Norddeutsche Landesbank Luxembourg S.A.

Annual Report as at 31.12.14

NORD/LB
Luxembourg

Summary of Key Data

Performance	31.12.2014	31.12.2013	Increase/decrease	
	(EUR million)	(EUR million)	(EUR million)	(%)
Loans and advances to banks	2,684.1	3,911.1	−1,227.0	−31
Loans and advances to customers	5,003.7	4,175.3	828.4	20
Risk provisions	−36.7	−42.1	5.4	−13
Financial assets at fair value through profit or loss	1,499.4	393.8	1,105.7	> 100
Financial assets	4,530.9	6,425.7	−1,894.8	−29
Other assets	122.6	192.5	−69.9	−36
Balance sheet total – assets	**13,804.1**	**15,056.3**	**−1,252.2**	**−8**
Liabilities to banks	9,252.8	10,662.0	−1,409.2	−13
Liabilities to customers	2,153.4	2,112.7	40.7	2
Securitised liabilities	966.5	927.3	39.2	4
Other liabilities	708.4	654.9	53.5	8
Reported equity	722.9	699.4	23.5	3
Balance sheet total – liabilities	**13,804.1**	**15,056.3**	**−1,252.2**	**−8**

Profit/loss performance	2014	2013	Increase/decrease	
	(KEUR)	(KEUR)	(KEUR)	(%)
Net interest income	86,255	89,915	−3,660	−4
Net commission income	−12,944	−18,269	5,325	−29
Profit/loss from financial assets	11,679	14,490	−2,812	−19
Other profit/loss	−2,064	−1,139	−925	81
Earnings before expenses	**82,925**	**84,998**	**−2,072**	**−2**
Administrative expenses	−37,568	−36,125	−1,443	4
Profit/loss from changes in valuation and risk provision	−11,849	−18,189	6,339	−35
Taxes	−6,115	−4,923	−1,192	24
Earnings from continuing operations after taxes	**27,393**	**25,761**	**1,633**	**6**
Earnings from continuing operations after taxes	1,111	1,194	−84	−7
Earnings after taxes	**28,504**	**26,955**	**1,549**	**6**

Key Economic Data	2014	2013	Increase/decrease	
			(absolute)	(%)
Cost-Income-Ratio in % *)	45.3 %	42.5 %	2.8 %	7
RoRaC in % **)	10.0 %	9.1 %	0.9 %	10

*) The Cost-Income Ratio (CIR) is equal to the quotients from administrative expenses and earnings before costs, less risk provisions and other operating profit/loss.

**) The RoRaC is equal to the quotients from the earnings before taxes and the maximum value from the limit for tied-up capital or tied-up capital.

Regulatory Law Key Figures	31.12.2014	31.12.2013	Increase/decrease	
	(EUR million)	(EUR million)	(EUR million)	(%)
Risk-weighted asset values	3,769.3	3,774.7	−5.4	0
Core capital	645.8	656.7	−10.9	−2
Equity capital	707.0	701.9	5.1	1
Core capital ratio	17.1 %	17.4 %	−0.3 %	−2
Overall coefficient	18.8 %	18.6 %	0.2 %	1

Change in number of employees	31.12.2014	31.12.2013	Increase/decrease	
			(absolute)	(%)
Number of employees	174*	196	−22	−11

*) When the Private Banking business segment was hived off to form NORD/LB Vermögensmanagement Luxembourg S.A., a total of 23 employees moved from the Bank to the new company at the end of the year. The employees are still fully included in the administrative expenses for financial year 2014.


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Content

Annual Report as at 31.12.14

Norddeutsche Landesbank Luxembourg S.A.
7, rue Lou Hemmer
L-1748 Luxembourg-Findel
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 2014

NORD/LB Luxembourg

Members of the Supervisory Board

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

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

Thomas S. Bürkle (as of 1 March 2014)
Member of the Board of Directors
NORD/LB Norddeutsche Landesbank Girozentrale, Hanover

Walter Kleine
Chairman of the Board of Directors (until 31 December 2014)
Sparkasse Hannover, Hanover

Dr. Johannes-Jörg Riegler (until 28 February 2014)
Deputy Chairman of the Board of Directors
NORD/LB Norddeutsche Landesbank Girozentrale, Hanover

Christoph Schulz
Member of the Board of Directors
NORD/LB Norddeutsche Landesbank Girozentrale, Hanover

Board of Directors
(as of 1 January 2015)

CEO
Spokesman for the Board of Directors
Christian Veit

Deputy CEO
Member of the Board of Directors
Thorsten Schmidt

CEO (until 31 December 2014)
Harry Rosenbaum

Organisation
(as of 1 January 2015)

Executive Committee

Managing Director Finance & Risk
Peter Heumüller

Managing Director Financial Markets & Sales
Thomas Keith

Managing Director Loan & Client Services
Olaf-Alexander Prieß

Managing Director Operations
Alberto Puentes

Board Support Functions

Compliance
Joachim Seifer

HR & Governance
Roman Lux

Legal & Tax
Dr. Ursula Hohenadel

Internal Audit
Frank Steingrube

CEO
Spokesman for the Board of Directors
Christian Veit

Deputy CEO
Member of the Board of Directors
Thorsten Schmidt

CEO (until 31 December 2014)
Harry Rosenbaum

Annual Report 2014

NORD/LB Luxembourg

Norddeutsche Landesbank Luxembourg S.A.

Norddeutsche Landesbank Luxembourg S.A. (hereinafter referred to as "NORD/LB Luxembourg" or "the Bank") is a wholly-owned subsidiary of NORD/LB Norddeutsche Landesbank Girozentrale, based in Hanover, Braunschweig and Magdeburg, Germany (hereinafter referred to as "NORD/LB"). The Bank is included in the consolidated financial statements of NORD/LB (hereinafter referred to as "NORD/LB Group" or the "Group" for short). 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 (hereinafter referred to "NORD/LB Luxembourg Group"), which includes NORD/LB Covered Finance Bank S.A. (hereinafter referred to as "NORD/LB CFB"), based in Luxembourg, Galimondo S.à r.l., also based in Luxemburg, and Skandifinanz AG, in Zurich, Switzerland. NORD/LB Luxembourg holds 100 % of the shares of each of the three subsidiaries. Due to their subordinate importance, Galimondo S.à r.l. and Skandifinanz AG are not included in the consolidated financial statements of the Bank. NORD/LB Luxembourg has issued a letter of comfort for NORD/LB CFB (see Note (65) Contingent liabilities and other obligations).

The business segments of NORD/LB Luxembourg are Financial Markets, Loans and Private Banking.

The business purpose of NORD/LB CFB is to conduct the business of a covered bond bank (Pfandbriefbank) to the extent permitted under the law of the Grand Duchy of Luxembourg. In terms of organisation and personnel, it is fully integrated into the control and management of NORD/LB Luxembourg (see also "Development of Business Segments").

Galimondo S.à r.l. was established on 5 September 2014 as a limited liability company under Luxembourg law. The purpose of the company is to provide and coordinate services that are necessary to produce and maintain the operability and functioning of buildings and facilities (properties), including their infrastructure (facility management).

The business activities of Skandifinanz AG had already been totally reduced or transferred to NORD/LB Luxembourg in 2011. The intragroup sale of Skandifinanz AG to Nord-Ostdeutsche Bankbeteiligungs GmbH is scheduled for the first quarter of 2015.

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 Environment

Global economic development at the beginning of 2014 was influenced by extreme weather conditions on both sides of the Atlantic. While the cold spell in the USA noticeably slowed down the economy, the German construction industry in particular, but indirectly economic growth in the whole Eurozone as well, benefitted from the very mild temperatures. Backed by domestic demand, the US economy performed very strongly over the rest of the year, while the economy in Germany and the Eurozone only just escaped a recession. At the same time, the drop in crude oil prices led to a significant reduction in inflation rates.

The process of a persistent slowdown in growth continued in China. In particular, the property market started to give cause for concern in the real economy. The financial markets continued to focus on the risks of the shadow banking market. Beijing controlled the domestic market by means of targeted regulatory easing measures and further fiscal and monetary stimuli.

While the Federal Reserve phased out its programme of buying bonds (QE3) in October 2014, there were increasingly clear indications towards the end of the year that the European Central Bank (ECB) would introduce similar measures at the beginning of 2015. The central bank based in Frankfurt had previously lowered the tender rate and the marginal lending facility in two stages and moved the deposit facility into the negative range. The yields for federal bonds likewise fell steadily below the zero line for short-term maturities; at the long end of the curve, more and more low points were reached and by the end of the year, it was below 0.60 % p.a. for ten-year maturities.

Economic Development in Germany

Real gross domestic product in Germany was 1.5 % last year and was therefore much stronger than in the previous two years. Once again, the essential pillar of the economy was private consumption. At an expansion of 1.1 % as compared to the previous year, private consumption contributed about 0.6 percentage points to growth. At 1.0 %, public-sector consumption also expanded at a similar rate as compared to the previous year. Export trade, in contrast, only supplied a moderate contribution of 0.4 percentage points to growth. Export growth was constrained by weak economic growth in the Eurozone. After two successive decreases, gross fixed asset investments contributed to growth again last year, even though investment activities lost speed again noticeably over the course of the year due to the weak economy in the Eurozone and geopolitical conflicts. Nevertheless, gross fixed asset investments grew by 3.1 % as compared to 2013.

… in Euroland

Economic recovery in the Eurozone was sluggish in 2014, as expected. Although at 0.35 percentage points, the statistical surplus was positive again for the first time in three years and the beginning of the year, with a growth rate of 0.3 %, was a reasonable development at first glance as compared to the previous quarter, these positive figures were mainly due to the upwardly distorted growth rate in Germany that was attributed to the weather (+0.8 % up on the previous quarter). With the temporary elimination of the positive stimulus from the German economy, growth in the Eurozone reached rates only slightly above the zero line in the following quarters. For the year in total, real gross domestic product rose in 2014 by an anticipated 0.8 % as compared to the previous year. The deficit ratio in the Eurozone has, in all probability, fallen slightly below 3.0 % of the gross domestic product.

… in the USA

Following growth rates of 2.3 % in 2012 and 2.2 % in 2013, the USA is expected to report a solid 2.4 % growth rate in 2014. After being affected by the consequences of an unexpectedly harsh onset of winter in the first quarter of 2014, the world's largest economy experienced a resumption of the rapid speed of growth seen at the end of 2013 in the following two quarters. The USA is thus setting itself apart from many other regions of the world. In 2014, private consumption was a pillar of the American economy. This was helped by the fact that no additional fiscal burdens were placed on the population as had been the case in previous years. Moreover, the improved economic outlook, sustained low interest rates and brighter prospects on the employment market led to greater willingness on the part of Americans to consume and spend. Recently, the huge drop in oil prices gave rise to consumption opportunities for private households. Companies also started noticing these

developments and reacted with a higher propensity to invest. A continuation of the recovery was seen on the property market, where a reduction in private household debt over the last few years and sustained low interest rates led to slow easing and a rise in house prices.

At USD 1.21, the euro was valued much lower at the end of the 2014 than at the beginning of the year. While the common European currency touched the USD 1.40 mark twice in the first five months, there was a significant devaluation during the second half of the year. The causes of this were initially the uncertainty surrounding the crisis in Eastern Ukraine, and starting in autumn, the renewed discussions about a possible return of the European sovereign debt crisis. Moreover, it was becoming more and more obvious that the US economy could resume its strong growth trend after the weak phase in the winter. However, the divergent directions taken in monetary policy – towards a more neutral course again in the USA and towards more and more new dimensions in the Eurozone with measures to inject liquidity – were primarily responsible for an increasingly resolute exchange rate with the USD.

Financial Markets and Movements in Interest Rates

In view of an improved economic situation, the Federal Reserve somewhat relaxed its expansive monetary policy with the gradual reduction of the purchasing programme (QE3). The tapering of QE3 was brought to an end in October. After inflation had risen to 2.1 % by mid-year, it dropped back to 0.8 % by the end of the year as a result of the oil prices. In this respect, the Federal Reserve Bank had the option at the end of 2014 to slowly move forward with the normalisation of monetary policy it has been striving for. Despite these prospects and a strong economic situation, the yields of ten-year US treasuries fell from 3.00 % at the beginning of 2014 to below 2.20 % at the end of the year. This development is attributed to investors increasingly seeking out safe haven investments.

Against the background of falling inflation in the euro currency area, the ECB took a range of measures to tackle the growing risks of deflation over the course of 2014. The tender rate was reduced to 0.05 % in the process. In this connection, the ECB introduced a negative deposit facility rate for the first time. The weekly absorption tender was suspended in the middle of the year. In addition, the ECB's Governing Council strengthened its forward guidance once more and

assured the markets that it would abide by the fixed rate full allotment mode in main refinancing options and longer term operations with a maturity of up to three months for as long as necessary, but at least until the end of 2016. Moreover, "targeted longer-term refinancing options" (TLTROs) were resolved and purchase programmes for both issued covered bonds (CBPP3) and for asset backed securities (ABSPP) were launched.

The German blue chip share index, DAX, finished a turbulent year without any major increase in price. Record highs alternated with sudden plunges, and the price has even dropped below the 9,000 points mark in the meantime. Geopolitical risks – namely the crisis in Ukraine and the conflicts in Syria and Iraq – had the greatest negative impact. Support was primarily provided by the sustained recovery in the US economy. In fact, starting in the second quarter of 2014, pleasing data on the economic situation in the United States was published frequently. The newly gained strength of the USA may also have been a reason why the US stock markets showed a more stable upwards trend as compared to the DAX. The market environment shaped by the economic recovery trend in North America is, however, creating a potential problem for equity shares. The Federal Reserve Bank will not be able to avoid raising base rates in 2015. Monetary policy therefore remains relevant to the market developments in the stocks segment. This does not just apply to the Federal Reserve. The China central bank was forced to undertake an unexpected lowering of the base rate at the end of the year, causing corresponding price reactions on the international stock markets. Market players are hoping for positive effects of the ECB's expansive monetary policy measures. This monetary policy environment is pushing interest rates down and supporting the stock markets. On the other hand, the increasing uncertainty regarding the development of the Chinese economy and the political events in Greece are having a negative impact.

Forecasts and other statements on anticipated developments

Global Economic Outlook

There are many indications that the economy will remain strong in the USA; the Federal Reserve may well raise the base rate for the first time there in June or September. In the Eurozone, the development of leading indicators justifies cautious hope for a stabilisation of the economic situation. However, the growth differentials between the individual economies in the common currency area will remain pronounced. Very inflation low rates are to be expected for the currency zone as a whole, and they will fall below the zero line for a longer period of time. In view of these circumstances, the ECB resolved a broad purchasing programme for public and private assets in the amount of sixty billion euros a month. These purchases are initially planned to run until September 2016. The total planned volume of the programme is therefore significantly above one trillion euros and also includes the purchasing programme for ABS and covered bonds that is already underway. Starting in March 2015, the ECB will invest in government bonds and securities from government-related issuers with a maturity of between two and thirty years. This measure has once again led to significantly lower yields on the bond market, which may well be extremely low throughout large parts of the year.

Economic Forecast: Germany and the Euro Area

The overall mood regarding the economic development in Germany improved significantly by the end of 2014 and early 2015. In surveys conducted by ZEW and sentix, economic expectations in particular were noticeably picking up. The ifo Business Climate Index also increased again recently, likewise driven by more optimistic estimates for the near future. The falling oil price, devaluation of the euro and the prospect of a lasting and extremely expansive monetary policy direction by the ECB in 2015 is likely to have raised the mood of market players and companies considerably. Production expectations in the processing industry have, however, remained weak so far, even if the improved export prospects are raising hopes of more dynamic foreign business in 2015. Domestic demand and specifically private consumption will especially be the main growth drivers here again. Along with ongoing low inflation mainly due to the decline of the oil price as well as continued higher employment rates and the slight drop in unemployment, this will also be supported by sustained and strong increases in collectively bargained wages. Private consumption will therefore rise by just over 1.5 % in real terms and thus see the strongest growth since 2011. Strong domestic demand will stimulate imports and therefore keep net exports low in 2015 despite increasing export activities. The German economy is facing a solid upturn. Economic output may well rise by 1.5 % in comparison to the previous year. Arithmetically, there are two more business days available in 2015, which is equivalent to a growth effect of 0.3 percentage points. 2016 might possibly see another slight acceleration in economic activity.

In the euro area, the economic recovery will continue in 2015 but will probably still remain relatively weak. This forecast assumes that the price advantages associated with crude oil and further monetary policy stimulations could contribute to a gradual acceleration of economic momentum over the course of the year. The stimulus from net exports will remain at around the same level as in 2014, while domestic demand will increase at a greater rate than in the previous year. A gradual recovery is to be expected in terms of investments in 2015, but the most important contributions to growth will once again come from private and public consumption. The growth differentials will remain large; as before, the German economy should expand at a greater rate than the rest of the Eurozone. Slight improvements but no resounding successes are expected with regard to the reduction in unemployment rates and the deficit ratio.

Financial Market Development and Interest Rate Forecast

The direction of the Federal Reserve's monetary policy will be gradually normalised in 2015. Once QE3 has come to an end, an initial moderate interest rate rise is likely in 2015. Although the Federal Reserve will proceed cautiously, irritation among market players and companies with regard to the timing cannot be completely ruled out. US monetary policy will therefore basically remain expansive this year, albeit a little less so than previously. The movement in yields of ten-year US treasuries will depend on the discussions regarding the timing of the first interest rate increase and will experience an uptrend as the base rate is raised gradually.

The euro exchange rate may well continue to be determined 2015 by the European sovereign debt crisis, the growth and

interest differentials as well as the monetary policy focuses on both sides of the Atlantic. Essentially, there are currently many reasons to expect a continuation of the devaluation of the European single currency that already started in 2014: While a first interest rate hike will likely be on the agenda in the USA, the ECB, with the massive purchasing programme it resolved in January 2015, has a much more expansive focus on its monetary policy once again. A large number of these factors may well have already been priced into the exchange rate, so that the strengthening of the greenback is not expected to continue at the rate it has been recently. The euro should be able to stabilise in the region of USD 1.20 again by the end of 2015.

Central Bank policy is likely to remain a deciding factor in the performance of capital market yields within the Eurozone. The sustained downward trend in the yields of European government bonds had already anticipated the sovereign QE programme resolved by the ECB at the end of January 2015. The yields of ten-year German federal bonds slid to below 0.40 % as a result of the central bank's decision; moreover, the spreads of government bonds of many member states to federal bonds narrowed even further. The German interest rate structure curve is therefore extremely flat at the beginning of the year and will probably only steepen slightly by the end of 2015.

By the end of 2015, the DAX is not likely to appear weak over the long term. In particular, low interest rates – in addition to the strength of the US economy – will benefit asset class shares. The lack of investment alternatives are now forcing even defensive investors to at least consider the purchase of equities. Moreover, there are also hopes in 2015 for more M&A activity and attractive dividend payouts from companies, especially relative to the interest rate.

Development of Business Segments

Financial markets

Sales, funding and bank controlling are the core elements of Financial Markets at NORD/LB Luxembourg. The focus continues to be on the development of sales. Financial Markets is divided into the following areas:

ALM/Treasury

ALM/Treasury is a service provider for the Group and provides solutions for all matters regarding the supply of liquidity and interest rate and currency management. It generates an additional contribution to the results within the framework of risk limits set by the Board of Directors through active management of the cash flows from the customer business. Securing the liquidity supply of the NORD/LB Luxembourg Group is at the forefront 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. This internal service provider is distinguished by a broad diversification of the refinancing sources for the lending business and a high degree of flexibility with regard to currencies, maturities and redemption structures.

Exclusive added value exists via the network developed in Switzerland. NORD/LB Luxembourg participates on behalf of the NORD/LB Group in the open market business of the Swiss National Bank via the Eurex Repo platform. Moreover, the Bank also actively operates as a lender in repo transactions in order to increase its share in the collateralised lending business.

Its responsibilities include the management of the NORD/LB CFB's cover pool and the issue of covered bonds on behalf of NORD/LB CFB. The strategic approach taken for the business with "lettres de gage" is aimed at utilising the regulatory advantages of the Luxembourg Pfandbrief (covered bond) Act. In particular, these advantages are leveraged with the municipal undertakings, savings banks and institutional investors customer groups. The covered bond business is being further strengthened from Luxembourg as a complementary component of the funding of the NORD/LB Group. The investor base is being expanded beyond this business segment.

ALM/Treasury manages liquidity ratios and interest rate risks up to two years. In this respect, the Bank also uses the trading book as support, primarily through derivatives. In the case of derivatives, there is a concentration on interest rate swaps, futures and currency futures, including currency swaps. The Bank does not enter into any risks pertaining to complex derivative products.

Corporate Sales

Corporate Sales works in close cooperation with NORD/LB.

This unit is a product specialist for interest rate and currency management, and the team identifies potential and develops proposals for individual solutions for corporate customers. As well as the acquisition of new customers, NORD/LB also focuses on the use of cross-selling potentials within existing customer relationships in the corporate customer sector. Products from both the Group and Nord/LB Luxembourg are offered.

During the course of the fourth quarter of 2014, the relevant units of the NORD/LB Group decided that this activity would be discontinued in Luxembourg and responsibility handed over to NORD/LB.

Bank Asset Management

All tasks associated with asset management within the Group are pooled in Bank Asset Management. This includes central management of securities portfolios as well as controlling credit risks and interest rate risks above two years. Bank Asset Management is the service provider for ALM/Treasury and conducts capital market transactions, for example within the scope of cover pool management.

Fixed Income/Structured Products Sales

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

The objectives in the standardised product segment ("flow products") are to support primary market activities and increase the turnover ratio in the Group's trading book. The geographical diversification of the sources of refinancing through recruiting European investors via NORD/LB Luxembourg is also intended.

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 is to actively utilise the customer relationships of the NORD/LB lending divisions in order to meet customer requirements for “alternative investments”.

The Bank does not enter into its own risks in the process.

Business Development of Financial Markets

General economic conditions were challenging in 2014, as in past years. Due to the ECB's low interest rate policy, interest rate curves consistently remained at an extremely flat level. Credit spreads are likewise at a very low level. Financial Markets met the challenges with active interest rate management and achieved a satisfactory transformation result. This also led to a significant improvement in the revaluation reserve in terms of the securities portfolios used for liquidity management. Sales conducted within the scope of the conservative portfolio management had a positive influence on the result from financial investments.

Fixed Income/Structured Products Sales recorded positive business development in 2014. In cooperation with NORD/LB in primary market transactions, NORD/LB Luxembourg was able to further sharpen its profile in this initiative. The growth in the secondary market business was also pleasing. The sale of structured products is directly dependent on the available supply from the Group, and experienced a restrained year.

Private Banking

The Private Banking Board controls all of the private banking activities of the NORD/LB Group. Under the leadership of NORD/LB Luxembourg, representatives of the relevant Group business units work together on the strategic direction of the private banking segment and coordinate the framework conditions and initiatives across the entire institution.

Private Banking at NORD/LB Luxembourg offers comprehensive support and advice to customers with international investment interests. Within the scope of the traditional customer service, experienced specialists develop holistic investment concepts in partnership with the customers. These are tailored to the customers’ requirements, which arise from their personal and professional circumstances regarding investment style and horizon as well as their risk preference. In addition, the customer can select from various investment management concepts which have been developed on the basis of longstanding experience and consistent success in portfolio management. The product portfolio in Private Banking is rounded out by loans. This focus is on collateralised private customer lending based on securities, deposits and life/pension insurance.

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

The range of services offered by the Bank also includes the design, launch and management of public funds both for the Bank’s own private banking customers as well as for the clientele of other private banking units within the Group, and for external parties, if appropriate. The activities of the Bank are limited to fund management and to 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.

With effect from 31 December 2014, the Private Banking segment of NORD/LB Luxembourg was hived off to the newly established company, NORD/LB Vermögensmanagement Luxembourg S.A. as part of a spin-off (see “Business Outlook” section).

Business Development of Private Banking

In 2014, customers primarily focussed on pension and fund investments, which offer the prospect of a yield above the currently very moderate rate of inflation. At the same time, share investments attracted interest from an increasing number of customers against the background of a lack of investment alternatives.

Bucking the trend, it was possible to slightly expand the volume of business on the Luxembourg Market in 2014. Despite the increased customer volume, net commission income only moved sideways in comparison to the previous year. This is attributed to reduced margins as a consequence of the changing customer structure over time. The volume of new lending grew at a pleasing rate in the lending business. The driver here was collateralised private customer lending. The results from products on the liabilities side were once again much weaker than in the previous year. This is partly due to a declining volume as a result of the shift to the securities business, but mainly caused by the erosion of the interest rates in the short term maturity bands.

Lending

The lending business in Luxembourg comprises the Allied Lending Business unit along with other Group units and Savings Banks guaranteed lending business. The services provided by the lending business of NORD/LB Luxembourg and NORD/LB CFB within the NORD/LB Group have a complementary character and therefore add to the range of services offered by the Group. The allied lending business represents the majority of the lending portfolio. As an experienced and efficient service provider in financing for corporate customers and structured transactions, the Bank delivers added value for the NORD/LB Group.

In terms of products, the Bank particularly concentrates on variable interest loans and short-term fixed rate loans in various currencies. In addition to bilateral credit lines, the Bank is also involved in assuming the role of facility agent within the scope of more complex consortium financing. The personnel and technical infrastructure of NORD/LB Luxembourg is geared to the administration of these types of loans.

Business Development of Lending

The lending business was also concentrated on cooperation with partners from the Corporate Clients and Structured Finance segments at NORD/LB in 2014. Structured Finance gained importance in the portfolio in the process.

New business development proceeded satisfactorily and led to a further expansion of the lending portfolio. The Accounts Receivable Purchasing segment (single and pool purchases) provided significant growth momentum again this year. Within NORD/LB, this business is served predominantly from NORD/LB Luxembourg.

The positive development in volume in the allied lending business was not reflected to the same extent on the earnings side. In particular, the corporate client business market is affected by a challenging competitive situation, leading to a reduction in the achievable margins. In contrast, the effects from risk provisions in the lending business, which recorded a positive value overall in 2014, had the opposite outcome.

The savings bank guaranteed lending business plays a subordinate role in the overall portfolio and continues to follow a sideways trend.

Outlook

NORD/LB Luxembourg and NORD/LB CFB will be merging during the course of 2015 to form a special bank (covered finance bank ("Pfandbriefbank") as defined by Article 12-1 et seq. of the Law of 5 April 1993 on the Financial Sector, in the latest amended version). The new bank will trade under the name of "NORD/LB Luxembourg S.A Covered Bond Bank". The new covered finance bank will continue NORD/LB CFB's task of generating additional covered refinancing for the core business of the NORD/LB Group by issuing covered bonds in accordance with Luxembourg law. The strict cost management strategy already started will continue to be pursued consistently through the merger of the two banks and the associated synergy effects. Financial year 2015 will be shaped by the special effects of the merger project and the launch of new organisational structures. The business segments of the two banks were already subject to integrated management in the past, so that continuity will be maintained. Only some of the focal points will be reset.

Because the special bank principle for Luxembourg covered finance banks does not allow the operation of private customer business (consultancy and asset management), the spin-off of Private Banking was a strict auxiliary condition for carrying out the merger. In order to meet this prerequisite, the Private Banking segment was already hived off into its own Luxembourg company at the end of financial year 2014. This company is called "NORD/LB Vermögensmanagement Luxembourg S.A." and was established as a subsidiary of NORD/LB.

The account keeping and custodian function for private banking customers will remain at NORD/LB Luxembourg, as will the income generated in connection with it. Customer support will be provided by NORD/LB Vermögensmanagement Luxembourg S.A. in the future. In this connection, the new company will place future customer transactions with the Bank and be responsible for asset management mandates itself. NORD/LB Vermögensmanagement Luxembourg S.A. is pursuing a growth strategy and planning further growth in volume and income. New customer relationships will be developed by arranging finance, especially in the field of collateralised private customer loans. In addition, the holistic customer support approach will be pushed further into the foreground and the penetration of the existing customer relationships will also be strengthened.

In the future, the strategy of NORD/LB Luxembourg S.A Covered Bond Bank will be based on three clearly distinct business segments

Loans/Allied Lending
The current agreements with the allied partners of both merged banks will be continued here. In addition, commitments from the NORD/LB Group that are eligible for the cover pool according to Luxembourg criteria will be pooled here. Along with the "Lettres de Gage Publiques" that are already used today, additional classes of covered bond will be issued in the future. With regard to the Bank's medium-term planning, the focus will clearly be on further expansion of this business segment and in particular on strengthening the cooperation with the Structured Finance segment at NORD/LB.

Financial Markets/Sales
Financial Markets comprises all of the classic functions related to interest rate, liquidity and currency management. The new issuance of lettres de gage and associated support of covered bond investors will shift more to the forefront. Sales will also become more important through the further expan-

sion of activities in the "Fixed Income/Structured Products Sales Europe" segment. In accordance with the agreement with NORD/LB, the Luxembourg group unit will be responsible for the regional sales for other European countries. Alongside covered bonds, other products will also be offered. These will be sold to institutional customers on behalf of the Group, without assumption of the risk.

Client Services/B2B
The merged special bank will not operate any private banking itself, but will use the available efficient IT infrastructure and existing expertise to offer services to external asset managers and offices within the Group. Client Services' first customer is the newly established affiliate NORD/LB Vermögensmanagement Luxembourg S.A., an asset manager which will also use B2B services from NORD/LB Luxembourg on the basis of service agreements.

In addition to extensive project activities related to the reorganisation of the Bank – including the split-off of Private Banking and the merger of NORD/LB CFB and NORD/LB Luxembourg – already established B2B activities will be stabilised in 2015 and process flows optimised for scalability in order to be able to bring new customers on board starting in 2016.

The business activities of Galimondo S.à r.l., Luxemburg, will likewise be allocated to this business segment.

Earnings

NORD/LB Luxembourg's financial statements as at 31 December 2014 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as implemented by the EU.

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

Items on the income statement changed as follows for the 2014 and 2013 reporting years:

	2014 (KEUR)	2013 (KEUR)	Increase/decrease*) (KEUR)
Net interest income	86,255	89,915	−3,660
Loan loss provisions	7,340	−33,663	41,003
Net commission income	−12,944	−18,269	5,325
Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting	−19,189	15,474	−34,663
Other operating profit/loss	−2,064	−1,139	−925
Administrative expenses	−37,568	−36,125	−1,443
Profit/loss from financial assets	11,679	14,490	−2,812
Earnings from continuing operations before income taxes	**33,509**	**30,684**	**2,825**
Income taxes	−6,115	−4,923	−1,192
Earnings from continuing operations after income taxes	**27,393**	**25,761**	**1,633**
Profit/loss from discontinued operations after income taxes	1,111	1,194	−84
Net income for the year	**28,504**	**26,955**	**1,549**

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

The individual items comprising the result are as follows:

Net interest income

	2014 (KEUR)	2013 (KEUR)	Increase/decrease*) (KEUR)
Interest income	479,884	499,174	–19,290
Interest expense	–393,629	–409,259	15,630
Net interest income	**86,255**	**89,915**	**–3,660**

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

Net interest income decreased by KEUR 3,660 as compared to the previous year, to KEUR 86,255.

This is mainly due to the interest rates that decreased further as well as changes to the balance sheet structure. Within the scope of these changes, securities classified as "available for sale" (AfS) were reduced and new commitments were undertaken in securities classified as "designated at fair value through profit or loss" (dFV). The interest from securities classified as dFV are shown in the profit/loss from financial instruments stated at fair value. In financial year 2014, this led to an adjustment in the sum of KEUR 9,592 (previous year KEUR 0). Interest profit/loss from lending and money market transactions, which resulted from an increase in receivables due from non-banks, developed positively (KEUR 57,767, previous year KEUR 55,095).

Loan loss provisions

Changes in **loan loss provisions** led to earnings of KEUR 7,340 in the financial year (previous year KEUR –33,663). The net reduction was primarily caused by the reversal of provisions in the lending business (KEUR 8,779, previous year KEUR 6,279), the reversal of provisions for claims (KEUR 5,422, previous year KEUR 368) as well as by the reversal of portfolio-based provisions for receivables (KEUR 2,227, previous year KEUR 631). There was a negative effect from allocations to provisions for claims (KEUR –7,157, previous year KEUR –11,191) and allocations to provisions in the lending business (KEUR –1,866, previous year KEUR –29,750).

Net commission income

	2014 (KEUR)	2013 (KEUR)	Increase/decrease*) (KEUR)
Commission income	21,602	11,009	10,593
Commission expense	–34,546	–29,278	–5,268
Net commission income	**–12,944**	**–18,269**	**5,325**

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

Net commission income rose in comparison to the same period of the previous year by KEUR 5,325 to KEUR –12.944.

Commission income mainly relates to the lending and guarantee business (KEUR 18,262, previous year 8,954) as well as the securities and custodian business (KEUR 2,816, previous year KEUR 1,413). Other commission income (KEUR 514, previous year KEUR 628) is largely attributed to the account keeping and service business.

Commission expenses relate in particular to brokerage transactions (KEUR 16,719, previous year KEUR 11,276), the lending and guarantee business (KEUR 16,304, previous year KEUR 16,484) and the securities and custodian business (KEUR 1,463, previous year KEUR 1,451).

The improvement in the results is primarily due to the lending and guarantee business, where it was possible to generate more flat commission. The increase in expenses arising from the brokerage business results from the higher volume of arranged lending business.

Profit/loss from financial instruments stated at fair value through profit or loss and hedge accounting

	2014 (KEUR)	2013 (KEUR)	Increase/decrease*) (KEUR)
Trading profit/loss	–85,172	12,272	–97,444
Profit/loss from fair value option	65,195	0	65,195
Profit/loss from hedge accounting	788	3,202	–2,414
Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting	**–19,189**	**15,474**	**–34,663**

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

Profit/loss from financial instruments stated at fair value through profit or loss (KEUR –19,189, previous year KEUR 15,474) shows both trading profit/loss in the true sense and profit/loss from financial instruments that are voluntarily designated under the fair value option. The **trading profit/loss** KEUR –85,172, previous year KEUR 12,272) and **profit/loss from the fair value option** (KEUR 65,195, previous year KEUR 0) largely balance each other out. The high gross amounts shown are caused by the profit/loss from securities classified as dFV (category selected to avoid an accounting mismatch), which are in hedge relationships with hedging derivatives. Interest income from dFV securities (shown in profit/loss from financial instruments stated at fair value through profit or loss) totalled KEUR 9,592 in financial year 2014 (previous year KEUR 0). Due to economic hedges, positive changes from AfS securities are also set against hedging derivatives which do not meet the restrictive requirements of hedge accounting. The changes in **the profit /loss from hedge accounting** (KEUR 788, previous year KEUR 3,202) result from market interest rate fluctuations as well as OIS and CVA/DVA effects.

Other operating profit/loss

	2014 (KEUR)	2013 (KEUR)	Increase/decrease*) (KEUR)
Other operating income	3,647	3,190	457
Other operating expenses	–5,711	–4,328	–1,382
Other operating profit/loss	**–2,064**	**–1,139**	**–925**

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

The **other operating profit/loss** fell by KEUR 925 to KEUR –2,064. Other operating income (KEUR 3,647, previous year KEUR 3,190) was essentially characterised by the reversal of tax provisions and repayments of overpaid VAT (KEUR 1,608, previous year 2,554), the reversal of accruals and provisions for litigation risks (KEUR 1,313, previous year KEUR 77) and rental income (KEUR 632, previous year KEUR 401). Other operating expenses (KEUR –5,711, previous year KEUR –4,328) are characterised by accounting for services with NORD/LB (KEUR –3,738, previous year KEUR –3,938). In addition, a special depreciation in the amount of KEUR 1,808 (previous year KEUR 0) was posted for the banking software used by the Bank itself.

Administrative expenses

	2014 (KEUR)	2013 (KEUR)	Increase/decrease*) (KEUR)
Staff expenses	**–19,621**	**–18,224**	**–1,397**
Wages and salaries	–17,001	–15,189	–1,812
Other staff expenses	–2,620	–3,035	415
Other administrative expenses	**–14,438**	**–14,558**	**119**
Depreciation and value adjustments	**–3,508**	**–3,343**	**–165**
Administrative expenses	**–37,568**	**–36,125**	**–1,443**

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

Administrative expenses are KEUR 1,443 higher than the previous year. The increase is mainly attributed to staff expenses (KEUR –19,621, previous year KEUR –18,224). Measures connected to spinning off the Private Banking business segment into an independent company have an effect on staff expenses. Adjusted by this special effect, staff expenses moved sideways in 2014.

Profit/loss from financial assets

	2014 (KEUR)	2013 (KEUR)	Increase/decrease*) (KEUR)
Profit/loss from financial assets classified as LaR	–10,153	4,226	–14,378
Profit/loss from financial assets classified as AfS (without participating interests)	22,548	6,341	16,206
Profit/loss from affiliated companies	–716	3,923	–4,640
Profit/loss from financial assets	**11,679**	**14,490**	**–2,812**

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

Profit/loss from financial assets is broken down into profit/loss from financial assets classified as loans and receivables (LaR), (KEUR –10,153, previous year KEUR 4,226), profit/loss from financial assets classified as AfS (KEUR 22,548, previous year KEUR 6,341) and profit/loss from affiliated companies (KEUR –716, previous year KEUR 3,923).

The negative result from financial assets classified as LaR is due to the repayment of a liability to the company prior to the due date. Profit/loss from financial assets classified as AfS results from sales of securities. The majority of the securities realised in this financial year were in an economic hedge relationship with futures transactions at the portfolio level; the negative result of the related item was shown in the trading profit/loss. The profit/loss from affiliated companies entails a depreciation of Skandifinanz AG. The positive effect in the previous year results from the deconsolidation of Skandifinanz AG under commercial law.

Income taxes

	2014 (KEUR)	2013 (KEUR)	Increase/decrease*) (KEUR)
Current taxes	–6,115	–4,923	–1,192
Deferred taxes	0	0	0
Income taxes	**–6,115**	**–4,923**	**–1,192**

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

Income taxes were calculated on the basis of the income tax rate anticipated to apply to the financial year.

The Bank and NORD/LB CFB form a tax group in accordance with Article 164bis of the Luxembourg income tax law. NORD/LB Luxembourg is the parent company in the tax group.

Schedule of Assets and Financial Data

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease*) (EUR million)
Loans and advances to banks	2,684.1	3,911.1	–1,227.0
Loans and advances to customers	5,003.7	4,175.3	828.4
Risk provisions	–36.7	–42.1	5.4
Financial assets at fair value through profit or loss	1,499.4	393.8	1,105.7
Financial assets	4,530.9	6,425.7	–1,894.8
Assets available for sale	12.2	0.0	12.2
Other assets	110.4	192.5	–82.1
Total assets	**13,804.1**	**15,056.3**	**–1,252.2**
Liabilities to banks	9,252.8	10,662.0	–1,409.2
Liabilities to customers	2,153.4	2,112.7	40.7
Securitised liabilities	966.5	927.3	39.2
Financial liabilities at fair value through profit or loss	369.1	284.2	84.9
Provisions	18.6	31.9	–13.3
Other liabilities	320.7	338.9	–18.1
Reported equity	722.9	699.4	23.5
Total equity and liabilities	**13,804.1**	**15,056.3**	**–1,252.2**

The **balance sheet** total decreased by EUR 1,252.2 million as compared to the reporting date on 31 December 2013, from EUR 15,056.3 million to EUR 13,804.1 million.

The **liabilities to banks** item decreased by EUR 1,227.0 million as compared to 31 December 2013. Within this item, mainly liabilities from repos (EUR 237.2 million, previous year EUR 996.3 million) and liabilities from open market credits (EUR 141.7 million, previous year EUR 581.0 million) were reduced. The largest sub-item is liabilities from financial transactions, which remained almost constant at EUR 2,260.5 million (previous year EUR 2,254.6 million).

In alignment with the Bank's strategy, **liabilities to customers** continue their positive development. A rise from EUR 828.4 million to EUR 5,003.7 million was recorded for this item. The increase results almost exclusively from a higher volume of loans to public authorities and corporate clients.

The Bank's **risk provisions** were reduced slightly to EUR 36.7 million (previous year EUR 42.1 million). The decrease in individual loan loss provisions by EUR 3.2 million is due to the reversal of provisions for a customer in the "renewable energies" sector and a partial reversal and consumption resulting from the disposal of a commitment in the

“real estate” sector. On the other hand, individual loan loss provisions were added for another customer in the “renewable energies” sector, which, however, only results from the reclassification of provisions in the lending business. The portfolio-based loss provisions were reduced by EUR 2.2 million.

The **financial assets at fair value through profit or loss** increased significantly by EUR 1,105.7 million. The substantial increase in this item, however, is due to securities classified at dFV, which are in economic hedges with futures and interest rate swaps. This category was selected in order to avoid an accounting mismatch. The volume amounts to EUR 1,034.1 million as at 31.12.2014 (previous year EUR 0.0 million).

In contrast, **financial assets** fell significantly, by EUR 1,894.8 million to EUR 4,530.9 million. This reduction mainly results from shifts within the portfolio. Securities classified as AfS were reduced and replaced by new commitments in securities classified as dFV. These are no longer shown in the financial assets item, however (see “assets at fair value through profit or loss”). Moreover, portfolios were reduced within the scope of restructuring the Bank’s portfolio and by the targeted reduction of risk positions.

Available for sale assets result exclusively from the participation in Skandifinanz AG, which is expected to be sold in the first quarter of financial year 2015.

Other assets fell by EUR 82.1 million to EUR 110.4 million, mainly caused by the reduction in the cash reserve by EUR 53.4 million within the scope of the minimum reserve control. The item also includes fair values from hedge accounting, which dropped by EUR 22.8 million.

Liabilities to banks fell by EUR 1,409.2 million to EUR 9,252.8 million. While the deposits of other banks increased by EUR 373.2 million, liabilities from money market transactions fell significantly by EUR 1,764.7 million. This change is primarily attributed to shifts within the range of products and the scheduled reduction of the balance sheet total.

The **liabilities to customers** item remained at a constant level at EUR 2.153.4 million (previous year EUR 2,112.7 million). This item is dominated by liabilities from money market transactions in the amount of EUR 2,004.1 million (previous year EUR 1,960.2 million).

Securitised liabilities increased by EUR 39.2 million as compared to the end of the previous year. This change is due to currency effects.

Financial liabilities at fair value through profit or loss increased by EUR 84.9 million to EUR 369.1 million (previous year EUR 284.2 million).

Other liabilities amounted to EUR 320.7 million. This is equivalent to a fall by EUR 18.1 million. The main items here are fair values from hedge accounting (EUR 177.5 million, previous year EUR 205.7 million) and subordinate capital (EUR 103.0 million, previous EUR 90.7 million). The rise in subordinate capital is a result of currency effects.

As at 31 December 2014, the **reported equity** of the Bank was EUR 722.9 million (previous year EUR 699.4 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 at 31 December 2014 was prepared on the basis of IFRS 7.

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

Risk Management

Principles

The business activities of a bank are inextricably linked to the conscious taking of risks. Efficient risk management in terms of a risk and return oriented equity allocation is therefore a central component of modern bank management and a high priority for NORD/LB Luxembourg. Risk management is primarily aimed at controlling risks.

From a business standpoint, the Bank defines risk as being potential direct or indirect financial losses due to unexpected negative deviations between actual and projected results of business operations.

The risk management process implemented at NORD/LB Luxembourg consists of the following levels: risk identification, risk assessment, risk reporting as well as risk management and monitoring. It is subject to continuous review and improvement in close cooperation with NORD/LB. Adjustments that may become necessary include organisational measures, revisions in the procedures for quantifying risk, and the continuous updating of all relevant parameters. In order to identify risks, NORD/LB Luxembourg has established a multi-stage process (risk inventory) in accordance with the Minimum Requirements for Risk Management (MaRisk) AT 2.2 and AT 4.5 for the purpose of deriving the overall risk profile, which depicts the types of risk relevant to the NORD/LB Luxembourg Group and differentiates between significant and insignificant risks for the purpose of further differentiation. Of primary importance in this connection are all relevant risk types which could have a negative impact on the capital adequacy, earnings position, liquidity position or the achievement of strategic goals of the NORD/LB Luxembourg Group.

The overall risk profile is reviewed at least once a year as well as in relation to events (risk inventory) and adjusted if necessary.

As a result of the last risk inventory, 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 (including allied risks), reputation risk, syndication risk, real estate risk, pension 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.

Changed requirements in risk management, including the establishment of an accounting system for liquidity costs in accordance with MaRisk, emerge from the fourth amendment to MaRisk, which was published in December 2012 and came into force on 1 January 2013. The main requirements for the implementation of a transfer pricing system are originally based on the "Guidelines on Liquidity Cost Benefit Allocation" from the CEBS (now EBA) dated 27 October 2010. These have been applied in essence in MaRisk and in the European supervisory framework (CRR (Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/2012), CRD (Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EU and repealing Directives 2006/48/EC and 2006/48/EC)). In addition, the Bank must take into account the requirements of the CSSF, which addresses relevant requirements (in particular with regard to risk-transfer pricing (“RTP”)) in its circular 12/552, updated by 13/563 and 14/597.

The NORD/LB Group has improved its liquidity management within the scope of extensive project activities. The methods, models and procedures underlying the funds transfer pricing (FTP) were also examined, improved or enhanced, in particular with regard to the liquidity compo-

nents. The Group FTP Policy functions as a standard set of rules for the entire Group. To a large extent, the regulatory framework of the FTP system is also defined for the Bank through the standard group documents.

At the individual bank level, the responsibility for the FTP system is undertaken by the banks in the NORD/LB Group themselves, while the depiction of bank-specific peculiarities (for example with regard to regulation, business model, business characteristics) in their FTP system is possible – whilst complying with the principle of broad methodological consistency and absence of arbitrage within the NORD/LB Group. The NORD/LB Luxembourg Group has specified the points relating to the FTP/RTP system that specifically apply to the Group itself in a framework document.

Strategy

The business policies of NORD/LB Luxembourg are deliberately conservative in their orientation. Accordingly, NORD/LB Luxembourg's main principle is to handle risks responsibly. The formulated risk strategy is thus aligned with the business model, the business strategy and the specifications of the NORD/LB Group risk strategy, and is reviewed at least once a year. It consists of the risk policy principles of the Bank, the organisation of risk management, the overall risk profile and the risk sub-strategies regarding the essential bank-specific risk types.

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 as the primary control loop, 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 risk situation is measured using the utilisation of the risk capital (quotient from the total risk potential and total risk capital).

The maximum allocation of risk capital to the significant risk types is also specified within the scope of the risk strategy on the basis of the RBC model. The majority of the cover pool is thereby allocated to credit risks and reflects NORD/LB Luxembourg's focus on customer-oriented lending business.

The risk strategy aims for optimum management of all significant risk categories and the transparent presentation of them to the Bank's Board of Directors, the regulatory authorities 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 the Bank, which are based on it.

The risk strategy was reviewed in the year under report and adjusted to reflect the reorganisation of the NORD/LB Luxembourg Group in 2015, when both individual banks will merge to become NORD/LB Luxembourg S.A. Covered Bond Bank. Following approval by the Board of Directors, the new risk strategy was discussed with the Supervisory Board, which then approved it. It will come into effect when the merger is completed and will then replace the risk strategy formulated in 2013.

Structure and Organisation

All of NORD/LB CFB's market and back office activities were largely integrated into NORD/LB Luxembourg with the approval of the CSSF which was granted in 2012. This relates to the following points in particular:

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

- As a result of this shared 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 NORD/LB Luxembourg Group, NORD/LB Luxembourg is responsible for implementing the relevant mechanisms for risk management in the individual companies of the NORD/LB Luxembourg Group.

- Reporting 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 consolidated document.

*) According to the Group FTP policy: "The FTP System supplements the market interest rate method, which has long been used in the NORD/LB Group, with methods, procedures and processes for determining and offsetting market-oriented internal transfer prices for utilising and providing liquidity as well as for assuming liquidity risks between the Market and Treasury units. The FTP is not an independent, separate control loop, but is rather integrated into the existing control processes."

The role of the board of directors within NORD/LB CFB is undertaken 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.

The responsibility for risk management is borne by the Board of Directors of NORD/LB Luxembourg, which also defines the risk strategy for the Group. Following the adoption of the risk strategy by the Board of Directors, it will be discussed with and approved by the Supervisory Board of NORD/LB Luxembourg.

The risk committee at the Bank bears the responsibility for the development and monitoring of the risk strategy following a relevant resolution of the full board. This includes the monitoring of all significant risks, including risk reporting.

To support the Board in controlling and monitoring the risks, the Bank introduced the “Luxembourg Risk Committee” (LRC) in the first quarter of 2014. The LRC supports the Board by giving recommendations for action. The LRC’s operational framework is defined by the Bank’s business and risk strategy. The LRC meets at least six times a year and replaces the former “Credit Risk Committee” and “OpRisk Roundtable” committees.

The Bank’s internal control system (ICS) is based on the requirements of the banking supervisory body (CSSF), mainly in the updated circular 12/552. The role of ICS officer is undertaken by the head of the Organisation department. His work is supported by the ICS organisers in the Organisation Department.

Risk management is subjected to continuous review and improvement. In this regard, the Bank utilises the standardised methods used by the NORD/LB Group. Adjustments that may become necessary include organisational measures, revisions in the procedures for quantifying risk, and the continuous updating of relevant parameters.

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 the employee level. An organisational separation of market and risk management functions is established right up to and including the Board level.

The following departments are involved in the risk management process:

Market/Back Office	Department
Market	Financial Markets
	Business Development
	Loans
Back Office	Finance
	Credit Risk Management
	Operation Services
	Org/IT
	Compliance
	Legal
	Auditing

The responsibility for the implementation of the RBC model, which applies to NORD/LB, the ongoing monitoring of compliance and the regular review of the risk strategies lies with Risk Controlling (Finance Division) at the Bank.

The internal auditors are responsible for the risk-related audit of the effectiveness and adequacy of the risk management system. Amongst its goals are monitoring the effectiveness, efficiency, compliance and correctness of the business activities. They also facilitate the optimisation of business processes as well as the controlling and monitoring of procedures.

As part of the ongoing further development of group-wide monitoring tools, the internal auditors at NORD/LB and NORD/LB Luxembourg work closely together using a standardised Group audit policy and an evaluation matrix for the audit findings. 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 related to the Internal Capital Adequacy Assessment Process (ICAAP), in particular those arising from circular CSSF 07/301 and its addenda circulars, are complied with in full conformity at the Bank. The Bank’s Compliance Charter describes which tasks and responsibilities were defined.

Along with the compliance function and internal auditing, the risk control function pursuant to the updated CSSF circular 12/552 is an essential component of risk management. With the approval of the CSSF, the role of CRO (Chief Risk Officer) as defined by CSSF circular 12/552 is undertaken in the NORD/LB Luxembourg Group by the Director of Finance. The CRO reports directly to the risk committee. The main duty of the risk control function is to review compliance with all internal regulations and procedures which fall under their sphere of responsibility, to assess their adequacy with a view to the organisational structures and procedures, the strategies, business activities, risks of the bank and the pertinent statutory and regulatory provisions and give an account of this directly to the Board of Directors and Supervisory Board. The findings of this review are incorporated in a report on the risk control function that must be produced annually.

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 to ensure that all potential risks for NORD/LB Luxembourg are identified, analysed and assessed prior to the commencement of the business. Associated with this is the integration of all necessary audit areas and documentation of new business activities, their treatment in the overall operational process, the decisions regarding the commencement of the business and any 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.

Further statements and information on the structure and organisation of the risk management system can be found in the following subsections on structure and organisation by risk category.

Risk-bearing Capacity Model

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

The objective of the model is the aggregated presentation of the risk bearing capacity (RBC) within the scope of a comparison of the risk potential arising from the main risks

and the risk capital. The regular monitoring and reporting process ensures that the competent governing bodies of the Bank are promptly informed 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 III. 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 consists of the three perspectives of 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 overarching guiding principle of this primary control loop is the independent going concern on the basis of the existing business model, even if all the available cover pool has been drained by risks that have been incurred. In the going concern approach, economically calculated risk potentials are set against risk capital, which is determined in the course of a consideration of the bottleneck of the free regulatory capital at fixed minimal ratios (total capital and core capital) and adjusted by adding further risk capital effects within the scope of a dynamisation process at a standard confidence level of 95 %.

The second level of assessment is represented by the gone concern approach and constitutes a secondary condition within the RBC model. The gone concern approach takes a higher confidence level of 99.9 % into consideration on the risk potential side and sets the relevant economically cal-

culated risk potentials against a risk capital that is based on the full regulatory capital.

The third level of consideration of the RBC model, “Regulatory”, reproduces the official regulatory report on capital adequacy and accordingly takes into account the risk potentials determined in accordance with regulatory guidelines. The regulatory consideration constitutes a strict secondary condition within the RBC model.

The capital side is based both on the Gone Concern approach and in the regulatory on equity and near-equity components, which have to be taken into account according to regulatory rules on capital stock. In the Gone Concern case, there is an adjustment of the risk capital in relation to various aspects (e.g. by taking hidden liabilities into account). If the capital needed to cover the risks in the gone concern case is used up, a continuation of the Bank would in principle no longer be possible under otherwise unchanged assumptions. The structure of the RBC model provides for the gone concern approach to act as a stimulus for the going concern approach that is crucial in the assessment of the risk-bearing capacity. Direct management-relevant stimuli come from the going concern approach, however. The strategic limits from the consideration of the risk-bearing capacity are derived taking into account the risk capital allocation undertaken in the risk strategy on the basis of the Going Concern approach.

The monthly reports prepared by Risk Controlling on the risk-bearing capacity (RBC reports) constitute the central instrument for risk reporting to the Board and the supervisory bodies at the 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 RBC calculations on the quarterly reporting dates are an integral component of the Bank’s regular supervisory board meetings.

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 relate 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 primarily analysed within the scope of stress tests. The NORD/LB Luxembourg Group introduced the NORD/LB Group’s new stress test concept in the first half of 2014. In the course of this process, the NORD/LB Group event scenarios formerly integrated into the risk-bearing capacity calculation and the inverse stress test that had been performed annually up until then were replaced. The standard group approach based on a predefined “process map” to select scenarios, determine functional chains and their conversion into specific parameters or shock intensities forms the basis of the efficient performance of event-driven stress tests.

When selecting and drafting the stress scenarios, the business and risk focuses of the Bank are deliberately utilised as selection guidelines. The sectors, segments, regions and customers, etc. which have a major influence on the Bank’s risk situation are therefore to be selected. The presumption of a major influence is based on the absolute size of exposure, the absolute risk contributions (proportion of unexpected loss), the rating distribution, strategic focuses and past crises. The stress tests therefore implicitly focus on inter-risk concentrations.

After the main focuses are identified, distinct events are defined that describe the negative development and performance of the selected focuses. These events absolutely must be designed to cover all risk categories. All risk categories that could develop adversely in the crisis situations which have to be specifically described, are therefore to be included in the stress test parameterisation and thus increase the potential of losses in the stress scenarios. Potential losses resulting from stress establish the active economic risk capital. Furthermore, in addition to the RBC perspectives, the effects of the stress scenario on the control parameters of the profit and loss account, distance to illiquidity and regulatory capital ratios are analysed.

Pursuant to the requirements of both MaRisk (AT 4.3.3) and Circular CSSF 11/506 of 11 March 2011, inverse stress tests have to be carried out for NORD/LB Luxembourg. Inverse stress tests examine which events could threaten the Bank’s ability to survive because the original business model would prove no longer viable or sustainable, or, for example, there would be insufficient equity or liquidity reserves. Inverse stress tests complement the other stress tests in that unfavourable event or combinations of unfavourable events which could lead to such a situation are imputed.

In principle, the drafting of the stress tests in the NORD/LB Luxembourg Group facilitates the identification and quantification of exceeded critical threshold values when entering certain scenarios (inverse stress test). If the effects of

the stress testing with respect to their negative impact are too weak, the stress test method generally makes it possible to strengthen them in a targeted and appropriate manner.

In addition to the stress tests, which apply to all risk types, topics are addressed through an interview procedure which covers a wide range of positions of the Bank, behind which marked concentrations could be concealed. These are prioritised and subjected to a detailed scenario analysis if they are of significant importance. This scenario analysis is initially detached from the assumptions made regarding concentration and diversification during the measurement of risk potentials. To this extent, the procedure constitutes an additional, independent approach to measuring concentrations. The objective is to develop scenarios that can identify and record all major consequences for the key figures of the NORD/LB Luxembourg Group.

Development of Risk-Bearing Capacity in 2014

With the approval of the CSSF, economic management (ICAAP) at the NORD/LB Luxembourg Group has been implemented exclusively on a consolidated basis since the 2012 reporting period. This also comprises the regular reports on risks and capital to the steering committees, so that only one RBC report is prepared at the level of the NORD/LB Luxembourg Group.

The risk-bearing capacity model of the NORD/LB Group was converted to an IFRS-based logic in the first quarter of 2014. This had an effect on the Bank's risk-bearing capacity calculation as regards the dynamisation of the risk capital and the quantification of the market price risks. One particular reason for this is the modified classification of the hidden liabilities as well as the credit spread risks, which now follow the classification according to IFRS and no longer the logic of the German Commercial Code (HGB). Credit spread risks from the HfT, AfS and dFV categories are taken into account in the going concern (formerly the trading book and liquidity reserve) while the LaR (formerly assets) are also included in the gone concern.

The utilisation of risk capital in the going concern scenario for the NORD/LB Luxembourg Group is shown in the following table:

In EUR million		Risk-bearing Capacity 31.12.2014		Risk-bearing Capacity 31.12.2013
Risk capital	**258**	**100 %**	**309**	**100 %**
Credit risks	35	14 %	49	16 %
Participation risks	0	0 %	0	0 %
Market price risks	42	16 %	21	7 %
Liquidity risks	16	6 %	10	3 %
Operational risks	2	1 %	2	1 %
Total risk potential	**95**		**82**	
Utilisation		**37 %**		**27 %**

The increase in the level of utilisation over the course of the year is mainly due to the higher risk in market price risks and the reduction of the risk capital. The effect in the market price risks primarily results from taking additional credit spread risks into consideration in line with the switch to IFRS as well as improvements in the risk measurement procedure. The Bank did not enter into any significant new risk positions over the course of the year. As a result of additional capital requirements associated with the CRR coming into force (deductions for prudent valuation, capital requirement for CVA) and the revenue reserves distributed to the Group's parent company, there is less risk capital available as at 31 December 2014.

The level of utilisation is still considerably below the internally defined maximum value of 80 %, just as it was on the comparative reporting date.

Outlook

The European Banking Authority (EBA) published a consultation paper on the "Guidelines for common procedures and methodologies for the SREP (supervisory review and evaluation process)" on 7 July 2014. The guidelines provide a common framework for the work of supervisors in the assessment of risks to banks' business models, their solvency and liquidity.

A comprehensive SREP framework is introduced in the guidelines, comprised of various components. Firstly, the banks are divided into four categories following the proportionality principle, with the most important banks, in terms of regulation, included in the first category. The analysis of the business model has become a new focal point for supervision. Depending on their category, the banks are subject to different minimum levels of supervision. In practice, this affects the cycle and frequency of monitoring certain key indicators, assessment of various core areas and regular supervisory dialogue. Internal governance and controls, risks to capital and capital adequacy, as well as liquidity and funding risks and liquidity adequacy are particular focuses of the assessments.

Each individual component is assessed using a scoring system. These sub-results are then combined to get an overall SREP score. The scores range from 1 ("no discernible risk") to 4 ("high risk"). For the overall SREP score, there is an additional category F ("failing or likely to fail"). These scores must be suitable to provide an indication of the banks' viability and the necessity of supervisory measures or early intervention measures. The competent authorities have to integrate these guidelines into their supervisory processes and procedures by 1 January 2016.

It is generally assumed that the ECB will at least partially apply the new SREP process as early as 2015. Therefore, during the year under report, the Bank already started identifying the requirements for risk management arising from this as well as any existing gaps.

Credit Risk

Credit risk is a component of counterparty risk and is sub-divided into classic credit risk and counterparty risk in trading. The classic credit risk describes the risk of a loss occurring because of the default or decline in creditworthiness of a borrower. The counterparty risk in trading describes the risk of a loss occurring because of the default 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 risks:

- The default risk in trading describes the risk of a loss occurring because of the default or decline in creditworthiness of a borrower. It is equivalent to the classic credit risk and relates to money market transactions.

- The replacement risk describes the risk of the contracting partner defaulting in a pending transaction with positive present value and this transaction with a loss must be replaced.

- The settlement risk is broken down into the advance delivery risk and the final settlement risk. The advance delivery risk describes the risk of there being no compensation by the contracting partner following the Bank's own performance when a transaction is settled or of the compensation not being paid upon netting of the payments. The processing risk describes the risk of it not being possible to settle transactions mutually at or after the contractually agreed-on time of fulfilment.

- The issuer risk describes the risk of a loss being incurred as a result of the default or decline in creditworthiness on the part of an issuer or a reference debtor.

Along with 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.

Strategy
NORD/LB Luxembourg views 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 is broadly diversified.

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

The range of products comprises the spectrum of classic lending products in all major currencies. The range of services includes the entire spectrum of loan servicing and management services, including assumption of the facility agent function.

In the Private Banking segment, which was hived off into NORD/LB Vermögensmanagement Luxembourg S.A. with effect from 31 December 2014, the Bank issued loans in exchange for assets within the scope of secured private lending. Furthermore, the Bank offers customers with a private banking background financing 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 in the Financial Markets segment are managed within the ALM/Treasury organisational unit.

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 the Board level.

The Loan Management (Lending – Market segment) and Credit Risk Management (Lending – Back Office), Finance, Financial Markets and Business Development divisions in particular are integrated into this system.

The Board of Directors is responsible for the general credit risk management of the portfolio. It is supported in this by the LRC, which creates the connection between the individual loan decision and portfolio management as well as an analysis across all types of risk. To this end, the LRC recommends various instruments to the Board of Directors, such as the ordering of an acquisition stop, the limitation of national, industrial or borrower-related risks, or the placement of exposures or sub-portfolios.

The management of the lending portfolio focuses on opportunities and risks. With regard to the early detection of crisis situations, structured procedures and processes for the standardised collection of risk-related information and its transformation into counter measures are used within the scope of the risk management process. In the context

of credit risk, there are appropriate processes, systems and guidelines on the early identification of risks at both the portfolio and individual borrower levels. Taking into consideration existing risk limits, qualitative early warning indicators are derived on the basis of this standardised infrastructure for the purpose of identifying crisis situations and initiating risk mitigation measures.

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.

Control and Monitoring

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. The rating modules used in the process were either developed within the scope of various projects in the allied business with savings banks and regional banks or were developed by NORD/LB itself.

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. Significant parameters for deriving these limits are the creditworthiness of the debtor expressed as a rating and the free funds available to it to operate the debt service.

Risk concentrations and correlations at the portfolio level are mapped as part 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 "strategic limiting" for the identification and monitoring of risk concentrations at the 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 superordinate limiting, there is also limiting of counterparty, country and sector concentrations at the NORD/LB Luxembourg Group level based on the risk-bearing capacity of the NORD/LB Luxembourg Group.

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

Securitisation

Securitisation transactions are subject to a strict approval and monitoring process at NORD/LB Luxembourg, so that potential risks before and after the conclusion of the contract can be identified and managed. As in the previous year, NORD/LB Luxembourg provides, as a sponsor, a liquidity facility within the scope of the allied business to improve the credit quality of the Asset-Backed Commercial Paper (ABCP) Conduit programme of NORD/LB. The Bank also acts as an investor within the scope of accounts receivable purchasing. This exposure is fully guaranteed by NORD/LB.

The Bank uses the IRB approach to measure these two securitisations as part of the process of determining the capital requirement.

From the Bank's viewpoint, the two aforementioned securitised positions are to be rated as posing less of a risk.

Measurement

Credit risks are quantified on the basis of the "Expected Loss" and "Unexpected Loss" risk figures. 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 at NORD/LB Luxembourg using an economic credit risk model for different confidence levels and a time horizon of one year. The credit risk model used by all of the units in 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 or LGD) are defined on a transaction-specific basis.

The credit risk model works with a simulation process, which also takes into account specific interdependence 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 companies defined as key within the NORD/LB Group in order to ensure a standardised approach within the NORD/LB Group. The current risk management and control procedures are implemented for the Bank by the Finance and Credit Risk Management divisions of NORD/LB Luxembourg, taking into account any characteristics specific to the Bank.

To calculate the capital required for credit risks, NORD/LB Luxembourg uses the internal ratings-based approach (IRBA). An exception to this is a few portfolios where the credit risk standard approach is used. The Bank has permission via its parent company to use their rating system and to apply credit risk minimisation methods.

Reporting

As part of the management information system, the Finance division prepares a detailed lending portfolio report on a quarterly basis at the NORD/LB Luxembourg Group level for the Board of Directors and for the members of the LRC, in order to make existing risks or risk concentrations transparent at an early stage and if required, initiate any necessary measures. The lending portfolio reports are also discussed at the meetings of the Supervisory Board.

The lending portfolio report, which essentially focuses on economically determined key risk figures (expected loss, unexpected loss) and thus has a direct relevance to the risk-bearing capacity perspective, was compiled for the first time for the period ending 31 March 2014. This replaces the counterparty risk reports which were produced until 31 December 2013, and were based on data from the regulatory reporting process.

As well as a detailed presentation of the lending portfolio by business segment, rating categories, sectors and regions, the report contains quantitative and qualitative analyses of selected borrowers and individual commitments. The report also covers the development and performance of regulatory key figures as well as credit risk specific stress tests.

In addition, the Board of Directors and members of the LRC receive additional regular and event-driven reports on the Bank’s lending portfolio from the Credit Risk Management division, for example on risk concentrations in borrower units, country and sector concentrations, and commitments requiring comment (credit risk watchlist).

The credit risks of the Bank, a major company within NORD/LB Group, were the subject of the comprehensive assessment conducted at NORD/LB. In this connection, the Bank reported the required information regarding the credit risks allocated to the selected portfolios to NORD/LB for the purpose of the Asset Quality Review (AQR). The Bank has not received any feedback regarding the relevant findings within the scope of the AQR. The NORD/LB Group decisively passed the stress test following the AQR with a solid core capital ratio (CET1) of 10.93 % (basic scenario) and 8.77 % (adverse scenario).

Developments in 2014

The maximum credit default risk amount for reported and off-balance sheet financial instruments is EUR 16.6 billion as at the reporting date and dropped slightly, by 4.6 %, in 2014.

Risk-bearing financial instruments EUR million	Maximum default risk amount 31.12.2014	Maximum default risk amount 31.12.2013
Loans and advances to banks	2,684.1	3,911.1
Loans and advances to customers	5,003.7	4,175.3
Financial assets stated at fair value through profit or loss	1,499.4	393.8
Positive fair values from hedge accounting derivatives	17.4	40.2
Financial assets	4,530.9	6,425.7
Sub-total	**13,735.6**	**14,946.1**
Non-utilised loan commitments	1,083.6	890.5
Guarantees for third-party invoices	1,746.3	1,524.3
Total	**16,565.5**	**17,360.8**

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 from 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 netting into account). Irrevocable lending commitments are included in the credit exposure at 42.5 % (previous year 45 %) and revocable credit commitments at 37.5 % (previous year 25 %), while securities are not taken into account.

Analysis of Credit Exposure

The credit exposure as at 31 December 2014 amounts to EUR 19.2 billion and has therefore fallen by 9.4 % as compared to the previous year, due to the declining repo business.

The NORD/LB Luxembourg Group uses the standard IFD rating scale, which the banks, savings banks and associations that participate in the Initiative Finanzstandort Deutschland (IFD – Initiative of the Financial Centre Germany) have agreed upon in order 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 rating categories of the 18-tier DSGV rating master scale used as standard in the NORD/LB Luxembourg Group can be transferred directly into the IFD categories.

The following table shows the rating structure of the entire 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)	Derivatives 5)	Other 6)	Total 31.12.2014	Total 31.12.2013
	31.12.2014					
Very good to good	10,844.2	5,352.4	217.3	0.0	**16,414.0**	**17,829.2**
Good / satisfactory	1,084.0	107.9	2.7	0.0	**1,194.6**	**1,865.2**
Still good / adequate	296.7	123.9	8.2	0.0	**428.9**	**427.6**
Increased risk	838.2	40.7		0.0	**878.8**	**701.1**
High risk	126.6			0.0	**126.6**	**110.6**
Very high risk	12.6	0.1		0.0	**12.6**	**51.2**
Default (=NPL)	117.7		1.1	0.0	**118.8**	**188.2**
Total	**13,320.0**	**5,625.0**	**229.4**	**0.0**	**19,174.4**	**21,173.0**

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, the irrevocable credit commitments being included at 42.5 % and the revocable ones at 37.5 %, as in the internal reporting
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 (85.6 %) 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	
		31.12.2014			31.12.2014	31.12.2013
Financial institutes/ insurers	7,622.0	3,983.3	211.1	0.0	**11,816.5**	**14,453.7**
Service industry/ other	2,419.3	1,641.7	7.4	0.0	**4,068.3**	**3,815.0**
of which real estate and residential	334.8	0.0	2.6	0.0	**337.4**	**289.0**
of which public administration	533.7	1,641.7	0.0	0.0	**2,175.4**	**2,352.0**
Transport/ news broadcasting	612.9	0.0	0.8	0.0	**613.7**	**465.5**
of which shipping	14.2	0.0	0.0	0.0	**14.2**	**22.4**
of which air transport	0.0	0.0	0.0	0.0	**0.0**	**25.5**
Processing industry	1,345.3	0.0	1.7	0.0	**1,347.0**	**1,361.4**
Energy, water supply, mining	861.8	0.0	0.6	0.0	**862.4**	**783.1**
Trade, maintenance, repair	371.7	0.0	7.8	0.0	**379.5**	**286.1**
Agriculture, forestry and fishing	13.2	0.0	0.0	0.0	**13.2**	**3.6**
Construction industry	73.7	0.0	0.0	0.0	**73.7**	**4.6**
Other	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total	**13,320.0**	**5,625.0**	**229.4**	**0.0**	**19,174.4**	**21,173.0**

1) Classification same as internal reporting according to economic criteria
2) to 6) See previous table on rating structure

The table shows that the generally relatively low-risk business with financial institutions / insurance companies, at an overall proportion of 61.6 %, continues to make up a significant share of the overall exposure. Including public administration, the proportion of the overall exposure amounts to 73.0 %.

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

Sectors [1) 2)] EUR million	Loans [3)]	Securities [4)]	Derivatives [5)]	Other [6)]	Total	
	31.12.2014				31.12.2014	31.12.2013
Euro states	11,000.9	4,172.6	105.5	0.0	**15,279.0**	**17,576.2**
of which Germany	7,266.3	1,443.2	62.2	0.0	8,771.7	8,130.0
Other Europe	1,128.4	873.5	88.4	0.0	**2,090.2**	**1,962.2**
North America	1,116.3	297.9	35.3	0.0	**1,449.6**	**1,218.0**
Central and South America	4.7	14.1	0.0	0.0	**18.7**	**19.1**
Middle East/Africa	6.2	0.0	0.0	0.0	**6.2**	**102.4**
Asia/Australia	63.5	267.0	0.1	0.0	**330.6**	**295.2**
Other	0.0	0..0	0.0	0.0	**0.0**	**0.0**
Total	**13,320.0**	**5,625.0**	**229.4**	**0.0**	**19,174.4**	**21,173.0**

1) Classification same as internal reporting according to economic criteria.
2) to 6) See previous table on 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 Eurozone, with a high proportion (80.0 %) of 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 on the reporting date.

The Bank's risk provisions (including loan loss provisions) totals EUR 46.3 million on the reporting date and in addition to portfolio-based loss provisions in the amount of EUR 2.6 million, includes specific value adjustments in the sum of EUR 34.2 million. EUR 17.9 million of that amount is attributable to one borrower from the processing industry and EUR 15.9 million to one borrower from the service industry. The remaining EUR 0.4 million was allocated for a borrower in the construction industry.

In addition, provisions for off-balance sheet risks were allocated in the sum of EUR 0.6 million for one borrower from the processing industry in the amount of EUR 9.0 million for portfolios.

Outlook

In 2015, measures are planned for the further optimisation of the models for quantifying and controlling credit risks. As well as further developing the economic credit risk model (including revising the sector schematic), the loss data collection for the validation of the LGD and Credit Conversion Factor (CCF) components will also be further expanded. The introduction of a backtesting procedure for model validation is also planned at the NORD/LB Group level.

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. In addition, participation risk also includes the risk of a potential loss due to other financial obligations, if it has not been taken into account in other risks.

Along with original participation risk, a country risk (transfer risk) arises in connection with international capital services.

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 mainly protected using centrally-specified key economic figures or definite terms of reference. The objectives are the effective control of the NORD/LB Luxembourg Group and the guarantee of transparency towards third parties.

Structure and Organisation

In terms of organisation, participation controlling is located in the Finance division, which monitors the participation risk in cooperation with other divisions and supplies the necessary information to the management units. In addition, in its function as group auditor, the Nord LB Luxembourg Group's internal auditing is integrated into the monitoring of the participation. The implementation of the guidelines is ensured via seats on the main governing bodies of the subsidiaries (union of personnel on the board).

The risks that arise from entering into a participation are controlled and monitored by the Bank's Board of Directors. Furthermore, an investment analysis of the NORD/LB Luxembourg subsidiaries is conducted by Investment Management at NORD/LB.

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 exercises the control function by assigning representatives of NORD/LB Luxembourg to operational mandates in the companies or by exercising its Administrative Board function. Moreover the Bank has established committees in the NORD/LB Luxembourg Group, in which the control-relevant topics are discussed.

With regard to the operational integration and control of companies in which the extensive union of personnel has been established (NORD/LB CFB subsidiary), reports similar to their own risk reports are prepared by NORD/LB Luxembourg itself.

The major companies of the NORD/LB Luxembourg Group are integrated into the control of the risk-bearing capacity via the review procedure: the key figures are quantified and the risk-bearing capacity monitored at the consolidated level. Isolated participation risk is not measured.

Developments in 2014

The participation in Skandifinanz AG, which is insignificant in terms of the risk strategy, has no longer been taken into consideration in the regulatory consolidation or consolidation under commercial law since the middle of the reporting year.

The newly established subsidiary Galimondo S.à r.l. began its commercial activities on 5 September 2014. This is an immaterial participation with a book value of EUR 12,500. A capital requirement resulting from counterparty risks is determined for this participation and a deduction made in the regulatory capital. For materiality reasons, a quantification is not carried out as part of the risk bearing capacity.

Outlook

NORD/LB Luxembourg and its subsidiary NORD/LB CFB will be merging during the course of 2015 to form a special bank (covered finance bank as defined by Article 12-1 et seq. of the Law of 5 April 1993 on the Financial Sector, in the latest amended version). The merger will take effect retroactively from 1 January 2015.

The intragroup sale of Skandifinanz AG to Nord-Ostdeutsche Bankbeteiligungs GmbH is scheduled for the first quarter of 2015.

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, fund price risk and credit spread risk.

The interest rate risk consists of the general interest rate risk and specific interest rate risk components. A general interest rate risk will always occur when the value of a position or portfolio reacts to changes in one or more interest rates or to changes in complete interest rate curves and these changes could result in an impairment of the position.

According to the regulatory definition, potential changes in value are subsumed in the specific interest rate risk, and can arise due to rating migrations or from the failure of issuers (in the case of securities) or the reference entity (in the case of credit derivatives). In the NORD/LB Group, it is understood as the specific interest rate risk of the issuer risk.

The interest rate risk is therefore equivalent to the general interest rate risk as the NORD/LB Group defines it. Therefore, no distinction is made in the internal reports of the NORD/LB Group between the interest risk and the general interest rate risk.

Currency risks arise when the value of a position or portfolio reacts sensitively to changes in one or more currency exchange rates and the change 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 fund price risk describes the risk that the value of a position may react to changes in one or more fund prices and the changes in the fund price could lead to a value reduction of that 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.

Strategy

The activities associated with market price risks in the Financial Markets business segment 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 primarily oriented on the requirements of the clients and the support of the overall bank management. The Bank does not operate any opportunistic positioning beyond this.

The focus of the trading activities is on 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 and to participate in the general market developments within the framework of these risk limits.

Significant credit spread risks result from existing investments in securities. The Bank aims to use the credit spread until the final maturity of the position. Therefore maturity matching refinancing of investments is striven for.

Following the sale of seed investments in the NORD/LB Horizont Fond and Nordlux Aktiv in December 2014, the fund price risk is no longer relevant to the Bank. Investments in this area are no longer planned.

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 at NORD/LB Luxembourg.

The market price risks are managed operationally by Trade or the ALM/Treasury business unit. The strategic control of market price risks is supported by the Asset Liability Committee (ALCO). The ALCO is an advisory body, which meets six times a year and defines the framework conditions for the strategic control of the market risk positions, liquidity and interest rate risk positions and the investment books in the NORD/LB Luxembourg Group. At the same time, the focus is on the goal of profitability optimisation of the risk capital tied into the positions.

The ALCO prepares recommendations for action as a decision basis for the board of directors, taking into account the (current) market situation and its effects on the liquidity and funding situation.

The Risk Controlling unit (Finance division) of the Bank is responsible for monitoring the risks.

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

Control and Monitoring

In order to control and monitor, including limiting, the market price risks of NORD/LB Luxembourg, a Value-at-Risk (VaR) procedure that is standardised within the NORD/LB Group is used for all of the Bank's portfolios. The VaR limit for market price risks is derived overall from the RBC model. Competency for the allocation to sub-limits for individual portfolios is delegated by resolution of the Board of Directors to the heads of Financial Markets and Finance.

Compliance with the limits is monitored by Risk Controlling. Any possible losses are set off against separate loss limits and lead to a reduction in the VaR limits based on the principle of self-depreciation. Correlation effects between the portfolios are taken into account both in the VaR calculation and in the derivation of the sub-limits.

Measurement

The value-at-risk key figures are determined on a daily basis using the historical simulation method. In the process, a group-wide standard unilateral confidence level of 95 % and holding time of one trading day are applied or 250 days in the case of the credit spread value-at-risk. Each month, Risk Controlling produces another VaR calculation at the consolidated level of the NORD/LB Luxembourg Group within the scope of calculating the risk-bearing capacity.

The VaR analysis is based on historical changes to risk factors over the last twelve months. The models take account of correlation effects between the risk factors and sub-portfolios.

VaR models are especially suitable for measuring market price risks in normal market environments. The method of historical simulation used is based on data relating to past events and to this extent depends on the reliability of the time series used. The VaR is calculated on the basis of the portfolios received by the end of the day and therefore does not cover possible changes in positions occurring during the day.

The prediction quality of the value-at-risk model (VaR and CSVaR) 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 "backtesting" outlier occurs if the negative change in value observed exceeds the value-at-risk.

In the year under report, the number of outliers in relation to the VaR and CSVaR at the overall bank level, according to the Basel approach, is in the green region in both cases.

In addition to the daily VaR control, the effects of extreme market changes on the risk positions are examined within the scope of monthly stress test analyses.

In addition, 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.

Reporting

In accordance with MaRisk, Risk Controlling, which is independent of the areas responsible for the positions, reports the market price risks (VaR and CSVaR) to the head of Financial Markets and the Board of Directors on a daily basis.

Along with the value-at-risk analyses, the head of Financial Markets and the Board of Directors are informed on a monthly basis with regard to the CSSF stress test as well as the effects of additional stress scenarios and the results of the backtesting.

The entire Board of Directors is informed comprehensively on a daily basis with regard to the market price risks and the earnings position. Reporting also takes place in the form of weekly and monthly risk reports. The market price risks also flow into the cross-risk type reports on the risk-bearing capacity.

Developments in 2014

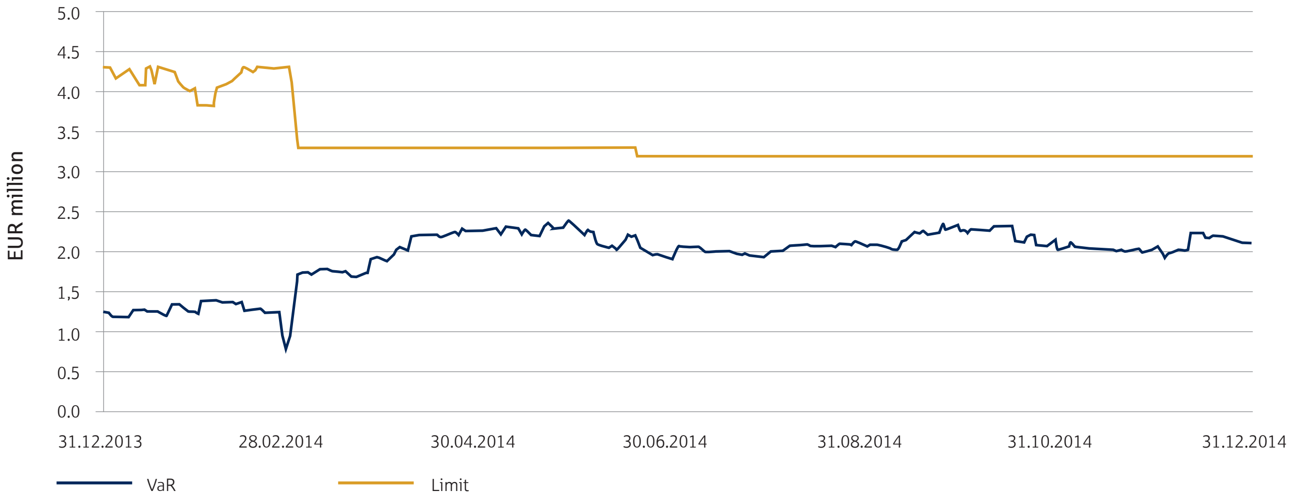
As part of changing the risk-bearing capacity model to an IFRS-based logic, the operational control of market price risks was adjusted in the first quarter. In accordance with the procedure in the going concern scenario, which is relevant to control, the credit spread risks from securities in the IFRS categories HfT, dFV and AfS have been taken into account in the value-at-risk (that is calculated daily) and limited (formerly the trading book and liquidity reserve) since 1 March 2014. The daily value-at-risk at NORD/LB Luxembourg Group level was likewise introduced with effect from 1 March 2014 (previously individual bank level).

In addition, there was a methodological change in the calculation of the daily risk key indicators (confidence level 95 %, holding time one day). Analogous to the determination of the market price risks in the risk-bearing capacity model, there is now also a scaling of the value-at-risk indicators in the daily control with a stabilising adjustment factor, which is calculated based on statistical long-term analyses of the market price risk factors that are significant to the NORD/LB Luxembourg Group. In very calm market phases, the factor has the effect of increasing the calculated value-at-risk values by 50 % to 60 %, as at the reporting date.

NORD/LB Luxembourg's market price risks have risen significantly as compared to the end of the previous year due to the integration of additional credit spread risks associated with the change to an IFRS-based logic. Nevertheless, they were at a moderate level over the course of the year relative to allocated economic capital and the limits derived from them.

The following graph shows the performance of the bank's overall value-at-risk (confidence level 95 %, holding time 1 day) at the Bank over the course of the year.

Value-at-Risk (95 %, 1 day)



There were stricter limits for the operational control of market price risks as a result of changing NORD/LB Group's risk-bearing capacity model to an IFRS-based methodology. The bank's overall value-at-risk limit at NORD/LB Luxembourg was consequently reduced with effect from 3 March 2014 to EUR 3.3 million. A further EUR 0.1 million limit was redistributed in favour of NORD/LB CFB on 19 June 2014.

The value-at-risk on 31 December 2014 was EUR 2.1 million (previous year EUR 1.2 million). The annual average utilisation of the value-at-risk limit was 58.6 % (previous year 17.6 %), the maximum utilisation was 73.4 % (28.2 %) and the minimum utilisation was 17.0 % (10.9 %).

The security positions in connection with the interest rate and liquidity control of the Financial Market division lead to a focus on the market price risks arising from credit spreads. Interest rate risks mainly result from transactions in EUR.

As per 31 December 2014, interest rate risks were measured in the amount of EUR 0.9 million, foreign currency risks in the amount of EUR 0.03 million and credit spread risks in the amount of EUR 1.2 million.

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 CSSF Circular 08/338. The result continues to be far below the regulatory threshold, which provides for a maximum proportion of 20 % of authorised equity capital.

For calculating the capital required for interest, currency and price risks, the Bank uses the standard method according to CRR. Taking into account the requirements based on the adjustment of the credit assessment (CVA), a capital requirement in the amount of EUR 4.9 million was calculated for the market price risk as at 31 December 2014.

In contrast to the credit spread risks of the IFRS categories HfT, AfS and dFV, the credit spread risks of the LaR stocks are not included in the value-at-risk for market price risks, since this focuses on the going concern perspective of the risk-bearing capacity model. They are therefore measured and limited separately via the credit spread value-at-risk with a confidence level of 95 % and a holding time of 250 days. The limit is derived from the gone concern perspective of the risk-bearing capacity model. Since NORD/LB Luxembourg does not hold any securities in this category, the limit is zero.

Outlook

The Bank is not expecting any significant increase in the market price risk in 2015. With respect to the future development of the credit spread risks, NORD/LB Luxembourg anticipates a sideways movement.

In the first half-year, the Bank will strive to invest its capital in accordance with the Group's philosophy.

Liquidity Risk

Liquidity risks comprise risks which may result from problems in the liquidity of individual market segments, unexpected events in the lending, deposit or issue business, or deteriorations in the Bank's own refinancing conditions. In the understanding of the Bank, placement risk is part of the liquidity risk. It describes the risk that the Bank's own issues cannot be placed on the market or can only be placed only at poor conditions.

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

Classic liquidity risk
Classic liquidity risk is defined as the risk that payment obligations cannot be met at all or not on time. A potential cause can be a general disruption in the liquidity of the money markets affecting individual banks or the whole financial market. In particular, market disruptions may lead to important asset classes no longer being available for use as securities. Alternatively, unexpected events in the Bank's own lending, deposit or issue business can also be a cause of liquidity bottlenecks. The assessment focuses on the next twelve months in the NORD/LB Group.

Refinancing risk
Refinancing risk refers to potential decreases in earnings for the Bank as a result of the change in its own refinancing conditions on the money market or capital market. The most significant cause of this is a change in the estimation of the Bank's credit rating by the other market participants. The focus of this assessment is the entire maturity range. The spread risks from cross-currency swaps are also taken into consideration by examining the individual currencies.

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 particularly arise from security positions in the trading and investment books.

Strategy

The liquidity risk strategy of the Bank is aligned with the recommendations published by the EBA on efficient liquidity risk management, the requirements derived from them by the Luxembourg regulatory authorities and the Central Bank, as well as the requirements pursuant to MaRisk.

To this end, the NORD/LB Luxembourg Group has implemented a liquidity sub-strategy within the risk strategy, a liquidity policy and a contingency funding plan, all which take these requirements into account.

Ensuring liquidity at all times represents a strategic necessity for the Bank. While classic liquidity risk is principally to be avoided by maintaining a sufficient supply of liquid assets (in particular central bank eligible securities), a structural liquidity maturity transformation is undertaken for the refinancing risk. In both cases, the risks are mitigated by means of suitable limits.

The limit for the classic liquidity risk serves to ensure the ability to pay even under a conservative stress scenario. The limit for the refinancing risk (in the form of volume structure limits and present value liquidity risk cost limits) is derived from the risk strategy and the risk-bearing capacity model.

In order to limit the market liquidity risk, the Bank mainly conducts trade transactions on markets which have also proven to be adequately liquid during the tense market phases of the last few years. This particularly applies to all transactions in the trading book. The security holdings in the trading book mainly consist of issues from first-class issuers.

Securities held for liquidity management are generally selected according to the criteria of first class creditworthiness of the issuers, high convertibility and central bank eligibility. The holding of securities essentially serves to support liquidity and hedging management as part of collateral management, including cover pool management. The collateral eligibility of securities (for example at central banks and within the scope of repo transactions) plays a central role in Treasury's liquidity management.

The corporate policy principles for the liquidity risk in the NORD/LB Group are defined in the Global Group Liquidity Policy (GGLP). In addition, the individual banks in the NORD/LB Group have policies on liquidity management, which constitute the strategic guidelines for ensuring adequate liquidity. The measures for liquidity management in emergencies and crises are described in contingency plans. Moreover, the applicable working directives, applicable sections of the (NORD/LB Group) risk handbook and NORD/LB Luxembourg's methodology handbook all apply.

Risk concentrations on the liabilities side are eliminated through a diversified investor basis and broad range of products. The focus is on institutional and public investors, which complies with the appropriate risk-based orientation of the Bank.

Structure and Organisation

The Financial Markets and Finance departments are involved in the liquidity risk management process.

The ALM/Treasury organisational unit (Financial Markets department) assumes the lead role in the management of the liquidity risk at the level of the NORD/LB Luxembourg Group and carries the gains and losses resulting from the changes in the liquidity situation. The strategic management of the liquidity risks is supported by the ALCO.

Risk Controlling (Finance division) is responsible for monitoring the liquidity risks. It assumes control functions in the calculation of the refinancing risk as well as in ascertaining and monitoring the classic liquidity risk (in each case at the NORD/LB Luxembourg Group level) and plays a key role in the introduction and improvement of internal procedures for measuring, limiting and monitoring liquidity risks.

The CFP (Contingency Funding Plan) action committee is ready in case of an emergency and will take over liquidity management in close cooperation with the Board of Directors.

Control and Monitoring

The refinancing risk of NORD/LB Luxembourg is limited by present value limits and maturity-dependent volume structure limits, which are derived from the risk-bearing capacity. The assessment of the liquidity flows is also undertaken separately by currency.

The classic liquidity risk is primarily limited on the basis of an analysis of a dynamic stress scenario. The scenario describes the respective most probable crisis situation and thus on the reporting date, the risk of a rating downgrade in connection with the shipping portfolio as well as a market environment which is still characterised by the economic problems of the EU periphery states. The analysis is performed on the basis of liquidity cash flows and covers the next twelve months on a daily basis. For products without definite liquidity flows and for optional components (e.g. from irrevocable loan commitments), models of the market situation are made, which are subject to regular validation.

With the aid of the limit system it is ensured that even in a stress situation, there are liquidity surpluses for at least three months. Therefore, ensuring the permanent ability to pay in this maturity band is given preference over possible opportunities to generate profits. Taking profitability aspects into consideration, the aim is to guarantee a liquidity surplus of at least six months in the dynamic stress situation.

In addition, the dynamic stress scenario is complemented by additional static stress tests. These tests cover a NORD/LB-specific scenario, the alternative scenario of a comprehensive liquidity crisis, along with a short-term scenario for a market-wide liquidity problem.

One aim of risk monitoring that should be emphasised is the early identification of risks. In terms of the liquidity risks, the early warning indicators particularly include the liquidity stress test performed every business day, potential crisis triggers (trigger events) and warning indicators in accordance with the Global Group Liquidity Policy.

Market liquidity risks are accounted for implicitly by means of distinguishing securities in the liquidity progress review in accordance with their market liquidity. On the basis of a detailed security liquidity class concept, they are classified into main categories based on the liquidity grade of the individual security and also into respective sub-categories (e.g. according to central bank

eligibility and rating). They are depicted in the liquidity progress review depending on the liquidity class in the maturity range between daily and final due date.

When classifying the securities into liquidity classes, the usefulness as collateral, i.e. the suitability of the security to cover repo transactions, at central banks or for covering Pfandbriefe is of central importance, alongside tradability.

The Funds Transfer Pricing (FTP) is also part of the management and control of liquidity and liquidity risks. The principles of the corporate policy for the Funds Transfer Pricing System (FTP System) of the NORD/LB Group are formulated in the Group Funds Transfer Pricing Policy (Group FTP Policy). The FTP System complements the market interest rate method with its methods, procedures and processes for determining and offsetting market-oriented internal transfer prices for utilising and providing liquidity as well as for assuming liquidity risks between Market and Treasury units.

Measurement

The Bank calculates the utilisation of volume structure limits for the various maturity bands on the basis of a liquidity progress review of the entire position. The liquidity risk is quantified in a risk-bearing capacity concept, resulting from the consideration of the refinancing risk in cash terms. Operational limits for the refinancing risk in cash terms as well as maturity and currency dependent volume structure limits are derived from this.

The current liquidity flows form the basis for the calculation of the dynamic and static stress scenarios for modelling the classic liquidity risk. These are stressed to the extent that they reflect a crisis situation. Therefore, e.g., the assumption would be that the Group's ability to dispose of positions has become limited and there is an increase in the

number of borrowers drawing on loans. The stress scenarios can be used to show the effects of unexpected events on the liquidity situation of the NORD/LB Luxembourg Group. This offers the opportunity to plan for the future and be well prepared for emergencies.

The aforementioned analyses take into account the central importance of the market liquidity of all securities in the portfolio. In addition, the credit spread risks are also taken into consideration for all securities within the scope of the market price risks. Since the market liquidity of the securities is reflected in the spreads observed on the market as well as the creditworthiness of the issuer, the market liquidity of the securities is also considered indirectly within the scope of the risk reporting. A separate risk scale for market liquidity risks is not used.

Reporting

The key liquidity figures are calculated daily by Risk Controlling and supplied to the Trading department for the management of the liquidity risk.

The head of Financial Markets and Market board members are informed on a daily basis of the classic liquidity risk as well as the refinancing risk of the NORD/LB Luxembourg Group. In addition, these key figures are the subject of reporting to the Board of Directors within the scope of weekly and monthly risk reports. Information is also provided within the scope of a quarterly report on the risk-bearing capacity.

The ALCO monitors the liquidity situation in the NORD/LB Luxembourg Group (the basis being the liquidity progress review, which takes into account all payment flows affecting liquidity [except future interest and margin payments] from Bank products).

As part of monitoring the refinancing structure, a concentration report is compiled, which contains the analysis of the funding. As well as the liabilities side, concentrations of off-balance sheet obligations are also reported regularly to the Market division and the Board of Directors.

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 classic 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.

Another key management figure within the scope of the liquidity risk is the Liquidity Coverage Ratio (LCR) pursuant to Basel III. The LCR is the ratio of the portfolio of first class assets to the total net outflow over the next 30 days.

In the case of the liquidity buffers, the first class assets, a distinction is made between Level 1 assets and Level 2 assets, which are given a certain weighting factor depending on their classification. In addition, outgoing payment flows are also modelled under stress conditions (e.g. partial withdrawal of deposits, unscheduled drawdown of unused credit lines and loss of uncovered refinancing).

With regard to the management of the key figures until the final introduction (in 2019), the NORD/LB Luxembourg Group will report the LCR at monthly intervals and the NSFR (Net Stable Funding Ratio) at quarterly intervals to the Luxembourg regulators and to NORD/LB.

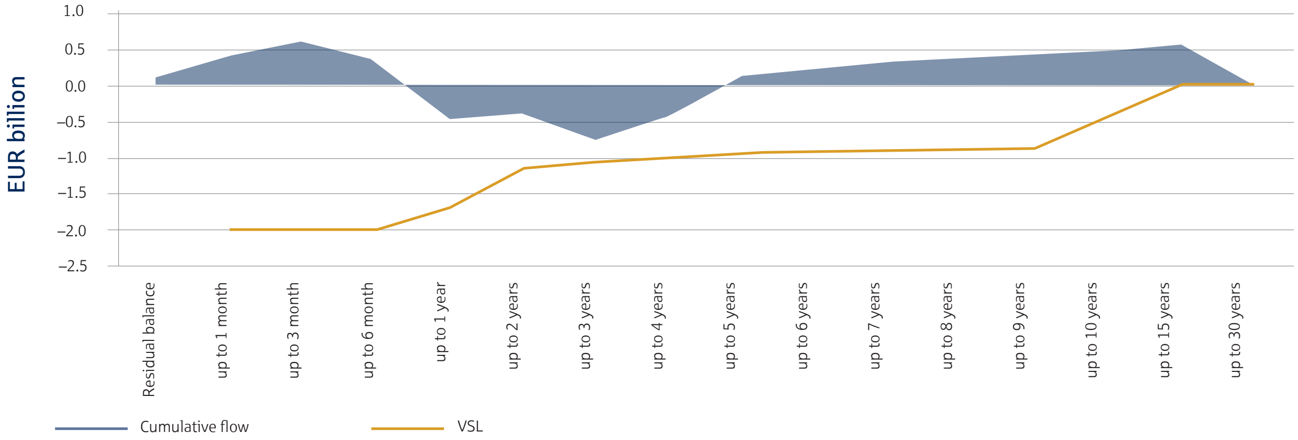
Developments in 2014

The perceptible easing of the financial market proceeded over the course of the year. Because of the extremely low interest rate level and adequate liquidity on the market, short-term liquidity in particular was available at all times. In the second quarter, NORD/LB Luxembourg also acquired larger volumes of long-term liquidity via NORD/LB CFB in the form of lettres de gage. New lending business is partially covered by long-term funding from the NORD/LB Group.

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. Transactions in the area of fixed term deposits with corporate customers also comprise another substantial proportion of the refinancing of the Bank. In addition, the coverage of the refinancing requirement in the “more than two years” segment is predominantly carried out via NORD/LB (uncovered funding).

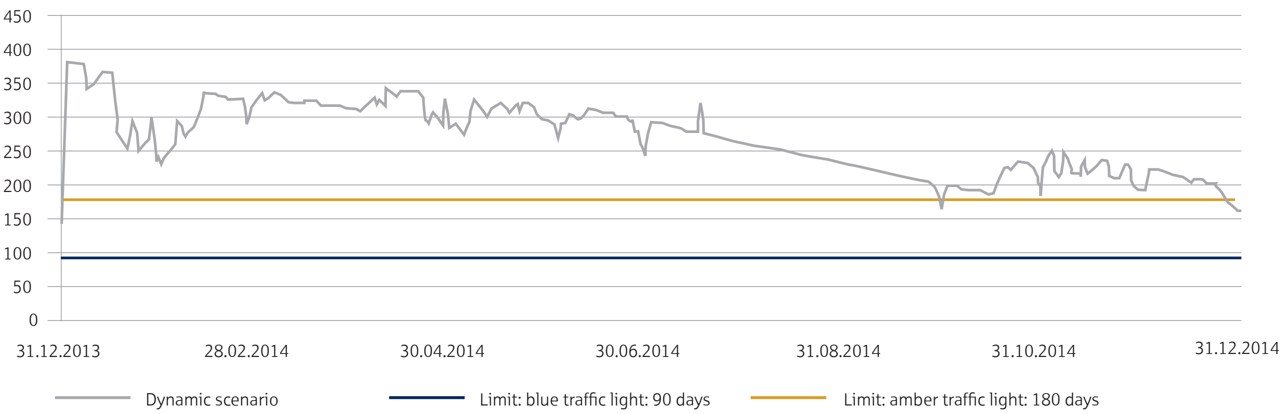
As at the reporting date, the aggregated liquidity progress review used for the internal control of the refinancing risk was as follows at the NORD/LB Luxembourg Group level:

Liquidity refinancing risk at NORD/LB Luxembourg Group as at 31.12.2014
Cumulative Schedule of Liquidity Flows in EUR billion



The course of distance-to-illiquidity (Dtl) in the dynamic control-relevant scenario was as follows for the NORD/LB Luxembourg Group over the course of the year:

Distance-to-Illiquidity, Dynamic Scenario in 2014



The Dtl in the dynamic scenario was always above 150 days in the year under report. Amber phases were consciously managed in consideration of profitability aspects.

The regulatory requirements were complied with at all times in 2014.

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.

A moderate increase in liquidity risks is anticipated for 2015 as a result of the active liquidity management and planned lending business.

The methods of risk assessment and the reporting processes are being improved. In particular, the development and expansion of methods for validation and control of regulatory provisions will be a focus in 2015. Along with the increased reporting frequency for the LCR, further progress will be made with regard to the operationalisation of the regulatory provisions.

Operational Risk

Operational risks are possible events that are unintentional in the view of the Bank and which occur as a result of the inadequacy or failure of internal processes, employees or technology or external influences and lead to losses or significantly negative consequences for the Bank (e.g. an infringement of the law). Strategic risks and business risks are not included.

In accordance with this definition, legal risks and risks arising from changes in legislation, compliance risks, outsourcing risks, dilution risks, fraud risks and vulnerabilities within the scope of emergency and crisis management are included in the operational risk

- Legal risk denotes the risk that loss or damage may occur due to the lack of or incomplete consideration of the legal framework prescribed by statutory regulations and the administration of justice. Legal risk only exists in the Bank's external relations. Risks arising from changes in legislation constitutes the risk of a loss due to new legislation or regulations, a disadvantageous change in existing legislation or regulations or their interpretation or application by the courts.

- Compliance risk denotes risks of judicial, official or disciplinary measures which result from improper procedures, processes, etc. (resulting from non-compliance with laws, regulations, codes of conduct and standards) in the internal relations within the Bank.

- Outsourcing risk denotes risks resulting from the outsourcing of activities and processes.

- Dilution risk denotes the risk, with respect to the holding and realisability of a purchased receivable, that the debtor is not obliged to pay the whole amount of the purchased receivable.

- Fraud risk denotes the risks arising from other criminal actions in respect of the Bank, which lead to an avoidable loss of assets or damage to the Bank's reputation.

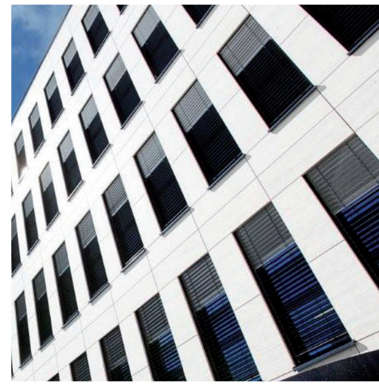
- Misconduct risk denotes the risks to a Bank which could arise through the sale of unsuitable products, conflicts of interest when fulfilling business relationships, manipulation of reference interest rates or foreign exchange rates, impeding switches of financial products and unfair handling of customer complaints.

Strategy

NORD/LB Luxembourg pursues the objective of efficient and sustainable management of operational risks, i.e. avoidance or transfer, wherever it is economically feasible. Countermeasures are taken as required if the costs of protection do not exceed the direct costs of the risk that may be incurred or if the Bank's reputation could be significantly affected. Compliance with the pertinent legal requirements must be guaranteed at all times.

Operational risks are taken into consideration in all corporate decisions. Future losses are countered through regulations and the internal control system, but also through a solid risk culture. The awareness and sensitivity of all employees to risks and an open approach to them play a key role in the avoidance of operational risks. Emergency plans serve to limit damage in the event of unexpected extreme events. Very extreme, unforeseeable events are countered by a crisis management organisation. Insurance policies are taken out to actively cover against residual risks.

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, a variety 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 responsible specialist divisions. The suitability and effectiveness of the internal management system are reviewed at regular intervals.



Structure and Organisation

All levels of the hierarchy and departments are involved in the management of operational risks. The Board stipulates the basic method for 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.

NORD/LB Luxembourg has a security strategy and consistent, uniform standards in order to protect the Bank from losses efficiently and on a sustained basis. At the same time, the strategy meets statutory and regulatory requirements. The emergency management measures ensure appropriate emergency operations and the quickest possible return to normal operations by means of an interrelated business continuation and recovery plan, which focuses on time-sensitive activities and processes. The superordinate emergency and crisis organisation ensures the capability to communicate and make decisions in the event of escalating emergencies and crises. The strategic and conceptual security, emergency and crisis management (business continuity management [BCM]) tasks are pooled in the ORG/IT unit in the role of the Bank's BCM/Emergency Officer.

Risk Controlling, to which the Bank's OpRisk officer also belongs, is responsible for the central monitoring of operational risks and for independent reporting. The Finance and Risk Controlling division at NORD/LB holds the decision-making authority with respect to improving instruments provided across the Group for controlling operational risks. NORD/LB Luxembourg's Risk Controlling is involved in improving the methods via regular method boards at the NORD/LB Group level as well as through ongoing informal exchange of information with the experts at NORD/LB. It is also responsible for properly implementing centralised methods and for coordinating the implementation of decentralised methods in the NORD/LB Luxembourg Group.

The Compliance organisational unit is organised independently of the business departments. It ensures that the Bank has adequate principles and procedures integrated into its processes to meet the requirements of securities trading legislation and so that money laundering, financing of terrorism or other criminal actions can be prevented. The Internal Audit division is in charge of independently auditing the correct implementation and execution of methods and procedures.

Control and Monitoring

The Bank has established appropriate framework conditions in the form of technical and organisational measures, contractual regulations and the written organisational rules, in order to prevent the occurrence of operational risks in its procedures to the greatest possible extent. Using control and monitoring measures, the Bank makes sure that relevant regulations and standards are met and the compliance of the Bank is ensured.

Process-related and structural organisational risks are countered with well-organised structures and procedures. As soon as weaknesses are identified in the organisation, appropriate countermeasures are initiated. The structures of the internal control system (ICS) are intended to support this and permanently guarantee a regulated interaction of all departments involved in the control and management process for operational risks.

The ICS framework introduced for this purpose – which is standard for all major companies of the NORD/LB Group in terms of risks – focuses on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for internal controls and includes a specific organisational and operational structure. By applying standardised methods and procedures, an adequate and effective ICS is to be ensured across the bank and sustained optimisation is pursued.

The ICS organisational and procedural structure comprises a control loop, which is a recurrent cycle. The superordinate aim is the bank-wide assessment of the ICS on the basis of the consideration of the adequacy and effectiveness of the implemented controls. The control loop is supported by a structure that has been optimised for this purpose. This comprises roles with specific ICS concerns, whose tasks, competencies and responsibilities are defined and separated from each other. Regular reports to the Board of Directors form a component of this control loop.

On the basis of a standard process map within the NORD/LB Group, processes are assessed with regard to their risk content with the aid of a scoring model and subjected to a detailed analysis with respect to the adequacy and effectiveness of the ICS.

An IT-supported ICS tool is used to support the recording, documentation and management of the ICS at the process level.

Safety concepts and contingency concepts have been established 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. To this end, extensive preventative measures are taken, e.g. to prepare for pandemics.

The personnel risk is countered by a permanent, adequate provision of personnel in terms of both quality and quantity. The Bank pays special attention to the qualifications of its employees in the process; the standard of qualifications is reviewed using a system of requirement profiles and employee appraisals. Targeted personal development measures can then be initiated.

In order to protect against criminal actions, money laundering, financing of terrorism and other compliance risks, the NORD/LB Group has established extensive protective and preventative measures. These are continually verified within the scope of control and monitoring activities and constantly improved on the basis of bank-specific risk analyses. If major deficits should emerge in the process, corrective measures are initiated and their implementation monitored.

If there are any indications of significant acts of fraud, the further procedure is resolved in an ad hoc committee meeting at the management level of the NORD/LB Luxembourg Group. Employees are made aware of the topic via in-person and online-based training as well as by means of a regular newsletter and ad hoc information on current risks. There is an internal information system for employees and customers that allows them to confidentially submit information (whistle-blowing).

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. The concepts are tested and updated regularly. In order to prevent the risk of the failure of the internal computer centre at the Bank's headquarters, there is a second, physically separate computer centre.

The legal department has to be consulted with regard to hedging legal risks, for example if legal steps are to be initiated and when contracts are concluded which are not based on approved templates. In order to ensure that the requirements of new banking supervisory legislation are implemented correctly, the Compliance organisational unit produces a cross-departmental report and informs the specialist departments concerned about the necessary actions to be derived from the new regulations.

The quality of external suppliers and service providers is ensured by the conclusion of service level agreements or detailed specifications as well as through the subsequent control of the relevant key figures. In order to implement the MaRisk requirements on outsourcing, a process for appraising service providers with regard to their essentiality in respect of risk aspects was established. For every major outsourcing relationship, a competent office was designated, which is responsible for the service and risk management of the business relationship.

The Bank is sufficiently insured. The legal department is to be consulted with regard to hedging legal risks, for example if 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.

Measurement

The NORD/LB Group stores all losses arising from operational risks in a loss event database with a de minimus limit of EUR 1,000. NORD/LB Luxembourg participates in this

collection of loss events. The data for the loss event database provides the starting point for analyses to support risk management and forms an essential building block for the statistical and mathematical risk model developed by NORD/LB.

The collected loss events are exchanged with other banks in the OpRisk data consortium (DakOR) in anonymised form. The consortium data expand the data base which is used for the internal model. In addition, information in the Öffentliche Schadenfälle OpRisk (ÖffSchOR) [public loss event] database is available, in which press reports regarding major losses from operational risks are compiled, structured and processed. Both data sources are used in scenario analyses and for regular benchmarking.

The collection of historical loss events is supplemented by future components with the aid of the risk assessment methods implemented at the Bank and across the Group. Expert appraisals of the effects of specific scenarios provide detailed insight into the risk situation of the individual divisions, so that relevant measures can be derived 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. Through a continuous and comparative analysis of loss events, risk indicators and scenarios, the causes of risks are likewise to be identified and risk concentrations avoided. The risk indicator method was also introduced at NORD/LB Luxembourg. The structure of the indicator system focuses on that of the NORD/LB Group, taking into consideration the bank-specific characteristics.

The NORD/LB Group has an internal model to measure the operational risk. A loss distribution approach, which utilises the elements of the extreme value theory, is also used. 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 have an impact on the model. The value-at-risk calculated using the model is utilised as an internal control parameter for operational risks in the risk-bearing capacity model.

An allocation method, which combines the size indicators with risk-sensitive elements, is used to distribute the results of the model to the individual institutes. The parameterisation of the model is regularly subjected to a comprehensive validation and stress test.

The methods and procedures introduced at NORD/LB Luxembourg fulfil the regulatory requirements regarding 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.

NORD/LB Group's internal model that is used in the overall management of the entire bank and for determining the risk-bearing capacity meets the requirements of CRR on the use of the advanced measurement approach to the greatest possible extent.

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, presented at the OpRisk roundtable and communicated to the Board on a quarterly basis as well as to the competent divisions on occasion. All results are included in the quarterly RBC report.

The Board of Directors and Supervisory Board are informed at least once a year with regard to the essential results relating to the appropriateness and effectiveness of the internal control system as well as the analyses of the Compliance department.

Developments in 2014

In 2014, the NORD/LB Group continued on its path to integrated OpRisk management. The existing reporting channels from the ICS, Compliance, Security and OpRisk divisions were used to prepare a standard risk report (Governance, OpRisk & Compliance Report, or "GOC Report" for short) for the NORD/LB Group. This was published for the first time in the first quarter of the last calendar year and has also been compiled on a quarterly basis since the second half of the year.

In view of this, the OpRisk Roundtable was transferred into the LRC at the NORD/LB Luxembourg Group. This committee now also covers risk controlling and credit risk management as well as compliance, ICS and OpRisk.

As per 31 December 2014, the risk potential for the operational risk according to the internal model (confidence level 95 %, holding period one year) was EUR 2.2 million in the NORD/LB Luxembourg Group.

Outlook

The path to integrated OpRisk management that has already begun will be continued in the NORD/LB Luxembourg Group in 2015 with the close involvement of the risk control function. A new self-assessment system is currently being piloted for this purpose. The objective is a consistent risk assessment for the OpRisk, ICS and Compliance areas. NORD/LB has already started to introduce this. It is scheduled to be implemented in the banks in the NORD/LB Group during the first quarter of 2015.

Other Risks

Apart from the credit, participation, market price, liquidity and operational risks already presented, there are no other risks identified as significant. The relevant risks of the Bank that are not identified as being major risks include the business and strategic risk (including allied risks), reputational risk, syndication risk, real estate risk, pensions risk and model risk.

The business and strategic risk denotes the risk of an unexpected negative trend in business, resulting in particular from changes in customer behaviour or the competition position, from corporate strategy decisions regarding the alignment of the Bank, including the introduction of new products and entry into new markets, or changes in the general economic environment in which the Bank conducts its business. Risks that have already been covered by the other risk types are not taken into consideration here.

The allied risk (as part of the business and strategic risk) denotes the risk that services have to be rendered due to membership in the security systems of the financial industry, which may have a negative impact on the business performance of the Bank.

The reputational risk denotes the risk that the Bank may incur heavy or sustained losses due to a loss of confidence among customers, business partners, employees, providers or the public.

The syndication risk denotes the risk that syndicate or consortium partners may not be available for the planned consortium transaction and the risks would therefore remain with the Bank.

The real estate risk denotes the risk of negative changes in value of the company's own real estate. Possible causes for negative depreciation could emerge from the property itself (e.g. wear and tear), a decrease in the attractiveness of the location or external causes (e.g. fire, explosion or flooding).

The model risk denotes the risk that the market realities are not adequately depicted as a result of applying simplified or incorrect methods or parameters and the earnings or risk position of the Bank are misrepresented as a result.

The pensions risk denotes the risk of a potential need to increase pension provisions as a result of increased pension expenses and in particular valuation-related effects.

The other risks are discussed at the regular LRC meetings. Within this framework, the current status is discussed with the respective experts for the individual risk types and reported on. Measures to limit them are taken as required.

Within the Bank, the respective specialist departments are directly responsible for keeping risks as low as possible or for preventing them from occurring in the first place. The Bank's Compliance Charter describes which tasks and responsibilities were defined.

In principle, a qualitative risk assessment takes place for the other risks within the framework of risk assessments and the expert roundtable on the "Management of Other Risks". The findings of the analyses are used by the risk of-

ficers and incorporated into their activities.

When determining the risk-bearing capacity, a quantitative assessment of the other risks is undertaken in that these are taken into account indirectly via the major risks. Moreover, a portion of the entire cover pool is deliberately kept as a buffer and is used to cover the risk contributions from non-major risks.

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 at an early stage.

The utilisation calculated in the risk-bearing capacity model shows that the risks were covered at all times in the period under report. According to the estimation of the Bank, there are currently no risks that threaten its existence.

In 2014, NORD/LB Luxembourg constantly fulfilled the applicable regulatory provisions on equity and liquidity.

The methods and processes that are currently used to control significant risks are subject to ongoing verification and are refined as necessary. The improvements for particular types of risk which were specifically targeted in 2015 have been covered in the relevant sections.

Personnel Report

Number of employees

The number of personnel at NORD/LB Luxembourg has changed as follows:

Reporting date	31.12.2014	31.12.2013	Increase/decrease absolute	Increase/decrease (%)
NORD/LB Luxembourg	174	196	–22	–11

All members of staff deserve the special recognition of the Board of Directors and Supervisory Board for the company results for the 2014 reporting year, which can be described as 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 the staff for their commitment, motivation and, last but not least, their faithful cooperation.

The Bank takes the further development, training and qualifications of its staff very seriously. Flat hierarchies enable faster response times, which in a dynamic environment are absolutely essential for lasting success. By offering performance-related pay plus appropriate 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.

As a result of spinning off the Private Banking business segment into NORD/LB Vermögensmanagement Luxembourg S.A. with effect from 31 December 2014, 23 employees transferred from the Bank into the new company.

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 abovementioned 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.

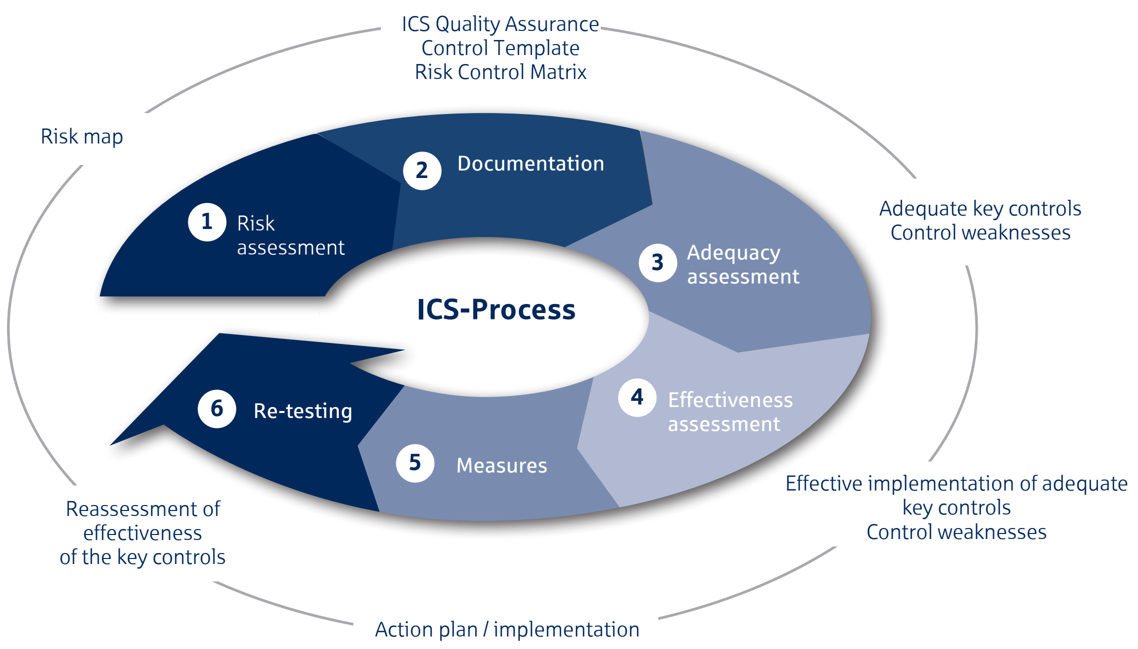
At the same time it must be taken into account that despite all of the Bank's measures, the implemented methods and processes of the ICS can never provide absolute reliability, but can offer adequate reliability. No substantial changes have been made to the ICS for financial reporting since the reporting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

Summary of the Internal Control System (ICS)

The ICS in the NORD/LB Luxembourg 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.

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 the ICS officers.

ICS Process



Optimised audits are then tested with respect to their adequacy and effectiveness.

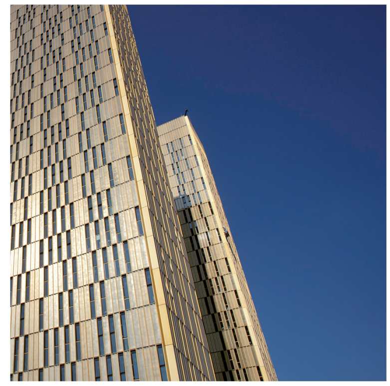
The Bank's ICS is based on the requirements of the banking supervisory body (CSSF), mainly in the updated circular 12/552, and provides for the following four audit levels:

- daily audits by the personnel performing transactions,
- constant critical audits by the persons entrusted with the administrative processing of transactions,
- audits that the members of the authorised management perform with regard to the business activities and functions under their direct responsibility,
- audits 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 measures.

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.



Risk Control Function

The risk control function is responsible for anticipating, identifying, measuring, following up, monitoring and reporting all risks that the Bank is or could be exposed to. The results of these activities are compiled in an annual report by the risk control function that is submitted to the Board of Directors and Supervisory Board of the Bank.

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 on an ongoing basis about each audit they have conducted and their findings. The implementation of the necessary measures to rectify any identified deficiencies are followed up by the internal auditors.

Sustainability Report

Sustainability is managed at NORD/LB Luxembourg Group level and is also binding for the Bank. All of the following facts therefore always relate to the NORD/LB Luxembourg Group and not the individual bank.

Our Conviction
The Group has decided to establish a sustainability management system at NORD/LB Luxembourg. The sustainability officer started with a small team in 2013. The team's work focuses on the requirements that come from the Group's parent company.

The success of the Group can only be sustained in a stable natural environment and only in a society with balanced economic and social conditions. This understanding shapes the strategic focus of NORD/LB Luxembourg and the organisation of our business model. At the same time, it is an important contribution to aligning our daily actions with the requirements of our interest groups. Conduct and actions aligned with high standards therefore contribute to our future viability – both in the interests of corporate success as much as out of our responsibility to our customers, staff, the environment and society.

Sustainability as a Strategic Factor
The sustainability strategy forms the basis for our actions. The main focuses of the individual fields of action and specific objectives that we want to achieve by 2020 are documented in the strategy. In a sustainability programme that is continuously updated, we describe the measures are using to strive towards achieving these focuses and objectives. We will be informing our interest groups regularly on our website about the results of our sustainability activities.

Governance
For us, acting with integrity is synonymous with responsible corporate management. This also continuously strengthens the trust that interest groups have in the NORD/LB Luxembourg Group. Our work guidelines contain voluntary commitments which broaden corporate actions to include environmental, social and ethical aspects.

Customers
We want to actively support our customers as they look to the future. We support them in utilising opportunities and reducing possible risks arising from sustainable development and global change. This increases customer satisfaction and ensures customer loyalty to the NORD/LB Luxembourg Group in the sense of lasting partnerships.

Staff
We create the conditions in which our staff can develop their potential – for their own benefit and to the advantage of customers and the Bank. These include offers that foster professional and personal development and a work-life balance as well as providing a healthy, anti-discriminatory work environment where people enjoy working.

Environment
Active corporate environmental protection is an important part of our actions and the corporate responsibility we practice. We reduce our corporate environmental impact through various measures, reduce our energy and resource costs, and thus put less of a burden on both our corporate balance sheet and on the environment. To achieve this, we use state-of-the-art technologies, such as a photovoltaic system which we commissioned at the end of 2013.

Society
We are committed to improving the living conditions of people within our sphere of influence and thus also to ensuring the future viability and sustainability of the social environment and community. This includes the training and education of bank employees just as much as supporting community organisations and initiatives. The Bank supports social organisations and counselling centres as well as cultural societies and associations with money and material donations. We will be reporting on our current projects, objectives and future focuses on our website in the future.

Supplementary Report

There are no major financial consequences for the Bank resulting from the strong increase in the value of the Swiss franc (CHF) against the euro (EUR) in January 2015.

Apart from the changes with regard to the merger in financial year 2015, there were no significant events between the balance sheet date on 31 December 2014 and the preparation of these financial statements on 27 February 2015 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”, and “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 of NORD/LB Luxembourg’s sphere of influence. These primarily include 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 does not intend to update the future-related statements or to correct them if developments are other than expected.

Luxembourg, 27 February 2015
Norddeutsche Landesbank Luxembourg S.A.

Christian Veit
CEO
Spokesman for the Board of Directors
Norddeutsche Landesbank
Luxembourg S.A.

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

Annual Report 2014

NORD/LB Luxembourg

For computational reasons, the following tables may contain rounding differences.
The Notes that follow are an integral component of the annual financial statement.

Income Statement

Norddeutsche Landesbank Luxembourg S.A. for the year under report from 1 January to 31 December 2014:

	Notes	2014 (KEUR)	2013 (KEUR)
Net interest income and current income	**(16)**	**86,255**	**89,915**
Net interest income and current income		479,884	499,174
Interest expense		−393,629	−409,259
Loan loss provisions	**(17)**	**7,340**	**−33,663**
Net commission income	**(18)**	**−12,944**	**−18,269**
Commission income		21,602	11,009
Commission expense		−34,546	−29,278
Profit/loss from financial instruments at fair value through profit or loss	**(19)**	**−19,977**	**12,272**
Trading profit/loss		−85,172	12,272
Profit/loss from fair value option		65,195	0
Profit/loss from hedge accounting	**(20)**	**788**	**3,202**
Profit/loss from financial assets	**(21)**	**11,679**	**14,490**
Administrative expenses	**(22)**	**−37,568**	**−36,125**
Staff expenses		−19,621	−18,224
Other administrative expenses		−14,438	−14,558
Depreciation of property, plant and equipment		−2,056	−2,005
Depreciation on intangible assets		−1,452	−1,338
Other operating profit/loss	**(23)**	**−2,064**	**−1,139**
Profit/loss from continuing operations before income taxes		**33,509**	**30,684**
Income taxes	**(24)**	**−6,115**	**−4,923**
Profit/loss from continuing operations after income taxes		**27,393**	**25,761**
Profit/loss from discontinued operations after income taxes	**(25)**	**1,111**	**1,194**
Net income for the year		**28,504**	**26,955**
of which due to the shareholders		28,504	26,955
of which not attributable to controlling shares		0	0

The following Notes are an integral component of the annual financial statements.

Overall Profit and Loss Account

The total income of NORD/LB Luxembourg for 2014 comprises the revenues and expenses recognised in the profit and loss account and directly in the equity.

Norddeutsche Landesbank Luxembourg S.A. for the year under report from 1 January to 31 December 2014:

	2014 (KEUR)	2013 (KEUR)
Net income for the year	**28,504**	**26,955**
Other profit/loss	**28,006**	**28,001**
Other profit/loss, which will not be reclassified to the P&L account in subsequent years	**–1,124**	**–420**
Revaluation of net liability from performance-related (defined benefit) pension plans	–1,591	–590
Deferred taxes	467	170
Other profit/loss, which will not be reclassified to the P&L account in subsequent periods	**29,130**	**28,421**
Changes from AfS financial instruments	41,155	40,154
Unrealised gains/losses	48,358	42,264
Reclassifications due to realisation of profit/loss	–7,203	–2,110
Deferred taxes	–12,026	–11,733
Total profit/loss for the year	**56,510**	**54,956**
of which due to the shareholders	56,510	54,956
of which not attributable to controlling shares	0	0

The following Notes are an integral component of the annual financial statements.

In terms of the appropriation of profit, the intention is to allocate the net income for the year to profit carried forward.

Balance Sheet

Norddeutsche Landesbank Luxembourg S.A. for the reporting date 31 December 2014:

Assets	Notes	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Cash reserve	(26)	2.3	55.7
Loans and advances to banks	(27)	2,684.1	3,911.1
Loans and advances to customers	(28)	5,003.7	4,175.3
Risk provisions	(29)	–36.7	–42.1
Financial assets at fair value through profit or loss	(30)	1,499.4	393.8
Derivatives – fair values from hedge accounting	(31)	17.4	40.2
Financial assets	(32)	4,530.9	6,425.7
Property, plant and equipment	(33)	68.9	70.5
Intangible assets	(34)	11.2	11.4
Assets available for sale	(35)	12.2	0.0
Current income tax assets	(36)	0.0	0.3
Deferred income tax claims	(36)	1.0	0.6
Other assets	(37)	9.6	13.8
Total assets		**13,804.1**	**15,056.3**

Liabilities	Notes	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Liabilities to banks	(38)	9,252.8	10,662.0
Liabilities to customers	(39)	2,153.4	2,112.7
Securitised liabilities	(40)	966.5	927.3
Financial liabilities at fair value through profit or loss	(41)	369.1	284.2
Derivatives – fair values from hedge accounting	(42)	177.5	205.7
Provisions	(43)	18.6	31.9
Current income tax liabilities	(44)	0.5	4.0
Deferred income tax liabilities	(44)	18.9	6.9
Other liabilities	(45)	20.9	31.6
Subordinated capital	(46)	103.0	90.7
Equity			
Issued capital		205.0	205.0
Capital reserves		0.0	0.0
Revenue reserves		484.9	490.6
Revaluation reserve		33.0	3.9
Total equity	**(47)**	**722.9**	**699.4**
Equity attributable to shareholders		722.9	699.4
Equity allocated to shares without a controlling influence		0.0	0.0
Total equity and liabilities		**13,804.1**	**15,056.3**

The following Notes are an integral component of the annual financial statements.

Cash Flow Statement

Norddeutsche Landesbank Luxembourg S.A. for the year under report from 1 January to 31 December 2014, including discontinued operations:

	2014 (EUR million)	2013 (EUR million)
Profit for the year before taxes (including discontinued operations)	**35.1**	**32.4**
Adjustment for non-cash items		
Depreciation, value adjustments and write-ups of property, plant and equipment, write-value adjustments and write-ups of financial assets	–3.1	22.7
Increase/decrease in provisions	–7.2	2.3
Gains/losses from the disposal of property, plant and equipment and financial assets	–11.7	–14.5
Increase/decrease in other non-cash items	12.3	–4.1
Profit/loss from interest	–86.9	–90.5
Other adjustments	–1.8	–3.0
Sub-total	**–63.3**	**–54.8**
Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks and customers	393.1	289.6
Other assets and liabilities from operational business activities	–993.8	–58.0
Liabilities to banks and customers	–1,374.2	230.3
Securitised liabilities	39.5	–321.1
Interest received	429.9	360.4
Dividends received	0.2	0.2
Interest paid	–342.9	–293.6
Income taxes paid	–6.5	–1.9
Cash flow from operating activities	**–1,918.2**	**150.9**
Cash receipts from the disposal of		
Financial assets	2,711.1	1,435.8
Property, plant and equipment and intangible assets	0.0	0.0
Cash payments for the acquisition of		
Financial assets	–808.5	–1,574.0
Property, plant and equipment and intangible assets	–3.5	–1.5
Increase/decrease in funds from other investment activity	0.0	0.0
Cash flow from investment activity	**1,899.1**	**–139.8**

The following Notes are an integral component of the annual financial statements.

	2014 (EUR million)	2013 (EUR million)
Cash receipts from equity contributions	0.0	0.0
Increase/decrease in funds from other capital	−3.9	0.0
Interest expense on subordinated capital	−0.5	−0.6
Dividends paid	−30.0	−30.0
Cash flow from financing activities	**−34.4**	**−30.6**
Cash and cash equivalents at end of the previous year	**55.7**	**75.1**
Cash flow from operating activities	−1,918.2	150.9
Cash flow from investment activity	1,899.1	−139.8
Cash flow from financing activities	−34.4	−30.6
Cash flow total	**−53.4**	**−19.4**
Effects of exchange rate differences	0.0	0.0
Cash and cash equivalents at end of reporting year	**2.3**	**55.7**

The following Notes are an integral component of the annual financial statements.

Statement of Changes in Equity

Norddeutsche Landesbank Luxembourg S.A. for the year under report from 1 January to 31 December 2014:

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 01.01.2013	**205.0**	**0.0**	**494.0**	**–24.6**	**0.0**	**674.5**	**0.0**	**674.5**
Net income for the year	0.0	0.0	27.0	0.0	0.0	**27.0**	0.0	27.0
Increase/decrease from AfS financial instruments	0.0	0.0	0.0	40.2	0.0	**40.2**	0.0	40.2
Revaluation of net liability from performance-related (defined benefit) pension plans	0.0	0.0	–0.6	0.0	0.0	**–0.6**	0.0	–0.6
Deferred taxes	0.0	0.0	0.2	–11.7	0.0	**–11.6**	0.0	–11.6
Total profit/loss for the period	**0.0**	**0.0**	**26.5**	**28.4**	**0.0**	**55.0**	**0.0**	**55.0**
Distribution	0.0	0.0	–30.0	0.0	0.0	**–30.0**	0.0	–30.0
Increase/decrease from capital receipts and payments	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0
Equity on 31.12.2013	**205.0**	**0.0**	**490.6**	**3.9**	**0.0**	**699.4**	**0.0**	**699.4**
Net income for the year	0.0	0.0	28.5	0.0	0.0	**28.5**	0.0	28.5
Increase/decrease from AfS financial instruments	0.0	0.0	0.0	41.2	0.0	**41.2**	0.0	41.2
Revaluation of net liability from performance-related (defined benefit) pension plans	0.0	0.0	–1.6	0.0	0.0	**–1.6**	0.0	–1.6
Deferred taxes	0.0	0.0	0.5	–12.0	0.0	**–11.6**	0.0	–11.6
Total profit/loss for the period	**0.0**	**0.0**	**27.4**	**29.1**	**0.0**	**56.5**	**0.0**	**56.5**
Distribution	0.0	0.0	–30.0	0.0	0.0	**–30.0**	0.0	–30.0
Increase/decrease from capital receipts and payments	0.0	0.0	–3.0	0.0	0.0	**–3.0**	0.0	–3.0
Equity on 31.12.2014	**205.0**	**0.0**	**484.9**	**33.0**	**0.0**	**722.9**	**0.0**	**722.9**

The following Notes are an integral component of the annual financial statements.

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Accounting Policies

(1) Principles for the preparation of the financial statements

The financial statements of Norddeutsche Landesbank Luxembourg S.A. (NORD/LB Luxembourg) as at 31 December 2014 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 as at 31 December 2013 were adopted at the general meeting held on 31 March 2014 and formed the basis for the determination and appropriation of profit for the 2013 financial year.

The financial statements as at 31 December 2014 take into account the national provisions of the law of 17 June 1992 on the annual accounts of credit institutions established under Luxembourg law, in the latest amended version. The financial statements comprise the income statement, the overall profit and loss account, the balance sheet, the cash flow statement, the statement of changes in equity and the appendix (Notes). The segment reporting is 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 to one decimal place. The statement of percentage variances relates to unrounded figures.

(2) Discretionary Decisions, Estimates and Assumptions

The estimates and assessments necessary within the scope of the balance sheet preparation by management are made in accordance with the respective IFRS standard. They are regularly reviewed and are based on experience and other factors, including expectations regarding future events which appear to be reasonable under the given circumstances. If broad estimates were required, the relevant significant assumptions are stated. The estimates and judgements themselves, and the factors underlying the judgements and estimating processes, are reviewed 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 factors. 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) and (55).

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 wage, 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.

Further information can be found in Note (10) Provisions for Pensions and Similar Liabilities and Note (43) Provisions.

(3) Adopted and New IFRS

All IFRS, interpretations and their amendments have been applied in these financial statements where they have been recognised by the EU within the scope of its endorsement process and are pertinent to NORD/LB Luxembourg in the 2014 reporting year.

In the period under report, the following changes to standards to be applied for the first time as of 01 January 2014 were taken into account:

- **IAS 28 (amended 2011) – Investments in Associates and Joint Ventures**
  The IASB published the revised IAS 28 - Investments in Associates and Joint Ventures in May 2011. This standard contains rules regarding the application of equity methods when reporting investments in associates and joint ventures. This is essentially a subsequent amendment to extend the scope of application in connection with IFRS 11.

  The new version of IAS 28 does not lead to any changes for NORD/LB Luxembourg.

- **Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities**
  With the publication of the amendments to IAS 32 – Presentation of Financial Instruments – in December 2011, the IASB clearly defined its requirements for offsetting financial instruments. The changes essentially substantiate the implementation guidelines and are intended to remedy the existing inconsistencies in the implementation of the offsetting criteria. In particular, the meaning of "currently has a legally enforceable right of set-off" and the conditions for systems with gross settlement as the equivalent of net settlement are explained.

  In connection with the application of the changes to IAS 32, the gross amounts of offset financial assets and liabilities reported in the balance sheet and the non-offset financial assets and liabilities, which are the subject of offsetting arrangements, started to be disclosed in the financial statements as Note (61) Offsetting of financial assets and liabilities.

- **Amendments to IAS 36 – Impairment of Assets – Disclosure of Recoverable Amount of Non-financial Assets**
  These amendments modified the requirements regarding disclosure of the recoverable amount from cash-generating units introduced with IFRS 13. Moreover, new disclosure obligations were introduced in the case there is an impairment or a reversal of impairment and the recoverable amount was determined on the basis of the fair value less the costs of sale.

  There are no effects on the Bank's financial statements as at 31 December 2014 resulting from the Amendments to IAS 36.

- **Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting**
  In its Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting published in June 2013, the IASB clarifies that the novation of a derivative with a central counterparty is to be reported on the balance sheet as a disposal of the original derivative and acquisition of the novated derivative. In the process, a novation is deemed to be an agreement between the contracting parties to a derivative that one or more central counterparties shall replace the original counterparties in order to become the new counterparty for each original contracting party. The term central counterparty likewise covers companies, for example members of a clearing house or clearing companies or customers of either of the latter, which act as a contracting party in order to achieve settlement of a payment (clearing) through a central counterparty. When a derivative is novated, the hedge may be continued under certain conditions despite a change in counterparty.

  This new regulation does not give rise to any effects on reporting in NORD/LB Luxembourg's financial statements.

  We were permitted not to proceed with the early adoption of the following standards, which do not have to be implemented until after 31 December 2014 for NORD/LB Luxembourg:

- **IFRIC 21 – Levies**
  In May 2013 the IASB published IFRIC 21 as an interpretation of IAS 37 on the subject of levies, which essentially regulates which government-imposed levies are subject to assessment and when there is a liability that must be reported on the balance sheet.

  It is only mandatory for NORD/LB Luxembourg to apply IFRIC 21 for the first time with retrospective effect from 1 January 2015 due to its adoption into EU law.

- **Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions**
  The Amendments to IAS 19 – Employee benefits, published in November 2013, introduced a option for performance-related pension plans in relation to taking into account employee contributions linked to employee performance which are not dependent on the number of years in service. The application of these amendments is obligatory for the first time for financial years beginning on or after 1 July 2014 (subject to endorsement by the EU, expected in the fourth quarter of 2014).

  No effects on NORD/LB Luxembourg will arise from this.

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

- Improvements of the IFRS (2010–2012 cycle) within the scope of the annual improvement process of the IASB

- Improvements of the IFRS (2011–2013 cycle) within the scope of the annual improvement process of the IASB

The application of the amendments affecting NORD/LB Luxembourg is strictly obligatory for financial years starting on or before 1 July 2014. No significant impact on the financial statements of NORD/LB Luxembourg is expected from the annual improvements of the IFRS.

Adoption into European law by the EU Commission is still pending for the following standards, amendments to standards and interpretations.

- **IFRS 9 – Financial Instruments**
  In July 2014, the IASB concluded its project to replace IAS 39 by publishing the final version of IFRS 9 – Financial Instruments. IFRS 9 regulates the following areas in particular:

  Categorisation and valuation of financial assets and financial obligations.
  In contrast to the first published version, the second proposal to amend the categorisation and measurement rules in IFRS 9, published in November 2012, specifically contained the proposal to introduce an additional, third measurement model especially for financial assets in the form of debt instruments. This provides for a measurement of instruments at fair value with a recognition of the changes in valuation having no effect on profit or loss in Other Comprehensive Income (OCI). The content of this amendment to the categorisation and valuation regulations was adopted in the final standard. In the future, categorisation will be aligned to the business model of the reporting entity and the contractually agreed-on 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 essential difference to the current rule relates to the application of the fair value option. In principle, the credit rating induced changes in the valuation of financial liabilities will be shown in Other Comprehensive Income (OCI) in the future, the remaining portion of the change in value will continue to be reported in the profit and loss account.

  Expected Credit Losses
  Along with financial instruments, loan and credit commitments and financial guarantees are also included in the scope of the second phase, among others. The new impairment model provides for a departure from the concept of incurred losses towards the concept of expected loss. According to the new impairment model, financial instruments, loan and credit commitments and financial guarantees will be sub-divided into three stages depending on the change in their credit quality as compared to the time of acquisition. The calculation of the anticipated loan defaults is based on the classification of a financial instrument, a loan/credit commitment or a financial guarantee into the corresponding stages. In Stage 1, the anticipated loan defaults in the sum of the expected loss with an observation period of one year are calculated. In Stages 2 and 3, the anticipated loan defaults over the entire remaining term to maturity are calculated (lifetime expected loss).

  General Hedge Accounting
  With regard to phase 3 on hedge accounting, the IASB has resolved an additional division of the subject into the subareas of General Hedge Accounting (Phase 3a) and Macro Hedge Accounting (Phase 3b). In the fourth quarter of 2013, a Standard on General Hedge Accounting was published. The publication of a draft proposal on macro hedge accounting is no longer expected before 2018. Until then, the regulations in IAS 39 regarding portfolio fair value hedges for interest rate risks will remain in place and will not be adopted in IFRS 9. The General Hedge Accounting standard pursues the objective of reflecting operational risk management to a greater extent than before by showing hedges in closed portfolios on the balance sheet. In this

connection, the role of qualitative implementation criteria was strengthened as compared to the quantitative implementation criteria, in contrast to the regulations in IAS 39. In addition, the scope of underlying and hedging transactions which come into question for hedge accounting has been greatly extended and additional designation options were created. With regard to the effectiveness of hedge accounting, the focus will no longer be on a rigid percentage-based effectiveness threshold in the future.

Subject to its adoption into European law, it will be obligatory to apply IFRS 9 to financial years starting on or after 1 January 2018.

In relation to IFRS 9, considerable effects on accounting, valuation and reporting are expected. The potential effects on NORD/LB Luxembourg have not been quantified.

- **IFRS 15 – Revenues from Customer Contracts**
  The IASB and the FASB published a joint accounting standard on reporting revenue in May 2014, which combines the large number of preceding rules and at the same time defines consistent basic principles which are applicable to all sectors and all categories of sales transactions. In addition to the introduction of a new five-step model for determining revenue recognition, the standard covers rules on detailed questions, for example on multi-component transactions and handling service agreements and contract adjustments as well as a broadening of the required disclosures in the notes to financial statements.

  IFRS 15 will replace the contents of IAS 18 – Revenues and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13, IFRIC 15 and IFRIC 18 and SIC 31 and take effect for reporting periods starting on or after 1 January 2017 - subject to adoption into European law.

  The potential effects of the new standard on revenue recognition are being analysed and can only be determined afterwards.

- **Amendments to IAS 1 – Presentation of Financial Statements**
  Initial proposals to amend IAS 1 – Presentation of Financial Statements, which can be implemented at short notice, were implemented in the amendments to the standard published on 18 December 2014. The amendments emphasise the concept of materiality in order to promote the disclosure of relevant information in IFRS financial statements. This should be achieved by waiving the disclosure of minor information, through the option of additional sub-totals and a greater degree of flexibility in the structure of the notes to the financial statements. There is also a clarification of the breakdown of Other Comprehensive Income (OCI) in the overall profit and loss account.

  Subject to their adoption into EU law, it will be obligatory to apply the amendments to financial years starting on or after 1 January 2016.

  The amendments to IAS 1 will not have an impact on the financial statements of NORD/LB Luxembourg.

Furthermore, the following amendments to standards have not yet been adopted into European law:

- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets betweennan Investor and its Associate or Joint Venture

- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants

- Improvements of the IFRS (2012 - 2014 cycle) within the scope of the annual improvement process of the IASB

Subject to their adoption into EU law, it will be mandatory to apply the amendments to financial years starting on or after 1 January 2016. No significant effects on the financial statements of NORD/LB Luxembourg are expected to arise from these amendments to the standards.

The initial implementation of the amendments to the standards described above is scheduled for the respective first application date.

(4) Currency translation

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 as at 31 December 2014. Non-monetary items that are valued at cost are translated at the historical rates. Expenses and in-

come in foreign currencies are translated at market rates on value dates. Exchange rate differences on monetary items are generally reflected 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 debt instrument. 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 in the case of regular way purchases or sales 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 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 obligations specified in the contract are discharged, cancelled or expired. 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 repurchase price 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 loans and receivables (LaR), held-to-maturity (HtM), available-for-sale (AfS) and other liabilities (OL) categories, 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 financial assets or financial liabilities at fair value through profit or loss (aFV) category, 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 provided 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 reported 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 provided 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 provided 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)

  Provided 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 provided in Note (30) Financial Assets at Fair Value through Profit or Loss and Note (41) Financial Liabilities at Fair Value through Profit or Loss. Financial instruments for which the fair value option is used are shown in the relevant balance sheet items and designated at fair value through profit or loss in the context of the subsequent valuation. Premiums and discounts are amortised using the effective interest rate.

  The Designated at Fair Value through Profit or Loss category is not currently used in the financial statements of NORD/LB Luxembourg.

- **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, which are not measured in accordance with IAS 27, IAS 28 or IAS 31. Subsequent measurement is carried out at fair value; if the fair value of financial investments in equity instruments, such as certain shares or interests for which no prices listed on active markets are available (as well as derivatives on such, which can only be settled by delivery), cannot be determined in a reliable manner, then they are measured at cost of acquisition. The profit/loss from the fair value measurement is shown in a separate equity item (revaluation reserve) as not affecting profit or loss. 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 drop in fair value below the 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, provided it is impairment as defined by IAS 39. Reversals of impairment losses relating to debt instruments are recognised in the revaluation reserve through profit or loss for the part of the reversal that corresponds to the impairment and beyond that with no effect on profit or loss. Reversals of impairment losses relating to debt instruments are recognised in the revaluation

reserve through profit or loss for the part of the reversal that corresponds to the impairment and beyond that, with no effect on profit or loss. Reversals of impairment losses relating to equity instruments are recognised in equity as not affecting profit or loss – unless they are measured at cost of acquisition. Differences between acquisition costs and redemption amounts are amortised using the effective interest method through profit or loss.

- **Other Liabilities (OL)**
  In particular, this category includes liabilities to banks and customers, securitised liabilities and the subordinate capital where these liabilities have not been designated within the scope of the fair value option. Subsequent measurement is carried out at amortised cost applying the effective interest rate method.

The book values and net results per measurement category are shown in Note (51) Book values according to valuation categories.

c) Reclassification

In accordance with the provisions of IAS 39, reclassification of financial instruments from the HfT category (trading assets) into the LaR, HtM and AfS categories and from the AfS category into the LaR and HtM categories may be permitted under certain conditions. This reclassification entitlement was not used at NORD/LB Luxembourg.

d) Determination of Fair Value

The unit of account underlying the determination of value is strictly defined by IAS 39. At the Bank, the financial instrument constitutes the unit of account unless IFRS 13 provides for exceptions.

The fair value of financial instruments pursuant to IAS 39 in conjunction with IFRS 13 reflects the price at which an asset may be sold or a liability transferred within the scope of a standard transaction between market players on the valuation date, i.e. the fair value is a market-related and not a company-specific value. According to IFRS 13, the fair value is the price which is either directly observable or a price calculated using a valuation method and which would be achieved in a standard transaction, i.e. a sale or transfer on the principal market or the most advantageous market on the valuation date. The valuation on the valuation date is always based on a notional potential market transaction.

If there is a principal market, the price on this market constitutes the fair value, irrespective of whether this price can be directly observed or is determined on the basis of a valuation method. This also applies if the price is potentially more advantageous in another market.

- **Financial instruments which are disclosed at Fair Value on the balance sheet**
  The three-tier fair value hierarchy with the Level 1 (Mark to Market), Level 2 (Mark to Matrix) and Level 3 (Mark to Model) terminology stipulated in IFRS 13 is used at NORD/LB Luxembourg.

  The respective level is determined in accordance with the input data, which is used for the measurement, and reflects the market proximity of the parameters used in the determination of the fair value. If input data from various levels of the hierarchy is used in the measurement of the fair value, the resultant fair value of the respective financial instrument is assigned to the lowest level whose input parameters have a major influence on the measurement of the fair value.

  Within the scope of the fair value hierarchy, a financial instrument is classified as Level 1 if it is traded on an active market and publicly quoted exchange prices or actual traded prices on the over-the-counter market (OTC market) are used to determine the fair value. At the same time, quotations may be used that are set by other banks or market makers if recourse is made to observable price sources other than exchanges. The transfer of Level 1 prices is done without adjustment. Level 1 financial instruments include trading assets and liabilities, financial instruments designated at fair value as well as financial assets reported at fair value and other assets.

  If no prices quoted on active markets can be drawn on, the fair value is determined using recognised measure-

ment methods or models as well as external pricing services unless the valuation is performed there wholly or partially via spread curves (Level 2). In terms of the valuation of financial instruments, these include measurement models established on the market under normal market conditions (e.g. discounted cash flow methods or the Hull & White model for options), where the calculations are essentially 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 input data are incorporated into the valuation models, such as market prices and other market listings, no-risk interest rate curves, risk premiums, exchange rates and volatilities. If estimates should be necessary in individual cases, using option price models if applicable, a standard market method is always used.

Level 2 valuations utilise the market data that is already used as a basis for risk controlling. All payments are discounted at the interest curve adjusted by the credit spread of the counterparty. The spreads are determined on the basis of comparable financial instruments or credit curves (for example taking into account the respective market segment and creditworthiness of the issuer).

In the case of financial instruments for which there is no active market on 31 December 2014 and which can no longer be measured on the basis of market prices, a fair value is 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 identification, analysis and assessment of financial instruments on inactive markets are carried out in various areas of NORD/LB Luxembourg, thus guaranteeing an estimate of the inactivity that is as objective as possible. 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.

The ratings of the respective counterparty are also used, among other things, as parameters in the procedure. If these are taken from publicly available sources, financial instruments thus measured are assigned to Level 2. Level 2 financial instruments include trading assets and liabilities, hedge accounting derivatives, financial instruments designated at fair value and financial assets reported at fair value.

Financial instruments for which no active market exists and for which no market prices or observable market parameters can be utilised fully for their measurement are to be assigned to Level 3. For Level 3 measurement, in contrast to and unlike the Level 2 measurement, institution-specific models are generally used and data is included which cannot be observed on the market. These instruments are either measured with reference to a comparable process of transactions with similar financial instruments observable on the market or using models customary in the business. The input parameters used in these methods include assumptions regarding payment flows, loss estimates and the discounting rate and to this extent, they are obtained in as close alignment to the market as possible.

Accordingly, financial instruments are to be assigned to Level 3 if internal ratings used by NORD/LB from the Internal Ratings Based Approach (in accordance with CRR) are used in the method. This applies irrespective of whether the internal data has been calibrated for supervisory certification with data from publicly available ratings, which form the basis for the price decisions of market participants.

All measurement models used at the Bank are reviewed periodically. The fair values are subject to internal controls and procedures at NORD/LB. These controls and procedures are implemented or coordinated in the Finance department or in Risk Controlling. The models, data used and resulting fair values are reviewed regularly.

When determining values, all relevant factors such as the bid-ask spread, counterparty default risk, or discounting factors typical of the transaction are adequately taken into account. In the context of the bid-ask spread, a valuation is carried out strictly at the average rate or average listing. In particular, financial instruments relevant here are securities or liabilities whose fair values are based on prices quoted on active markets as well as financial instruments such as OTC derivatives, whose fair value is

determined using a measurement method and for which the average listing constitutes an observable input parameter of the measurement method.

At the Luxembourg sub-group, the prices of securities in Level 1 and 2 are calculated using a selection method based on the fuzzy theory. Human decision-making behaviour is reproduced using mathematical logic within the scope of a price finding process in the determination of the valid price. For example, in liquid markets, the implemented logic is used to select the most valid price from a large number of price providers. In illiquid markets, this is done by selecting the most valid price which results from a combination of a few providers specialised in pricing as well as comparable security and spread engineering methods. All of the methods used are integrated into the fuzzy engine that is implemented. On the whole, the selection process is thus integrated into the system and is transparent at all times.

With respect to Level 3 measurement, which is currently not used in the sub-group, the prices are determined on a group-wide basis by means of a discounted cashflow method using default probabilities based on ratings.

In addition, the option to determine the counterparty default risk (credit value adjustment (CVA) / debt value adjustment (DVA)) on the basis of the net risk position pursuant to IFRS 13.48 was also used. The CVA/DVA is allocated to individual transactions on the balance sheet on the basis of the “Relative Credit Adjustment Approach”.

With reference to the counterparty default risk, there are no quoted prices on active markets for some types of derivatives, so that the fair value is determined using other measurement methods. Initially a measurement is carried out regularly without considering the credit default risk, which is only taken into account subsequently. Both the credit default risk of the counterparty (CVA) and the Bank’s own credit default risk (DVA) are taken into account in the fair value measurement. For the measurement of hedged OTC derivatives, the Bank has essentially switched to the current market standard:

For the measurement of hedged OTC derivatives, the Bank has essentially switched to the current market standard: overnight index swap discounting (OIS discounting). Discounting in terms of the fair value measurement of unhedged derivatives continues to be carried out using LIBOR discounting.

- **Financial instruments reported at fair value for disclosure purposes**
  In principle, the same provisions for determining fair value apply to financial instruments for which a fair value is only determined for disclosure purposes as for financial instruments whose fair value is reported on the balance sheet. These financial instruments include, for example, cash reserves, loans and advances to banks and customers and liabilities owed to banks and customers, certain debt securities and company shares as well as securitised liabilities and subordinate capital.

  The nominal value is taken as the fair value for the cash reserve and for short-term loans and advances and liabilities to banks and customers (sight deposits) due to their short-term nature.

  For securities and liabilities, various forms of measurement are used which are the same as for financial instruments shown at fair value on the balance sheet (e.g. market or comparable prices or measurement models), but a measurement method is generally used (discounted cash flow model). A risk-free interest rate structure curve is often used to determine the value in this measurement model, which is adjusted by risk premiums and other components if appropriate. For liabilities, NORD/LB’s own credit default risk is used as the risk premium. A corresponding level assignment in the existing fair value hierarchy is undertaken depending on the significance of the input data.

  No observable market prices are available for long-term loans and advances and liabilities owed to banks and customers and for deposits, since neither observable primary or secondary markets exist. The determination of the fair value for these financial instruments is performed with the aid of recognised measurement methods (discounted cash flow model). Input data for this model is the risk-free interest rate and a risk premium.

Further information on the fair value hierarchy and the fair values of financial instruments can be found in Notes (54) Fair Value Hierarchy and (55) Fair Value of Financial Instruments.

e) Structured products

Structured products are made up of two components – one or more embedded derivative financial instruments (embedded derivatives 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).

At present, there are no structured 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 or reduce 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 for individual transactions. Interest rate and currency 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 (31) or Note (42) 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 the recognition of profit or loss under the profit/loss from hedge accounting item.

If financial instruments in 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.

Within the scope of micro hedge accounting, the financial instrument valued at amortised cost are adjusted in the balance sheet on both the assets and liabilities sides by the change in fair value caused by the hedged risk (hedge adjustment).

A hedging relationship ends when the hedging transaction or underlying transaction expires, is sold or exercised or when the hedge accounting requirements 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 owed to banks or liabilities owed to customers, depending on the counterparty). The agreed-on 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 from of this transaction is recognised as interest income in accordance with the term.

There were no non-genuine securities repurchase agreements outstanding as at 31 December 2014.

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.

With regard to the scope and volume of repurchase transactions, reference is made to Note (61) Offsetting Financial Assets and Liabilities.

(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 value adjustment is calculated on the basis of the difference between the book value and the cash value of the expected future cash flow.

The stage prior to risk provision is forborne exposures (Note 58 (Forbearance)), based on liabilities from borrowers, which are no longer capable of meeting the contractual terms and conditions due to financial difficulties or run the risk of not being able to meet the terms and conditions in the future. In order to prevent default or impairment, the Bank has decided to modify the conditions of these commitments in favour of the borrower by implementing the following measures ("forbearance measures"):

- Modification of the contractual terms and conditions
- Refinancing or restructuring
- Approval of a contractually granted option
- Lending institution's waiver of the exercise of contractually given rights

For risks that have occurred but have not yet been identified by the Bank, value adjustments are made at the portfolio level for groups of financial assets with comparable credit risks. This credit rating-related portfolio-based provision is made on the basis of historical default probabilities and regulatory loss given defaults. In addition, the portfolio-specific LIP (loss identification period) factor is applied in order to ensure that only incurred losses are taken into consideration. The parameters used are derived from the CRR 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 Bank adjusted the parameters to market conditions accordingly during the year under report.

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

The acquisition costs of assets of minor value are immediately recognised as an expense on the basis of materiality.

(8) Leasing transactions

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 leases
Two agreements concluded by the Bank (IT hardware) are classified as finance leases. With regard to the total volume with a new price of leased items in the sum of approx. EUR 2.0 million, taking into account IAS 8.8, the Bank has refrained from reporting it on the balance sheet on grounds of materiality.

Operating leases
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 of acquisition, as are self-created (proprietary) 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. In the case of intangible assets with limited useful life, valuation adjustments are made in the amount 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 an indefinite useful life at 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 an 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 application of the accounting requirements set out under IAS 19 for contributory plans, so that no pension provisions have 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 an 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, on experience and, where necessary, on expert opinions or reports. Risks and uncertainties are taken into consideration in the process. 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. Due to the temporary differences, deferred tax assets and liabilities will probably lead 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 income tax in the profit and loss account. The breakdown into 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 NORD/LB Luxembourg and NORD/LB CFB starting from financial year 2007. Pursuant to Article 164 bis 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 31.12.2012, 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 subordinated capital item comprises unsecuritised subordinated liabilities.

Subordinated capital is accounted for at amortised cost. Premiums and discounts are spread over the life 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 (46).

Segment Reporting

Classification by business segment

Segment reporting is carried out in accordance with IFRS 8. It is designed to provide information about the business segments; it is undertaken in compliance with the Bank's business model and on the basis of the internal reporting system. The segments are defined as customer or product groups that are aligned 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
Mainly, the business with affiliated savings banks is reported here with the associated contributions to profit/loss (contribution from interest rate conditions and net commission).

Client Services / B2B
The Bank hived off the Private Banking business segment at the end of 2014 (see Note 25). The account keeping and custodian function as well as the lending business with private banking clients will remain at the Bank, as will the associated income, and will be allocated to the Client Services / B2B business segment. Some of the expenses deriving from the former Private Banking business segment are shown in the administrative expenses. These arise from accounting for costs and services for service areas which are not allocated to the profit/loss from discontinued operations.

Financial markets
The segments that have the responsibility for bank controlling are recorded here in particular (liquidity supply, interest rate and currency management). In addition, sales activities in which the European sales capacities of the NORD/LB Group are bundled are assigned to this segment.

Lending
This segment primarily shows the lending business transferred by 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.

Profit/loss from discontinued operations
The profit/loss which will be allocated to NORD/LB Vermögensmanagement Luxembourg S.A. in the future is shown here (see Note 25) Profit/loss from discontinued operations.

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

KEUR	Segments							
	Affiliated Savings Banks	Client Services / B2B	Financial Markets	Lending	Participating Interests /Other	Profit/ Loss from Continuing Operations	Profit/loss from Discontinued Operations	Total
Net interest income	2,420	1,674	30,430	63,250	−11,519	86,255	657	86,912
ditto previous year	1,887	989	33,955	53,592	−508	89,915	588	90,503
Loan loss provisions	20	446	998	7,295	−1,418	7,340	0	7,340
ditto previous year	0	0	0	−15,083	−18,580	−33,663	0	−33,663
Net interest income after loan loss provisions	2,439	2,120	31,428	70,545	−12,938	93,595	657	94,252
ditto previous year	1,887	989	33,955	38,509	−19,088	56,252	588	56,840
Net commission income	−151	756	2,064	−15,404	−210	−12,944	7,285	−5,659
ditto previous year	−1,150	798	−315	−16,602	−1,000	−18,269	7,169	−11,100
Profit/loss from financial instruments at fair value through profit or loss	0	0	−18,029	128	−2,076	−19,977	0	−19,977
ditto previous year	0	10	12,241	22	0	12,272	0	12,272
Profit/loss from hedge accounting	0	0	0	0	788	788	0	788
ditto previous year	0	0	0	0	3,202	3,202	0	3,202
Profit/loss from financial assets	0	−302	14,880	−46	−2,853	11,679	0	11,679
ditto previous year	0	148	6,761	0	7,581	14,490	0	14,490
Profit/loss from equity-accounted investments	0	0	0	0	0	0	0	0
ditto previous year	0	0	0	0	0	0	0	0
Administrative expenses	−189	−3,896	−10,511	−10,271	−12,701	−37,568	−6,373	−43,941
ditto previous year	−389	−3,430	−10,511	−8,594	−13,202	−36,125	−6,070	−42,195
Other income/expenses	0	−7	−1,773	−530	245	−2,064	0	−2,064
ditto previous year	0	0	0	0	−1,139	−1,139	0	−1,139
Earnings before taxes (EBT)	2,099	−1,328	18,059	44,423	−29,744	33,509	1,569	35,078
ditto previous year	349	−1,485	42,131	13,335	−23,646	30,684	1,687	32,371
Taxes	0	0	0	0	−6,115	−6,115	−459	−6,574
ditto previous year	0	0	0	0	−4,923	−4,923	−493	−5,416
Earnings after taxes	2,099	−1,328	18,059	44,423	−35,859	27,393	1,111	28,504
ditto previous year	349	−1,485	42,131	13,335	−28,569	25,761	1,194	26,955

Segments								
EUR million								
Segment assets	177.8	158.6	8,607.8	4,674.7	185.3	13,804.1	0.0	13,804.1
ditto previous year	132.5	149.8	10,447.7	3,993.3	333.0	15,056.3	0.0	15,056.3
Segment liabilities (incl. equity)	0.0	155.3	11,827.9	945.7	875.1	13,804.1	0.0	13,804.1
ditto previous year	0.0	154.9	12,705.7	1.319.1	876.7	15,056.3	0.0	15,056.3
Risk assets	61.1	148.3	1,478.1	1,774.9	256.2	3,718.6	0.0	3,718.6
ditto previous year (annual average values)	154.2	187.5	1,330.9	1,622.8	479.2	3,774.7	0.0	3,774.7
Equity commitment	4.9	11.9	118.2	142.0	20.5	297.5	0.0	297.5
ditto previous year (based on annual average values)	12.3	15.0	106.5	129.8	38.3	302.0	0.0	302.0
CIR	8.3 %	183.6 %	23.0 %	21.7 %	–88.6 %	45.3 %	80.2 %	48.4 %
ditto previous year	52.7 %	177.2 %	26.0 %	23.2 %	267.6 %	42.5 %	78.2 %	45.5 %
RoRaC*	7.3 %	–6.4 %	15.3 %	31.3 %	–53.4 %	10.0 %	–	10.4 %
ditto previous year	1.2 %	–7.2 %	44.3 %	9.8 %	–42.4 %	9.1 %	–	9.6 %

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

Additional segment information:	Segments							
EUR million								
Property, plant and equipment, net	0.3	11.8	24.0	5.8	27.1	0.0	0.0	68.9
ditto previous year	0.3	12.0	24.5	5.9	27.7	0.0	0.0	70.5
Scheduled depreciation of property, plant and equipment. current year	0.0	–0.3	–0.7	–0.2	–0.8	0.0	0.0	–2.0
ditto previous year	0.0	–0.3	–0.7	–0.2	–0.8	0.0	0.0	–2.0
Intangible assets, net	0.0	1.9	3.9	0.9	4.4	0.0	0.0	11.2
ditto previous year	0.0	2.0	4.0	1.0	4.5	0.0	0.0	11.4
Scheduled depreciation of intangible assets current year	0.0	–0.2	–0.5	–0.1	–0.6	0.0	0.0	–1.5
ditto previous year	0.0	–0.2	–0.5	–0.1	–0.5	0.0	0.0	–1.3
Increase/decrease in value adjustments on financial assets, current year	0.0	0.0	0.0	0.0	–0.7	0.0	0.0	–0.7
ditto previous year	0.0	0.0	0.0	0.0	–0.6	0.0	0.0	–0.6

(15) Segmentation by geographical characteristics

	Segments									
EUR million	Germany	Luxem-bourg	Switzer-land	Rest of Europe	USA	Rest of America	Other Coun-tries	Total Continu-ing Ope-rations	Discon-tinued Opera-tions	Total
Earnings before taxes (EBT)	**12.8**	**7.9**	**0.2**	**8.3**	**2.0**	**1.0**	**1.3**	**33.5**	**1.6**	**35.1**
ditto previous year	12.0	9.1	0.2	7.0	1.5	0.4	0.6	30.7	1.7	32.4
Segment assets	**5,292.0**	**3,242.1**	**100.8**	**3,409.1**	**833.8**	**405.4**	**520.9**	**13,804.1**	**0.0**	**13,804.1**
ditto previous year	5,879.8	4,465.0	80.0	3,410.8	755.3	175.1	290.4	15,056.3	0.0	15,056.3
Segment liabilities (incl. equity)	**6,311.2**	**6,044.0**	**944.9**	**452.6**	**7.5**	**30.3**	**13.6**	**13,804.1**	**0.0**	**13,804.1**
ditto previous year	5,568.0	6,916.7	509.6	1,672.2	0.3	8.9	380.6	15,056.3	0.0	15,056.3
Risk assets	**1,425.6**	**873.4**	**27.1**	**918.3**	**224.6**	**109.2**	**140.3**	**3,718.6**	**0.0**	**3,718.6**
ditto previous year (annual average values)	1,474.1	1,119.4	20.1	855.1	189.4	43.9	72.8	3,774.7	0.0	3,774.7
Equity commitment	**114.0**	**69.9**	**2.2**	**73.5**	**18.0**	**8.7**	**11.2**	**297.5**	**0.0**	**297.5**
ditto previous year (based on annual average values)	117.9	89.6	1.6	68.4	15.1	3.5	5.8	302.0	0.0	302.0
Further segment information										
Property, plant and equipment, net	**0.0**	**68.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**68.9**	**0.0**	**68.9**
ditto previous year	0.0	70.5	0.0	0.0	0.0	0.0	0.0	70.5	0.0	70.5
Intangible assets, net	**0.0**	**11.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**11.2**	**0.0**	**11.2**
ditto previous year	0.0	11.4	0.0	0.0	0.0	0.0	0.0	11.4	0.0	11.4

Notes to the Income Statement

(16) Net interest income and current income

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

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

Negative interest is offset against the other interest income. No material negative interest was incurred during financial year 2014.

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Interest income	**479,884**	**499,174**	**−4**
Interest income from lending and money market transactions	164,904	151,278	9
Interest income from fixed income and book entry securities	95,892	115,902	−17
Current income	150	185	−19
from shares and other variable yield securities	150	185	−19
from participating interests	0	0	–
Interest income from hedge derivatives	218,420	230,842	−5
Other interest income and similar income	517	966	−46
Interest expense	**−393,629**	**−409,259**	**−4**
Interest expense from lending and money market transactions	−107,137	−96,183	11
Interest expense from securitised liabilities	−19,957	−21,134	−6
Interest expense from subordinated capital	−532	−557	−5
Interest expense from hedge derivatives	−265,771	−291,194	−9
Other interest expense and similar expense	−232	−191	21
Total	**86,255**	**89,915**	**−4**

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

(17) Loan loss provisions

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Income from loan loss provisions	**16,428**	**7,278**	**> 100**
Reduction in provisions for claims	5,422	368	> 100
Reductions in portfolio-based provisions for receivables	2,227	631	> 100
Reversal of provisions in lending business	8,779	6,279	40
Additions to receivables written off	0	0	–
Loan loss provision expense	**−9,088**	**−40,941**	**−78**
Allocations to provisions for claims	−7,157	−11,191	−36
Allocation to portfolio-based provisions for claims	0	0	–
Allocation to provisions in lending business	−1,866	−29,750	−94
Direct write-offs of claims	−65	0	> 100
Total	**7,340**	**−33,663**	**< −100**

(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 that 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 commission for loans and guarantees received on a pro rata basis and to one-off commission in the lending business with non-banking entities, while the lesser portion relates to transaction-related commission in brokerage transactions for customers and portfolio commission in the fund business.

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

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Commission income	**21,602**	**11,009**	**96**
from security and custody transactions	2,816	1,413	99
from the brokerage business	10	14	–29
from lending and guarantee transactions	18,262	8,954	> 100
Other commission income	514	628	–18
Commission expense	**–34,546**	**–29,278**	**18**
from security and custody transactions	–1,463	–1,451	1
from the brokerage business	–16,719	–11,276	48
from lending and guarantee transactions	–16,304	–16,484	–1
Other commission expense	–59	–66	–11
Total	**–12,944**	**–18,269**	**–29**

(19) Profit/loss from financial instruments at fair value through profit or loss

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).

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Trading profit/loss	**–85,172**	**12,272**	**< –100**
Realised profit/loss	–73,024	8,048	< –100
from debt securities and other fixed interest securities	1,586	1,298	22
from shares and other variable yield securities	–1	0	> 100
from derivatives	–74,609	6,749	< –100
from other receivables held for trading	0	0	–
Measurement gains/losses	–14,225	4,244	< –100
from debt securities and other fixed interest securities	5,215	–2,436	< –100
from shares and other variable yield securities	0	0	–
from derivatives	–19,440	6,680	< –100
from other receivables held for trading	0	0	–
Foreign exchange profit/loss	–55	–1,045	–95
Other profit/loss	2,132	1,025	> 100
Profit/loss from fair value option	**65,195**	**0**	**> 100**
Profit/loss achieved from	3,475	0	> 100
Debt securities and other fixed interest securities	3,475	0	> 100
from shares and other variable yield securities	0	0	–
other business	0	0	–
Measurement gains/losses	52,128	0	> 100
Debt securities and other fixed interest securities	52,128	0	> 100
from shares and other variable yield securities	0	0	–
other business	0	0	–
Other profit/loss	9,592	0	> 100
Total	**–19,977**	**12,272**	**< –100**

Interest profit/loss from trading activities in the sum of KEUR 2,132 (previous year KEUR 1,025) is reported under other profit/loss.

Interest profit/loss from the fair value option in the sum of KEUR 9,592 (previous year KEUR 0) is reported under other profit/loss.

(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. The Bank utilises micro fair value hedge accounting to hedge interest rate risks. Hedged underlying transactions are loans and advances and liabilities to banks and customers, financial assets, and own issues.

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Profit/loss from micro fair value hedge transactions	**788**	**3,202**	**–75**
from hedged underlying transactions	67,576	–78,116	< –100
from derivatives used as hedging instruments	–66,788	81,318	< –100
Total	788	3,202	–75

(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.

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Profit/loss from financial assets classified as LaR	**–10,153**	**4,226**	**< –100**
Profit/loss from financial assets classified as AfS (no joint ownership)	**22,548**	**6,341**	**> 100**
Profit/loss from disposal	22,548	6,341	> 100
from debt securities and other fixed interest securities	21,968	6,341	> 100
from shares and other variable yield securities	580	0	> 100
from other financial assets	0	0	–
Profit/loss from value adjustments of	0	0	–
Debt securities and other fixed interest securities	0	0	–
Variable yield securities	0	0	–
Profit/loss from affiliated companies	**–716**	**3,923**	**< –100**
Profit/loss from joint ventures and associated companies	**0**	**0**	**–**
Profit/loss from other participating interests	**0**	**0**	**–**
Total	11,679	14,490	–19

(22) Administrative expenses

The administrative expenses comprise staff expenses, other administrative expenses as well as depreciation on tangible assets and intangible assets.

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Staff expenses	**−19,621**	**−18,224**	**8**
Wages and salaries	−17,001	−15,189	12
Social security contributions	−1,284	−1,556	−17
Expenses for pension provision	−1,022	−1,162	−12
Other staff expenses	−314	−317	−1
Other administrative expenses	**−14,438**	**−14,558**	**−1**
Expense for operating and office equipment and IT	−9,819	−10,151	−3
Occupancy costs	−689	−827	−17
Expense for marketing, communications and representation	103	−296	< −100
Personnel-related operating expenditure	−666	−696	−4
Legal, audit, survey and professional fees	−3,050	−2,264	35
Other administrative expenses	−317	−324	−2
Depreciation and impairments	**−3,508**	**−3,343**	**5**
Depreciation	−3,508	−3,343	5
Property, plant and equipment	−2,056	−2,005	3
Intangible assets	−1,452	−1,338	8
Total	**−37,568**	**−36,125**	**4**

The income from accounting for services with subsidiaries was cut in the administrative expense.

(23) Other operating profit/loss

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Other operating income	**3,647**	**3,190**	**14**
from the reversal of provisions	1,202	0	> 100
Other income	2,445	3,190	−23
Other operating expenses	**−5,711**	**−4,328**	**32**
from the allocation of provisions	0	0	–
Other expenses	−5,711	−4,328	32
Total	**−2,064**	**−1,139**	**81**

Other operating income primarily results from the reversal of a provision for litigation risks (KEUR 1,202, previous year KEUR 0), rental income (KEUR 632, previous year KEUR 401) and income not relating to the reporting period from VAT (KEUR 993, previous year KEUR 2,484) and wealth tax (KEUR 615, previous year KEUR 70).

Other operating expense mainly includes expenses for accounting for services with NORD/LB (KEUR 3,745, previous year KEUR 3,889) and the special depreciation on an intangible asset (KEUR 1,808, previous year KEUR 0).

(24) Income taxes

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Current income taxes	−6,115	−4,923	24
Deferred taxes	0	0	–
Total	**−6,115**	**−4,923**	**24**

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.

	2014 (KEUR)	2013 (KEUR)
IFRS Earnings before taxes (EBT)	**33,509**	**30,684**
Expected income tax expense	−9,791	−8,966
Effects of reconciliation:		
Effects due to different tax rates for taxable items	0	0
Taxes from previous years recognised in the year under report	249	379
Effects of tax rate changes	0	0
Non-allowable income taxes	0	0
Non-deductible operating expenses	−31	−34
Effects of tax-free income	2,847	3,049
Effects of permanent effects on the balance sheet	0	0
Expected income tax expense	610	648
Effects of reconciliation:	**−6,115**	**−4,923**

The expected income tax expense in the tax reconciliation is calculated from the corporate and trade tax burden applicable in Luxembourg in 2014, in the amount of 29.22 % (previous year 29.22 %).

(25) Profit/loss from discontinued operations

Since the special bank principle for Luxembourg covered finance banks does not allow the operation of private customer business (consultancy, asset management), the spin-off of Private Banking was a strict auxiliary condition for carrying out the merger of the Bank with NORD/LB CFB (see the Business Outlook section). In order to meet this condition, the Private Banking segment was already hived off into its own Luxembourg company with effect from 31.12.2014 (professional in the financial sector = Professionnel du Secteur Financier). This PSF bears the name "NORD/LB Vermögensmanagement Luxembourg S.A." and was set up as a subsidiary of NORD/LB.

The account keeping and custodian function for private banking customers will remain at NORD/LB Luxembourg, as will the associated income. Customer support will be provided by NORD/LB Vermögensmanagement Luxembourg S.A. in the future. In this connection, the new company will place future customer transactions with the Bank and be responsible for asset management mandates itself. NORD/LB Vermögensmanagement Luxembourg S.A. is pursuing a growth strategy and planning the further expansion of volume and income. New customer relations will be developed by arranging finance, especially in the area of collateralised private customer loans. In addition, the holistic customer support approach will be pushed further into the foreground and the penetration of the existing customer relationships will also be strengthened.

The profit/loss from discontinued operations is broken down as follows:

	2014 (KEUR)	2013 (KEUR)
Net interest income	**657**	**588**
Loan loss provisions	0	0
Net commission income	7,285	7,169
Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting	0	0
Other operating profit/loss	0	0
Administrative expenses	–6,373	–6,070
Profit/loss from financial assets	0	0
Earnings before income taxes	**1,569**	**1,687**
Income taxes	–459	–493
Net income for the year	**1,111**	**1,194**

The cash flow statement for discontinued operations is broken down as follows:

	2014 (KEUR)	2013 (KEUR)
Cash flow from operating activities	1,569	1,687
Cash flow from investment activity	0	0
Cash flow from financing activities	0	0
Cash flow total	**1,569**	**1,687**

Balance sheet transactions were not transferred to the new company. Only minor effects on the balance sheet arise in the pension provisions and equity.

Notes to the Balance Sheet

(26) Cash reserve

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Cash	1.7	1.9	−13
Balances with central banks	0.6	53.8	−99
Total	**2.3**	**55.7**	**−96**

The balances with central banks, at EUR 0.6 million (previous year EUR 53.8 million), are attributable to balances at the Luxembourg central bank and almost exclusively relate to the minimum reserve credit balance.

(27) Loans and advances to banks

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Receivables from money market transactions	**1,773.7**	**2,501.5**	**−29**
Luxembourg banks	1,327.3	1,308.7	1
Foreign banks	446.4	1,192.8	−63
Other receivables	**910.4**	**1,409.7**	**−35**
Luxembourg banks	826.3	1,295.8	−36
due on demand	684.6	685.9	0
deferred	141.7	610.0	−77
Foreign banks	84.0	113.8	−26
due on demand	38.9	63.6	−39
deferred	45.2	50.2	−10
Total	**2,684.1**	**3,911.1**	**−31**

Of the total amount, EUR 530.4 million (previous year EUR 1,306.6 million) relate to loans and advances to foreign banks. A partial amount of EUR 92.9 million (previous year EUR 639.3 million) of the loans and advances to banks only becomes due after more than twelve months.

(28) Loans and advances to customers

	31.12.2014 (EUR million)	31.12.2013 (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	**5,003.7**	**4,175.3**	**20**
Luxembourg customers	190.1	181.6	5
due on demand	109.3	117.3	–7
deferred	80.8	64.3	26
Foreign customers	4,813.6	3,993.7	21
due on demand	3.3	45.1	–93
deferred	4,810.3	3,948.6	22
Total	**5,003.7**	**4,175.3**	**20**

Of the total amount, EUR 4,810.6 million (previous year EUR 3,993.7 million) relate to loans and advances to foreign customers. Of the receivables due from customers, EUR 3,089.6 million (previous year EUR 2,541.3 million) is only due after more than twelve months.

(29) Risk provisions

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Individual value adjustments for receivables	**–34.2**	**–37.3**	**–8**
Foreign banks	0.0	0.0	–
Luxembourg customers	0.0	0.0	–
Foreign customers	–34.2	–37.3	–8
Portfolio-based provisions for receivables	**–2.6**	**–4.8**	**–46**
Total	**–36.7**	**–42.1**	**–13**

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
01.01.2013	**27.4**	**5.4**	**17.8**	**50.6**
Allocations	11.2	0.0	29.7	**40.9**
Reductions	−0.4	−0.6	−6.3	**−7.3**
Utilisation	0.0	0.0	−15.0	**−15.0**
Effects from currency translation, unwinding and other changes	−0.9	0.0	−1.5	**−2.4**
31.12.2013	**37.3**	**4.8**	**24.8**	**66.9**
Allocations	7.2	0.0	1.9	**9.0**
Reductions	−5.4	−2.2	−8.8	**−16.4**
Utilisation	−4.6	0.0	−8.4	**−13.0**
Effects from currency translation, unwinding and other changes	−0.3	0.0	0.1	**−0.1**
31.12.2014	**34.2**	**2.6**	**9.6**	**46.3**

For further details, see Note (6) Risk provisions and Note (43) Provisions.

The volume of loans in default on the reporting date amounts to EUR 20.2 million (previous year EUR 12.1 million). Of this amount, EUR 20.2 million is attributable to loan redemptions and EUR 0.1 million to outstanding interest payments. This relates to six commitments, of which two have been subject to individual value adjustment and have been in default since 2011 and 2013 respectively as well as four other commitments which have been in default since 2013 and 2014 respectively.

(30) Financial assets at fair value through profit or loss

This item contains 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.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Trading assets	465.3	393.8	18
Debt securities and other fixed interest securities	137.5	139.2	–1
from public issuers	0.0	0.0	–
from other issuers	137.5	139.2	–1
Positive fair values from derivatives in connection with:	327.8	254.6	29
Interest rate risks	179.8	161.2	12
Currency risks	148.1	93.4	59
Share and other price risks	0.0	0.0	–
Trading portfolio claims	0.0	0.0	–
Financial assets designated at fair value	1,034.1	0.0	> 100
Total	1,499.4	393.8	> 100

The Bank does not hold any credit derivatives or similar financial instruments in its portfolio.

Of the total amount, EUR 1,364.2 million (previous year EUR 356.6 million) is only due in more than twelve month.

(31) Fair values from hedge accounting

This item comprises positive fair values from hedging instruments in effective micro fair value hedging relationships. The Bank utilises micro fair value hedge accounting to hedge interest rate risks.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Positive fair values from allocated micro fair value hedge derivatives	17.4	40.2	–57
Total	17.4	40.2	–57

Hedge derivatives with a fair value of EUR 0.0 million will become due at the earliest after twelve months (previous year EUR 40.2 million).

(32) Financial assets

The “financial assets” balance sheet item essentially includes all debt securities and other fixed interest securities and shares and other variable yield securities that are classified as available for sale (AfS) and are not held for trading.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Financial assets in the LaR category	**604.0**	**604.7**	**0**
Financial assets classified as AfS	**3,926.9**	**5,821.0**	**–33**
Debt securities and other fixed interest securities	3,845.1	5,690.4	–32
Money market securities	0.0	50.0	–100
from public issuers	0.0	0.0	–
from other issuers	0.0	50.0	–100
Bonds and debt securities	3,845.1	5,640.3	–32
from public issuers	1,065.4	1,840.5	–42
from other issuers	2,779.8	3,799.9	–27
Shares and other variable yield securities	0.1	36.0	–100
Shares	0.0	0.0	–100
Investment shares	0.0	35.9	–100
Profit participation certificates	0.1	0.1	–46
Shares in companies	81.7	94.6	–14
Shares in affiliated companies	81.7	94.6	–14
Banks	81.7	81.7	0
Other companies	0.0	12.9	–100
Special purpose companies (special funds)	0.0	0.0	–
Total	**4,530.9**	**6,425.7**	**–29**

Of the financial assets, EUR 3,618.1 million (previous year EUR 5,177.5 million) will only become due after more than twelve months. The volume of financial assets issued by the central governments of certain euro states (Portugal, Italy, Ireland, Greece and Spain) amounts to a nominal EUR 7.9 million (previous year EUR 7.9 million.). This concerns a debtor warrant from the Republic of Greece with a term until 2042. The book value of this financial asset on the reporting date is KEUR 54 (previous year KEUR 94).

The Bank did not carry out any reclassifications in the year under report.

Shares in affiliated companies on the reporting date include the equity in NORD/LB CFB, and in Galimondo S.à r.l. The following table shows the equity before revaluation reserve and the profit/loss in 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	98.4	0.5
Galimondo S.à r.l., Luxembourg	100 %	0.0	0.0	0.0
Total		**81.7**	**98.4**	**0.5**

The equity before revaluation reserve of the respective participation is above the book value of the participation.

(33) Property, plant and equipment

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Land and buildings	63.9	64.5	– 1
Operating and office equipment	5.1	6.0	– 16
Investments under construction	0.0	0.0	–
Other property, plant and equipment	0.0	0.0	–
Total	**68.9**	**70.5**	**– 2.2**

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	Operating and office equipment	Investments under construction	Other property, plant and equipment	Total
Acquisition and manufacturing costs at 01.01.2013	**66.5**	**13.4**	**0.0**	**0.0**	**79.9**
Accruals	0.1	0.3	0.0	0.0	0.4
Disposals	0.0	−3.5	0.0	0.0	−3.5
Transfers	0.0	0.0	0.0	0.0	0.0
Total 31.12.2013	**66.6**	**10.2**	**0.0**	**0.0**	**76.7**
Cumulative depreciation at 01.01.2013	**−1.5**	**−6.3**	**0.0**	**0.0**	**−7.8**
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	3.5	0.0	0.0	3.5
Total 31.12.2013	**−2.1**	**−4.2**	**0.0**	**0.0**	**−6.2**
Closing balance at 31.12.2013	**64.5**	**6.0**	**0.0**	**0.0**	**70.5**
Acquisition and manufacturing costs at 01.01.2014	**66.6**	**10.2**	**0.0**	**0.0**	**76.7**
Accruals	0.0	0.3	0.2	0.0	0.5
Disposals	0.0	0.0	0.0	0.0	0.0
Transfers	0.0	0.2	−0.2	0.0	0.0
Total 31.12.2014	**66.6**	**10.6**	**0.0**	**0.0**	**77.2**
Cumulative depreciation at 01.01.2014	**−2.1**	**−4.2**	**0.0**	**0.0**	**−6.2**
Scheduled depreciation	−0.6	−1.4	0.0	0.0	−2.1
Impairments (write-downs)	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Total 31.12.2014	**−2.7**	**−5.6**	**0.0**	**0.0**	**−8.3**
Closing balance at 31.12.2014	**63.9**	**5.1**	**0.0**	**0.0**	**68.9**

(34) Intangible assets

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Software	11.2	10.0	12
Acquired for consideration	11.2	10.0	12
Proprietary	0.0	0.0	–
Intangible assets under development	0.0	1.4	–100
Other	0.0	0.0	–
Total	**11.2**	**11.4**	**–2**

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

Intangible assets developed as follows:

EUR million	Software		Intangible assets under development		Total
	Acquired for consideration	Proprietary	Acquired for consideration	Proprietary	
Acquisition and manufacturing costs at 01.01.2013	**29.6**	**0.0**	**12.0**	**0.0**	**41.6**
Accruals	0.1	0.0	1.0	0.0	1.2
Disposals	–5.9	0.0	–10.0	0.0	–15.9
Transfers	1.5	0.0	–1.5	0.0	0.0
Total 31.12.2013	**25.4**	**0.0**	**1.4**	**0.0**	**26.8**
Cumulative depreciation at 01.01.2013	**–19.9**	**0.0**	**–10.0**	**0.0**	**–30.0**
Scheduled depreciation	–1.3	0.0	0.0	0.0	–1.3
Impairments (write-downs)	0.0	0.0	0.0	0.0	0.0
Transfers	0.0	0.0	0.0	0.0	0.0
Disposals	5.9	0.0	10.0	0.0	15.9
Total 31.12.2013	**–15.4**	**0.0**	**0.0**	**0.0**	**–15.4**
Closing balance at 31.12.2013	**10.0**	**0.0**	**1.4**	**0.0**	**11.4**
Acquisition and manufacturing costs at 01.01.2014	**25.4**	**0.0**	**1.4**	**0.0**	**26.8**
Accruals	0.8	0.0	2.2	0.0	3.0
Disposals	0.0	0.0	0.0	0.0	0.0
Transfers	3.6	0.0	–3.6	0.0	0.0
Total 31.12.2014	**29.8**	**0.0**	**0.0**	**0.0**	**29.8**

EUR million	Software		Intangible assets under development		Total
	Acquired for consideration	Proprietary	Acquired for consideration	Proprietary	
Cumulative depreciation at 01.01.2014	**–15.4**	**0.0**	**0.0**	**0.0**	**–15.4**
Scheduled depreciation	–1.5	0.0	0.0	0.0	–1.5
Impairments (write-downs)	–1.8	0.0	0.0	0.0	–1.8
Transfers	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Total 31.12.2014	**–18.6**	**0.0**	**0.0**	**0.0**	**–18.6**
Closing balance at 31.12.2014	**11.2**	**0.0**	**0.0**	**0.0**	**11.2**

(35) Assets available for sale

The “assets available for sale” item according to IFRS 5 with a total book value of EUR 12.2 million (previous year EUR 0.0 million) includes the book value of the participation in Skandifinanz AG, which is scheduled to be sold within the first quarter of 2015.

Name/registered office	Equity share	Investment book value (EUR million)	Equity before revaluation reserve (EUR million)	Profit/loss (EUR million)
Skandifinanz Bank AG, Zurich	100 %	12.2	13.2	0.0

(36) Income tax assets

Income tax assets are broken down as follows:

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Current income tax assets	0.0	0.3	–100
Active deferred taxes	1.0	0.6	84
Total	**1.0**	**0.9**	**19**

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 fiscal tax requirements have been applied to the IFRS financial statements since 2008. This means that many of the temporary differences no longer apply. In the year under report, there are deferred tax receivables only on changes in pension provision allocations not affecting profit or loss.

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

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Assets			
Risk provisions	0.0	0.0	0
Financial assets	0.0	0.0	0
Property, plant and equipment	0.0	0.0	0
Other assets	0.0	0.0	0
Liabilities			
Financial liabilities at fair value through profit or loss	0.0	0.0	0
Fair values from hedge accounting	0.0	0.0	0
Provisions	1.0	0.6	84
Other liabilities	0.0	0.0	0
Tax losses carried forward	0.0	0.0	0
Total	**1.0**	**0.6**	**84**

(37) Other assets

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Tax reimbursement rights from other taxes	0.0	3.2	–100
Other assets	0.0	0.0	< –100
Other assets including accruals and deferred income	9.5	10.6	–10
Total	**9.6**	**13.8**	**–31**

Other assets mainly consists of accruals and deferred income items (EUR 9.3 million, previous year EUR 10.4 million).

(38) Liabilities to banks

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Deposits from other banks	**3,010.8**	**2,637.6**	**14**
Luxembourg banks	254.1	286.5	–11
Foreign banks	2,756.7	2,351.1	17
Liabilities arising from money market transactions	**5,553.5**	**7,318.2**	**–24**
Luxembourg banks	1,607.8	2,917.8	–45
Foreign banks	3,945.8	4,400.4	–10
Other liabilities	**688.5**	**706.2**	**–3**
Luxembourg banks	687.0	687.8	0
due on demand	687.0	687.8	0
deferred	0.0	0.0	–
Foreign banks	1.5	18.4	–92
due on demand	1.5	18.4	–92
deferred	0.0	0.0	–
Total	**9,252.8**	**10,662.0**	**–13**

Of the total amount, EUR 1,981.4 million (previous year EUR 2,628.0 million) is attributable to liabilities which will only become due after more than twelve months.

The Bank issued a registered promissory note in 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. In financial year 2014, EUR 200.0 million was repaid early with the approval of the CSSF and replaced by another refinancing instrument with NORD/LB without special rights in the same amount.

(39) Liabilities to customers

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Savings deposits	**0.0**	**0.0**	**–**
Liabilities arising from money market transactions	**2,004.1**	**1,960.2**	**2**
Luxembourg customers	1,167.6	721.6	62
Foreign customers	836.5	1,238.6	–32
Other liabilities	**149.3**	**152.5**	**–2**
Luxembourg customers	29.3	27.9	5
due on demand	29.3	27.9	5
deferred	0.0	0.0	–
Foreign customers	120.0	124.7	–4
due on demand	120.0	124.7	–4
deferred	0.0	0.0	–
Total	**2,153.4**	**2,112.7**	**2**

A partial amount of EUR 6.3 million will only become due after 12 months (previous year EUR 2.6 million).

(40) Securitised liabilities

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Issued debt securities	966.5	927.3	4
Money market papers / Commercial papers	0.0	0.0	-
Other securitised liabilities	0.0	0.0	-
Total	**966.5**	**927.3**	**4**

EUR 0.0 million of the total amount (previous year EUR 927.3 million) shows a remaining term of more than 12 months. The debt securities issued are listed on the Luxembourg exchange.

(41) Financial liabilities at fair value through profit or loss

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

The trading liabilities item comprises negative fair values from derivative financial instruments that are not used within the scope of hedge accounting and delivery obligations from the short selling of securities.

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

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Trading liabilities	**369.1**	**284.2**	**30**
Negative fair values from derivatives in connection with:	369.1	284.2	30
Interest rate risks	262.3	178.2	47
Currency risks	106.8	105.9	1
Financial liabilities designated at fair value	**0.0**	**0.0**	**–**
Total	**369.1**	**284.2**	**30**

A partial amount of EUR 312.3 million of the trading liabilities will only become due after more than 12 months (previous year EUR 243.3 million).

(42) Fair values from hedge accounting

This item comprises negative fair values from hedging instruments from effective micro fair value hedging relationships. The Bank utilises micro fair value hedge accounting to hedge interest rate risks.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Negative fair values from allocated micro fair value hedge derivatives	177.5	205.7	–14
Total	**177.5**	**205.7**	**–14**

Hedge derivatives with a negative fair value of EUR 172.8 million will only become due after twelve months at the earliest (previous year EUR 188.9 million).

(43) Provisions

Provisions are broken down as follows:

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Provisions for pensions and similar obligations	3.8	2.7	40
Other provisions	14.8	29.2	–49
Provisions in lending business	9.6	24.8	–61
Provisions for uncertain liabilities	5.2	4.4	19
Total	18.6	31.9	–42

Provisions for uncertain liabilities are mainly provisions in the personnel area (EUR 3.5 million, previous year EUR 2.0 million) and provisions in the organisation and IT area (EUR 1.6 million, previous year EUR 1.2 million).

Provisions for pensions and similar obligations
Calculations are based on the following actuarial assumptions:

Actuarial assumptions	31.12.2014 (in %)	31.12.2013 (in %)	Increase/decrease (%)
Annual salary growth	1.00	1.00	0
Annual inflation rate	2.50	2.50	0
Annual BBG contribution ceiling (including cost of living index)	3.79	3.79	0
Discount rate	2.20	3.70	–41
Mortality table:	statistical values published in the Grand Ducal regulation of 15 January 2001, which govern the minimum funding of occupational pensions		
Expected return on plan assets	2.20	3.70	–41
Turnover rate	2.00	2.00	0

Provisions for pensions and similar obligations are as follows:

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Cash value of the performance-related obligation (defined benefit obligation)	6.3	6.1	3
Deduction for the fair value of plan assets	–3.1	–3.9	–19
Surplus plan assets not shown as an asset	0.0	0.0	–
Other assets to be shown in the balance sheet (flat rate tax)	0.7	0.5	40
Total	3.8	2.7	41

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 listed items:

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Opening balance	**6.1**	**5.4**	**14**
Current service cost	0.4	0.4	–4
Interest expense	0.2	0.2	21
Contributions by plan participants	0.0	0.0	–
Actuarial gains/losses from the obligation	1.3	0.4	> 100
Changes from currency translations	0.0	0.0	–
Benefits paid	–0.2	–0.3	–43
Past service cost	0.0	0.0	–
Effects of curtailments	0.0	0.0	–
Effects of settlements	–1.6	0.0	> 100
Closing balance	**6.3**	**6.1**	**3**

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. Experience-based adjustments to the development of the plan debts and the plan assets amount to KEUR –248 (previous year KEUR –596) and KEUR 0 (previous year KEUR –113) respectively, according to the insurance company. The defined benefit plans include actuarial risks such as longevity risk, currency risk and market risk.

Based on actuarial assumptions, the defined benefit obligation is subject to change. The following sensitivity analysis shows the effects of the listed changes to the respective assumptions on the amount of the defined benefit obligation under the premise that there are no correlations and each of the other assumptions remains unchanged. There is an underlying sensitivity of +/– 1.0 % for each parameter.

EUR million	Increase	Decrease
Interest	5.3	7.4
Wages	8.0	5.0

The fair value of the plan assets have changed as follows:

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Opening balance	**3.9**	**3.8**	**3**
Expected return on plan assets	0.1	0.2	–33
Actuarial gains/losses on plan assets	0.0	0.0	< –100
Changes from currency translations	0.0	0.0	–
Employer contributions	0.3	0.3	5
Contributions by plan participants	0.0	0.0	–
Benefits paid	–0.2	–0.3	–43
Effects of settlements	–1.0	0.0	> 100
Closing balance	**3.1**	**3.9**	**–19**

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

	31.12.2014 (in %)	31.12.2013 (in %)	Increase/decrease (%)
Equity instruments	4	9	–58
Debt instruments	92	84	9
Real estate	2	3	–43
Other assets	3	4	–36

The fair value of the plan assets includes equity instruments in the sum of KEUR 119 (previous year KEUR 349), debt instruments in the amount of KEUR 2,874 (previous year KEUR 3,253) as well as real estate and other assets in the sum of KEUR 134 (previous year KEUR 271). The overall expected yield of 2.20 % results from the weighted average of the expected income from the investment categories held through the plan assets. It is expected that a total of KEUR 394 will be paid into the plan assets of the defined benefit obligations during the next reporting period (previous year KEUR 410).

Pension costs are broken down as follows:

	31.12.2014 (KEUR)	31.12.2013 (KEUR)	Increase/decrease (%)
Current service cost	381	396	–4
Interest expense	228	189	21
Expected return on plan assets	–103	–154	–33
Past service cost	0	0	–
Effects of plan changes	0	0	–
Expected return on reimbursement rights	0	459	–100
Total	**506**	**890**	**–43**

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

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	31.12.2012 (EUR million)	31.12.2011 (EUR million)	31.12.2010 (EUR million)	31.12.2009 (EUR million)	31.12.2008 (EUR million)
Pension obligation (DBO)	6.3	6.1	5.4	3.3	3.8	3.5	3.4
Plan assets	–3.1	–3.9	–3.8	–2.6	–2.6	–2.5	–2.6
Deficit	3.1	2.2	1.6	0.7	1.2	1.1	0.8
Actuarial profit/losses	1.3	0.5	1.5	0.4	0.1	–0.1	0.1
Experience adjustments to:							
Pension obligation (DBO)	–0.2	–0.6	1.1	0.1	0.3	0.4	0.2
Plan assets	0.0	–0.1	–0.2	0.0	0.0	0.0	–0.1

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 area	other		
Opening balance	**24.8**	**0.0**	**2.0**	**2.4**	**0.0**	**29.2**
Changes from currency translations	0.1	0.0	0.0	0.0	0.0	**0.1**
Utilisation	–8.4	0.0	–0.9	–0.2	0.0	**–9.5**
Reductions	–8.8	0.0	0.0	–1.2	0.0	**–10.0**
Transfers	0.0	0.0	0.0	0.0	0.0	**0.0**
Allocations	1.9	0.0	2.5	0.7	0.0	**5.0**
Closing balance	**9.6**	**0.0**	**3.5**	**1.6**	**0.0**	**14.8**

(44) Income tax liabilities

Income tax liabilities are broken down as follows:

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Current income tax liabilities	0.5	4.0	–88
Passive deferred taxes	18.9	6.9	> 100
Total	**19.4**	**10.9**	**78**

Passive deferred taxes on the liabilities side refer to 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 fiscal tax requirements have been applied to the IFRS financial statements since the 2008 reporting year. This means that many of the temporary differences no longer apply. In the year under report, the deferred tax liabilities relate to deferred tax liabilities from the sale of the bank building in 2008 and the measurement differences not affecting profit or loss in the securities of the AfS portfolio.

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

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Assets			
Financial assets	13.6	1.6	> 100
Liabilities			
Equity	5.3	5.3	0
Total	**18.9**	**6.9**	**> 100**

(45) Other liabilities

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Liabilities from outstanding invoices	5.2	13.7	–62
Liabilities from short term remuneration of workers	6.0	5.1	19
Accruals and deferred income	4.5	7.6	–41
Liabilities from taxes and social security contributions not yet deducted	2.9	3.5	–17
Liabilities on interim accounts	0.3	0.0	> 100
Other liabilities	1.9	1.7	10
Total	**20.9**	**31.6**	**–34**

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

(46) Subordinated capital

Subordinated liabilities are only repaid after the claims of all senior lenders have been settled. They meet the conditions of the CRR with regard to offsetting as regulatory supplementary capital Offsetting takes place depending on the remaining term.

The expenses for subordinate liabilities amounted to KEUR 532 (previous year KEUR 557) in the year under report.

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

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Subordinated liabilities	103.0	90.7	14
Total	**103.0**	**90.7**	**14**

Type of transaction	Nominal amount (USD million)	Interest accrual (USD million)	Rate at 31.12.2014	Balance sheet value (EUR million)	Term in years	Interest rates (%)	Maturity
Subordinated loans	60.0	0.0	1.2141	49.4	15	0.40185	8 June 16
Subordinated loans	65.0	0.0	1.2141	53.5	15	0.6951	31 Dec. 17
Total	**125.0**	**0.0**		**103.0**			

The subordinated capital is liable to variable interest rates.

Other Disclosures

(47) 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 2014	Income tax effect 2014	Amount after taxes 2014	Amount before taxes 2013	Income tax effect 2013	Amount after taxes 2013
Increase/decrease from available for sale (AfS) financial instruments	41,155	−12,026	29,130	40,154	−11,733	28,421
Actuarial gains / losses for defined benefit provisions for pensions	−1,591	467	−1,124	−590	170	−420
Profit/loss recognised directly in equity	**39,564**	**−11,558**	**28,006**	**39,564**	**−11,563**	**28,001**
of which attributable to the shareholders of NORD/LB Luxembourg	39,564	−11,558	28,006	39,564	−11,563	28,001
of which not attributable to controlling shares	0	0	0	0	0	0

(48) Notes to the statement of changes in equity

The company's subscribed capital amounts to EUR 205 million as at 31 December 2014 (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 to date in the year under report.

The individual components of equity and their development in 2013 and 2014 can be seen in 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, in the latest amended version. Accordingly, at least 5 % of the profit for the year must be allocated to the legal reserve 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 −3.5 million (previous year EUR −1.9 million) before taking into account deferred taxes and minority interests. Negative changes in the year under report totalled EUR −1.6 million (previous year EUR −0.6 million).

The Bank utilised the fiscal option of offsetting wealth tax for the year and earmarked five times the amount of the offset wealth tax of the tax group in the free reserves, taking into account the required five-year commitment period.

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

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

Year	Wealth tax NORD/LB Luxembourg (EUR million)	Wealth tax NORD/LB CFB (EUR million)	Total	Locked in reserves (= five times the offset wealth tax) (EUR million)	Locked in until
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
2013	2.8	0.1	2.8	14.2	31.12.2018
2014	2.7	0.3	3.1	15.3	31.12.2019
Total	11.2	1.0	12.2	60.7	

(49) 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.

Please refer 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

(50) Term to maturity of financial liabilities and contingent liabilities

At 31 December 2014:

EUR million	< 1 month	1 month < 3 months	3 months< 1 year	1 year < 5 years	> 5 years	Total
Liabilities to banks	5,066.6	1,189.9	1,014.8	1,036.5	944.9	9,252.8
Liabilities to customers	1,971.2	72.8	103.1	6.3	0.0	2,153.4
Securitised liabilities	0.0	0.0	966.5	0.0	0.0	966.5
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	103.0	0.0	103.0
Irrevocable credit commitments	37.4	38.8	115.6	752.3	139.6	1,083.6
Financial guarantees	10.0	32.9	95.9	620.6	986.8	1,746.3
Total	**7,085.2**	**1,334.5**	**2,295.9**	**2,518.6**	**2,071.3**	**15,305.6**

At 31 December 2013:

EUR million	< 1 month	1 month < 3 months	3 months< 1 year	1 year < 5 years	> 5 years	Total
Liabilities to banks	4,415.3	2,835.0	783.8	1,744.1	883.8	**10,662.0**
Liabilities to customers	1,690.3	251.3	168.4	2.6	0.0	**2,112.7**
Securitised liabilities	0.0	0.0	0.0	927.3	0.0	**927.3**
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	90.7	0.0	**90.7**
Irrevocable credit commitments	0.0	38.9	47.9	632.4	171.3	**890.5**
Financial guarantees	0.0	29.0	13.6	631.6	850.1	**1,524.3**
Total	**6,105.6**	**3,154.2**	**1,013.6**	**4,028.7**	**1,905.3**	**16,207.4**

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 management report in the “Liquidity Risk” section of the risk report. This contains more detailed information about liquidity management, the control and measurement of the liquidity risks, reporting as well as the development in 2014 and the outlook.

(51) Book values according to valuation categories

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Assets			
Financial Assets Designated at Fair Value through Profit or Loss	**1,516.8**	**434.0**	**> 100**
Financial assets held for trading	482.7	434.0	11
Financial assets designated at fair value through profit or loss	1,034.1	0.0	> 100
Available for Sale Assets	**3,845.2**	**5,726.3**	**–33**
Loans and Receivables	**8,339.1**	**8,799.4**	**–5**
Total	**13,701.2**	**14,959.7**	**–8**
Liabilities			
Financial Liabilities Designated at Fair Value through Profit or Loss	**–546.6**	**–489.8**	**12**
Financial liabilities held for trading	–546.6	–489.8	12
Financial liabilities designated at fair value through profit or loss	0.0	0.0	–
Other Liabilities	**–12,475.7**	**–13,792.6**	**–10**
Total	**–13,022.3**	**–14,282.5**	**–9**

The fair values of underlying transactions from hedge accounting as defined by 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.

(52) Net results according to valuation categories

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Financial Instruments at Fair Value through Profit or Loss	**–67,328.1**	**–48,080.1**	**40**
Financial Instruments Held for Trading	–132,523.4	–48,080.1	> 100
Financial Instruments Designated at Fair Value through Profit or Loss	65,195.2	0.0	> 100
Available for Sale Assets	**104,621.7**	**108,525.1**	**–4**
Loans and Receivables	**168,417.7**	**174,143.0**	**–3**
Other Liabilities	**–127,754.9**	**–117,910.9**	**8**
Total	**77,956.3**	**116,677.0**	**–33**

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.

(53) Impairments/reversal of impairments according to valuation categories

	2014 (KEUR)	2013 (KEUR)	Increase/decrease (%)
Available for Sale Assets			
Result from valuation adjustments of AfS financial assets	0.0	0.0	–
Result from direct write-down of uncollectible receivables/ Receipts on written down receivables	0.0	0.0	–
Total	**0.0**	**0.0**	**–**
Loans and Receivables			
Result from valuation adjustments of LaR financial assets	−1,734.9	−10,823.1	−84
Result from portfolio based valuation adjustments of LaR financial assets	2,226.6	631.1	> 100
Result from the formation/reversal of provisions in the lending business (loan loss provisions)	6,913.0	−23,470.7	< −100
Result from direct write-down of uncollectible receivables/ Receipts on written down receivables	−64.7	0.0	> 100
Total	**7,339.9**	**−33,662.7**	**< −100**
Affiliated companies			
Result from depreciation of affiliated companies	−716.4	−634.2	13
Total	**−716.4**	**−634.2**	**13**

(54) Fair Value Hierarchy

The following tables show the application of the fair value hierarchy of the financial assets and liabilities at fair value through profit or loss and not affecting profit or loss:

31.12.2014 EUR million	Level 1 (Mark-to-Market)	Level 2 (Mark-to-Matrix)	Level 3 (Mark-to-Model)	Total
Trading assets	130.2	335.2	0.0	465.3
Debt securities and other fixed interest securities	130.2	7.3	0.0	137.5
Positive fair values from derivatives	0.0	327.8	0.0	327.8
Interest rate risks	0.0	179.8	0.0	179.8
Currency risks	0.0	148.1	0.0	148.1
Assets designated at fair value	934.6	99.5	0.0	1,034.1
Positive fair values hedge accounting derivatives	0.0	17.4	0.0	17.4
Financial assets (measured at fair value)	3,139.6	705.6	0.0	3,845.2
Debt securities and other fixed interest securities	3,139.5	705.6	0.0	3,845.1
Shares and other variable yield securities	0.1	0.0	0.0	0.1
Assets	**4,204.3**	**1,157.7**	**0.0**	**5,362.0**

31.12.2014 EUR million	Level 1 (Mark-to-Market)	Level 2 (Mark-to-Matrix)	Level 3 (Mark-to-Model)	Total
Trading liabilities	0.0	369.1	0.0	369.1
Negative fair values from derivatives	0.0	369.1	0.0	369.1
Interest rate risks	0.0	262.3	0.0	262.3
Currency risks	0.0	106.8	0.0	106.8
Negative fair values from hedge accounting	0.0	177.5	0.0	177.5
Liabilities	**0.0**	**546.6**	**0.0**	**546.6**

31.12.2013 EUR million	Level 1 (Mark-to-Market)	Level 2 (Mark-to-Matrix)	Level 3 (Mark-to-Model)	Total
Trading assets	82.6	311.2	0.0	393.8
Debt securities and other fixed interest securities	82.6	56.6	0.0	139.2
Positive fair values from derivatives	0.0	254.6	0.0	254.6
Interest rate risks	0.0	161.2	0.0	161.2
Currency risks	0.0	93.4	0.0	93.4
Assets designated at fair value	0.0	0.0	0.0	0.0
Positive fair values hedge accounting derivatives	0.0	40.2	0.0	40.2
Financial assets (measured at fair value)	3,590.2	2,136.1	0.0	5,726.3
Debt securities and other fixed interest securities	3,554.3	2,136.1	0.0	5,690.4
Shares and other variable yield securities	35.9	0.1	0.0	36.0
Assets	**3,672.8**	**2,487.4**	**0.0**	**6,160.3**
Trading liabilities	0.0	284.2	0.0	284.2
Negative fair values from derivatives	0.0	284.2	0.0	284.2
Interest rate risks	0.0	178.2	0.0	178.2
Currency risks	0.0	105.9	0.0	105.9
Negative fair values from hedge accounting	0.0	205.7	0.0	205.7
Liabilities	**0.0**	**489.8**	**0.0**	**489.8**

There are no Level 3 securities in the Bank's portfolio on the valuation date.

The transfers within the fair value hierarchy are as follows:

01.01.- 31.12.2014 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	10.0	0.0	0.0	0.0
Financial assets (measured at fair value)	0.0	0.0	677.9	0.0	0.0	0.0
Assets	**0.0**	**0.0**	**687.9**	**0.0**	**0.0**	**0.0**
Liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Within the financial assets, 31 securities moved from the matrix valuation (Level 2) into the market valuation (Level 1). With respect to the total portfolio of financial assets, the level transfers were approx. 12 %.

In the previous year there were the following level transfers:

01.01.- 31.12.2013 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)	1,627.7	0.0	0.0	0.0	0.0	0.0
Assets	**1,627.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

In the previous year, a total of 69 securities moved from the market valuation (Level 1) to the matrix valuation (Level 2) due to amended Group standards regarding level assignment. With respect to the total portfolio of securities, the level transfers were approx. 30 %.

There were no financial assets or financial liabilities in Level 3 either in the year under report or the previous year.

The following table shows the breakdown of the fair value of the assets and liabilities which are not stated at fair value on the balance sheet, but for which the fair value was stated in the Notes, according to the fair value hierarchy:

31.12.2014 EUR million	Level 1 (Mark-to-Market)	Level 2 (Mark-to-Matrix)	Level 3 (Mark-to-Model)	Total
Cash reserve	2.3	0.0	0.0	2.3
Loans and advances to banks	1,405.0	139.1	1,137.4	2,681.5
Loans and advances to customers	112.1	0.0	5,103.4	5,215.4
Financial assets not posted at fair value	0.0	632.3	0.0	632.3
Assets	**1,519.3**	**771.5**	**6,240.8**	**8,531.6**
Liabilities to banks	962.5	0.0	8,546.3	9,508.8
Liabilities to customers	1,233.9	0.0	919.5	2,153.4
Securitised liabilities	0.0	0.0	966.9	966.9
Subordinated capital	0.0	0.0	103.0	103.0
Liabilities	**2,196.4**	**0.0**	**10,535.7**	**12,732.1**

31.12.2013 EUR million	Level 1 (Mark-to-Market)	Level 2 (Mark-to-Matrix)	Level 3 (Mark-to-Model)	Total
Cash reserve	55.7	0.0	0.0	55.7
Loans and advances to banks	1,385.9	617.9	1,949.1	3,952.9
Loans and advances to customers	112.0	0.0	4,232.8	4,344.8
Financial assets not posted at fair value	0.0	639.8	0.0	639.8
Assets	**1,553.6**	**1,257.7**	**6,182.0**	**8,993.3**
Liabilities to banks	1,021.8	0.0	9,855.4	10,877.2
Liabilities to customers	176.9	0.0	1,935.8	2,112.7
Securitised liabilities	0.0	0.0	927.9	927.9
Subordinated capital	0.0	0.0	90.7	90.7
Liabilities	**1,198.6**	**0.0**	**12,809.8**	**14,008.5**

(55) Fair Value of financial instruments

The fair values of financial instruments, which are shown on the balance sheet at amortised cost (LaR) or with the hedge (LaR) or full fair value (AfS) are compared to the book values in the following table.

EUR million	Fair value 31.12.2014	Book value 31.12.2014	Difference 31.12.2014	Fair value 31.12.2013	Book value 31.12.2013	Difference 31.12.2013
Assets	**8,494.9**	**8,257.4**	**237.5**	**8,951.2**	**8,704.8**	**246.4**
Cash reserve	**2.3**	**2.3**	**0.0**	**55.7**	**55.7**	**0.0**
Loans and advances to banks	2,681.5	2,684.1	−2.6	3,952.9	3,911.1	41.8
Loans and advances to customers	5,215.4	5,003.7	211.7	4,344.8	4,175.3	169.5
Financial assets	632.3	604.0	28.4	639.8	604.7	35.1
Risk provisions	−36.7	−36.7	0.0	−42.1	−42.1	0.0
Loans and advances after risk provisions	**8,492.6**	**8,255.1**	**237.5**	**8,895.5**	**8,649.1**	**246.4**
Liabilities	**12,732.1**	**12,475.7**	**256.4**	**14,008.5**	**13,792.6**	**215.8**
Liabilities to banks	9,508.8	9,252.8	256.0	10,877.2	10,662.0	215.1
Liabilities to customers	2,153.4	2,153.4	0.0	2,112.7	2,112.7	0.0
Securitised liabilities	966.9	966.5	0.4	927.9	927.3	0.6
Subordinated capital	103.0	103.0	0.0	90.7	90.7	0.0

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

The amounts listed in the “Book value” column include the assets and liabilities reported on the balance sheet at amortised cost or with the hedge or full fair value. If a hedge or full fair value is shown as a book value, the value is also shown in the “Fair Value” column.

(56) Derivative financial instruments

NORD/LB Luxembourg uses derivative financial instruments for hedging within the scope of assets/liabilities management.

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-on adjustment payments, but does not include receivables or liabilities that are eligible for recognition on the balance sheet.

The composition of the derivative portfolio is as follows:

EUR million	Nominal values 31.12.2014	Nominal values 31.12.2013	Market value positive 31.12.2014	Market value positive 31.12.2013	Market value negative 31.12.2014	Market value negative 31.12.2013
Interest rate risks	**9,926.9**	**9,821.5**	**197.2**	**201.4**	**439.8**	**384.0**
Interest rate swaps	9,275.8	9,350.9	197.2	201.3	439.8	383.8
Caps, floors	30.0	40.0	0.0	0.2	0.0	0.2
Stock exchange contracts	609.4	430.6	0.0	0.0	0.0	0.0
Other forward rate agreements	**11.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Currency risks	5,181.1	5,208.2	148.1	93.3	106.8	105.9
Forward exchange contracts	3,358.5	3,360.1	71.7	10.7	9.7	30.9
Currency swaps/Interest rate-currency swaps	**1,822.6**	**1,848.2**	**76.4**	**82.7**	**97.1**	**75.0**
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	**15,107.9**	**15,029.7**	**345.2**	**294.8**	**546.6**	**489.8**

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. 2014	31.12. 2013	31.12. 2014	31.12. 2013	31.12. 2014	31.12. 2013	31.12. 2014	31.12. 2013
Term to maturity								
up to 3 months	806.2	1,002.8	3,315.2	3,280.8	0.0	0.0	0.0	0.0
over 3 months and up to 1 year	812.1	550.1	619.0	114.4	0.0	0.0	0.0	0.0
over 1 year and up to 5 years	3,997.7	4,469.7	277.0	921.7	0.0	0.0	0.0	0.0
over 5 years	4,310.8	3,798.9	969.9	891.4	0.0	0.0	0.0	0.0
Total	**9,926.9**	**9,821.5**	**5,181.1**	**5,208.2**	**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 31.12.2014	Nominal values 31.12.2013	Market value positive 31.12.2014	Market value positive 31.12.2013	Market value negative 31.12.2014	Market value negative 31.12.2013
Banks in OECD countries	13,706.5	14,068.5	321.4	287.4	545.5	486.7
Banks outside OECD countries	527.0	271.7	9.6	0.0	1.0	2.3
Public sector entities in OECD countries	0.0	0.0	0.0	0.0	0.0	0.0
Other counterparties (including stock exchange contracts)	874.4	689.5	14.2	7.4	0.1	0.8
Total	**15,107.9**	**15,029.7**	**345.2**	**294.8**	**546.6**	**489.8**

(57) 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 municipal governments and firms with government links. The Bank does not have any transactions in the HfT or dFV categories.

31.12.2014 EUR million	Available for Sale Assets	Loans and Receivables
Portugal		
Sovereign Exposure	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0
Corporates/Other	0.0	30.4
Total	**0.0**	**30.4**
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	117.9	0.0
Corporates/Other	0.0	7.3
Total	**117.9**	**7.3**

31.12.2014 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	189.7	0.0
Corporates/Other	0.0	6.1
Total	**189.7**	**6.1**

31.12.2013 EUR million	Available for Sale Assets	Loans and Receivables
Portugal		
Sovereign Exposure	0.0	0.0
Financial Institutions/Insurance Companies	54.6	0.0
Corporates/Other	0.0	34.8
Total	**54.6**	**34.8**
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	253.6	6.1
Corporates/Other	0.0	1.7
Total	**253.6**	**7.8**
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	281.6	50.7
Corporates/Other	0.0	12.7
Total	**281.6**	**63.3**

In the reporting period, there were no exposures in the countries of Egypt, Slovenia or Cyprus.

Credit derivatives are not included in the above figures.

Along with the abovementioned reported transactions, there are off-balance sheet liabilities from guarantees to Hungary (EUR 100.0 million, previous year EUR 100.0 million), Italy (EUR 103.3 million, previous year EUR 102.6 million), Ireland (EUR 61.1 million, previous year EUR 61.0 million), Spain (EUR 125.6 million, previous year EUR 125.0 million) and Portugal (EUR 24.1 million, previous year EUR 25.9 million).

For the financial instruments in the Available for Sale category with acquisition costs in the total sum of EUR 300.5 million (previous year EUR 588.3 million), the cumulative valuation result in the equity totals EUR –0.9 million (previous year EUR –11.1 million). No depreciation was recorded in the profit and loss account for the financial year (previous year EUR 0.0 million).

For the receivables in the Loans and Receivables category relating to the selected countries listed above, there are portfolio loan loss provisions in the sum of EUR 0.0 million (previous year EUR 0.3 million). The fair value of these receivables in the Loans and Receivables category totals EUR 54.0 million (previous year EUR 116.6 million).

The interest rates for the abovementioned transactions are between 0.0 % and 4.6 %. The individual terms to maturity of the transactions range from 2015–2025, with 22 % of the receivables becoming due in the next 12 months and 40 % 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 2013 and 2014:

31.12.2014 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	0.0	0.0
Corporates/Other	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.0**
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	103.6	14.3	0.0	117.9
Corporates/Other	0.0	0.0	0.0	0.0
Total	**103.6**	**14.3**	**0.0**	**117.9**
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**

31.12.2014 EUR million	Level 1	Level 2	Level 3	Total
Spain				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	97.3	92.4	0.0	189.7
Corporates/Other	0.0	0.0	0.0	0.0
Total	**97.3**	**92.4**	**0.0**	**189.7**

31.12.2013 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	54.6	0.0	54.6
Corporates/Other	0.0	0.0	0.0	0.0
Total	**0.0**	**54.6**	**0.0**	**54.6**
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	54.9	198.7	0.0	253.6
Corporates/Other	0.0	0.0	0.0	0.0
Total	**54.9**	**198.7**	**0.0**	**253.6**
Greece				
Sovereign Exposure	0.0	0.1	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	**0.0**	**0.1**	**0.0**	**0.1**
Spain				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	51.9	229.7	0.0	281.6
Corporates/Other	0.0	0.0	0.0	0.0
Total	**51.9**	**229.7**	**0.0**	**281.6**

In terms of the selected countries, there were only financial assets reported at fair value both in the year under report and the previous year.

(58) Forbearance

Forborne exposures refer to all receivables where the Bank has attempted to maintain the business operations and debt service of the customer in the past by means of deferment of payment, restructuring or waiver of margins in order to avoid default or impairment. The following valuations relate to balance sheet items on the reporting date:

31.12.2014 EUR million	Balance sheet item before value adjustment	Specific value adjustments	Balance sheet item after value adjustment
Construction industry	0.5	–0.4	0.1
Services and other	161.3	–15.9	145.5
Financial institutions and insurance	5.3	0.0	5.3
Trade	0.9	0.0	0.9
Processing industry	41.2	0.0	41.2
Total	**209.2**	**–16.2**	**193.0**

31.12.2013 EUR million	Balance sheet item before value adjustment	Specific value adjustments	Balance sheet item after value adjustment
Construction industry	0.4	–0.4	0.0
Services and other	165.3	–22.9	142.4
Financial institutions and insurance	5.8	0.0	5.8
Trade	1.9	0.0	1.9
Processing industry	100.0	0.0	100.0
Total	**273.4**	**–23.3**	**250.1**

Beyond this, no loan provisions exist for the commitments concerned here.

(59) 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 value of the financial instruments otherwise shown on the balance sheet at amortised cost (LaR and OL categories) is, however, adjusted by the fair value change resulting from the hedged risk.

The balance sheet reporting of financial instruments of the AfS category 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 informational purposes:

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (%)
Assets			
Loans and advances to banks	91.4	80.1	14
Loans and advances to customers	198.4	245.4	–19
Financial assets	2,157.1	3,515.4	–39
Total	**2,447.0**	**3,840.9**	**–36**
Liabilities			
Liabilities to banks	0.0	0.0	–
Liabilities to customers	0.0	0.0	–
Securitised liabilities	517.9	532.6	–3
Subordinated capital	0.0	0.0	–
Total	**517.9**	**532.6**	**–3**

(60) NORD/LB Luxembourg as assignor and assignee

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

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Loans and advances to banks	681.5	636.4
Loans and advances to customers	0.0	0.0
Financial instruments measured at fair value through profit or loss	0.0	0.0
Financial assets	3,629.6	4,333.3
Total	**4,311.1**	**4,969.7**

The furnishing of financial assets as security for borrowing funds took the form of genuine repurchase agreements (repos) with a maximum remaining term of six 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 (56) Derivative Financial Instruments.

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

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Financial assets assigned to the Bank	229.7	989.1
Deposits by banks	79.1	97.0
Total	**308.8**	**1,086.1**

In the 2014 reporting year as well as in the previous year, no securities were held which may also be sold or passed on without default by the collateral provider.

(61) Offsetting Financial Assets and Liabilities

The effects or potential effects of set-off rights in connection with financial assets and liabilities can be seen in the following table.

31.12.2014 (EUR million)	Gross amount before offsetting	Amount offset	Net amount after offsetting	Master netting arrangements and similar without balancing (offsetting)			Net amount
				of which: financial instruments	Securities		
					Securities	Cash collateral	
Assets							
Derivatives	321.4	0.0	321.4	−225.4	0.0	−77.0	**18.9**
Lending transactions and repurchase agreements	237.2	0.0	237.2	0.0	−229.7	0.0	**7.5**
Liabilities							
Derivatives	545.5	0.0	545.5	−225.4	0.0	−308.8	**11.3**
Lending transactions and repurchase agreements	3,952.2	0.0	3,952.2	0.0	−3,629.2	0.0	**323.0**

31.12.2013 (EUR million)	Gross amount before offsetting	Amount offset	Net amount after offsetting	Master netting arrangements and similar without balancing (offsetting)			Net amount
				of which: financial instruments	Securities		
					Securities	Cash collateral	
Assets							
Derivatives	284.7	0.0	284.7	−186.5	0.0	−93.6	**4.6**
Lending transactions and repurchase agreements	996.3	0.0	996.3	−635.7	−329.9	0.0	**30.6**
Liabilities							
Derivatives	483.4	0.0	483.4	−186.5	0.0	−290.7	**6.1**
Lending transactions and repurchase agreements	4,246.4	0.0	4,246.4	−635.7	−3,605.7	0.0	**5.0**

The business with derivative financial instruments and the lending transactions and repurchase agreement business is normally carried out on the basis of bilateral framework agreements concluded with the counterparty. These simply provide for contingent rights to offset the receivables, liabilities and the provided and received collateral such as in the event of a breach of contract or insolvency. As a consequence, there is no current right to offset in accordance with IAS 32.42.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Genuine repurchase agreements as a repurchase buyer (reverse repos)	**237.2**	**996.3**
Loans and advances to banks	237.2	996.3
Loans and advances to customers	0.0	0.0
Genuine repurchase agreements as a repurchase seller (repos)	**3,952.2**	**4,246.4**
Liabilities to banks	3,952.2	4,246.4
Liabilities to customers	0.0	0.0

	31.12.2014 (EUR million)	31.12.2013 (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**

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Securities sold under repurchase agreements	**3,629.6**	**4,333.3**
Securities sold under repurchase agreements at fair value through profit or loss	0.0	0.0
Securities sold under repurchase agreements from financial assets	3,629.6	4,333.3
Securities bought under repurchase agreements	**229.7**	**989.1**

(62) 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 which are only partially shown on the Bank's balance sheet. Likewise, there are no transferred assets with right of recourse.

		31.12.2014		31.12.2013
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	0.0	0.0	0.0	0.0
Financial assets posted at fair value	3,629.6	3,952.2	4,333.3	4,246.4
Assets for sale not posted at fair value	0.0	0.0	0.0	0.0
Assets for sale 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	**3,629.6**	**3,952.2**	**4,333.3**	**4,246.4**

The transferred financial assets are genuine repurchase agreements.

Other Notes

(63) Regulatory Information

The risk-weighted asset values and the regulatory equity have been based on the regulations of the IFRS since the 2008 reporting year and on the basis of the CRR since financial year 2014. A separate report will be compiled for the information to be disclosed pursuant to Section 13 of the CRR and will be published on the NORD/LB Luxembourg website when it is finished.

Risk-weighted asset values

The Bank uses internal approaches for the purpose of determining risk.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Risk assets	3,494.5	3,496.3
Weighted operational risks	214.0	227.0
Market risk positions	60.8	51.4
Total	3,769.3	3,774.7

The Bank uses the standard methods to determine the equity requirements for operational risks. These resulted in an equity requirement in the amount of EUR 17.1 million as at 31 December 2014 (previous year EUR 18.2 million).

Regulatory equity

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Core capital	645.8	656.7
Contributed capital	205.0	205.0
Other reserves	456.4	463.6
Remaining components	–11.2	–11.4
Deduction and supplementary items, core capital	–4.4	–0.5
Supplementary capital	**61.2**	**45.2**
Asset deposits of silent shareholders	0.0	0.0
Subordinated debt securities (part that can be offset)	46.3	45.7
Deduction and supplementary items, supplementary capital	14.8	–0.5
Liable equity	**707.0**	**701.9**
Equity capital	**707.0**	**701.9**

The objectives of equity management are to ensure an adequate equity base from a quantitative and qualitative standpoint, generate a reasonable return on equity and permanently comply 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 CRR.

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 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 are implemented.

Minimum capital ratios

The Bank complied with the regulatory minimum capital ratios at all times during 2013 and 2014. At the respective year-ends, the Bank had the following ratios:

	31.12.2014	31.12.2013
Overall coefficient	18.76 %	18.60 %
Core capital ratio	17.13 %	17.40 %

In 2014, the Bank constantly fulfilled the applicable regulatory provisions on equity and liquidity. In response to a request by the Bank, the CSSF regulatory body granted the Bank exemption from compliance with the large risk limit for companies in the NORD/LB Group in accordance with Article 20 “Group Exemptions” of Regulation 14/01 (CSSF Regulation no. 14-01 on the implementation of certain discretions of Regulation (EU) 575/2013 dated 11 February 2014). According to regulatory methodology, there are credit risks with respect to Group companies on the reporting date in the sum of EUR 5,074.6 million (previous year EUR 5,199.0 million).

(64) Foreign currency volumes

On 31 December 2014, 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	512.1	1.2	1.5	24.3	**539.1**
Loans and advances to customers	951.2	8.4	221.0	95.3	**1,275.9**
Risk provisions	–0.2	0.0	–1.7	0.0	**–1.9**
Financial assets at fair value through profit or loss	115.7	25.2	12.0	45.0	**197.9**
Positive fair values from hedge accounting	0.0	0.0	0.0	0.0	**0.0**
Financial assets	86.2	0.0	0.0	106.3	**192.5**
Other assets	0.0	0.0	0.0	0.0	**0.0**
Total	**1,665.2**	**34.9**	**232.8**	**270.9**	**2,203.7**

EUR million	USD	JPY	CHF	Other	Total
Liabilities					
Liabilities to banks	2,588.3	0.0	0.0	304.0	2,892.3
Liabilities to customers	157.7	0.0	16.8	157.4	331.8
Securitised liabilities	448.9	0.0	0.0	0.0	448.9
Financial liabilities at fair value through profit or loss	91.5	3.1	10.3	0.9	105.9
Negative fair values from hedge accounting	23.8	0.0	0.4	0.0	24.1
Other liabilities	6.1	0.0	0.0	0.1	6.1
Subordinated capital	103.0	0.0	0.0	0.0	103.0
Total	**3,419.2**	**3.1**	**27.5**	**462.3**	**3,912.1**

(65) Contingent liabilities and other obligations

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Contingent liabilities	1,746.3	1,524.3
Contingent liabilities under rediscounted bills of exchange	0.0	0.0
Liabilities from guarantees and other indemnity agreements	1,746.3	1,524.3
Irrevocable credit commitments	**1,083.6**	**890.5**
Total	**2,829.9**	**2,414.8**

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.

Liabilities from guarantees and other indemnity agreements (financial guarantees) are reported in compliance with IAS 39. The liabilities from existing rent, lease, guarantee or similar contracts are within the normal scope of business.

Letter of Comfort
Norddeutsche Landesbank Luxembourg S.A. ensures that the following companies can fulfil their obligations:
NORD/LB Covered Finance Bank S.A.

(66) Subordinated assets

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Loans and advances to banks	0.0	29.0
Loans and advances to customers	0.0	0.0
Financial instruments measured at fair value through profit or loss	0.0	0.0
Financial assets	0.0	0.0
Total	**0.0**	**29.0**

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 in the previous year, in the amount of EUR 29.0 million, relate to a subsidiary.

(67) Trust transactions/activities

There were no trust activities as of the 31 December 2014 reporting date.

(68) Events after the balance sheet date

There are no major financial consequences for the Bank resulting from the strong increase in the value of the Swiss franc (CHF) against the euro (EUR) in January 2015.

Apart from the changes with regard to the merger in financial year 2015, there were no significant events between the balance sheet date on 31 December 2014 and the preparation of these financial statements on 27 February 2015 by the Board of Directors.

(69) Auditor's fees

	2014 (in KEUR)	2013 (in KEUR)
Auditor's fees for:		
Auditing	332	318
Other confirmation services	127	140
Tax consultancy	121	175
Other services	8	5

No fees were paid to the auditors other than those shown in the table. The amounts are shown excluding statutory value added tax.

(70) Deposit guarantee

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

Since 2001, the AGDL has also been protecting customers' assets held in custody. Consequently, 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

(71) Number of employees

The average number of employees during the reporting period can be broken down as follows:

	Male 2014	Male 2013	Female 2014	Female 2013	Total 2014	Total 2013
NORD/LB Luxembourg	137.6	132.0	64.2	61.8	201.8	193.8

The employees and Board of Directors are distributed across the following functions:

Group	2014	2013
Board	3.0	3.0
Senior staff	14.0	17.0
Employees	184.8	173.8
Total	**201.8**	**193.8**

(72) Related party disclosures

All consolidated subsidiaries qualify as related parties. In addition, 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. In financial year 2014, an existing subordinate loan from NORD/LB CFB was repaid early. The loan was settled at its nominal price. If it had been repaid at market conditions, an expense of KEUR 2,639 would have been incurred by the Bank, which would have been a corresponding income amount for NORD/LB CFB. No guarantee commission was charged in the year under report for guarantees given to NORD/LB CFB for a partial portfolio (nominal volume EUR 138.5 million, previous year EUR 1,305.8 million). At normal market conditions, the guarantee commission would have been between 0.03 % p.a. and 0.34375 % p.a. (previous year 0.03 % p.a. and 0.788 % p.a.).

The scope of transactions with related companies and persons in 2014 and 2013 can be seen in the following lists. Changes in the group of related companies and persons necessitate adjustments of the previous year's figures where necessary:

At 31 December 2014:

In KEUR	Shareholders	Subsidiaries	Persons in key functions	Other related parties
Outstanding loans and advances				
to banks	255,504	2,036,879	0	0
to customers	0	0	0	0
Trading and hedging derivatives on assets side	42,878	101,554	0	0
Other assets	12,031	723,592	0	0
Total assets	**310,413**	**2,862,025**	**0**	**0**
Outstanding liabilities				
to banks	2,294,567	1,146,404	0	3
to customers	0	13,408	0	3,859
Trading and hedging derivatives on liabilities side	42,511	177,228	0	0
Subordinated capital	102,987	0	0	0
Other liabilities	475,955	0	3,783	0
Total equity and liabilities	**2,916,019**	**1,337,040**	**3,783**	**3,862**
Guarantees / sureties granted	**24,000**	**1,567,735**	**17**	**0**
Interest expense	–105,316	–110,997	0	–8
Interest income	15,823	121,528	0	302
Commission expense	–31,862	0	0	0
Commission income	2,333	3,940	0	250
Other income and expense	16,150	19,540	–3,690	1,406
Total contributions to income	**–102,873**	**34,011**	**–3,690**	**1,950**

No dividends 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 NORD/LB CFB in the total sum of KEUR 4,806 (previous year KEUR 4,995).

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 amount of EUR 96.1 million as at 31.12.2014 (previous year EUR 137.3 million), divided into LAR financial assets (EUR 95.0 million, previous year EUR 137.3 million) and loan receivables (EUR 1.1 million, previous year EUR 0.0 million).

The Bank issued a registered promissory note in 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. In financial year 2014, EUR 200.0 million was repaid early with the approval of the CSSF and replaced by another refinancing instrument with NORD/LB without special rights in the same amount.

The issue and the pro-rated repayment took place under normal market conditions.

At 31 December 2013:

In KEUR	Shareholders	Subsidiaries	Persons in key functions	Other related parties
Outstanding loans and advances				
to banks	157,066	2,458,952	0	0
to customers	0	0	0	0
Trading and hedging derivatives on assets side	17,417	91,013	0	0
Other assets	16,679	715,385	0	46,021
Total assets	**191,162**	**3,265,350**	**0**	**46,021**
Outstanding liabilities				
to banks	3,490,135	1,079,200	0	3
to customers	0	13,833	0	0
Trading and hedging derivatives on liabilities side	38,036	172,889	0	0
Subordinated capital	90,665	0	0	0
Other liabilities	404,957	0	2,964	0
Total equity and liabilities	**4,023,794**	**1,265,922**	**2,964**	**3**
Guarantees / sureties granted	**24,000**	**1,305,767**	**20**	**0**
Interest expense	−97,162	−108,898	0	−11
Interest income	12,530	115,111	0	647
Commission expense	−27,013	0	0	0
Commission income	0	0	0	257
Other income and expense	15,499	66,611	−3,788	−222
Total contributions to income	**−96,146**	**72,823**	**−3,788**	**672**

All payments and loans to executive bodies in accordance with the provisions relating to trade are set out in Note (74) Remuneration of and loans to executive bodies.

(73) Members of executive bodies and their positions

Members of the Board of Directors

- Harry Rosenbaum, Luxemburg
(Chairman) (until 31 December 2014)
- Christian Veit, Luxemburg (Deputy Chairman)
- Thorsten Schmidt, Irrel

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
- Thomas S. Thomas S. Bürkle, Member of the Board of Directors of Norddeutsche Landesbank Girozentrale, Hanover (as of 1 March 2014)
- 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 (until 28 February 2014)
- Christoph Schulz, Member of the Board of Directors of Norddeutsche Landesbank Girozentrale, Hanover

Positions

During the financial year the following positions were held by the members of the Board of Directors of Norddeutsche Landesbank Luxembourg S.A.:

Harry Rosenbaum

- NORD/LB Vermögensmanagement Luxembourg S.A., Chairman of the Board of Directors
(as of 31 December 2014)
- 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
- Skandifinanz AG, Zürich,
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

(74) Remuneration of and loans to executive bodies

	2014 (in KEUR)	2013 (in KEUR)
Payments to active executive body members	**−3,834**	**−3,788**
Extended management *	−3,762	−3,716
Supervisory Board	−72	−72
Payments to active executive body members	**0**	**0**
Extended management *	0	0
Supervisory Board	0	0
Pension obligations	**3,783**	**2,964**
Extended management *	3,783	2,964
Supervisory Board	0	0
Advances, loans and liabilities	**17**	**20**
Extended management *	17	20
Supervisory Board	0	0

* Board of Directors and senior staff

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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.

Luxemburg, 27. Februar 2015
Norddeutsche Landesbank Luxembourg S.A.

Christian Veit
CEO
Spokesman for the Board of Directors
Norddeutsche Landesbank Luxembourg S.A.

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

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NORD/LB Luxembourg

Report of the Reviseur d'Entreprises agréé

To the Shareholders of
Norddeutsche Landesbank Luxembourg S.A.
7, rue Lou Hemmer
L-1748 Luxembourg-Findel

Report on the consolidated financial statements

Following our appointment by the Board of Directors of Norddeutsche Landesbank Luxembourg S.A. dated June, 27th, 2014, we have audited the accompanying financial statements of Norddeutsche Landesbank Luxembourg S.A., which comprise the statement of financial position as at December 31st, 2014, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether 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. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Norddeutsche Landesbank Luxembourg S.A.as of December 31st, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the financial statements.

Luxembourg, February 27th, 2015

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

H. Thönes T. Feld

Disclaimer:
This translation was drawn up for information purposes only. In case of discrepancies between the German and the English text, the German text shall prevail.

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NORD/LB Luxembourg

Report of the Supervisory Board

In the year under report, the Board of Directors of the Bank briefed the Supervisory Board on a regular basis about the development of the business and the position of the Bank. The Supervisory Board met a total of four times in the 2014 reporting year.

The financial statements of NORD/LB Luxembourg for the 2014 reporting year were audited by KPMG Luxembourg Société coopérative, 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 13 March 2015 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. Moreover, it has dealt extensively with the business and risk strategy of the Bank. Fundamental issues relating to business strategy and operations were discussed in detail at several meetings. Among other issues, this included dealing extensively with the strategic realignment and the merger of the two banks Norddeutsche Landesbank Luxembourg S.A. and NORD/LB Covered Finance Bank S.A., which is scheduled for 2015, as well as the spin off of the Private Banking business segment.

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 13 March 2015, the Supervisory Board approved the management report and the financial statements as at 31 December 2014, which are therefore formally approved.

The Supervisory Board proposes to the general meeting to approve the actions of the Board of Directors and to allocate the profit from the 2014 reporting year to profit carried forward.

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 they performed in 2014.

Personnel Changes

As part of the upcoming merger of the Bank into a special bank, a covered finance bank as defined by of Article 12-1 et seq. of the Law of 5 April 1993 on the financial sector, the Private Banking business segment was hived off to form an independent company, NORD/LB Vermögensmanagement Luxembourg S.A., and the Bank's Board of Directors was rearranged.

Mr Rosenbaum, who as Chairman of the Board of Directors has also been responsible for the Private Banking business segment until now, was appointed Spokesman for the Board of Directors of NORD/LB Vermögensmanagement Luxembourg S.A. with effect from 31.12.2014. Mr Veit is replacing Mr Rosenbaum and took over the position of CEO and Spokesman of the Board of Directors at the Bank with effect from 01.01.2015. Mr Schmidt assumed the position of Deputy CEO and remains a member of the Board of Directors, which now only has two members. The Supervisory Board would like to thank Mr Rosenbaum for his excellent work and extraordinary commitment during his seven years on the Board of NORD/LB.

Luxembourg
March 2015

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

Address
Norddeutsche Landesbank Luxembourg S.A.
7, rue Lou Hemmer

Mailing Address
Postfach 121/ P.O. Box 121, L-2011 Luxembourg

Telephone

General	+352 452211-1
Treasury	+352 454443 / 454321

Telefax

General	+352 452211-319
Board of Directors	+352 452211-213
Treasury/Proprietary/ Credit Investments & Solutions	+352 452211-323
Loans	+352 452211-251
Settlements-Money Market, Foreign Exchange and Derivatives	+352 452211-321
Settlements-Securities	+352 452211-363

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NOLALULL

Supervision
Commission de Surveillance du Secteur Financier

Internet
www.nordlb.lu

Trade and Companies Register
B 10405

NORD/LB
Luxembourg