's financial instruments are recognised in its accounts accordingly. They are classified in accordance with the requirements of IAS 39 and measured in line with that classification.


### a) Recognition and Derecognition of Financial Instruments

A financial asset or a financial liability shall be recognised on the balance sheet when the bank becomes a party to the contractual provisions of the financial instrument. The trade date and settlement date generally diverge with regard to the regular way purchase or sale of financial assets. An entity is entitled to choose whether to use trade date accounting or settlement date accounting for these regular way purchases or sales. All financial assets must be recognised on the balance sheet using settlement date accounting.

The derecognition requirements of IAS 39 depend on the concept of risks and rewards and on control, with the evaluation of the risks and rewards of ownership taking precedence over the evaluation of the transfer of control when assessing whether derecognition is appropriate.

In the event of only a partial transfer of risks and rewards and the retention of control, the continuing involvement approach is applied. The financial asset is then subject to specific accounting policies to the extent of the entity's continuing involvement. The extent of the entity's continuing involvement is determined by the extent to which the bank continues to be exposed to the risk of changes in the value of the transferred asset.

A financial liability (or part of a financial liability) is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. The reacquisition of debt instruments is also covered by the derecognition of financial liabilities. At the time of repurchase, the difference between the carrying amount of the liability (including premiums and discounts) and the consideration paid is recognised through profit or loss; disposal at a later stage gives rise to a new financial liability, the acquisition cost of which corresponds to the disposal proceeds. Differences between the new acquisition cost and the redemption amount are spread over the remaining life of the debt instrument using the effective interest method.

### b) Classification and Measurement

Financial assets and liabilities are initially measured at fair value. For financial instruments in the categories loans and receivables (LaR), held-to-maturity (HtM), available-for-sale (AfS) and other liabilities (OL), transaction costs are included in the acquisition cost provided that they are directly attributable. They are accounted for in the context of spreading premiums and discounts using a constant effective rate at the nominal value or redemption amount. For financial instruments in the category financial assets or financial liabilities at fair value through profit or loss (aFV), transaction costs are recognised immediately through profit or loss.

The subsequent measurement of financial assets and liabilities depends on their classification under IAS 39 at the time of acquisition:

- **Loans and Receivables (LaR)**
  This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market in so far as they are not classified as financial assets at fair value through profit or loss (aFV) or available-for-sale (AfS). Subsequent measurement is at amortised cost. At each balance sheet date or if there are indications of a potential impairment, the value of loans and receivables (LaR) is reviewed and adjusted if necessary (see Note (6) Risk provisions). Reversal of impairment losses is through profit or loss. The upper limit for the reversal of impairment losses is the amortised cost that would have arisen at the time of measurement without impairment.

- **Held-to-Maturity (HtM)**
  This category includes non-derivative financial assets with fixed or determinable payments and a fixed life that an entity intends and is able to hold to maturity. Financial instruments may be allocated to this category in so far as they are not classified as financial assets at fair value through profit or loss (aFV), as available-for-sale (AfS) or as loans and receivables (LaR). Subsequent measurement is at amortised cost. The held-to-maturity category is not currently used in the financial statements of NORD/LB Luxembourg.

- **Financial Assets or Financial Liabilities at Fair Value through Profit or Loss (aFV)**

  This category is divided into two sub-categories:

  a) Held-for-trading (HfT)

  This sub-category comprises financial instruments (trading assets and trading liabilities) that were acquired with the intention of making profit from short term buying and selling. It includes all derivatives in so far as they are not hedging instruments. Trading assets are essentially composed of money market papers, bonds and debt securities, as well as derivatives with positive fair value. Trading liabilities comprise, in particular, derivatives with negative fair value as well as short sale delivery obligations. The subsequent measurement of trading assets and trading liabilities is at fair value through profit or loss. Upfront payments are amortised using the effective interest rate. At the same time, the bank differentiates between trading book derivatives, where amortisation is not carried out using the effective interest rate and banking book derivatives, where amortisation is carried out using the effective interest rate in the profit/loss from interest.

  b) Designated at fair value through profit or loss (dFV)

  As long as they meet certain conditions, all financial instruments may be allocated to this sub-category, known as the fair value option. Using the fair value option avoids or significantly reduces the recognition and measurement discrepancies that arise from the different measurement methods for financial assets and liabilities (e.g. by designating economic hedging relationships without having to meet the restrictive requirements of hedge accounting). Further explanations on the type and scope of use of the fair value option are given in Note (29) Financial assets at fair value through profit or loss and Note (39) Financial liabilities at fair value through profit or loss. When the fair value option is applied to financial instruments, they are included in the relevant item on the balance sheet and their subsequent measurement is at fair value through profit or loss. Premiums and discounts are amortised using the effective interest rate.

  The category Designated at Fair Value through Profit or Loss is currently not applicable in NORD/LB Luxembourg's financial statements.

- **Available-for-Sale (AfS)**
  This category includes all non-derivative financial assets that are not allocated to any of the above categories. This can include, in particular, bonds and debt securities as well as shares and participating interests. Subsequent measurement is at fair value; if the fair value cannot be determined reliably, measurement is at cost. The profit/loss from the fair value measurement is shown as not affecting profit or loss in a separate equity item (revaluation reserve). Upon the disposal of financial assets, the measured profit/loss included in the balance sheet under revaluation reserve is removed and included in the profit and loss account.

  A creditworthiness-induced impairment only occurs with a permanent impairment. Checking the existence of a permanent impairment is carried out with reference to certain objective factors. Objective factors in this context are the trigger events listed in IAS 39, such as considerable financial difficulties of the issuer or debtor or breach of contract such as default or delinquency regarding the interest or redemption payments. In the case of equity capital securities, alongside other additional criteria, a significant fall in fair value below cost of acquisition is an objective indicator of an impairment.

  In the case of creditworthiness-induced impairments, the revaluation reserve is to be adjusted by the impairment amount and the amount taken into account in the profit and loss account, if it is impairment within the meaning of IAS 39. Reversals of impairment losses relating to the equity instruments of another entity are recognised through profit or loss while reversals of impairment losses relating to own equity instruments are recognised in equity as not affecting profit or loss – unless they are valued at cost. Differences between acquisition costs and redemption amounts are amortised using the effective interest method through profit or loss.

- **Other Liabilities (OL )**
  This category comprises, in particular, liabilities to banks and customers, securitised liabilities and subordinated capital. Subsequent measurement is at amortised cost using the effective interest method.

## c) Reclassification

In accordance with the provisions of IAS 39, it is possible to reclassify financial instruments from the category HfT (trading assets) as category LaR, HtM and AfS financial instruments, and category AfS financial assets as category LaR and HtM ones under certain conditions. No use was made of these options to reclassify at NORD/LB Luxembourg.

## d) Determination of Fair Value

In March 2009, the IASB published an amendment to IFRS 7, which mainly relates to disclosure requirements in connection with the measurement of financial instruments at fair value. Following the amendment of IFRS 7, the three-tier hierarchy with the terminology provided for in IFRS 7 of Level 1, Level 2 and Level 3 has been used in the bank since year under report 2009.

The respective level is determined according to the input data that forms the basis for the valuation, and reflects the closeness to the market of the variables input to determine the fair value.

The bank initially uses prices provided by market makers to determine the fair value (mark-to-market or Level 1).

In case no meaningful price calculation is possible using this method, the prices are calculated via Mark-to-Matrix models or obtained from external pricing services, if the valuation there is done wholly or in part via spread curves (Level 2). In the field of financial instrument valuation, under normal market conditions, measurement models established on the market are used (e.g. discounted cash flow methods), where the calculations are fundamentally based on input parameters available on the market. Impact factors which a market participant would take into account when fixing the price must be included in the measurement. Wherever possible, the corresponding parameters are taken from the market where the instrument was issued or acquired.

Measurement models are used mainly for OTC derivatives and for securities listed on inactive markets. Various pa-

rameters are included in the models, such as market prices and other market information, for example volatility and market liquidity.

These mark-to-matrix calculations (Level 2 valuations) make use of market data that has already been used as a basis for risk control. In the case of Discounted Cash Flow methods, all payments are discounted with the risk-free interest curve adjusted by the credit spread of the counterparty. Spreads are determined on the basis of comparable financial instruments (for example, taking into account the respective market segment and the creditworthiness of the issuer).

During the course of 2008, parts of the money and capital markets lost their ability to function, which then led to uncertainty amongst market participants, illiquidity in certain markets and decreasing investment in secondary market products. As a consequence of this, useful sales pricing ceased in the market for certain financial instruments, the conditions of some quotations are often counterproductive to effecting sales and some sales are taking place under fire sale conditions. Abnormal market conditions can be assumed for these cases. The market situation improved in 2012.

In the case of financial instruments for which there is no active market on 31 December 2012 and which can no longer be measured on the basis of market prices, a fair value will be determined for measurement purposes using a mark-to-matrix process based on discounted cash flows.

The determination of which financial instrument is to be valued in this manner is done on the basis of individual securities and a distinction between active and inactive markets based on this. A changing estimation of the market is used continually in the valuation.

The measurement model for financial instruments in inactive markets is based on fixed term interest rates, the credit

rating of the respective issuers and an appropriate interest calculation for the equity.

In the case of financial instruments for which there is no longer an active market and which can no longer be measured on the basis of market prices or solely on the basis of observable market parameters, a fair value is determined for measurement purposes using a mark-to-model process (Level 3).

In contrast to the mark-to-matrix valuation (Level 2), in these methods, institution-specific models are used and data is included which cannot be observed on the market. The proportion of these parameters is kept to a minimum and the inclusion of market-specific data is preferred, i.e. basic market signals which can be observed on the balance sheet date are included in the methodology.

NORD/LB Luxembourg did not use any Level 3 prices for the security portfolio for the year ending 31.12.2012.

All the measurement models used are audited periodically. There were no changes from the previous year in the procedures or the models used.

Please refer to Notes (52) to (54) for further information regarding the fair value hierarchy.

## e) Structured Products

Structured products are made up of two components – one or more embedded derivative financial instruments (e.g. swaps, futures, caps) and a host contract (e.g. financial instruments, leasing agreements). Both components are the object of a single contract for the structured product, i.e. these products form a legal entity and cannot be treated separately because of the single contract.

IAS 39 requires an embedded derivative to be separated from its host contract and accounted for as a derivative when the following criteria are cumulatively met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

- A separate derivative with the same terms as the embedded derivative would meet the definition of a derivative.

- The structured product is not recognised at fair value through profit or loss (aFV category).

Currently there are no financial instruments that must be separately accounted for.

## f) Hedge Accounting

Hedge accounting means showing hedging relationships in the financial statements. This involves documenting the relationships between the hedging transactions and the underlying transactions. The objective is to avoid the fluctuations in annual profit/loss and equity that arise from the different measurement of hedging transactions and underlying transactions.

Under IAS 39, there are three basic types of hedges which must be treated differently in hedge accounting. In fair value hedge accounting (portions of) assets and/or liabilities are hedged against changes in fair value. The bank's issuing and lending business, and holdings for liquidity management purposes, provided they consist of interest-bearing securities, are particularly subject to such a market value risk. Fair value hedges are used to hedge individual transactions. Interest rate swaps are predominantly used to hedge these risks.

The two other basic forms, cash flow hedge accounting and hedge of a net investment in a foreign operation, are not currently used.

Hedging relationships may only be reported in accordance with the rules of hedge accounting if the restrictive conditions laid down by IAS 39 are fulfilled. The requirements of hedge accounting, particularly proving hedge effectiveness, must be met on all balance sheet dates and for all hedging relationships. The Critical Term Matching method is used for the prospective performance of effectiveness tests. For retrospective effectiveness tests, a modified dollar Offset method is used, which takes into account the problem arising with small figures in the case of slight changes in value of hedging transactions and underlying transactions through an additional tolerance limit.

In accordance with the rules of fair value hedge accounting, derivatives at fair value used in hedging are reported as positive or negative fair values from hedge accounting (Note (30) or Note (40) Fair values from hedge accounting).

The valuation changes are recognised through profit or loss (Note (20) Profit/loss from hedge accounting). With regard to the hedged asset or hedged liability, the changes in fair value attributable to the hedged risk are also stated in recognition of profit or loss under the item profit/loss from hedge accounting.

If financial instruments from the AfS category form part of a hedging relationship, the change in fair value is divided into a hedged component and an unhedged component. When hedge accounting is used, the portion of the change in value that relates to hedged risks is recognised through profit or loss under profit/loss from hedge accounting, while the portion that is not attributable to the hedged risk is reported under the revaluation reserve.

In the context of micro-hedge accounting, the financial instruments measured at amortised costs are adjusted by the change in fair value due to the hedged risk when recorded on the balance sheet on both the assets and liabilities sides (hedge adjustment).

A hedging relationship ends when the hedging transaction or underlying transaction expires or is sold or exercised or when the requirements of hedge accounting are no longer met.

### g) Securities Repurchase Agreements and Securities Lending

In the case of genuine securities repurchase agreements (repos), transferring the securities sold under repurchase agreements does not lead to derecognition, as the transferring entity essentially retains all the risks and rewards associated with the ownership of the repurchased securities. Therefore, the transferred asset should still be recognised by the repurchase seller and measured in accordance with the relevant category. The payment received is to be shown as a financial liability (either under liabilities to banks or liabilities to customers, depending on the counterparty). The agreed interest payments are recognised as interest expenses in accordance with the term.

Reverse repos are correspondingly accounted for as loans and advances to banks or customers and included in the loans and receivables (LaR) category. The securities bought under repurchase agreements on which the financial transaction is based are not shown in the balance sheet. The interest arising out of this transaction is recognised as interest income in accordance with the term.

There were no non-genuine securities repurchase agreements outstanding at 31 December 2012.

The principles of accounting for genuine repurchase agreements are similar to those for securities lending. Loaned securities are included in the securities portfolio and measured in accordance with IAS 39, whereas borrowed securities are not shown on the balance sheet.

Cash collateral provided for securities lending transactions is included under loans and advances and cash collateral received is shown as a liability.

We refer to the scope and volume of securities repurchase agreements under Note (58) Securities repurchase agreements.

## (6) Risk Provisions

The risks arising from the balance sheet lending business are accommodated through the formation of loan loss provisions and portfolio loss provisions.

Checking of intrinsic value is done for all significant receivables at individual business level. Risk provision in the lending business covers all discernible credit rating risks by creating individual loan loss provisions. A value adjustment is required when it is probable, based on observable criteria, that not all interest and repayment obligations or other obligations can be met in good time. Such criteria include 90 days or more of default or delay in interest payments or repayment of the principal amount and the debtor having serious financial difficulties. The size of the loss provisions is calculated on the basis of the difference between the book value and the cash value of the expected future cash flow.

For risks that have occurred but have not yet been identified by the bank, value adjustments are made at portfolio level for groups of financial assets with comparable credit risks. This portfolio-based provision relating to credit rating is made on the basis of historical default probabilities and regulatory loss given defaults. In addition, the portfolio-specific LIP factor (loss identification period) is applied in order to ensure that only incurred losses are taken into consideration. The parameters used are derived from the Basel II system. In addition, the bank adjusts the measurement parameters to the parameters observed on the market in the case of problematic portfolios and bases these scenarios on a probability of occurrence.

The risks for off-balance sheet transactions (guarantees, endorsement liabilities, loan commitments) are accommodated by creating a provision for risks in the lending business.

Irrecoverable debts for which there was no specific loss provision are written off directly. Additions to debts written off are recognised through profit or loss.

A risk provision is not made for losses that have not yet been incurred.

## (7) Property, Plant and Equipment

Property, plant and equipment are recognised at cost at the recognition date. With regard to subsequent measurement, the depreciable amount of property, plant and equipment is allocated on a scheduled straight line basis over its useful life. Impairments are carried out to the extent in which the carrying amount exceeds the higher value of an asset's fair value less costs to sell and its value in use. Scheduled depreciation and impairments are recognised in administrative expenses.

Property, plant and equipment are depreciated over the following periods of time:

| | Useful Life in Years |
|---|---|
| Buildings | 50 |
| Operating and office equipment | 3–15 |
| Other property, plant and equipment | 3–15 |

For reasons of materiality, acquisition costs of assets of minor value are immediately recognised as an expense.

## (8) Leasing

In accordance with IAS 17, leasing agreements must be classified as either finance leases or operating leases at their inception. A lease is classified as a finance lease if it substantially transfers the risks and rewards associated with ownership to the lessee; the leased property is accounted for by the lessee. A lease is classified as an operating lease if it does not substantially transfer the risks and rewards associated with ownership to the lessee; the leased property is accounted for by the lessor.

**Finance Lease**
Two agreements concluded by the bank (computer hardware) are classified as finance leases. With respect to the total volume with an original price of the leased items in the sum of around EUR 2.0 million taking into account IAS 8.8 the bank has refrained from reporting it on the balance sheet for materiality reasons.

**Operating Lease**
With an operating lease, the lessee recognises the lease payments made as an expense under other administrative expenses. The initial direct costs (for example expert fees) are recognised immediately as affecting profit or loss. Contracts as operating lessees are within normal business frameworks.

## (9) Intangible Assets

Intangible assets purchased by the bank are recognised at cost, as are self-created intangible assets provided they meet the recognition criteria set out under IAS 38.

For intangible assets with limited useful life, scheduled linear depreciations are taken into account according to the economic useful life. Valuation adjustments are undertaken in the case of tangible assets with limited useful life in the sum at which the book value exceeds the higher value of fair value less sales costs and useful value of the asset. If the reasons for impairments no longer apply, impairment losses are reversed but may not exceed the depreciated cost. Scheduled depreciation is recognised in administrative expenses.

Intangible assets with limited useful life are depreciated over a period of three to fifteen years. There are no intangible assets with limited useful life in NORD/LB Luxembourg.

## (10) Provisions for Pensions and Similar Obligations

The bank's occupational pension scheme is based on various pension schemes. On the one hand, employees build up entitlement to pension rights through a fixed contribution by the bank to an external pension provider (Defined Contribution Plan). These contributions to the pension scheme are recorded as a current expense under the application of the accounting requirements set out under IAS 19 for contributory plans, so that no pension provisions are to be formed.

On the other hand, the occupational pension scheme of NORD/LB Luxembourg is based on a pension system in which staff build up entitlement to pension rights in which the pension benefit is fixed and on factors such as expected wage and salary increases, age, length of service and pension trend forecasts (Defined Benefit Plan). The accounting requirements set out under IAS 19 for defined benefit plans are applied to this pension scheme.

The components of pension provisions through profit or loss are the service cost and the interest cost on the cash value of the liability. The pension expenses are reduced by the anticipated net income from the plan assets. Where necessary, a service cost must also be recognised through profit or loss retrospectively. Interest cost and anticipated income from the plan assets are shown under net interest income.

The bank recognises actuarial gains and losses in full as not affecting profit or loss in equity, so that there is no decrease or increase in pension expenses as a result of the amortisation of posted actuarial gains or losses that are not yet recorded through profit or loss.

Pension obligations arising from defined benefit plans are calculated on the balance sheet date by independent actuaries using the projected unit credit method. The calculation also takes account of biometric assumptions relating to the discount rate for high quality corporate bonds and anticipated future wage and pension growth rates.

The pension scheme is outsourced to a Luxembourg insurance company.

## (11) Other Provisions

In accordance with IAS 37, other provisions are made for contingent liabilities to third parties and anticipated losses from pending transactions if an obligation is probable and its size can be reliably estimated. The amount recognised as a provision should be the best estimate. This estimate is based on the management's assessment, based on experience and, where necessary, on expert opinions or reports, and should take risks and uncertainties into consideration. Future events that may influence the amount required to settle an obligation are taken into account if there are objective signs that they will occur. Provisions are discounted provided that the effect is material.

If an obligation is not probable or if its amount cannot be estimated reliably, a contingent liability is shown in the Notes.

## (12) Income Tax Assets and Liabilities

Current income tax assets and liabilities were calculated with reference to the applicable tax rates, to the amounts in which the bank expects having to make payments to or recover payments from the relevant tax authority.

Deferred tax assets and liabilities are calculated on the basis of the difference between the carrying amount of an asset or liability on the balance sheet and the corresponding tax amount. Deferred tax assets and liabilities probably lead, due to temporary differences, to income tax burdens or tax relief effects in future periods. They were measured at the tax rates applicable for the period in which an asset is realised or a liability is settled.

Current income tax assets and liabilities and deferred tax assets and liabilities are offset if the conditions for offsetting are met. Discounting is not permitted. Depending on how the circumstances are treated, deferred tax assets or liabilities are recognised either through profit or loss or as not affecting profit or loss.

The income tax expense or benefit is shown under the item income tax in the profit and loss account. The split between current and deferred income tax assets and liabilities for the year under report can be found in the Notes. Current and deferred income tax assets and liabilities are presented on the balance sheet under assets or liabilities, with the carrying amount of a deferred tax asset being reviewed at each balance sheet date.

A Grand Ducal regulation on the taxation of IFRS financial statements was published as a draft bill. This provides for the measurement differences arising from financial instruments shown in the profit and loss account to be included

in the tax basis. In addition, this regulation guarantees that taxpayers will have the right to choose whether they pay taxes on earnings from first-time adoption in the first year of IFRS accounting or spread these items over two to five years.

NORD/LB Luxembourg has obtained binding information from the Luxembourg tax authorities on tax questions relating to the IFRS balance sheet preparation and first time adoption and will apply the previously described tax measures to the tax group. In the process, the income from the initial application was not spread pro rata but taken into account integrally for taxation in the reporting year 2008.

In a letter dated 2 August 2007, the Luxembourg financial authorities approved the establishment of a tax group with effect for corporation and trade tax comprising Norddeutsche Landesbank Luxembourg S.A. and NORD/LB Covered Finance Bank S.A. starting from financial year 2007. Pursuant to Article 164 to L.I.R., the tax group was allowed under the condition that it is maintained for a time span of at least five financial years. The time span of five years ended on 31.12.2011, so that the conditions pursuant to Art. 164bis of L.I.R. were fulfilled.

The bank functions as the parent company in the tax group.

## (13) Subordinated Capital

The item subordinated capital comprises unsecuritised subordinated liabilities.

Subordinated capital is accounted for at amortised cost. Premiums and discounts are spread over the term and using the effective interest method entered under net interest income in recognition of profit or loss. Accrued interest not yet due is included under the appropriate item as part of the subordinated capital.

Subordinated liabilities are set out in detail in Note (44).

# Segment Reporting

## Classification by Business Segment

Segment reporting is carried out in accordance with IFRS 8 and serves to provide information about the bank's business segments. It is performed in line with the bank's business model on the basis of internal reporting. The segments are defined as customer or product groups that are in line with the bank's organisational structures.

Net interest income for the individual segments is determined in accordance with the market interest rate method. Segment expenditure comprises original expenses as well as expenses allocated on the basis of cost and accounting for services. Risk provisions were assigned to the segments on the basis of actual cost.

**Affiliated Savings Banks**
The items recorded here are mainly income from loans to savings bank customers (guaranteed by the allied savings banks).

**Private Banking**
Business with wealthy private customers is shown under this item. The main contributors to the profit/loss in this segment result from the sectors of securities and custodian business, the lending and deposit business, fund and asset management and the profit/loss from services to private customers.

**Financial Markets**
This business segment invests mainly in commercial papers, call money and term deposits and securities and open market credits from first class issuers. Profits/losses are generated in particular from liquidity and maturity transformations.

**Lending Business**
This segment mainly covers the lending business operated in cooperation with the Group with the attributable contributions to profit/loss.

**Shareholdings/Other**
This segment covers other items and reconciliatory items. The contributions to profit/loss resulting from the holding of investments are shown here.

## Segmentation by Region

Segmentation by geographical characteristics focuses on the counterparty's home country. Expenses and income are determined in relation to the segment's assets and liabilities.

## (14) Classification by Business Segment

| | Segments | | | | | |
|---|---|---|---|---|---|---|
| EUR million | Affiliated Savings Banks | Private Banking | Financial Markets | Lending Business | Participation Valued at Equity/Other | Total |
| **Net interest income** | **2.1** | **2.5** | **47.7** | **53.5** | **3.1** | **108.8** |
| do. previous year | 2.0 | 3.0 | 41.9 | 57.1 | 3.2 | 107.2 |
| **Risk provision in lending business** | **0.0** | **0.0** | **0.0** | **–6.1** | **–12.2** | **–18.3** |
| do. previous year | 0.0 | 0.0 | 3.6 | 14.6 | 0.0 | 18.2 |
| **Net interest income after loan loss provisions** | **2.1** | **2.5** | **47.7** | **47.4** | **–9.1** | **90.6** |
| do. previous year | 2.0 | 3.0 | 45.5 | 71.7 | 3.2 | 125.4 |
| **Net commission income** | **–1.4** | **7.1** | **–0.5** | **–6.7** | **0.0** | **–1.6** |
| do. previous year | –0.7 | 8.3 | –1.2 | –20.3 | 0.5 | –13.4 |
| **Profit/loss from financial instruments at fair value** | **0.0** | **0.0** | **1.3** | **0.1** | **0.0** | **1.4** |
| do. previous year | 0.0 | 0.0 | –2.7 | 0.0 | 0.0 | –2.7 |
| **Profit/loss from hedge accounting** | **0.0** | **0.0** | **0.0** | **0.0** | **1.3** | **1.3** |
| do. previous year | 0.0 | 0.0 | 0.0 | 0.0 | –4.0 | –4.0 |
| **Profit/loss from financial assets** | **0.0** | **0.0** | **–1.5** | **0.0** | **0.0** | **–1.5** |
| do. previous year | 0.0 | 0.0 | –14.4 | 0.0 | 0.0 | –14.4 |
| **Profit/loss from participation valued at equity/other** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| do. previous year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Administrative expenses** | **0.1** | **9.5** | **7.9** | **5.6** | **21.0** | **44.1** |
| do. previous year | 0.2 | 8.3 | 9.3 | 3.7 | 13.2 | 34.6 |
| **Other income/expenses** | **0.0** | **0.0** | **0.5** | **0.0** | **–3.3** | **–2.9** |
| do. previous year | 0.0 | 0.0 | 0.5 | 0.0 | 3.7 | 4.1 |
| **Operating profit/loss before taxes** | **0.5** | **0.1** | **39.5** | **35.3** | **–32.0** | **43.3** |
| do. previous year | 1.1 | 3.0 | 18.5 | 47.7 | –9.8 | 60.5 |
| **Taxes** | **0.0** | **0.0** | **0.0** | **0.0** | **–8.9** | **–8.9** |
| do. previous year | 0.0 | 0.0 | 0.0 | 0.0 | –14.5 | –14.5 |
| **Operating profit/loss after taxes** | **0.5** | **0.1** | **39.5** | **35.3** | **–41.0** | **34.4** |
| do. previous year | 1.1 | 3.0 | 18.5 | 47.7 | –24.3 | 46.0 |

| | Segments | | | | | |
|---|---|---|---|---|---|---|
| EUR million | Affiliated Savings Banks | Private Banking | Financial Markets | Lending Business | Participation Valued at Equity/Other | Total |
| **Segment assets** | **209.0** | **97.0** | **10,539.6** | **4,025.2** | **553.2** | **15,424.0** |
| do. previous year | 236.2 | 89.6 | 10,832.4 | 3,737.9 | 495.9 | 15,392.1 |
| **Segment liabilities (incl. equity)** | **0.0** | **66.6** | **14,519.4** | **0.0** | **837.9** | **15,424.0** |
| do. previous year | 0.0 | 166.8 | 14,472.6 | 0.0 | 752.7 | 15,392.1 |
| **Risk assets (annual average values)** | **260.2** | **139.4** | **1,101.8** | **1,332.7** | **474.2** | **3,308.3** |
| do. previous year (annual average values) | 44.0 | 109.8 | 1,227.7 | 1,606.8 | 514.5 | 3,502.8 |
| **Equity locked in (basis annual average values)** | **13.0** | **7.0** | **55.1** | **66.6** | **23.7** | **165.4** |
| do. previous year (basis annual average values) | 2.2 | 5.5 | 61.4 | 80.3 | 25.7 | 175.1 |
| **CIR** | **17.0 %** | **99.2 %** | **17.2 %** | **11.9 %** | **−9.660.1%** | **42.8 %** |
| do. previous year | 12.0 % | 73.7 % | 34.5 % | 10.0 % | 177.6 % | 41.4 % |
| **RoRaC*** | **4.2 %** | **0.7 %** | **56.4 %** | **40.0 %** | **−84.5 %** | **20.6 %** |
| do. previous year | 50.7 % | 50.8 % | 25.4 % | 42.0 % | −36.8 % | 27.5 % |

* RoRaC = Earnings before taxes/Max (Limit for locked-up capital or locked-up capital)

Further segment information:

| EUR million | Affiliated Savings Banks | Private Banking | Financial Markets | Lending Business | Participation Valued at Equity/Other | Total |
|---|---|---|---|---|---|---|
| **Property, plant and equipment, net** | **0.3** | **12.3** | **25.1** | **6.0** | **28.4** | **72.2** |
| do. previous year | 0.3 | 13.1 | 26.6 | 6.4 | 30.1 | 76.5 |
| **Depreciation of property, plant and equipment, current year** | **0.0** | **0.3** | **0.7** | **0.2** | **0.8** | **2.0** |
| do. previous year | 0.0 | 0.2 | 0.5 | 0.1 | 0.5 | 1.3 |
| **Intangible assets, net** | **0.0** | **2.0** | **4.0** | **1.0** | **4.6** | **11.6** |
| do. previous year | 0.0 | 1.1 | 2.3 | 0.6 | 2.6 | 6.6 |
| **Scheduled depreciation of intangible assets current year** | **0.0** | **0.2** | **0.3** | **0.1** | **0.4** | **1.0** |
| do. previous year | 0.0 | 0.1 | 0.2 | 0.0 | 0.2 | 0.5 |
| **Value adjustments on financial assets, current year** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| do. previous year | 0.0 | 0.0 | 18.5 | 0.0 | 0.0 | 18.5 |

## (15) Segmentation by Geographical Characteristics

| | Segments | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| EUR million | Germany | Luxem-bourg | Switzer-land | Rest of Europe | USA | Rest of America | Other Countries | Total |
| **Operating profit/loss before taxes** | **15.6** | **14.0** | **0.1** | **9.8** | **2.7** | **0.4** | **0.7** | **43.3** |
| do. previous year | 21.1 | 14.1 | 0.1 | 18.4 | 3.7 | 0.6 | 2.5 | 60.5 |
| **Segment assets** | **5,544.3** | **4,990.9** | **34.7** | **3,507.1** | **968.6** | **136.6** | **241.8** | **15,424.0** |
| do. previous year | 5,362.6 | 3,575.6 | 36.9 | 4,693.0 | 945.1 | 144.7 | 634.2 | 15,392.1 |
| **Segment liabilities (incl. equity)** | **7,875.9** | **5,594.0** | **771.5** | **943.9** | **9.6** | **10.3** | **218.8** | **15,424.0** |
| do. previous year | 5,855.9 | 6,014.1 | 1,662.1 | 1,653.2 | 47.7 | 57.9 | 101.1 | 15,392.1 |
| **Risk assets (annual average values)** | **1,189.2** | **1,070.5** | **7.4** | **752.3** | **207.8** | **29.3** | **51.9** | **3,308.3** |
| do. previous year (annual average values) | 1,220.4 | 813.7 | 8.4 | 1,068.0 | 215.1 | 32.9 | 144.3 | 3,502.8 |
| **Equity locked in (basis annual average values)** | **59.5** | **53.5** | **0.4** | **37.6** | **10.4** | **1.5** | **2.6** | **165.4** |
| do. previous year (basis annual average values) | 61.0 | 40.7 | 0.4 | 53.4 | 10.8 | 1.6 | 7.2 | 175.1 |
| **Further segment information:** | | | | | | | | |
| **Property, plant and equipment, net** | **0.0** | **72.2** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **72.2** |
| do. previous year | 0.0 | 76.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 76.5 |
| **Intangible assets, net** | **0.0** | **11.6** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **11.6** |
| do. previous year | 0.0 | 6.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.6 |

# Notes to the Income Statement

## (16) Interest Income and Current Income

The items Interest income and Income expense include amortisation of premiums and discounts at effective interest rates as well as income and expense from interest and dividend income.

Interest profit/loss and dividends from items on the trading book allocated to the category 'Held for Trading (HfT)' and financial instruments voluntarily allocated to the category 'designated at Fair Value through Profit or Loss (dFV)' are excluded from this since they are reported in the trading profit/loss or the profit/loss from the Fair Value Option.

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| **Interest income** | **490,382** | **557,811** | **–12** |
| Interest income from lending and money market transactions | 181,581 | 220,183 | –18 |
| Interest income from fixed income and book entry securities | 126,547 | 154,659 | –18 |
| Current income | 50 | 203 | –75 |
| from shares and other variable yield securities | 50 | 203 | –75 |
| from participating interests | 0 | 0 | – |
| Interest income from hedge derivatives | 181,140 | 182,028 | 0 |
| Other interest income and similar income | 1,065 | 738 | 44 |
| **Interest expense** | **–381,551** | **–450,610** | **–15** |
| Interest expense from lending and money market transactions | –124,730 | –177,542 | –30 |
| Interest expense from securitised liabilities | –28,029 | –35,885 | –22 |
| Interest expense from subordinated capital | –752 | –568 | 32 |
| Interest expense from hedge derivatives | –227,791 | –235,800 | –3 |
| Interest expense for provisions and liabilities | –118 | –187 | –37 |
| Other interest expense and similar expense | –131 | –629 | –79 |
| **Total** | **108,830** | **107,202** | **2** |

Both interest income and interest expense fell significantly in the year under report. This is attributable on the one hand to changes in the balance sheet structure between the reporting dates and on the other by changes in the market interest rate. It was possible to stabilise net interest income, however, and it is slightly above the previous year's level. Interest in the sum of KEUR 0 (previous year KEUR 175) has not been received on value-adjusted securities, on value-adjusted loans KEUR 109 (previous year KEUR 505).

In the year under report there are no dividend payouts by Skandifinanz AG (previous year EUR 0.0 million) or NORD/LB CFB (previous year EUR 0.0 million).

The other interest income and expense results primarily from unwinding and from interest rate effects on defined benefit pension plans.

## (17) Loan Loss Provisions

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| **Income from loan loss provisions** | **11,385** | **22,410** | **–49** |
| Reduction in provisions for claims | 1,572 | 20,410 | –92 |
| Reductions in portfolio-based provisions for receivables | 7,814 | 0 | – |
| Reversal of provisions in lending business | 2,000 | 2,000 | 0 |
| Additions to receivables written off | 0 | 0 | – |
| **Loan loss provision expense** | **29,640** | **4,209** | **> 100** |
| Allocations to provisions for claims | 17,544 | 2,514 | > 100 |
| Allocation to portfolio-based provisions for claims | 0 | 206 | –100 |
| Allocation to provisions for lending business | 12,096 | 1,182 | > 100 |
| Direct write-offs of claims | 0 | 308 | –100 |
| **Total** | **–18,254** | **18,201** | **> 100** |

The reversal of provisions for claims is primarily the result of unwinding.

Allocations to the provisions for claims relate to loans to companies from the “Renewable Energies” sector (KEUR 9,147) and “Temporary Work” (KEUR 8,397).

The reversal of provisions in the lending business relate to a customer in the "Renewable Energies" sector.

In the year under report there was a shift between balance sheet and off-balance sheet portfolio based provisions for claims, which led to a reversal of portfolio based provisions for claims and an allocation to provisions in the lending business. For more information see Note (6) Risk provisions.

## (18) Net Commission Income

The bank shows commission expense and commission income in its profit/loss.

In commission profit/loss, the bank differentiates between transaction-dependent commission, which is due and collected at the conclusion of the transaction, and term-related commission, which is due over a certain period and is collected over this period of time on a scheduled linear basis. There is no effective interest spread for term-related commission.

Most of the commission income relates to commissions for loans and guarantees received on a pro rata basis and to one-off commissions in the lending business with non-banking entities, while the smaller part relates to transaction-related commissions in brokerage transactions for customers and portfolio commissions in the fund business.

The pro rata commission expenses result mainly from brokerage transactions with NORD/LB GZ Hanover. The transaction-related commission results mainly from payments and securities transactions carried out by the bank.

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| **Commission income** | **23,727** | **24,021** | **–1** |
| from security and custody transactions | 3,683 | 4,689 | –21 |
| from the arrangement business | 2,135 | 2,030 | 5 |
| from lending and guarantee transactions | 15,859 | 15,177 | 4 |
| Other commission income | 2,049 | 2,124 | –4 |
| **Commission expense** | **25,289** | **37,395** | **–32** |
| from security and custody transactions | 941 | 1,584 | –41 |
| from the arrangement business | 16,009 | 28,624 | –44 |
| from lending and guarantee transactions | 8,291 | 7,111 | 17 |
| Other commission expense | 49 | 76 | –36 |
| **Total** | **–1,562** | **–13,375** | **–88** |

Commission income relates in particular to arrangement activities (EUR 2.1 million; previous year EUR 2.0 million), the security and custodian business (EUR 3.7 million; previous year EUR 4.7 million) and the lending and guarantee business (EUR 15.9 million; previous year EUR 15.2 million).

Commission expense relates in particular to the arrangement business (EUR 16.0 million; previous year EUR 28.6 million) and the loans and guarantee business (EUR 8.3 million; previous year EUR 7.1 million). The decline results on the one hand from a reduction in the guaranteed business and on the other from changed accounting terms within the Group.

In 2009 the bank extended its range of services to include the arrangement of insurance policies as an insurance broker licensed in Luxembourg. Income from this branch of business is shown in commission income. As a broker, the bank is not subject to the provisions of IFRS 4.

## (19) Profit/Loss from Financial Instruments at Fair Value through Profit or Loss

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| **Trading profit/loss** | **1,055** | **–1,477** | **> 100** |
| Realised profit/loss | –157 | –1,599 | –90 |
| from debt securities and other fixed interest securities | 8,232 | 0 | – |
| from shares and other variable yield securities | –24 | 0 | – |
| from derivatives | –8,366 | –1,599 | > 100 |
| from other receivables held for trading | 0 | 0 | – |
| Measurement gains/losses | –56 | –1,250 | –96 |
| from debt securities and other fixed interest securities | 899 | 4,249 | –79 |
| from shares and other variable yield securities | 0 | 0 | – |
| from derivatives | –955 | –5,499 | –83 |
| from other receivables held for trading | 0 | 0 | – |
| Foreign exchange profit/loss | 720 | –432 | > 100 |
| Other profit/loss | 548 | 1,804 | –70 |
| **Profit/loss from the fair value option** | **315** | **–1,227** | **> 100** |
| Profit/loss achieved from | 0 | 0 | – |
| debt securities and other fixed interest securities | 0 | 0 | – |
| from shares and other variable yield securities | 0 | 0 | – |
| other business | 0 | 0 | – |
| Measurement gains/losses | –263 | –1,227 | –79 |
| debt securities and other fixed interest securities | –263 | –1,227 | –79 |
| from shares and other variable yield securities | 0 | 0 | – |
| other business | 0 | 0 | – |
| Other profit/loss | 577 | 0 | – |
| **Total** | **1,369** | **–2,704** | **> 100** |

Trading profit/loss includes the measurement gains/losses from trading activities (defined as unrealised expense and income from fair value measurement) as well as the realised profit/loss (defined as the difference between disposal proceeds and carrying amount at the last reporting date). The interest profit/loss from trading activities in the sum of EUR 0.5 million (previous year EUR 1.8 million) is reported under other profit/loss.

The realised trading profit/loss was generated from securities in the category HfT, which are hedged against interest rate risks with hedging derivatives.

The profit/loss from the fair value option includes the profit/loss from a bond designated at fair value, which reached final maturity in 2012.

## (20) Profit/Loss from Hedge Accounting

Profit/loss from hedge accounting includes offset fair value adjustments related to the hedged risk of an underlying transaction and offset fair value adjustments to hedging instruments in effective micro fair value hedging relationships.

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| **Profit/loss from micro fair value hedge transactions** | **1,347** | **–4,012** | **> 100** |
| from hedged underlying transactions | 73,466 | 104,096 | –29 |
| from derivatives used as hedging instruments | –72,118 | –108,108 | –33 |
| **Total** | **1,347** | **–4,012** | **> 100** |

The bank uses micro fair value hedge accounting to hedge the interest rate risk. Covered underlying transactions are accounts receivable from and liabilities to banks or customers, financial assets or own issues.

## (21) Profit/Loss from Financial Assets

Profit/loss from financial assets includes gains/losses from disposals and measurement gains/losses through profit or loss from securities in the financial asset portfolio and participating interests.

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| **Profit/loss from financial assets classified as LaR** | **1,934** | **–239** | **> 100** |
| **Profit/loss from financial assets classified as AfS (no joint ownership)** | **–3,422** | **–14,130** | **–76** |
| Profit/loss from disposal | –3,422 | 4,340 | > 100 |
| of debt securities and other fixed interest securities | –3,422 | 4,340 | > 100 |
| of shares and other variable yield securities | 0 | 0 | – |
| of other financial assets | 0 | 0 | – |
| Profit/loss from value adjustments for | 0 | –18,470 | –100 |
| debt securities and other fixed interest securities | 0 | –18,470 | –100 |
| variable yield securities | 0 | 0 | – |
| **Profit/loss from affiliated companies** | **0** | **0** | **–** |
| **Profit/loss from joint ventures and associated companies** | **0** | **0** | **–** |
| **Profit/loss from other participating interests** | **0** | **0** | **–** |
| **Total** | **–1,488** | **–14,368** | **–90** |

The profit/loss from financial assets in the financial year is characterised by the targeted decline in risk positions. The previous year's profit/loss was marked primarily by the value adjustment of a bond issued by the Republic of Greece (EUR 18.5 million).

## (22) Administrative Expenses

Administrative expenses comprise staff expenses, other administrative expenses and depreciation on property, plant and equipment and intangible assets.

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| **Staff expenses** | **21,486** | **17,562** | **22** |
| Wages and salaries | 18,278 | 15,249 | 20 |
| Social security contributions | 1,522 | 1,532 | –1 |
| Expenses for pension provision | 1,431 | 760 | 88 |
| Other staff expenses | 256 | 20 | > 100 |
| **Other administrative expenses** | **19,606** | **15,182** | **29** |
| Expense for operating and office equipment and IT | 13,349 | 9,130 | 46 |
| Occupancy costs | 852 | 1,503 | –43 |
| Expense for marketing, communications and representation | 524 | 470 | 11 |
| Personnel-related operating expenditure | 1,669 | 1,370 | 22 |
| Legal, audit, survey and professional fees | 2,909 | 2,403 | 21 |
| Other administrative expenses | 305 | 306 | 0 |
| **Depreciation and impairments** | **2,969** | **1,844** | **61** |
| Depreciation | 2,969 | 1,844 | 61 |
| Property, plant and equipment | 2,006 | 1,345 | 49 |
| Intangible assets | 962 | 499 | 93 |
| **Total** | **44,061** | **34,588** | **27** |

The cost of computer systems has risen in the year under report. The income from accounting for services with subsidiaries was cut in the administrative expense.

The employees of NORD/LB CFB were integrated into NORD/LB Luxembourg S.A. in the year under report. Accordingly, the pension reserves of NORD/LB CFB were transferred to NORD/LB Luxembourg S.A. Staff expenses includes contributions to employees' old age pensions in accordance with a contribution-related plan (Defined Contribution Plan), which have to be shown as current expenditure according to IAS 19, in the sum of KEUR 500 and in accordance with a performance-related plan (Defined Benefit Plan) in the sum of KEUR 1,306. Expenses in connection with Defined Benefit Obligations are shown in Note (41).

Part of the increase in personnel costs is due to the integration of the staff from NORD/LB CFB. There were also additional personnel appointments and increased expenditure in connection with the introduction of the new standard bank software.

The rise in depreciation of property, plant and equipment in comparison with the previous year is in direct connection with the new bank building in Luxembourg, which was completed and occupied in June 2011. As a result, the full annual amount of depreciation accrued for the first time in 2012. For the same reason, there are no more rental costs in 2012. This had a positive effect on occupancy costs.

The rise in deprecation of intangible assets is the result of commissioning the new banking software in financial year 2012.

## (23) Other Operating Profit/Loss

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| **Other operating income** | **3,007** | **17,893** | **–83** |
| from the reversal of provisions | 0 | 0 | – |
| other income | 3,007 | 17,893 | –83 |
| **Other operating expenses** | **5,872** | **13,761** | **–57** |
| from the allocation of provisions | 0 | 0 | – |
| other expenses | 5,872 | 13,761 | –57 |
| **Total** | **–2,865** | **4,133** | **> 100** |

The other operating expense mainly includes depreciation to "value in use" of an IT project (KEUR 2,505, previous year KEUR 10,049) and the expenses for accounting of services with NORD/LB (KEUR 2,609, previous year KEUR 3,102).

Other operating income is primarily the result of the liquidation of prepaid expenses and reversal of accruals from previous years.

## (24) Income Taxes

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| Current income taxes | –8,860 | –999 | > 100 |
| Deferred taxes | –76 | –13,538 | –99 |
| **Total** | –8,936 | **–14,537** | **–39** |

The following tax reconciliation shows an analysis of the differences between the income tax expenditure which would arise by applying the Luxembourg income tax rate to the IFRS profit/loss before taxes, and the actual income tax expenditure shown.

| | 2012 (KEUR) | 2011 (KEUR) |
|---|---|---|
| **IFRS earnings before taxes (EBT)** | **43,316** | **60,488** |
| Expected income tax expense | –12,475 | –17,421 |
| **Effects of reconciliation** | | |
| Effects of different tax rates | – | – |
| Taxes from previous years recognised in the year under report | –2 | 438 |
| Effects of tax rate changes | 76 | 0 |
| Non-allowable income taxes | – | – |
| Non-deductible operating expenses | –31 | 253 |
| Effects of tax-free income | 3,680 | 2,193 |
| Effects of permanent effects affecting the balance sheet | – | – |
| Other effects | –108 | 13,538 |
| **Income tax expense shown** | **–8,860** | **–999** |

The anticipated income tax expense in the tax reconciliation is calculated from the corporation tax and trade tax burden applicable in Luxembourg in 2012 at 28.80 % (previous year 28.59 %).

# Notes to the Balance Sheet

## (25) Cash Reserve

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Cash | 1.1 | 1.2 | –13 |
| Balances with central banks | 74.1 | 137.7 | –46 |
| **Total** | **75.1** | **138.9** | **–46** |

EUR 61.0 million (previous year EUR 137.7 million) of balances deposited with central banks are deposited at the Luxembourg Central Bank and constitute the planned minimum reserve.

## (26) Loans and Advances to Banks

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Receivables from money market transactions** | **2,382.7** | **3,017.3** | **–21** |
| Luxembourg banks | 1,839.1 | 1,469.6 | 25 |
| Foreign banks | 543.5 | 1,547.7 | –65 |
| **Other receivables** | **1,681.3** | **1,307.3** | **29** |
| Luxembourg banks | 1,493.8 | 883.0 | 69 |
| due on demand | 772.8 | 5.4 | > 100 |
| deferred | 721.1 | 877.6 | –18 |
| Foreign banks | 187.5 | 424.3 | –56 |
| due on demand | 64.4 | 31.5 | > 100 |
| deferred | 123.0 | 392.8 | –69 |
| **Total** | **4,063.9** | **4,324.6** | **–6** |

Of the total amount, EUR 731.0 million (previous year EUR 1,972.0 million) relate to loans and advances to foreign banks. A partial amount of EUR 749.2 million (previous year EUR 1,058.0 million) of the loans and advances to banks will only become due after more than twelve months.

## (27) Loans and Advances to Customers

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Receivables from money market transactions** | **0.0** | **0.0** | **–** |
| Luxembourg customers | 0.0 | 0.0 | – |
| Foreign customers | 0.0 | 0.0 | – |
| **Other receivables** | **4,314.3** | **3,853.8** | **12** |
| Luxembourg customers | 157.2 | 107.3 | 47 |
| due on demand | 95.0 | 41.8 | > 100 |
| deferred | 62.3 | 65.5 | – 5 |
| Foreign customers | 4,157.0 | 3,746.5 | 11 |
| due on demand | 6.3 | 9.6 | – 35 |
| deferred | 4,150.7 | 3,736.9 | 11 |
| **Total** | **4,314.3** | **3,853.8** | **12** |

The total amount relates almost exclusively to loans and advances to foreign customers. Of the receivables from customers, EUR 2,594.6 million (previous year EUR 2,242.3 million) is only due after a period of more than twelve months.

## (28) Risk Provisions

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Individual value adjustments for receivables** | **– 27.4** | **– 13.0** | **> 100** |
| Foreign banks | 0.0 | 0.0 | – |
| Luxembourg customers | 0.0 | 0.0 | – |
| Foreign customers | 27.4 | – 13.0 | > 100 |
| **Portfolio-based provisions for receivables** | **– 5.4** | **– 13.2** | **– 59** |
| **Total** | **– 32.8** | **– 26.2** | **25** |

On the assets side, risk provisions and provisions in the lending business have changed as follows:

| EUR million | Specific Value Adjustments | Portfolio-based Provisions | Provisions in Lending Business | Total |
|---|---|---|---|---|
| 01.01.2011 | 172.3 | 13.0 | 8.5 | 193.8 |
| Allocations | 2.8 | 0.2 | 1.2 | 4.2 |
| Reductions | 20.6 | 0.0 | 2.0 | 22.6 |
| Utilisation | 141.7 | 0.0 | 0.0 | 141.7 |
| Effects from currency translation, unwinding and other increase/decrease | 0.2 | 0.0 | 0.0 | 0.2 |
| 31.12.2011 | 13.0 | 13.2 | 7.7 | 33.8 |
| Allocations | 17.5 | 0.0 | 12.1 | 29.6 |
| Reductions | 1.6 | 7.8 | 2.0 | 11.4 |
| Utilisation | 0.8 | 0.0 | 0.0 | 0.8 |
| Effects from currency translation, unwinding and other increase/decrease | −0.7 | 0.0 | 0.0 | −0.7 |
| 31.12.2012 | 27.4 | 5.4 | 17.8 | 50.6 |

The allocation to individual value adjustments for receivables relate to a commitment from the “Renewable Energies” sector (EUR 9.1 million) and a commitment from the “Temporary Work” sector (EUR 8.4 million).

There has been a shift between balance sheet and off-balance sheet portfolio value adjustments in the financial year. The latter are reported under accrued liabilities in the lending business. For more details, see Note (6) Risk provision, Note (17) Risk provision in the lending business and Note (41) accrued liabilities.

The volume of loans in default amounts to EUR 1.5 million on the reporting date (previous year EUR 1.9 million). Of this amount, EUR 1.2 million is attributable to loan redemptions and EUR 0.3 million to outstanding interest payments. The two underlying commitments have been in default since 2008 and 2010 respectively and the value of each has been adjusted.

## (29) Financial Assets at Fair Value through Profit or Loss

This item includes trading assets (HfT) and financial assets designated at fair value (dFV). Trading activities comprise trading in debt securities and other fixed-interest securities, shares and other variable-yield securities, and derivatives that are not used in hedge accounting.

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Trading assets** | **507.6** | **559.7** | **–9** |
| **Debt securities and other fixed interest securities** | 41.5 | 130.7 | –68 |
| from public issuers | 0.0 | 0.0 | – |
| from other issuers | 41.5 | 130.7 | –68 |
| **Positive fair values from derivatives in connection with:** | **466.1** | **429.0** | **9** |
| Interest rate risks | 218.8 | 180.4 | 21 |
| Currency risks | 247.3 | 248.7 | –1 |
| Share and other price risks | 0.0 | 0.0 | – |
| Trading portfolio claims | 0.0 | 0.0 | – |
| **Financial assets designated at fair value** | **0.0** | **45.0** | **–100** |
| **Loans and advances to banks and customers** | **0.0** | **0.0** | **–** |
| **Debt securities and other fixed interest securities** | **0.0** | **45.0** | **–100** |
| **Shares and other variable yield securities** | **0.0** | **0.0** | **–** |
| **Total** | **507.6** | **604.8** | **–16** |

There are no financial assets designated at fair value in the portfolio.

The bank does not hold any credit derivatives or similar financial instruments in its portfolio. Of the total amount, EUR 429.4 million (previous year EUR 499.7 million) is only due following a period of more than twelve months.

## (30) Fair Values from Hedge Accounting

This item comprises positive fair values from hedging instruments in effective micro fair value hedging relationships.

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Positive fair values from allocated micro fair value hedge derivatives | 47.7 | 43.4 | 10 |
| Fair values from derivatives in portfolio fair value hedge accounting | 0.0 | 0.0 | – |
| Fair values in terms of cash flow hedge accounting | 0.0 | 0.0 | – |
| **Total** | **47.7** | **43.4** | **10** |

The bank operates micro fair value hedge accounting to cover interest rate risks. Hedge derivatives with a fair value of EUR 47.7 million will become due at the earliest after twelve months (previous year EUR 43.4 million).

## (31) Financial Assets

The financial assets balance sheet item essentially includes all the debt securities and other fixed-interest securities and shares and other variable-yield securities that are classified as available for sale and are not for trading.

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Financial assets classified as LaR** | **606.3** | **607.1** | **0** |
| **Financial assets classified as AfS** | **5,733.2** | **5,705.9** | **0** |
| Debt securities and other fixed interest securities | 5,620.1 | 5,583.7 | 1 |
| Money market securities | 150.1 | 45.2 | > 100 |
| from public issuers | 50.1 | 0.0 | – |
| from other issuers | 100.0 | 45.2 | > 100 |
| Bonds and debt securities | 5,470.0 | 5,538.5 | – 1 |
| from public issuers | 1,408.0 | 1,038.7 | 36 |
| from other issuers | 4,062.0 | 4,499.8 | – 10 |
| Shares and other variable yield securities | 9.8 | 19.0 | – 48 |
| Shares | 0.0 | 0.0 | – |
| Investment shares | 9.8 | 19.0 | – 49 |
| Profit participation certificates | 0.1 | 0.0 | – |
| Shares in companies | 103.2 | 103.2 | 0 |
| Shares in affiliated companies | 103.2 | 103.2 | 0 |
| Banks | 81.7 | 81.7 | 0 |
| Other companies | 21.5 | 21.5 | 0 |
| Special purpose companies (special funds) | 0.0 | 0.0 | – |
| **Total** | **6,339.4** | **6,313.0** | **0** |

Of the financial assets, EUR 5,438.0 million (previous year EUR 4,788.0 million) will only become due following a period of over twelve months. The volume of financial assets that were issued by the central governments of certain Euro countries (Portugal, Italy, Ireland, Greece and Spain) amounts to a nominal EUR 7.9 million. These assets are a debtor warrant from the Republic of Greece with a term until 2043. The book value of this financial asset is KEUR 55 as per the reporting date.

The bank did not carry out any reclassifications.

Shares in affiliated companies on the reporting date include the equity in NORD/LB CFB, Luxembourg, and in Skandifinanz AG, Zurich. The following table shows the equity before revaluation reserve and the profit/loss of the year under report of both investments valued at acquisition cost carried forward:

| Name/Registered Office | Equity Share | Investment Book Value (EUR million) | Equity before Revaluation Reserve (EUR million) | Profit/Loss (EUR million) |
|---|---|---|---|---|
| NORD/LB Covered Finance Bank S.A., Luxembourg | 100 % | 81.7 | 97.8 | 0.6 |
| Skandifinanz AG, Zürich | 100 % | 21.5 | 26.8 | –0.1 |
| **Total** | | **103.2** | **124.6** | **0.5** |

The equity before revaluation reserve of the respective investment is higher than the investment book value.

The business activities of Skandifinanz AG were fully restored or transferred to the parent company.

## (32) Property, Plant and Equipment

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Land and buildings | 65.0 | 68.9 | –6 |
| Operating and office equipment | 7.1 | 7.7 | –7 |
| Investments under construction | 0.0 | 0.0 | – |
| Other property, plant and equipment | 0.0 | 0.0 | – |
| **Total** | **72.2** | **76.5** | **–5.7** |

The acquisition and manufacturing costs and the cumulative depreciation for property, plant and equipment and investment properties changed as follows:

| EUR million | Land and Buildings | BGA | Investments under Construction | Other Property, Plant and Equipment | Total |
|---|---|---|---|---|---|
| **Acquisition and manufacturing costs at 01.01.2011** | **23.4** | **11.7** | **37.0** | **0.0** | **72.1** |
| Accruals | 0.2 | 1.6 | 15.6 | 0.0 | 17.4 |
| Disposals | 0.0 | 1.1 | 0.0 | 0.0 | 1.1 |
| Transfers | 46.1 | 6.4 | −52.6 | 0.0 | 0.0 |
| Changes from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total 31.12.2011** | **69.7** | **18.6** | **0.0** | **0.0** | **88.4** |
| **Cumulative depreciation at 01.01.2011** | **0.4** | **11.1** | **0.0** | **0.0** | **11.5** |
| Scheduled depreciation | 0.5 | 0.9 | 0.0 | 0.0 | 1.3 |
| Impairments (write-downs) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | 1.0 | 0.0 | 0.0 | 1.0 |
| Changes from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total 31.12.2011** | **0.9** | **11.0** | **0.0** | **0.0** | **11.9** |
| **Closing balance at 31.12.2011** | **68.9** | **7.7** | **0.0** | **0.0** | **76.5** |
| **Acquisition and manufacturing costs at 01.01.2012** | **69.7** | **18.6** | **0.0** | **0.0** | **88.4** |
| Accruals | 0.2 | 0.8 | 0.0 | 0.1 | 1.1 |
| Disposals | 0.0 | 6.1 | 0.0 | 0.0 | 6.1 |
| Transfers | 0.0 | 0.1 | 0.0 | −0.1 | 0.0 |
| Subsequent reduction in acquisition costs | 3.4 | 0.0 | 0.0 | 0.0 | 3.4 |
| Changes from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total 31.12.2012** | **66.5** | **13.4** | **0.0** | **0.0** | **79.9** |
| **Cumulative depreciation at 01.01.2012** | **0.9** | **11.0** | **0.0** | **0.0** | **11.9** |
| Scheduled depreciation | 0.6 | 1.4 | 0.0 | 0.0 | 2.0 |
| Impairments (write-downs) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | 6.1 | 0.0 | 0.0 | 6.1 |
| Changes from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total 31.12.2012** | **1.5** | **6.3** | **0.0** | **0.0** | **7.8** |
| **Closing balance at 31.12.2012** | **65.0** | **7.1** | **0.0** | **0.0** | **72.2** |

## (33) Intangible Assets

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Software | 9.7 | 0.6 | > 100 |
| Acquired for consideration | 9.7 | 0.6 | > 100 |
| Self-produced | 0.0 | 0.0 | – |
| Intangible assets under development | 1.9 | 6.0 | – 68 |
| Other | 0.0 | 0.0 | – |
| **Total** | **11.6** | **6.6** | **76** |

Fully depreciated software is still being used at NORD/LB Luxembourg.

| EUR million | Software | | Intangible Assets under Development | | Total |
|---|---|---|---|---|---|
| | Acquired for Consideration | Self-produced | Acquired for Consideration | Self-produced | |
| **Acquisition and manufacturing costs at 01.01.2011** | **16.2** | **0.0** | **4.9** | **0.0** | **21.1** |
| Accruals | 0.1 | 0.0 | 11.8 | 0.0 | 12.0 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transfers | 0.7 | 0.0 | – 0.7 | 0.0 | 0.0 |
| Changes from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total 31.12.2011** | **17.0** | **0.0** | **16.1** | **0.0** | **33.1** |
| **Cumulative depreciation at 01.01.2011** | **15.9** | **0.0** | **0.0** | **0.0** | **15.9** |
| Scheduled depreciation | 0.5 | 0.0 | 0.0 | 0.0 | 0.5 |
| Impairments (write-downs) | 0.0 | 0.0 | 10.0 | 0.0 | 10.0 |
| Transfers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total 31.12.2011** | **16.4** | **0.0** | **10.0** | **0.0** | **26.5** |
| **Closing balance at 31.12.2011** | **0.6** | **0.0** | **6.0** | **0.0** | **6.6** |
| **Acquisition and manufacturing costs at 01.01.2012** | **17.0** | **0.0** | **16.1** | **0.0** | **33.1** |
| Accruals | 1.5 | 0.0 | 6.9 | 0.0 | 8.5 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transfers | 11.0 | 0.0 | – 11.0 | 0.0 | 0.0 |
| Changes from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total 31.12.2012** | **29.6** | **0.0** | **12.0** | **0.0** | **41.6** |

| EUR million | Software | | Intangible Assets under Development | | Total |
|---|---|---|---|---|---|
| | Acquired for Consideration | Self-produced | Acquired for Consideration | Self-produced | |
| **Cumulative depreciation at 01.01.2012** | **16.4** | **0.0** | **10.0** | **0.0** | **26.5** |
| Scheduled depreciation | 1.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Impairments (write-downs) | 2.5 | 0.0 | 0.0 | 0.0 | 2.5 |
| Transfers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total 31.12.2012** | **19.9** | **0.0** | **10.0** | **0.0** | **30.0** |
| **Closing balance at 31.12.2012** | **9.7** | **0.0** | **1.9** | **0.0** | **11.6** |

A non-scheduled depreciation to "value in use" of an IT project in the sum of EUR 2.5 million (previous year EUR 10.0 million) is shown in other operating expense. The impairments relate mainly to increased expenditure in connection with services to achieve the desired scope of functions. Future cash flows and cost savings plans were used to calculate the "value in use". At the same time, a discount interest rate of 3.17 % was applied. For further information, see Note (23).

## (34) Income Tax Assets

Income tax assets are broken down as follows:

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Current income tax assets | 5.1 | 14.6 | –65 |
| Active deferred taxes | 10.5 | 37.9 | –72 |
| **Total** | **15.6** | **52.5** | **–70** |

Active deferred taxes form the potential income tax relief resulting from temporary differences between assets and liabilities in the IFRS balance sheet and the balance sheet according to the tax provisions.

The tax provisions have been applied to the IFRS financial statements since 2008. This means that many of the temporary differences no longer apply. Active deferred taxes relate to financial assets classified as AfS. For further information see Note (24).

Deferred income tax assets were shown in connection with the following balance sheet items:

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Assets** | | | |
| Risk provisions | 0.0 | 0.0 | – |
| Financial assets | 10.1 | 37.9 | –73 |
| Property, plant and equipment | 0.0 | 0.0 | – |
| Other assets | 0.0 | 0.0 | – |
| **Liabilities** | | | |
| Financial liabilities at fair value through profit or loss | 0.0 | 0.0 | – |
| Fair values from hedge accounting | 0.0 | 0.0 | – |
| Provisions | 0.4 | 0.0 | – |
| Other liabilities | 0.0 | 0.0 | – |
| Tax losses carried forward | 0.0 | 0.0 | – |
| **Total** | **10.5** | **37.9** | **–72** |

## (35) Other Assets

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Tax reimbursement rights from other taxes | 2.7 | 0.2 | > 100 |
| Other assets | 0.0 | 1.8 | –99 |
| Other assets including accruals and deferred income | 6.7 | 2.2 | > 100 |
| **Total** | **9.5** | **4.2** | **> 100** |

## (36) Liabilities to Banks

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Deposits from other banks** | **2,555.5** | **2.880.3** | **– 11** |
| Luxembourg banks | 686.1 | 285.0 | > 100 |
| Foreign banks | 1,869.4 | 2,595.3 | – 28 |
| **Liabilities arising from money market transactions** | **7,674.6** | **6,561.2** | **17** |
| Luxembourg banks | 1,649.7 | 2,344.4 | – 30 |
| Foreign banks | 6,024.9 | 4,216.8 | 43 |
| **Other liabilities** | **763.8** | **1.6** | **> 100** |
| Luxembourg banks | 752.5 | 1.3 | > 100 |
| due on demand | 752.5 | 1.3 | > 100 |
| deferred | 0.0 | 0.0 | – |
| Foreign banks | 11.3 | 0.4 | > 100 |
| due on demand | 11.3 | 0.4 | > 100 |
| deferred | 0.0 | 0.0 | – |
| **Total** | **10,993.9** | **9,443.1** | **16** |

Of the total amount, EUR 2,546.7 million (previous year EUR 2,107.5 million) is attributable to liabilities which will only become due after more than twelve months.

The bank issued a registered promissory note to the volume of EUR 400.0 million in financial year 2012 and sold it to NORD/LB. This promissory note, which will mature in 2017, is furnished with the right to convert the promissory note if a specified core capital ratio is undercut and to replace it with a subordinate promissory note with the same nominal volume.

## (37) Liabilities to Customers

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Savings deposits** | **0.0** | **0.0** | **–** |
| **Liabilities arising from money market transactions** | **1,350.1** | **2,261.3** | **– 40** |
| Luxembourg customers | 145.4 | 679.3 | – 79 |
| Foreign customers | 1,204.8 | 1,581.9 | – 24 |
| **Other liabilities** | **204.4** | **118.4** | **73** |
| Luxembourg customers | 37.6 | 16.0 | > 100 |
| due on demand | 37.6 | 16.0 | > 100 |
| deferred | 0.0 | 0.0 | – |
| Foreign customers | 166.8 | 102.4 | 63 |
| due on demand | 166.8 | 81.7 | > 100 |
| deferred | 0.0 | 20.7 | – 100 |
| **Total** | **1,554.5** | **2,379.7** | **– 35** |

A partial amount of EUR 4.1 million will only become due after 12 months (previous year EUR 270.0 million).

## (38) Securitised Liabilities

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Issued debt securities | 1,249.7 | 1,792.6 | –30 |
| Money market papers/Commercial papers | 0.0 | 416.4 | –100 |
| Other securitised liabilities | 0.0 | 0.0 | – |
| **Total** | **1,249.7** | **2,209.0** | **–43** |

A remaining term of more than 12 months is shown by EUR 961.1 million of the total amount (previous year EUR 1,292.5 million). The debt securities issued are listed on the Luxembourg exchange.

## (39) Financial Liabilities at Fair Value through Profit or Loss

This item includes trading liabilities (HfT) and financial liabilities designated at fair value (dFV).

Trading liabilities comprise negative fair values from derivative financial instruments that are not used within the scope of hedge accounting and short sale delivery obligations.

The category comprising financial liabilities designated at fair value is not currently used.

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Trading liabilities** | **453.9** | **347.6** | **31** |
| Negative fair values from derivatives in connection with: | 453.9 | 347.6 | 31 |
| Interest rate risks | 235.4 | 210.2 | 12 |
| Currency risks | 218.5 | 137.4 | 59 |
| **Financial liabilities designated at fair value** | **0.0** | **0.0** | **–** |
| **Total** | **453.9** | **347.6** | **31** |

A partial amount of EUR 421.2 million of the trading liabilities will only become due after more than 12 months (previous year EUR 315.0 million).

## (40) Fair Values from Hedge Accounting

This item comprises negative fair values from hedging instruments from effective micro fair value hedging relationships.

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Negative fair values from allocated micro fair value hedge derivatives | 334.1 | 260.0 | 29 |
| **Total** | **334.1** | **260.0** | **29** |

The bank operates micro fair value hedge accounting for interest rate hedging. Hedge derivatives with a negative fair value of EUR 329.3 million will become due at the earliest after twelve months (previous year EUR 250.8 million).

## (41) Provisions

Provisions are broken down as follows:

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Provisions for pensions and similar obligations** | **2.0** | **0.8** | **> 100** |
| **Other provisions** | **20.6** | **12.0** | **72** |
| Provisions in lending business | 17.8 | 7.7 | > 100 |
| Provisions for uncertain liabilities | 2.9 | 4.3 | –34 |
| **Total** | **22.6** | **12.8** | **76** |

The other provisions include amounts in the sum of EUR 1.7 million, which will become due in the reporting year ahead (previous year EUR 1.2 million). These are primarily provisions for staff costs in both years under report. Provisions in the sum of EUR 19.0 million represent amounts that will become due within the coming three years (previous year EUR 10.8 million). These relate primarily to provisions for recourse risks and provisions in the lending business.

**Provisions for Pensions and Similar Obligations**

Calculations are based on the following actuarial assumptions:

| Actuarial Assumptions | 31.12.2012 (in %) | 31.12.2011 (in %) | Increase/ Decrease (%) |
|---|---|---|---|
| Annual salary growth | 1.00 | 1.50 | –33 |
| Annual inflation rate | 2.50 | 2.50 | 0 |
| Annual BBG contribution ceiling (including cost of living index) | 3.45 | 3.50 | –1 |
| Discount ratet | 3.60 | 5.10 | –29 |
| Mortality table: | Statistical values published in the Grand Ducal regulation of 15 January 2001 that govern the minimum funding of occupational pensions | | |
| Expected return on plan assets | 3.25 | 3.25 | 0 |
| Turnover rate | 2.00 | 3.00 | –33 |

Provisions for pensions and similar obligations are as follows:

| | 31.12.2012 | 31.12.2011 | Increase/ Decrease (%) |
|---|---|---|---|
| Cash value of the performance-related obligation | 5,378.2 | 3,312.2 | 62 |
| Deduction for the fair value of plan assets | 3,756.8 | 2,624.8 | 43 |
| Surplus plan assets not shown as an asset | 0.0 | 0.0 | – |
| Other amounts shown in the balance sheet (lump sum tax) | 338.9 | 143.7 | > 100 |
| **Total** | **1,960.2** | **831.0** | **> 100** |

The cash value of the defined benefit obligation can be carried over from the opening to the closing balance for the period by taking into account the effects of the mentioned items:

| | 31.12.2012 | 31.12.2011 | Increase/ Decrease (%) |
|---|---|---|---|
| **Opening balance** | **3,312.2** | **3,826.5** | **–13** |
| Current service cost | 343.3 | 217.2 | 58 |
| Interest expense | 118.0 | 187.3 | –37 |
| Contributions by plan participants | 0.0 | 0.0 | – |
| Actuarial gains/losses from the liability | 1,672.9 | –611.6 | > 100 |

| | 31.12.2012 | 31.12.2011 | Increase/ Decrease (%) |
|---|---|---|---|
| Increases/decreases from currency translations | 0.0 | 0.0 | – |
| Benefits paid | –68.3 | –307.3 | –78 |
| Past service cost | 0.0 | 0.0 | – |
| Effects of curtailments | 0.0 | 0.0 | – |
| Effects of settlements | 0.0 | 0.0 | – |
| **Closing balance** | **5,378.2** | **3,312.2** | **62** |

In addition, the defined benefit obligation as at the reporting date is to be separated into amounts from defined benefit plans, which are not financed via a fund, and amounts from defined benefit plans that are wholly or partly financed by a fund. The latter applies to NORD/LB Luxembourg's defined benefit obligation. According to the insurance firm, experience adjustments on plan liabilities and plan assets amount to KEUR 1,131.7 (previous year KEUR 96.5) and KEUR –191.6 (previous year KEUR 12.8) respectively.

The fair value of the plan assets can be shown to have changed as follows:

| | 31.12.2012 | 31.12.2011 | Increase/ Decrease (%) |
|---|---|---|---|
| **Opening balance** | **2,624.8** | **2,611.8** | **0** |
| Expected return on plan assets | 115.4 | 103.2 | 12 |
| Actuarial gains/losses on plan assets | 191.6 | –191.9 | > 100 |
| Increases/decreases from currency translations | 0.0 | 0.0 | – |
| Employer contributions | 893.3 | 409.0 | > 100 |
| Contributions by plan participants | 0.0 | 0.0 | – |
| Benefits paid | – 68.3 | –307.3 | –78 |
| Effects of settlements | 0.0 | 0.0 | – |
| **Closing balance** | **3,756.8** | **2,624.8** | **43** |

The fair value of the plan assets is composed as follows:

| | 31.12.2012 (in %) | 31.12.2011 (in %) | Increase/ Decrease (%) |
|---|---|---|---|
| Equity instruments | 4 | 4 | –1 |
| Equity instruments of another entity | 85 | 81 | 4 |
| Real estate | 3 | 3 | –15 |
| Other assets | 9 | 12 | –26 |

The fair value of the plan assets includes equity instruments in the sum of KEUR 154 (previous year KEUR 108), equity instruments of another entity in the sum of KEUR 3,177 (previous year KEUR 2,126) and other assets in the sum of KEUR 426 (previous year KEUR 390). The overall expected yield of 3.25 % is the result of the weighted average of the expected income from the investment categories held through the plan assets. It is expected that a total of KEUR 357 will be paid into the plan assets of the defined benefit obligations during the next reporting period (previous year KEUR 226).

Pension costs are made up as follows:

| | 31.12.2012 (KEUR) | 31.12.2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| Current service cost | 343.3 | 217.2 | 58 |
| Interest expense | 118.0 | 187.3 | –37 |
| Expected return on plan assets | –115.4 | –103.2 | 12 |
| Past service cost | 0.0 | 0.0 | – |
| Effects of plan changes | 0.0 | 0.0 | – |
| Expected return on reimbursement rights | 1,481.3 | –419.6 | > 100 |
| **Total** | **1,827.2** | **–118.3** | **> 100** |

Summary of the amounts in the current reporting period and the previous reporting periods:

| | 31.12.2012 (KEUR) | 31.12.2011 (KEUR) | 31.12.2010 (KEUR) | 31.12.2009 (KEUR) | 31.12.2008 (KEUR) |
|---|---|---|---|---|---|
| Pension obligation (DBO) | 5,378.2 | 3,312.2 | 3,826.5 | 3,519.1 | 3,397.5 |
| Plan assets | –3,756.8 | –2,624.8 | –2,611.8 | –2,464.6 | –2,550.7 |
| Shortfall | 1,621.3 | 687.4 | 1,214.7 | 1,054.4 | 846.9 |
| Actuarial profit/losses | 1,481.3 | 419.6 | 54.0 | –126.2 | 85.4 |
| Experience adjustments to: | | | | | |
| Pension obligation (DBO) | 1,131.7 | 96.5 | 280.0 | 379.1 | 249.1 |
| Plan assets | –191.6 | 12.8 | –2.2 | –17.3 | –76.1 |

Other provisions changed during the year under report as follows:

| EUR million | Provisions in Lending Business | Provisions for Impending Losses | Provisions for Uncertain Liabilities | | Provisions for Insurance Business | Total |
|---|---|---|---|---|---|---|
| | | | from personnel field | other | | |
| **Opening balance** | 7.7 | **0.0** | **1.2** | **3.1** | **0.0** | 12.0 |
| Increases/decreases from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Utilisation | 0.0 | 0.0 | 0.4 | 0.6 | 0.0 | **1.0** |
| Reductions | 2.0 | 0.0 | 0.0 | 1.3 | 0.0 | **3.3** |
| Allocations | 12.1 | 0.0 | 0.9 | 0.0 | 0.0 | **13.0** |
| **Closing balance** | **17.8** | **0.0** | **1.7** | **1.2** | **0.0** | **20.6** |

## (42) Income Tax Liabilities

Income tax liabilities are broken down as follows:

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Current income tax liabilities | 5.2 | 2.3 | > 100 |
| Passive deferred taxes | 5.3 | 5.3 | 0 |
| **Total** | **10.5** | **7.6** | **39** |

Deferred taxes on the liabilities side are the potential income tax burdens from temporary differences between the values of the assets and liabilities in the IFRS balance sheet and the tax values according to the tax regulations.

The tax provisions have been applied to the IFRS financial statements since the reporting year 2008. This means that many of the temporary differences no longer apply (see table below). The passive deferred taxes result primarily from the sale of the bank’s own office building in 2008.

The deferred tax obligations are in connection with the following balance sheet items:

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Assets** | **0.0** | **0.0** | **–** |
| **Liabilities** | | | |
| Other liabilities | 5.3 | 5.3 | 0 |
| **Total** | **5.3** | **5.3** | **0** |

## (43) Other Liabilities

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Liabilities from outstanding invoices | 9.6 | 6.7 | 44 |
| Liabilities from short term remuneration of workers | 4.9 | 4.0 | 21 |
| Accruals and deferred income | 10.8 | 4.5 | > 100 |
| Liabilities from taxes and social security contributions not yet deducted | 8.6 | 8.1 | 6 |
| Other liabilities | 1.7 | 0.3 | > 100 |
| **Total** | **35.6** | **23.6** | **50** |

Liabilities from short-term remuneration of employees are made up of outstanding leave entitlement and staff and management bonuses.

## (44) Subordinated Capital

Subordinated liabilities are only repaid after the claims of all senior lenders have been settled. They fulfil the conditions of Circular 06/273 as amended in relation to offsetting as regulatory supplementary capital. Offsetting takes place depending on the remaining term.

The expenses for subordinated liabilities amounted to KEUR 752 in the year under report (previous year KEUR 568).

The changes shown in the table result from accrued interest and exchange rate fluctuations.

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| Subordinated liabilities | 94.8 | 96.7 | –2 |
| **Total** | **94.8** | **96.7** | **–2** |

| Type of Transaction | Nominal Amount (in USD million) | Interest Accrual (in USD million) | Rate at 31.12.2012 | Balance Sheet Value (EUR million) | Term in Years | Interest Rates (%) | Maturity |
|---|---|---|---|---|---|---|---|
| Subordinated loans | 60.0 | 0.0 USD | 1.3194 | 45.5 | 15 | 0.48175 | 8 June 16 |
| Subordinated loans | 65.0 | 0.0 USD | 1.3194 | 49.3 | 15 | 0.751 | 31 Dec. 17 |
| **Total** | | | | **94.8** | | | |

The subordinated capital is liable to variable interest rates.

# Other Disclosures

## (45) Notes to the Overall Profit and Loss Account

The income tax effects are allotted to the individual components of the components of the profit/loss recorded directly in the equity as follows:

| KEUR | Amount before Taxes 2012 | Income Tax Effect 2012 | Amount after Taxes 2012 | Amount before Taxes 2011 | Income Tax Effect 2011 | Amount after Taxes 2011 |
|---|---|---|---|---|---|---|
| Increase/decrease from available for sale (AfS) financial instruments | 97,005 | −27,792 | 69,213 | −92,185 | 26,549 | −65,635 |
| Actuarial gains/losses for defined benefit provisions for pensions | −1,677 | 488 | −1,188 | 530 | −153 | 377 |
| **Profit/loss recognised directly in equity** | **95,328** | **−27,303** | **68,025** | **−91,655** | **26,397** | **−65,258** |
| of which due to shareholders of NORD/LUX | 95,328 | −27,303 | 68,025 | −91,655 | 26,397 | −65,258 |
| of which not attributable to controlling shares | 0 | 0 | 0 | 0 | 0 | 0 |

## (46) Notes to the Statement of Changes in Equity

The company's subscribed capital amounts to EUR 205 million as at 31 December 2012 (previous year EUR 205 million). It is divided into 820,000 registered shares without nominal value (previous year 820,000 registered shares). The subscribed capital is fully paid up. There were no changes over the course of the year under report.

The individual components of equity and their development in the years 2011 and 2012 can be seen from the statement of changes in equity.

The revenue reserves comprise the amounts shown for NORD/LB Luxembourg in previous reporting years and the allocations from the profit for the year.

The revenue reserves also include, in particular, the legal reserve in accordance with Article 72 of the Law of 10 August 1915, as amended. Accordingly, at least 5 % of the profit for the year must be allocated to the legal reserve to begin with until it is equivalent to 10 % of the subscribed capital. The bank's legal reserve amounts to EUR 20.5 million or 10 % of subscribed capital and is therefore adequately funded.

The effects of measuring available-for-sale (AfS) financial instruments are shown under the revaluation reserve item.

The cumulative actuarial losses according to IAS 19.93A and recognised in equity amount to EUR –1.3 million (previous year EUR 0.3 million) before taking into account deferred taxes and minority interests. The negative changes in the year under report amounted to EUR –1.7 million.

The bank made use of the fiscal option of offsetting wealth tax for the year and earmarked five times the amount of offset wealth tax of the tax group in the voluntary reserves taking into account the five-year commitment period.

The following summary shows how wealth tax affects the appropriation to the reserves:

| Year | Property Tax NORD/LB Luxembourg | Wealth Tax NORD/LB CFB | Total | Locked in Reserves (= Five Times the Offset Property Tax) | Locked in Until |
|---|---|---|---|---|---|
| 2008 | 4.1 | 0.2 | 4.3 | 21.5 | 31.12.2013 |
| 2009 | 3.6 | 0.2 | 3.8 | 18.7* | 31.12.2014 |
| 2010 | – | – | – | – | – |
| 2011 | 3.4 | 0.3 | 3.7 | 18.2* | 31.12.2016 |
| 2012 | 2.3 | 0.3 | 2.6 | 13.0* | 31.12.2017 |
| **Total** | **17.0** | **1.2** | **18.2** | | |

* Corporation tax relief limited by the amount of corporation tax burden pursuant to Section 81 of the German Corporation Tax Act (VStG).

## (47) Notes to the Cash Flow Statement

The cash flow statement shows changes in cash and cash equivalents for the year under report due to payment flows from operating activities, investment activities and financing activities.

Cash and cash equivalents are defined as a cash reserve (cash and balances with central banks as well as treasury bills and other bills eligible for refinancing with the central bank).

The cash flow statement is prepared using indirect methods. This involves determining the cash flow from operating activities based on the profit for the year before taxes having first added the non-cash expenses and deducted the non-cash income for the year under report. In addition, all cash expenses and income are eliminated if they are not included under operating business. These payments are taken into account under cash flows from investment activities or financing activities.

As recommended by the IASB, cash flow from operating activities shows payment transactions from loans and advances to banks and customers, trading portfolio securities, liabilities to banks and customers and securitised liabilities.

Cash flow from investment activities comprises payment transactions for the investments and securities portfolio under financial assets and cash receipts and payments for property, plant and equipment.

Cash flow from financing activities includes payment flows from capital adjustments, interest payments on subordinated capital and dividend payments to the shareholders of NORD/LB Luxembourg.

Reference is made to the notes in the risk report section of the management report with regard to NORD/LB Luxembourg's control of the liquidity risk.

# Notes to Financial Instruments

## (48) Term to Maturity of Financial Liabilities and Contingent Liabilities

At 31 December 2012:

| EUR million | < 1 Month | 1 Month < 3 Months | 3 Months < 1 Year | 1 Year < 5 Years | > 5 Years | Total |
|---|---|---|---|---|---|---|
| Liabilities to banks | 3,275.3 | 5,022.6 | 149.2 | 1,591.1 | 955.6 | 10,993.9 |
| Liabilities to customers | 1,248.7 | 184.6 | 117.1 | 4.1 | 0.0 | 1,554.5 |
| Securitised liabilities | –1.1 | 0.0 | 289.6 | 961.1 | 0.0 | 1,249.7 |
| Financial liabilities at fair value through profit or loss (without derivatives) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Subordinated capital | 0.0 | 0.0 | 0.0 | 45.5 | 49.3 | 94.8 |
| Irrevocable credit commitments | 14.1 | 38.7 | 236.3 | 504.2 | 121.7 | 915.1 |
| Financial guarantees | 0.0 | 30.3 | 72.5 | 367.4 | 892.8 | 1,363.0 |
| **Total** | **4,537.1** | **5,276.2** | **864.8** | **3,473.4** | **2,019.4** | **16,170.9** |

At 31 December 2011:

| EUR million | < 1 Month | 1 Month < 3 Months | 3 Months < 1 Year | 1 Year < 5 Years | > 5 Years | Total |
|---|---|---|---|---|---|---|
| Liabilities to banks | 3,152.7 | 2,856.8 | 1,326.2 | 908.8 | 1,198.6 | 9,443.1 |
| Liabilities to customers | 1,704.0 | 490.4 | 185.3 | 0.0 | 0.0 | 2,379.7 |
| Securitised liabilities | 104.9 | 295.3 | 516.3 | 1,292.5 | 0.0 | 2,209.0 |
| Financial liabilities at fair value through profit or loss (without derivatives) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Subordinated capital | 0.0 | 0.0 | 0.0 | 46.4 | 50.2 | 96.7 |
| Irrevocable credit commitments | 84.9 | 44.7 | 328.3 | 480.6 | 24.0 | 962.6 |
| Financial guarantees | 1.3 | 23.6 | 33.0 | 351.7 | 848.7 | 1,258.3 |
| **Total** | **5,047.7** | **3,710.9** | **2,389.0** | **3,080.1** | **2,121.6** | **16,349.3** |

Term to maturity is defined as the time remaining from the reporting date to the contractual maturity date.

More information about the liquidity risk can be found in the “Liquidity Risk” section of the management report. This contains more detailed information about liquidity management, the control and measurement of the liquidity risks, reporting and the development in 2012 and the outlook.

## (49) Book Values According to Valuation Categories

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Assets** | | | |
| Financial assets designated at fair value through profit or loss | 555.2 | 648.1 | –14 |
| Financial assets held for trading | 555.2 | 603.1 | –8 |
| Financial assets designated at fair value through profit or loss | 0.0 | 45.0 | –100 |
| Available for sale assets | 5,630.0 | 5,602.7 | 0 |
| Loans and receivables | 9,130.0 | 9,001.3 | 1 |
| **Total** | **15,315.2** | **15,252.2** | **0** |
| **Liabilities** | | | |
| Financial liabilities at fair value through profit or loss | –788.0 | –607.5 | 30 |
| Financial liabilities held for trading | –788.0 | –607.5 | 30 |
| Financial liabilities designated at fair value through profit or loss | 0.0 | 0.0 | – |
| Other liabilities | –13,892.9 | –14,128.5 | –2 |
| **Total** | **–14,680.8** | **–14,736.0** | **0** |

The fair values of underlying transactions from hedge accounting within the meaning of IAS 39 are allocated to the respective category, the fair values of securities transactions can be found again in the items HfT. Only financial instruments were considered here.

## (50) Net Results According to Valuation Categories

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| Financial instruments at fair value through profit or loss | –45,282.7 | –54,216.4 | –16 |
| Financial instruments held for trading | –45,597.4 | –54,698.2 | –17 |
| Financial instruments designated at fair value through profit or loss | 314.7 | 481.8 | –35 |
| Available for sale assets | 106,120.0 | 120,460.1 | –12 |
| Loans and receivables | 201,387.4 | 238,695.6 | –16 |
| Other liabilities | –153,513.8 | –214,810.2 | –29 |
| **Total** | **108,710.9** | **90,129.1** | **21** |

The result from hedge accounting is not included in the net results because it is not allocated to any of the categories. The risk provision in the lending business, which is also not included here, is explained in the following notes.

## (51) Impairments/Reversal of Impairments According to Valuation Categories

| | 2012 (KEUR) | 2011 (KEUR) | Increase/ Decrease (%) |
|---|---|---|---|
| Available for sale assets | | | |
| Result from valuation adjustments of AfS financial assets | 0.0 | –18,469.8 | –100 |
| Result from direct write-down of uncollectible receivables/ receipts on written down receivables | 0.0 | 0.0 | – |
| **Total** | **0.0** | **–18,469.8** | **–100** |
| Loans and receivables | | | |
| Result from valuation adjustments of LaR financial assets | –15,972.4 | 17,588.9 | > 100 |
| Result from portfolio based valuation adjustments of lar financial assets | 7,813.6 | –205.7 | > 100 |
| Result from the formation/reversal of provisions in lending sector | –10,095.6 | 817.9 | > 100 |
| Result from direct write-down of uncollectible receivables/ receipts on written down receivables | 0.0 | 0.0 | – |
| **Total** | **–18.254,4** | **18.201,0** | **> 100** |

## (52) Fair Value Hierarchy

The following table shows the application of the fair value hierarchy for financial assets and liabilities stated at fair value through profit or loss or not affecting profit or loss:

| 31.12.2012 EUR million | Level 1 (Mark-to-Market) | Level 2 (Mark-to-Matrix) | Level 3 (Mark-to-Model) | Total |
|---|---|---|---|---|
| Trading assets | 41.5 | 466.1 | 0.0 | 507.6 |
| Financial assets designated at fair value | 0.0 | 0.0 | 0.0 | 0.0 |
| Positive fair values from hedge accounting derivatives | 0.0 | 47.7 | 0.0 | 47.7 |
| Financial assets (measured at fair value) | 5,534.3 | 95.6 | 0.0 | 5,630.0 |
| **Assets** | **5,575.8** | **609.4** | **0.0** | **6,185.2** |
| Trading liabilities | 0.0 | 453.9 | 0.0 | 453.9 |
| Financial liabilities designated at fair value | 0.0 | 0.0 | 0.0 | 0.0 |
| Negative fair values from hedge accounting derivatives | 0.0 | 334.1 | 0.0 | 334.1 |
| **Liabilities** | **0.0** | **788.0** | **0.0** | **788.0** |

There are no Level 3 securities in the bank’s portfolio on the reporting date.

The transfers within the fair value hierarchy are as follows:

| 01.01. – 31.12.2012<br>EUR million | From Level 1 to Level 2 | From Level 1 to Level 3 | from level 2 to Level 1 | From Level 2 to Level 3 | from Level 3 to Level 1 | from Level 3 to Level 2 |
|---|---|---|---|---|---|---|
| Trading assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial assets (measured at fair value) | 0.0 | 0.0 | 0.0 | 0.0 | 334.5 | 65.7 |
| **Assets** | **0.0** | **0.0** | **0.0** | **0.0** | **334.5** | **65.7** |
| **Liabilities** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |

A total of 21 securities switched from model valuation (Level 3) to market valuation (Level 1) as there was an active market available again. For four securities, the matrix evaluation (Level 2) was reapplied on the reporting date in contrast to the model evaluation (Level 3) in the previous year.

With respect to the total inventory of securities, the level transfers never rose above 6 %.

There were no financial liabilities in Level 3 of the fair value hierarchy either in the year under report or in the previous year. The bank has no Level 3 assets in the HfT or dFV categories. The changes in financial assets and liabilities in level 3 of the fair value hierarchy were as follows:

| EUR million | Financial Assets (which are measured at Fair Value) | Total Assets |
|---|---|---|
| **Opening balance as at 01.01.2011** | **979.7** | **979.7** |
| Profit/loss effect | 2.6 | 2.6 |
| Equity effect | –67.0 | –67.0 |
| Purchases | 0.0 | 0.0 |
| Sales | 0.0 | 0.0 |
| Amortisations | –37.7 | –37.7 |
| Moved from Level 1 and 2 | 106.3 | 106.3 |
| Moved to Level 1 and 2 | –469.7 | –469.7 |
| Currency translation | 2.0 | 2.0 |
| **Closing balance at 31.12.2011** | **516.3** | **516.3** |
| **Opening balance as at 01.01.2012** | **516.3** | **516.3** |
| Profit/loss effect | –0.2 | –0.2 |
| Equity effect | –19.4 | –19.4 |
| Purchases | 0.0 | 0.0 |
| Sales | 0.0 | 0.0 |
| Amortisations | –96.5 | –96.5 |
| Moved from Level 1 and 2 | 0.0 | 0.0 |
| Moved to Level 1 and 2 | –400.1 | –400.1 |
| Currency translation | 0.0 | 0.0 |
| **Closing balance at 31.12.2012** | **0.0** | **0.0** |

Financial assets and liabilities are initially measured at market prices at the time of acquisition. There was no initial valuation at Level 3 in either period under report; there was consequently no day-one profit or loss.

## (53) Fair Value of Financial Instruments

The fair values of financial instruments that are recognised in the balance sheet at amortised cost or with the hedge fair value are contrasted with the carrying amounts in the following table:

| EUR million | Fair Value 31.12.2012 | Book Value 31.12.2012 | Differenz 31.12.2012 | Fair Value 31.12.2011 | Book Value 31.12.2011 | Difference 31.12.2011 |
|---|---|---|---|---|---|---|
| **Assets** | **9,361.1** | **9,026.8** | **334.3** | **9,185.8** | **8,898.2** | **287.6** |
| **Cash reserve** | **75.1** | **75.1** | **0.0** | **138.9** | **138.9** | **0.0** |
| Loans and advances to banks | 4,103.0 | 4,063.9 | 39.1 | 4.341.0 | 4.324.6 | 16.4 |
| Loans and advances to customers | 4,565.2 | 4,314.3 | 251.0 | 4.089.1 | 3.853.8 | 235.3 |
| Financial assets | 650.5 | 606.3 | 44.3 | 643.0 | 607.1 | 35.9 |
| Risk provisions | −32.8 | −32.8 | 0.0 | −26.2 | −26.2 | 0.0 |
| **Loans and advances after risk provisions** | **9,286.0** | **8,951.6** | **334.3** | **9,046.9** | **8,759.2** | **287.6** |
| **Liabilities** | **14,230.5** | **13,892.9** | **337.6** | **14,389.2** | **14,128.5** | **260.7** |
| **Liabilities to banks** | **11,326.6** | **10,993.9** | **332.7** | **9,684.2** | **9,443.1** | **241.1** |
| **Liabilities to customers** | **1,554.7** | **1,554.5** | **0.2** | **2,380.2** | **2,379.7** | **0.5** |
| **Liabilities to customers** | **1,254.4** | **1,249.7** | **4.7** | **2,218.2** | **2,209.0** | **9.1** |
| **Subordinated capital** | **94.8** | **94.8** | **0.0** | **106.6** | **96.7** | **9.9** |

Fair values are determined in accordance with the discounted cash flow method on the basis of the interest structure curve effective on the balance sheet date.

The amounts shown in the “Book value” column include the assets and liabilities shown in the balance sheet at amortised cost or with the hedge fair value.

## (54) Derivative Financial Instruments

NORD/LB Luxembourg uses derivative financial instruments for hedging within the scope of assets/liabilities management. In addition, it undertakes derivative financial transactions.

Derivative financial instruments denominated in foreign currencies are mainly negotiated in the form of forward exchange transactions, currency swaps, and interest rate/currency swaps. Interest rate derivatives are primarily interest rate swaps. The nominal values are the gross volume of all purchases and sales. This value is a reference amount used to determine mutually agreed adjustment payments, but does not include receivables or liabilities that are eligible for recognition.

The composition of the derivative portfolio is as follows:

| EUR million | Nominal Values 31.12.2012 | Nominal Values 31.12.2011 | Market Values Positive 31.12.2012 | Market Values Positive 31.12.2011 | Market Values Negative 31.12.2012 | Market Values Negative 31.12.2011 |
|---|---|---|---|---|---|---|
| **Interest rate risks** | **8,999.0** | **8,659.4** | **266.5** | **223.8** | **569.5** | **470.1** |
| Interest rate swaps | 8,886.5 | 8,639.4 | 266.5 | 223.8 | 569.5 | 470.1 |
| Caps, floors | 20.0 | 20.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock exchange contracts | 92.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Currency risks** | **4,004.2** | **5,291.3** | **247.3** | **248.7** | **218.4** | **137.4** |
| Forward exchange contracts | 1,877.2 | 24.2 | 5.7 | 0.6 | 15.0 | 0.6 |
| Currency swaps/ Interest rate-currency swaps | 2,127.0 | 5,267.1 | 241.6 | 248.0 | 203.4 | 136.8 |
| **Share and other price risks** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Credit derivatives** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Total** | **13,003.3** | **13,950.7** | **513.8** | **472.5** | **788.0** | **607.5** |

The following table shows the term to maturity of derivative financial instruments.

| Nominal Value (EUR million) | Interest Rate Risks | | Currency Risks | | Share and Other Price Risks | | Credit Derivatives | |
|---|---|---|---|---|---|---|---|---|
| | 31.12. 2012 | 31.12. 2011 | 31.12. 2012 | 31.12. 2011 | 31.12. 2012 | 31.12. 2011 | 31.12. 2012 | 31.12. 2011 |
| **Term to maturity** | | | | | | | | |
| Up to 3 months | 147.9 | 696.9 | 1,818.5 | 3,766.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| More than 3 months to 1 year | 290.8 | 1,281.3 | 450.8 | 593.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| More than 1 year to 5 years | 4,577.3 | 3,360.9 | 885.9 | 803.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| over 5 years | 3,983.1 | 3,320.3 | 849.0 | 127.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **8,999.0** | **8,659.4** | **4,004.2** | **5,291.3** | **0.0** | **0.0** | **0.0** | **0.0** |

The term to maturity is the period of time between the balance sheet date and the contractual maturity.

The table below breaks down the positive and negative market values for derivative transactions according to the relevant counterparty.

| EUR million | Nominal Values 31.12.2012 | Nominal Values 31.12.2011 | Market Values Positive 31.12.2012 | Market Values Positive 31.12.2011 | Market Values Negative 31.12.2012 | Market Values Negative 31.12.2011 |
|---|---|---|---|---|---|---|
| Banks in OECD countries | 12,625.3 | 13,614.9 | 500.9 | 461.1 | 786.5 | 606.8 |
| Banks outside OECD countries | 100.2 | 143.7 | 0.0 | 0.3 | 1.3 | 0.4 |
| Public sector entities in OECD countries | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other counterparties (incl. exchange contracts) | 277.7 | 192.1 | 12.9 | 11.1 | 0.2 | 0.3 |
| **Total** | **13,003.3** | **13,950.7** | **513.8** | **472.5** | **788.0** | **607.5** |

## (55) Information Relating to Selected Countries

The following table shows the reported values of the transactions in relation to selected countries. The information regarding the country also includes regional governments, local governments and firms with government links. The bank does not have any business in the HfT or dFV categories.

At 31 December 2012:

| 31.12.2012<br>EUR million | Available for Sale Assets | Loans and Receivables |
|---|---|---|
| **Portugal** | | |
| Sovereign exposure | 0.0 | 0.0 |
| Financial institutions/insurance companies | 52.7 | 0.0 |
| Corporates/other | 0.0 | 39.0 |
| **Total** | **52.7** | **39.0** |
| **Ireland** | | |
| Sovereign exposure | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 |
| Corporates/other | 0.0 | 10.1 |
| **Total** | **0.0** | **10.1** |
| **Italy** | | |
| Sovereign exposure | 0.0 | 0.0 |
| Financial institutions/insurance companies | 333.5 | 6.9 |
| Corporates/other | 0.0 | 2.7 |
| **Total** | **333.5** | **9.6** |

| 31.12.2012<br>EUR million | Available for Sale Assets | Loans and Receivables |
|---|---|---|
| **Greece** | | |
| Sovereign exposure | 0.1 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 |
| Corporates/other | 0.0 | 0.0 |
| **Total** | **0.1** | **0.0** |
| **Spain** | | |
| Sovereign exposure | 0.0 | 0.0 |
| Financial institutions/insurance companies | 325.1 | 44.5 |
| Corporates/other | 0.0 | 21.0 |
| **Total** | **325.1** | **65.5** |

At 31 December 2011:

| 31.12.2011<br>EUR million | Available for Sale Assets | Loans and Receivables |
|---|---|---|
| **Portugal** | | |
| Sovereign exposure | 0.0 | 0.0 |
| Financial institutions/insurance companies | 62.5 | 19.8 |
| Corporates/other | 0.0 | 43.2 |
| **Total** | **62.5** | **63.0** |
| **Ireland** | | |
| Sovereign exposure | 0.0 | 0.0 |
| Financial institutions/insurance companies | 72.1 | 0.0 |
| Corporates/other | 0.0 | 0.0 |
| **Total** | **72.1** | **0.0** |
| **Italy** | | |
| Sovereign exposure | 0.0 | 0.0 |
| Financial institutions/insurance companies | 382.0 | 27.5 |
| Corporates/other | 25.7 | 2.9 |
| **Total** | **407.7** | **30.4** |
| **Greece** | | |
| Sovereign exposure | 9.7 | 0.0 |
| Financial institutions/insurance companies | 19.3 | 25.0 |
| Corporates/other | 0.0 | 0.0 |
| **Total** | **29.0** | **25.0** |
| **Spain** | | |
| Sovereign exposure | 0.0 | 0.0 |
| Financial institutions/insurance companies | 535.9 | 76.5 |
| Corporates/other | 0.0 | 25.1 |
| **Total** | **535.9** | **101.6** |

No credit derivatives are included in the above figures.

As well as the above mentioned reported transactions, there are off-balance sheet liabilities from guarantees to Hungary (EUR 125.0 million, previous year EUR 150.0 million), Italy (EUR 103.1 million, previous year EUR 102.9 million), Ireland (EUR 74.8 million, previous year EUR 81.5 Mio.), Spain (EUR 125.0 million, previous year EUR 7.0 million) and Portugal (EUR 27.5 million, previous year EUR 0.0 million).

For the financial instruments in the category Available for Sale with costs of acquisition in the total sum of EUR 741.0 million (previous year EUR 1,179.4 million), the cumulative valuation result in the equity amounts to a total of EUR –46.8 million (previous year EUR –68.9 million) in relation to the named selected countries. No depreciation has been recorded in the profit and loss account for the periods (previous year EUR 18.5 million). Of this amount, costs of acquisition in the sum of EUR 0.0 million (previous year EUR 31.2 million) and a depreciation amount affecting profit or loss in the sum of EUR 0.0 million (previous year EUR 18.5 million) are attributable to Greek government bonds; the fair value of this security allocated to Level 1 of the fair value hierarchy amounted to EUR 9.7 million on 31.12.2011.

For the receivables in the category Loans and Receivables from the named selected countries, there are no individual loan loss provisions and portfolio loss provisions in the sum of EUR 2.4 million (previous year EUR 0.5 million). The fair value of these receivables in the category Loans and Receivables amounts to a total of EUR 126.0 million (previous year 219.1 million).

The interest rates for the above mentioned transactions are between 0.205 % and 5.186 %. The individual terms of the transactions range from 2013 – 2025, with respect to which 8 % of the receivables are due in the next 12 months and 58 % in the next 36 months.

The following tables show the application of the fair value hierarchy of the financial assets and liabilities shown at fair value affecting profit/loss and not affecting profit/loss for selected countries in 2011 and 2012:

At 31 December 2012:

| 31.12.2012<br>EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Portugal** | | | | |
| Sovereign exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 52.7 | 0.0 | 0.0 | 52.7 |
| Corporates/other | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **52.7** | **0.0** | **0.0** | **52.7** |
| **Ireland** | | | | |
| Sovereign exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 0.0 | 0.0 |
| Corporates/other | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Italy** | | | | |
| Sovereign exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 322.1 | 11.4 | 0.0 | 333.5 |
| Corporates/other | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **322.1** | **11.4** | **0.0** | **333.5** |

| 31.12.2012<br>EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Greece** | | | | |
| Sovereign exposure | 0.1 | 0.0 | 0.0 | 0.1 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 0.0 | 0.0 |
| Corporates/other | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **0.1** | **0.0** | **0.0** | **0.1** |
| **Spain** | | | | |
| Sovereign exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 325.1 | 0.0 | 0.0 | 325.1 |
| Corporates/other | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **325.1** | **0.0** | **0.0** | **325.1** |

At 31 December 2011:

| 31.12.2011<br>EUR million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Portugal** | | | | |
| Sovereign exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 62.5 | 62.5 |
| Corporates/other | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **0.0** | **0.0** | **62.5** | **62.5** |
| **Ireland** | | | | |
| Sovereign exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 31.3 | 0.0 | 40.9 | 72.1 |
| Corporates/other | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **31.3** | **0.0** | **40.9** | **72.1** |
| **Italy** | | | | |
| Sovereign exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 308.2 | 0.0 | 73.8 | 382.0 |
| Corporates/other | 25.7 | 0.0 | 0.0 | 25.7 |
| **Total** | **333.9** | **0.0** | **73.8** | **407.7** |
| **Greece** | | | | |
| Sovereign exposure | 9.7 | 0.0 | 0.0 | 9.7 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 19.3 | 19.3 |
| Corporates/other | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **9.7** | **0.0** | **19.3** | **29.0** |
| **Spain** | | | | |
| Sovereign exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 314.0 | 0.0 | 222.0 | 535.9 |
| Corporates/other | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **314.0** | **0.0** | **222.0** | **535.9** |

## (56) Underlying Transactions in Effective Hedging Relationships

Financial assets and liabilities, which are part of a hedging relationship as underlying transactions according to IAS 39, continue to be shown together with the unhedged transactions in the respective balance sheet item, since the hedging does not change the nature and function of the underlying transaction.

The balance sheet approach of the financial instruments otherwise shown on the balance sheet (categories LaR and OL) is however corrected by the fair value change resulting from the hedged risk.

The balance sheet reporting of financial instruments of the category AfS continues to be done at full fair value. The financial assets and liabilities, which are part of an effective micro fair value hedge relationship as hedged underlying transactions, are shown below for information purposes:

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) | Increase/ Decrease (%) |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 89.2 | 140.0 | –36 |
| Loans and advances to customers | 215.6 | 283.3 | –24 |
| Financial assets | 3,682.8 | 3,102.8 | 19 |
| **Total** | **3,987.6** | **3,526.1** | **13** |
| **Liabilities** | | | |
| Liabilities to banks | 0.0 | 0.0 | – |
| Liabilities to customers | 0.0 | 0.0 | – |
| Securitised liabilities | 547.8 | 545.5 | 0 |
| Subordinated capital | 0.0 | 0.0 | – |
| **Total** | **547.8** | **545.5** | **0** |

## (57) NORD/LB Luxembourg as Assignor

The following assets were assigned by the bank as security for liabilities:

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|
| Loans and advances to banks | 678.3 | 223.6 |
| Loans and advances to customers | 0.0 | 0.0 |
| Financial instruments at fair value through profit or loss | 0.0 | 0.0 |
| Financial assets | 4,355.6 | 4,811.8 |
| **Total** | **5,033.8** | **5,035.4** |

The furnishing of security in order to borrow funds took the form of genuine repurchase agreements (repos) with a maximum remaining term of 3 months. Expenses and income from the pledged securities continue to be due to the bank.

The furnishing of security in the form of deposits at banks took place at standard market interest rates and predominantly covers value changes in derivative transactions. The relevant remaining terms are shown in Note (54).

The following securities were transferred for the bank's loans and advances in the sum of the given values:

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|
| Financial assets assigned to the bank | 813.3 | 1,547.8 |
| Deposits by banks | 227.4 | 203.3 |
| **Total** | **1,040.7** | **1,751.1** |

The bank did not hold any securities that may also be sold or transferred even if the security's transferor did not default in the year under report 2012 or in the previous year.

## (58) Securities Repurchase Agreements and Securities Lending

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|
| Genuine repurchase agreements as a repurchase buyer (reverse repos) | 888.4 | 1,551.3 |
| Loans and advances to banks | 888.4 | 1,551.3 |
| Loans and advances to customers | 0.0 | 0.0 |
| Genuine repurchase agreements as a repurchase seller (repos) | 4,303.1 | 4,807.4 |
| Liabilities to banks | 4,303.1 | 4,664.4 |
| Liabilities to customers | 0.0 | 143.0 |

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|
| Loaned securities | 0.0 | 0.0 |
| Loaned securities at fair value through profit or loss | 0.0 | 0.0 |
| Loaned securities from financial assets | 0.0 | 0.0 |
| Borrowed securities | 0.0 | 0.0 |

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|
| Securities sold under repurchase agreements | 4,331.6 | 4,804.8 |
| Securities sold under repurchase agreements at fair value through profit or loss | 0.0 | 0.0 |
| Securities sold under repurchase agreements from financial assets | 4,331.6 | 4,804.8 |
| Securities bought under repurchase agreements | 813.3 | 1,547.8 |

## (59) Transfer and Derecognition of Financial Assets

The risks and opportunities arising from transferred financial assets or associated liabilities and remaining at NORD/LB Luxembourg are shown below. There are no transferred financial assets that are only partially shown on the bank's balance sheet. There are also no transferred assets with right of recourse.

| | | 31.12.2012 | | 31.12.2011 |
|---|---|---|---|---|
| EUR million | Full Recognition of Financial Assets Despite Transfer | | | |
| | Book Value of the Assets | Book Value of the Associated Liabilities | Book Value of the Assets | Book Value of the Associated Liabilities |
| Loans and advances to banks | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances to customers | 0.0 | 0.0 | 0.0 | 0.0 |
| Assets at fair value through profit or loss | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial assets not posted at fair value | 1,248.4 | 1,283.4 | 1,046.0 | 1,048.5 |
| Financial assets posted at fair value | 3,083.2 | 3,019.6 | 3,758.8 | 3,758.9 |
| Assets for sale not posted at fair value | 0.0 | 0.0 | 0.0 | 0.0 |
| Assets for sale not posted at fair value | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets not posted at fair value | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets posted at fair value | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **4,331.6** | **4,303.1** | **4,804.8** | **4,807.4** |

The transferred financial assets are genuine repos.

# Other Notes

## (60) Regulatory Information

The risk-weighted asset values and the regulatory equity have been based on the regulations of the Solvency Regulation and on the basis of the IFRS since the reported year 2008.

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|
| Risk assets | 3,414.7 | 3,225.6 |
| Weighted operational risks | 269.1 | 212.1 |
| Market risk positions | 59.7 | 95.5 |
| Floor | 0.0 | 71.4 |
| **Total** | **3,743.5** | **3,604.6** |

**Risk-weighted Asset Values**
The bank uses internal approaches within the scope of risk determination.

The bank uses standard methods to determine the equity requirements for operational risks. As at 31 December 2012, this results in an equity requirement in the sum of EUR 21.5 million (previous year EUR 17.0 million).

**Regulatory Equity**

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|
| Contributed capital | 205.0 | 205.0 |
| Other reserves | 459.6 | 454.9 |
| Remaining components | –11.6 | –6.6 |
| **Core capital** | **653.0** | **653.3** |
| Asset deposits of silent shareholders | 0.0 | 0.0 |
| Subordinated debt securities (part that can be offset) | 66.7 | 87.3 |
| **Supplementary capital** | **66.7** | **87.3** |
| **Liable equity** | **719.7** | **740.6** |
| **Equity capital** | **719.7** | **740.6** |

Revaluation reserves are not taken into account in the regulatory equity. The bank exercised a corresponding elective right.

The objectives of equity management are to ensure an adequate equity base from quantitative and qualitative points of view, to generate a reasonable return on equity and permanent compliance with the regulatory minimum capital ratio. The authoritative equity factors for equity management constitute

- the reported equity,
- regulatory core capital and
- regulatory equity capital.

Target capital ratios are defined for the regulatory capital factors, in which the numerator constitutes the respective capital factor and the denominator the risk weighted asset values in accordance with the rules of the solvency regulations. As well as this, there are regulatory minimum capital ratios, which are to be complied with permanently. It is anticipated that these minimum capital ratios will rise in stages between 2013 and 2019 due to changing regulatory provisions ("Basel III"). Special requirements will result for equity management from complying with these rising minimum capital ratios in the next few years.

The actual development of the capital factors listed and the associated capital ratios are calculated regularly and reported to the management and the supervisory bodies of the bank. Likewise, if required, estimates and forecasts are also prepared in relation to these capital factors and capital ratios. If these indicate a risk to the defined target capital ratios, alternative or cumulative adjustment measures are implemented in relation to the risk-weighted assets or, in agreement with the parent bank, procurement measures aimed at individual capital factors.

**Minimum Capital atios**

The bank has complied with the regulatory minimum capital ratios in 2011 and 2012. At the respective year-ends the bank had the following ratios:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Overall coefficient | 19.23 % | 20.55 % |
| Core capital ratio | 17.44 % | 18.12 % |

**Large Borrowers Requirements**

In 2012, the bank complied with the applicable regulatory requirements for equity and liquidity at all times. Likewise, the bank accommodated the regulations on large borrowing limits in the year under report. On application of the bank, the regulatory body CSSF released the bank from compliance with the large risk limit for companies in the NORD/LB Group in accordance with Section XVI, point 24 of Circular 06/273. On the reporting date, accounts and guarantees receivable from group companies exist in the sum of EUR 7,836.8 million (previous year EUR 6,789.5 million).

## (61) Foreign Currency Volumes

On 31 December 2012, there were the following assets and liabilities in foreign currencies:

| EUR million | USD | JPY | CHF | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances to banks | 509.0 | 23.1 | 49.9 | 8.5 | 590.5 |
| Loans and advances to customers | 1,017.0 | 71.8 | 327.0 | 62.0 | 1,477.8 |
| Risk provisions | 0.0 | 0.0 | –6.8 | 0.0 | –6.8 |
| Financial assets at fair value through profit or loss | 145.5 | 147.8 | 9.3 | 87.5 | 390.1 |
| Positive fair values from hedge accounting | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial assets | 40.4 | 0.0 | 0.0 | 0.0 | 40.4 |
| Other assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **1,712.0** | **242.7** | **379.3** | **158.0** | **2,492.0** |

| EUR million | USD | JPY | CHF | Other | Total |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Liabilities to banks | 1,718.2 | 0.0 | 80.4 | 269.7 | 2,068.3 |
| Liabilities to customers | 245.3 | 0.0 | 30.1 | 118.1 | 393.4 |
| Securitised liabilities | 412.5 | 289.6 | 0.0 | 0.0 | 702.1 |
| Financial liabilities at fair value through profit or loss | 170.1 | 9.3 | 5.9 | 2.8 | 188.1 |
| Negative fair values from hedge accounting | 30.6 | 0.0 | 0.7 | 0.0 | 31.3 |
| Other liabilities | 0.3 | 0.0 | 0.0 | 0.1 | 0.4 |
| Subordinated capital | 94.8 | 0.0 | 0.0 | 0.0 | 94.8 |
| **Total** | **2,671.7** | **298.9** | **117.0** | **390.8** | **3,478.4** |

## (62) Contingent Liabilities and Other Obligations

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|
| Contingent liabilities | 1,363.0 | 1,258.3 |
| Contingent liabilities under rediscounted bills of exchange | 0.0 | 0.0 |
| Liabilities from guarantees and other indemnity agreements | 1,363.0 | 1,258.3 |
| Irrevocable credit commitments | 915.1 | 962.6 |
| **Total** | **2,278.1** | **2,220.8** |

Liabilities from guarantees and other indemnity agreements include credit guarantees, trade-related guarantees and contingent liabilities from other guarantees and other indemnity agreements.

Disclosures on the estimation of financial effects, the uncertainty with regard to the amount or timing of asset outflows and the possibility of adjustment payments are not made for reasons of practicality.

The reporting of liabilities from sureties and guarantee contracts (financial guarantees) is done according to IAS 39. The liabilities from existing rent, lease, guarantee or similar contracts are within the normal business scope.

**Letter of Comfort:**
Norddeutsche Landesbank Luxembourg S.A. ensures that the following companies can fulfil their obligations:

NORD/LB Covered Finance Bank S.A.

## (63) Subordinated Assets

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|
| Loans and advances to banks | 30.3 | 30.9 |
| Loans and advances to customers | 0 | 0 |
| Financial instruments at fair value through profit or loss | 0 | 0 |
| Financial assets | 0 | 0 |
| **Total** | **30.3** | **30.9** |

Assets are regarded as subordinated if the claims they represent are only settled after the claims of other creditors in the event of the liquidation or insolvency of a debtor.

The subordinated loans and advances to banks at EUR 30.3 million (previous year EUR 30.9 million) relate to a subsidiary.

## (64) Trust Activities

The trust activities can be broken down as follows:

| | 31.12.2012 (EUR million) | 31.12.2011 (EUR million) |
|---|---|---|
| **Trust assets** | **0.0** | **13.0** |
| Loans and advances to customers | 0.0 | 13.0 |
| **Trust liabilities** | **0.0** | **13.0** |
| Liabilities to banks | 0.0 | 13.0 |

## (65) Events after the Balance Sheet Date

There were no significant events between the balance sheet date of 31 December 2012 and the preparation of these financial statements on 28 February 2013 by the Board of Directors.

## (66) Auditor's Fees

| | 2012 (KEUR) | 2011 (KEUR) |
|---|---|---|
| Auditor's fees for: | | |
| Auditing | 326 | 340 |
| Other confirmation services | 168 | 135 |
| Tax consultancy | 140 | 89 |
| Other services | 5 | 10 |

No fees were paid to the auditors other than those shown in the table. The amounts are shown excluding statutory value added tax.

## (67) Deposit Guarantee

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

Since 2001 the AGDL has also been protecting customers' assets held in custody. Thus deposits and custody assets are guaranteed up to an amount of EUR 100,000 and EUR 20,000 respectively. In the event of default, the annual payment obligation for each member of the AGDL is limited to 5 % of equity.

## Related Parties

### (68) Number of Employees

The average number of employees during the reporting period can be broken down as follows:

| | Male 2012 | Male 2011 | Female 2012 | Female 2011 | Total 2012 | Total 2011 |
|---|---|---|---|---|---|---|
| NORD/LB Luxembourg | 128.1 | 113.4 | 59.2 | 53.8 | 187.3 | 167.2 |

The employees and Board of Directors are split down across the following functions:

| Group | 2012 | 2011 |
|---|---|---|
| Board | 3.0 | 3.0 |
| Senior staff | 16.0 | 15.3 |
| Employees | 168.3 | 148.9 |
| **Total** | **187.3** | **167.2** |

### (69) Related Party Disclosures

All consolidated subsidiaries qualify as related parties. As well as this, NORD/LB (parent company of NORD/LB Luxembourg) and entities pursuant to IAS 24.9 (b) are deemed to be related parties.

Natural persons who are regarded as related parties in accordance with IAS 24 are members of the Board of Directors and the Supervisory Board of NORD/LB Luxembourg, the members of the Board of Directors of NORD/LB as the group's parent company and their close family members.

Within the scope of ordinary business activities, transactions and security agreements with related parties are concluded under normal market terms and conditions. These transactions are subject to the market conformity monitoring used in the bank. No guarantee commission was charged for the guarantees given to NORD/LB CFB in the year under report (nominal volume EUR 1.207 million). Using the standard market structure of conditions, this guarantee commission would have been between 0.03 % p.a. and 1.35 % p.a. The scope of transactions with related companies and persons in 2012 and 2011 can be seen from the following lists. Changes in the group of related companies and persons lead to adjustments of the previous year's figures where necessary:

At 31 December 2012:

| KEUR | Shareholders | Subsidiaries | Persons in Key Functions | Other Related Parties |
|---|---|---|---|---|
| Outstanding loans and advances | | | | |
| to banks | 68,884 | 3,306,662 | 0 | 204,283 |
| to customers | 0 | 0 | 8 | 0 |
| Trading and hedge derivatives on assets side | 24,305 | 132,341 | 0 | 0 |
| Other assets | 13,348 | 622,526 | 0 | 0 |
| **Total assets** | **106,536** | **4,061,528** | **8** | **204,283** |
| Outstanding liabilities | | | | |
| to banks | 4,097,281 | 1,809,120 | 0 | 40,546 |
| to customers | 0 | 28,165 | 0 | 0 |
| Trading and hedge derivatives on liabilities side | 50,187 | 329,846 | 0 | 0 |
| Subordinated capital | 94,773 | 0 | 0 | 0 |
| Other liabilities | 451 | 0 | 2,501 | 0 |
| **Total equity and liabilities** | **4,242,691** | **2,167,131** | **2,501** | **40,546** |
| **Guarantees/sureties granted** | **24,000** | **1,206,749** | **0** | **0** |
| Interest expense | 96,897 | 66,607 | 0 | 69 |
| Interest income | 17,524 | 94,748 | 0 | 830 |
| Commission expense | 22,871 | 0 | 0 | 0 |
| Commission income | 4 | 1 | 0 | 528 |
| Other income and expense | −4,132 | 35,536 | −4,055 | 0 |
| **Total contributions to income** | **−106,372** | **63,678** | **−4,055** | **1,289** |

No dividend payouts from subsidiaries are included in the other expenses and income.

Services rendered within the scope of service agreements regarding personnel, use of buildings and other material costs were billed to Skandifinanz AG in the total sum of KEUR 0 (previous year KEUR 84) and to NORD/LB CFB in the total sum of KEUR 3,600 (previous year KEUR 1,808).

The avalisation of individual counterparties in the portfolio of NORD/LB CFB, which had already started in previous years, was continued by the bank in the year under report. The associated receivables show hidden liabilities before risk provisions at the subsidiary in the sum of EUR 198.6 million as at 31.12.2012 (previous year EUR 152.4 million), divided into LAR financial assets (EUR 196.9 million, previous year EUR 149.6 million) and loan receivables (EUR 1.7 million, previous year EUR 2.8 million).

The bank issued a registered promissory note to the volume of EUR 400.0 million in financial year 2012 and sold it to NORD/LB. This promissory note, which will mature in 2017, is furnished with the right to redeem the promissory note if a specified core capital ratio is undercut and to replace it with a subordinate promissory note with the same nominal volume.

It was issued at fair market conditions.

At 31 December 2011:

| KEUR | Shareholders | Subsidiaries | Persons in Key Functions | Other Related Parties |
|---|---|---|---|---|
| Outstanding loans and advances | | | | |
| to banks | 494,265 | 2,347,103 | 0 | 207,400 |
| to customers | 0 | 0 | 5 | 0 |
| Trading and hedge derivatives on assets side | 38,209 | 146,190 | 0 | 0 |
| Other assets | 0 | 711,932 | 0 | 24,930 |
| **Total assets** | **532,475** | **3,205,225** | **5** | **232,330** |
| Outstanding liabilities | | | | |
| to banks | 3,686,195 | 421,252 | 0 | 0 |
| to customers | 0 | 29,593 | 0 | 0 |
| Trading and hedge derivatives on liabilities side | 62,233 | 260,856 | 0 | 0 |
| Subordinated capital | 96,653 | 0 | 0 | 0 |
| Other liabilities | 1,400 | 0 | 1,235 | 0 |
| **Total equity and liabilities** | **3,846,481** | **711,700** | **1,235** | **0** |
| **Guarantees/sureties granted** | **7,000** | **1,113,696** | **0** | **0** |
| Interest expense | 105,871 | 65,848 | 0 | 2,838 |
| Interest income | 20,280 | 102,555 | 0 | 6,897 |
| Commission expense | 34,154 | 0 | 0 | 0 |
| Commission income | 0 | 1,745 | 0 | 355 |
| Other income and expense | 18,926 | −26,304 | −3,632 | 0 |
| **Total contributions to income** | **−100,819** | **12,148** | **−3,632** | **4,414** |

All payments and loans to executive bodies in accordance with the provisions relating to trade are set out in Note (71) Remuneration of and loans to executive bodies.

# (70) Members of Executive Bodies and their Positions

## Members of the Board of Directors

- Harry Rosenbaum, Luxembourg (Chairman)
- Christian Veit, Luxembourg (Deputy Chairman)
- Thorsten Schmidt, Gilzem

## Supervisory Board

- Dr. Gunter Dunkel, Chairman of the Board of Directors of Norddeutsche Landesbank Girozentrale, Hanover (Chairman)
- Ulrike Brouzi, Member of the Board of Directors of Norddeutsche Landesbank Girozentrale, Hanover
- Walter Kleine, Chairman of the Board of Directors of Sparkasse Hannover, Hanover
- Dr. Johannes-Jörg Riegler, Deputy Chairman of the Board of Directors of Norddeutsche Landesbank Girozentrale, Hanover
- Christoph Schulz, Member of the Board of Directors of Norddeutsche Landesbank Girozentrale, Hanover

## Positions

As at 31 December 2012 the following seats were taken up by the members of the board of Norddeutsche Landesbank Luxembourg S.A.:

**Harry Rosenbaum**

- Merido Immobilien AG, Zurich, President of the Administrative Board
- Jutzi AG, Oberburg, Member of the Administrative Board

**Christian Veit**

- NORD/LB Covered Finance Bank S.A., Luxembourg, Chairman of the Board of Directors
- L'Institut de Formation Bancaire (IFBL), Luxembourg, Member of the Administrative Board

**Thorsten Schmidt**

- NORD/LB G-MTN S.A., Luxembourg, Chairman of the Administrative Board
- NORD/LB Covered Finance Bank S.A., Luxembourg, Deputy Chairman of the Board of Directors

## (71) Remuneration of and Loans to Executive Bodies

| | 2012 (KEUR) | 2011 (KEUR) |
|---|---|---|
| Payments to active executive body members | 4,055 | 3,632 |
| Extended management * | 3,992 | 3,578 |
| Supervisory board | 63 | 54 |
| Pension obligations | 2,501 | 1,235 |
| Extended management * | 2,501 | 1,235 |
| Supervisory board | 0 | 0 |
| Advances, loans and liabilities | 8 | 5 |
| Extended management * | 8 | 5 |
| Supervisory board | 0 | 0 |

* Board of Directors and senior staff

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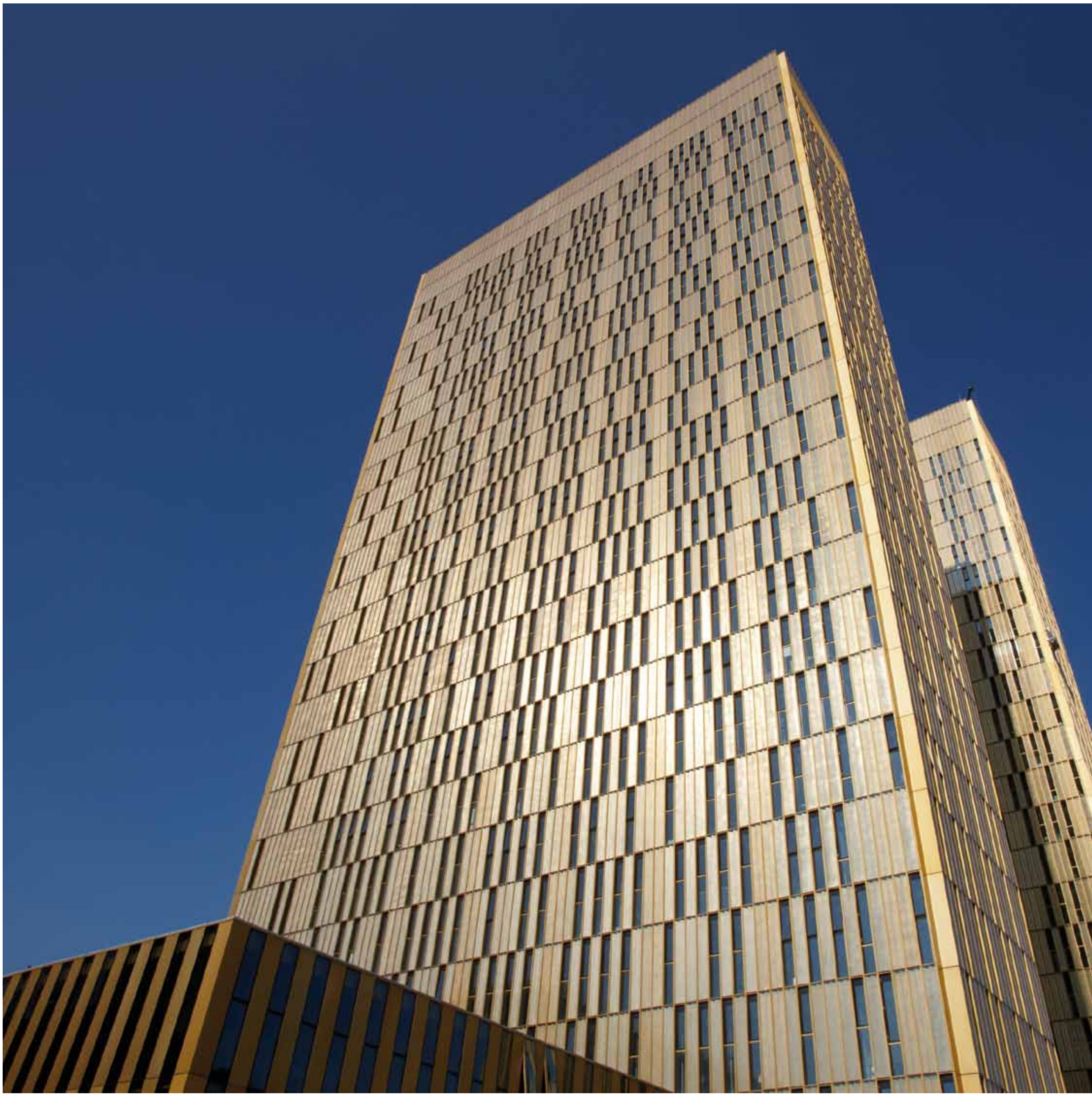

NORD/LB Luxembourg

# Responsibility Statement

We confirm to the best of our knowledge that the annual financial statements, in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank, and that the management report includes a fair review of the development and performance of the business and the position together with a description of the main opportunities and risks associated with the expected development of the bank.

Luxembourg, 28 February 2013
Norddeutsche Landesbank Luxembourg S.A.

Harry Rosenbaum
Chairman of the Board of Directors
Norddeutsche Landesbank
Luxembourg S.A.

Christian Veit
Deputy Chairman of the Board of Directors
Norddeutsche Landesbank
Luxembourg S.A.

Thorsten Schmidt
Member of the Board of Directors
Norddeutsche Landesbank
Luxembourg S.A.

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# Report of the Auditors

To the shareholders of
Norddeutschen Landesbank Luxembourg S.A.
7, rue Lou Hemmer
L-1748 Luxembourg-Findel

## Report on the Financial Statements

In accordance with the instructions received from the Board of Directors of Norddeutsche Landesbank Luxembourg S.A. on 23 July 2012, we have audited the attached annual financial statements of Norddeutsche Landesbank Luxembourg S.A., which comprise the balance sheet as at 31 December 2012, the profit and loss account statement, the statement of changes in equity and the cash flow statement for the period 1 January 2012 to 31 December 2012 as well as a summary of important accounting methods and other explanatory information.

**Responsibility of the Board of Directors for the Annual Financial Statements**
The Board of Directors is responsible for the preparation and proper representation of the financial statements in accordance with the International Financial Reporting Standards as they are to be applied in the European Union, and for the internal controls, which it considers necessary to enable the preparation of the financial statements, which are free from incorrect information, irrespective of whether due to fraud or error.

**Responsibility of the Auditor**
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. These standards require that we comply with professional rules of conduct and that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. Selection of the audit procedures is the responsibility of the auditor, as is the assessment of the risk that the financial statements contain material misstatements due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the preparation and proper representation of the financial statements in order to define audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control system.

An audit also comprises evaluating the appropriateness of the accounting policies and methods used and the justifiability of the estimated values calculated by the Board of Directors in the accounts, as well as the overall presentation of the financial statements.

We are of the opinion that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion the financial statements, in accordance with the International Financial Reporting Standards as they are to be applied in the European Union, give a true picture of the assets and financial situation of Norddeutsche Landesbank Luxembourg S.A. at 31 December 2012 and of the earnings and cash flows for the period 1 January 2012 to 31 December 2012.

## Report on Other Legal and Regulatory Requirements

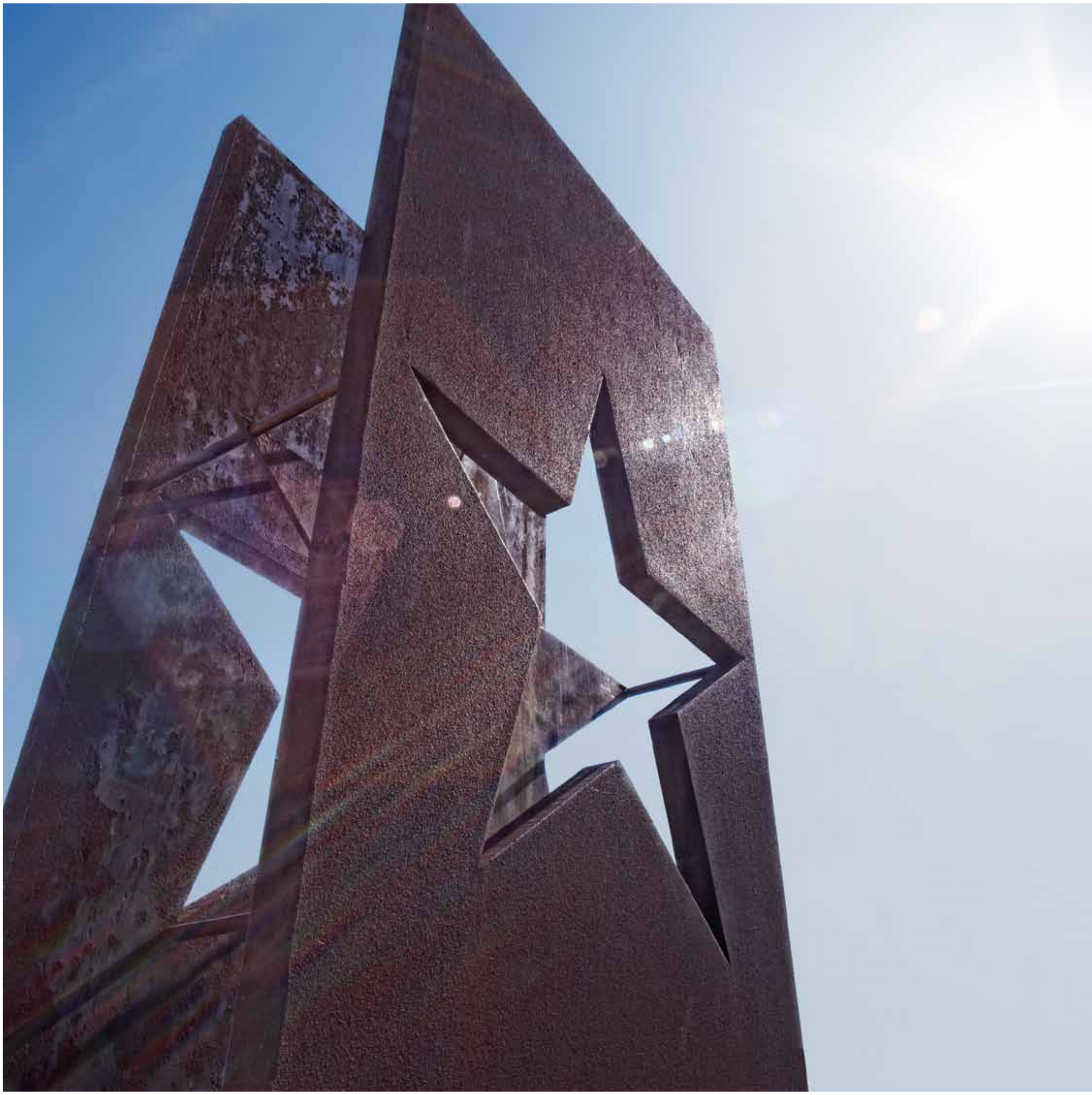
The management report, which is the responsibility of the Board of Directors, is in accordance with the annual financial statements.

KPMG Luxembourg S.à r.l.
Cabinet de révision agréé

T. Feld

Luxembourg, 28 February 2013

Annual Report 2012



NORD/LB Luxembourg

# Report of the Supervisory Board

The Board of Directors of the bank briefed the Supervisory Board in the year under report regularly about the development of the business and the position of the bank. The Supervisory Board met a total of four times in the year under report 2012.

The financial statements of NORD/LB Luxembourg for the year under report 2012 were audited by KPMG Luxembourg S.à r.l., Luxembourg, and provided with an unqualified auditor's certificate. In addition, the auditor attended the meeting to discuss the financial statements held by the Supervisory Board on 14 March 2013 and reported on the results of the audit.

The Supervisory Board and the presiding committee passed resolutions on the business matters presented to them and on other matters requiring the decision of these bodies in accordance with the Articles of Association and regulations pertaining to these Articles of Association. Fundamental issues relating to business strategy and operations were discussed in detail at several meetings.

The Supervisory Board approved the results of the audit conducted by the auditors and, after consolidating the results of its own assessment, did not raise any objections.

At its meeting on 14 March 2013, the Supervisory Board approved the management report and the financial statements as at 31 December 2012, which are therefore formally approved.

The Supervisory Board proposes to the general meeting to approve the actions of the Board of Directors and to carry forward the residual value of the profit from the year under report 2012 and profit carried forward after payment of a dividend in the sum of EUR 15.0 million.

The Supervisory Board thanks the bank's Board of Directors for their faithful cooperation and expresses its appreciation to the Board and to all the bank's employees for the work performed by them in 2012.

Luxembourg
March 2013

Dr. Gunter Dunkel
Chairman of the Supervisory Board

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**S.W.I.F.T.**
NOLALULL

**Supervision**
Commission de Surveillance du Secteur Financier

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Luxembourg