

NORD/LB Covered Finance Bank S.A.



Annual Report as of 31-12-2010

Summary of Key Data

Performance	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/Decrease (EUR million) (%)	
Loans and advances to banks	1,111.0	1,144.8	-33.8	-3
Loans and advances to customers	821.4	856.8	-35.4	-4
Risk provisions	-2.1	-1.0	-1.0	97
Financial assets	4,044.9	3,686.4	358.5	10
Other assets	433.2	243.7	189.5	78
Balance sheet total – assets	6,408.5	5,930.6	477.8	8
Liabilities to banks	2,550.9	1,960.8	590.1	30
Liabilities to customers	433.0	367.9	65.0	18
Securitised liabilities	2,701.3	3,032.7	-331.4	-11
Other liabilities	656.2	504.8	151.4	30
Reported equity	67.0	64.3	2.7	4
Balance sheet total – liabilities	6,408.5	5,930.6	477.8	8
Lettres de Gage (covered bonds)	3,266.2	3,494.2	-228.0	-7
Profit/loss performance	2010 (KEUR)	2009 (KEUR)	Increase/Decrease (KEUR) (%)	
Net interest income	8,589	8,725	-136	-2
Net commission income	-1,201	-903	-298	33
Profit/loss from financial assets	5,041	5,354	-314	-6
Other profit/loss	-2,296	-2,323	27	-1
Earnings before costs	10,134	10,853	-720	-7
Administrative expenses	-2,853	-2,675	-177	7
Profit/loss from changes in valuation and risk provision	-567	-223	-343	> 100
Taxes	482	-1,591	2,073	> 100
Earnings after taxes	7,197	6,364	833	13
Key economic data	2010	2009	Increase/Decrease	
Cost-income-ratio in % *)	28.1 %	24.6 %	3.5 %	14
RoRaC in % **)	11.7 %	13.8 %	-2.1 %	-15

*) The Cost-Income-Ratio (CIR) is equal to the quotients from administrative expenses and the earnings before costs

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

Regulatory law key figures	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/Decrease (EUR million) (%)	
Risk-weighted asset values	902	908	-6	-1
Core capital	78	67	11	16
Equity capital	116	113	3	3
Core capital ratio	8.6 %	7.4 %	1.3 %	17
Overall coefficient	12.8 %	12.4 %	0.4 %	3
Changes in employee numbers	2010	2009	Increase/Decrease (%)	
Number of employees	9	7	2	29



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Members of the Supervisory Board

Martin Halblaub

Member of the Board of Directors of
NORD/LB Norddeutsche Landesbank Girozentrale
(until 11 January 2010, Chairman)

Ulrike Brouzi

General Manager of
NORD/LB Norddeutsche Landesbank Girozentrale
(since 1 September 2010,
Chairman since 17 November 2010)

Harry Rosenbaum

Chairman of the Board of
NORD/LB Norddeutsche Landesbank Luxembourg S.A.
(Deputy Chairman)

Jürgen Machalett

General Manager of
NORD/LB Norddeutsche Landesbank Girozentrale

Wolfgang Göhlich

Global Head of Treasury of
NORD/LB Norddeutsche Landesbank Girozentrale

Board of Directors

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

Markus Thesen

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

Christian Veit

Organisation

Public Finance

René-Christian Rindert

Treasury

Oliver Mazur

Operation Management/Compliance

Klaus Söllner



**Chairman of the Board
of Directors/
Chief Executive Officer**
Markus Thesen



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



Position within the Group

NORD/LB Covered Finance Bank S.A. (referred to hereinafter as “NORD/LB CFB” or “the bank”) is a full subsidiary of Norddeutsche Landesbank Luxembourg S.A., Luxembourg, (hereinafter referred to in short as “NORD/LB Luxembourg”) and is included in the sub-group annual accounts of NORD/LB Luxembourg and in the consolidated annual accounts of Norddeutsche Landesbank Girozentrale, Hanover (hereinafter referred to in short as “NORD/LB”). The financial statements of the sub-group NORD/LB Luxembourg can be viewed on the internet at www.nordlb.lu and the consolidated financial statements of NORD/LB at www.nordlb.de.

NORD/LB and NORD/LB Luxembourg submitted a letter of comfort for NORD/LB Covered Finance Bank S.A. in their respective Annual Reports. This letter of comfort also covers political risk.

The object of NORD/LB CFB is to conduct the business of a covered bond bank (Pfandbriefbank) so far as permitted under the law of the Grand Duchy of Luxembourg.

Market consequence, organisational and administrative functions are performed on the basis of agency contracts by the parent company, NORD/LB Luxembourg or the group parent NORD/LB except for the functions of operational management, compliance and cover pool management.

This report relates to the individual annual report of NORD/LB CFB in compliance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as implemented by the EU.

International Economic Development

Financial Markets

The extensive fiscal policy measures taken in response to the recession, and the typical losses of income and additional burdens for public finances caused by the recession, have led to almost all member states of the Eurozone having to accept new borrowing above the 3 % mark allowed in accordance with the stability and growth pact in 2009 and 2010. Thus the deficit quota within the Eurozone in 2009 measured on the nominal gross domestic product was an average of 6.3 %, and even the deficit quota for the year just ended might well turn out to be at a similar level. The debt/GDP ratio meanwhile increased to over 80 % of GDP.

In particular Greece's deficit quota which, having being checked by the EU Commission, and at 15.4 % of GDP, has turned out to be even higher than the 13.6 % reported in April 2010, was given a very critical assessment on the financial markets. Growing concerns about the creditworthiness of Greece triggered severe turbulence on the markets in spring of 2010. Thus Greek government bonds came under a lot of pressure and the Greek yield curve inverted. The spread of Greek government bonds with ten-year remaining maturity to Federal bonds climbed to almost 10 percentage points. Some other countries of the Eurozone were affected by this, which likewise have to battle with a high debt level and a difficult budgetary position.

At the height of the distortions at the beginning of May, the Euro countries agreed a common rescue mechanism for ailing member states with the IMF and the EU Commission. The centrepiece is the European Financial Stability Facility (EFSF) with EUR 440 bn. On top of this comes EUR 60 bn. funds from EU Commission (European Stability Mechanism, ESM) and EUR 250 bn. support from the IMF. The first country that needed to be bailed out using this mechanism was Ireland. With the rescue of the Anglo Irish Bank, Ireland's state finances were also so heavily burdened that the Irish government had to apply for help in the sum of EUR 85 bn. from the common rescue package.

The latest distortions as a consequence of the crisis in the Irish state finances have again proven that the debt crisis will remain the determining subject in the European Union for the time being. As well as comprising the way back to sustainable growth, budget consolidation will be one of

the major big challenges faced by many countries over the coming years. Politicians continue to search feverishly for opportunities to sustainably curb the crisis on the markets for government bonds. At the two-day summit in the middle of December 2010, the heads of state and government created the legal basis for a permanent crisis mechanism with an agreement to change the EU treaty. In our view it is, however, extremely doubtful whether these amendments will be enough to calm the tense market conditions. It is most likely that this will only be achievable with a credible and unanimous avowal of European unity, which would also have to include financial and risk transfer elements. Otherwise, politics threatens to continue to lag behind market developments.

The EFSF may well not be enough to overcome the acute crisis in the Eurozone. The structure of the EFSF is too susceptible, in that it acts as guarantor at the same time as providing rescue measures. As well as a permanent crisis mechanism, we also need new culture of stability in the common currency zone. We believe that the recommendations of the Van-Rompuy working party, which was set up solely to improve financial and economic policy monitoring, are only suitable for establishing a new culture of stability to a limited extent. One problem of the stability and growth package was the lack of credibility of sanctioning breaches. While there is supposed to be some tightening here, the basic problems (no automatism, discretionary decisions, voting in the council of ministers) still remain in existence. On the other hand, the approach of taking a comprehensive approach to fostering a culture of stability and paying attention to macroeconomic aberrations in the future as well, is to be welcomed. Ireland is the prime example of the fact that stability in a currency union cannot be achieved in the same ways as a savings club with simple cash rules. Moreover, in order to avoid disincentives, private investors should also be involved in the costs of restructuring in the future.

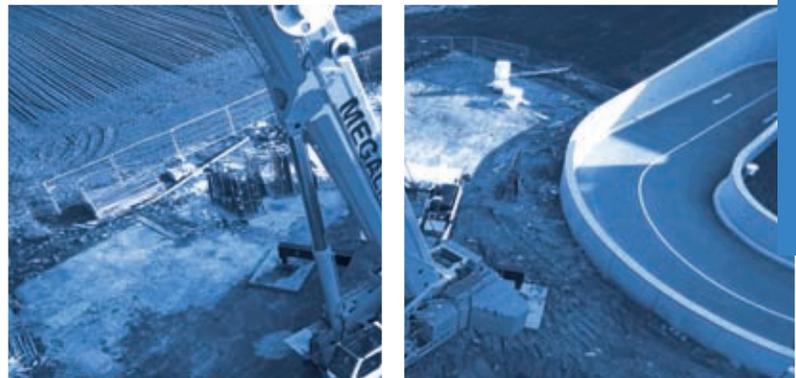
The ECB has reacted to the government bond crisis with a purchasing program for European government bonds (Securities Markets Program, SMP) and bought government bonds – presumably primarily from countries on the Euro periphery – in volumes of nearly EUR 74 bn. up to the end of the year. In the meantime, the ECB has made it clear to the governments through its increase of capital by EUR 5 bn. by the end of the year that any costs that might arise with a further purchase of government bonds by the Eurosystem will be passed on to the member states, at least indirectly. Consequently, this is primarily to be read as a political signal to the heads of state and government that the crisis in trust and the debt crisis will have to be solved politically

and they must not even secretly hope for a (partial) monetisation of government bonds.

Until recently, the debt crisis was the most important topic on the capital markets. Although federal securities can continue to be regarded as a safe haven, the yield of ten-year federal bonds rose robustly until the end of 2010. Following the marked low point of nearly 2.1 % seen at the end of August, yield rose by nearly 100 base points above 3.0 %. In our view, however, this is the manifestation of a normalisation of the unnaturally low yield level in the summer months of 2010. Moreover, against the background of the positive economic outlook for 2011, riskier assets have gained in attractiveness again.

The money market rates have normalised on the interbank market, after the interbank rates had been significantly below the base rate for a long time as a result of the flood of liquidity on the markets. Meanwhile, the 3 month rate (EURIBOR) is listed above 1 %. The relatively silent reduction in the Eurosystem's net accounts receivable from the banks through the expiry of several longer term refinancing transactions and the largely successful stress test run in July are the manifestations of a restabilising financial system. Meanwhile, the banking system is no longer so heavily dependent on the liquidity injections of the issue bank. Nevertheless some individual banks – in particular from those states that have been particularly badly hit by the debt crisis – continue to have considerable problems to refinance via the markets and therefore away from the ECB. Many banks have not yet completed the process of adjusting their balance sheets. Moreover, banks are faced with considerable challenges following the proposal of the Basel Committee on banking at the bank for International Settlements to tighten the minimum equity capital regulations for banks after the anticipated transposition into national law. In particular, the much higher qualitative and quantitative requirements for liable equity capital in the future will require considerable changes.

The fluctuation band of the yields in the USA again turned out to be wider than the federal bonds. The yields of 10-year treasuries slid from their height of nearly 4.0 % at the beginning of April prior to the announcement of the new purchasing programs of the Federal Reserve Bank (Fed; Quantitative Easing 2, QE2) to below 2.4 % in October. The yield spread between ten year US treasuries and german federal bonds (Bundesanleihen) fluctuated accordingly between 90 and nearly 5 base points and rose by the end of the year slightly again to a good 30 base points.



At the height of the Euro debt crisis the US dollar was briefly valued at nearly USD/EUR 1.19 against the Euro, before the greenback came under renewed pressure and briefly devalued by November to USD/EUR 1.45. Primarily positive economic news from Germany and the effects of QE2 had a supportive effect for the Euro in the second half of the year. Previously, however, market players had focussed more on the budgetary position of several European countries and the worries about the stability of the Eurozone. Over the course of the year, the Euro moved against the British pound within a band of GBP/EUR 0.92 to 0.80 and was listed at the end of the year just below GBP/EUR 0.86. The Japanese yen on the other hand increased strongly in value against the Euro, similarly to the Swiss franc, which reached the temporary peak of the strong increase in value during 2010 at the end of the year at CHF/EUR 1.24.

Economic Development in Germany

According to the first estimates of the Federal Statistical Office the German economy recovered astonishingly strongly in the year just ended from the major recession of 2009. According to the office, the real GDP increased by 3.6 % in comparison to the previous year. At +1.7 % the increase was twice as high as the overall increase in the Eurozone. With this impressive upturn, a large part of the previous fall in GDP of –4.7% could be recovered. Hardly anybody had expected this development a year ago – at least not to this extent. The German economy had started 2010 with a statistical surplus of just 0.7 percentage points, which once again spells out the high dynamics of the overall year in 2010. Even the current German national record value for growth in GDP from 2006 was slightly surpassed. After the worst recession of the post war years, the recovery process thus ended in the highest rise in GDP since reunification. Over the same period, the deficit quota increased to 3.5 % of the nominal GDP, the rise does

however turn out to be a lot smaller than forecasted a year ago because of the good economic development.

Germany profited particularly from the dynamic world economy because of its traditional export strength. Other important industrial nations such as the USA and Japan, but above all numerous emerging economies, also recorded a high overall economic growth in 2010. Fuelled by this development, world trade increased in the year just ended with a two-figure rate in comparison to the previous year and was thus already able to achieve the pre-crisis level now. This gave rise to significant impulses for the manufacturing industries in Germany, which are reflected among other things in a clear rise in foreign orders for German companies and the increased industrial output. The international stabilisation and economic programs and the very expansive monetary policy made their contribution to the global economic recovery. There were increasing signs of largely self-supported recovery in 2010. Against this background, it is not very surprising that the IFO business climate recovered greatly in the companies and it was possible to record a new record value in December.

In 2010, German exports grew by a good 14% in real terms, imports increased by 13%. While net exports therefore contributed 1.1 percentage points to the real GDP, the remaining 2.5 percentage points can be traced back to domestic consumption. In particular, investment in plant and equipment increased vigorously in 2010 by +9.4% in real terms, but could only partially compensate for the drop seen in 2009. This development, which was presumably very dynamic again in the final quarter, may well also be partially a result of the discontinuation of the option of the declining-balance method of depreciation, but the historically low long-term real interest rates and the till now strong increase in capacity utilisation have likewise contributed to this. Building investments grew by +2.8%, partly due to measures in association with the economic program and the historically low mortgage rates. Consumer behaviour was also positively influenced, so in comparison to the previous year, private consumption rose by 0.5% as well as public consumption (+2.2%).

This may well be not least as a result of the remarkably good development of the employment market. While in most western industrial nations unemployment rose sometimes drastically as a consequence of the financial crisis, underemployment in Germany only rose slightly in the short term. The trend of sinking unemployment figures recorded since the middle of 2009 was not influenced by this. One important contribution to this – in addition to the flexible

reaction of the parties to wage agreements – was the instrument of the economic short working time which affected about 1.5 million people at its peak. In parallel to the fall in unemployment and in the course of the economic recovery, this figure fell significantly from the beginning of 2010. Moreover, the average annual unemployment rate sank to 7.7%; the absolute number of statistically registered persons without a job reached the lowest level for around 18 years in November at 2.93 million.

Moreover, as well as the very pleasing development of the employment market, the relatively low inflation had a positive effect on real purchasing power and therefore on private consumption in the last year once again. After the price levels had stayed almost constant in 2009, the national consumer price index rose moderately in 2010 by 1.1%. This led to a rise in real wages and salaries in negotiated agreements in the past year by 0.7%. The effective gross income rose per employee by 1.1% in real terms, which was primarily due to the fall in short working time and the resultant increased number of hours actually worked again.

... in the USA

In the last few weeks the signs are multiplying that after the remarkable recovery between the autumn 2009 to spring 2010, there did indeed follow an interim weakening, but this has apparently come to an end again. Thus, the mood indicators in the manufacturing sector rallied again and are being recorded in the expansive region. Receipt of orders and industrial production are also showing higher growth rates. The renewed recession feared by many – a double-dip recession – therefore did not occur. Quite to the contrary, growth rates seem to be normalising in a healthy way and economic development seems to be stabilising. Robust consumption is contributing to this on the one side, and on the other side, so are the global growth dynamics, which continue to be high.

The real estate market crisis and the situation on the employment market were a burden in 2010. And yet, high growth contributions from consumption were recorded in the GDP. The unaltered growth in income was primarily responsible for this – the people who were not affected by short time working or laid off consumed almost as much as before. Moreover, the richer households, who traditionally make a disproportionately large contribution to consumption, may well have additionally profited from a wealth effect on the securities markets.

No counter movement can be expected on the real estate market, which essentially helped to cause the economic crisis, in view of it being totally a buyer's market. There do appear to be indications however of a stabilisation at a very low level. At least it was thus possible to stop the fall in starting building projects, planning approvals and sales of new builds. It must however still be assumed that there will be an excess supply of real estate in the coming years.

The Federal Reserve stuck to the zero interest rate in 2010 and in addition resolved to purchase further government bonds totalling USD 600 billion (Quantitative Easing 2). The capital market yields at the long end of the interest rate structure curve sank markedly in anticipation of this policy, but have since broken away from their low levels again markedly. Thus 10 year US treasuries were listed just below 3.5 % again at the end of 2010.

Forecast

With a view to 2011, the global economy threatens to exhibit a somewhat slower dynamic as a result of the not quite so expansive monetary environment and the more restrictive fiscal policy. The global GDP (in purchasing power parities) should be able to grow in 2011 by more than 4 % in real terms however. There are currently some voices who are expecting a muted growth of the US economy because of the currently still tense situation on the US employment market and the possible associated negative repercussions for private consumption. Nevertheless there is no reason in our view for exaggerated pessimism. The growth trend in the United States is still intact and may well have even speeded up recently so that we are assuming a rise in real GDP in 2011 of 3.2 %. The US issue Bank has made it known on numerous occasions that it wants to hold fast to its course of very expansive monetary policy for longer. Above all, the still weak constitution of the employment market and the moderate movement of prices are still currently offering the Fed the arguments in favour of this. Against this background, we are anticipating that the US issue Bank will raise the base rate for the first time in the third quarter of 2011.

Germany will be again at the top in the economic development within the Eurozone with a growth of 2.6 %. Even if the dynamics in this country were to diminish, there is still a large divergence in the overall economic development within the Eurozone, especially so because several Euro member states face significantly greater needs for consolidating their public finances and because these countries

are also often faced with having to make further structural adjustments.

In the Eurozone, the moderate economic recovery will continue despite the recent turbulence on the markets for government bonds and will allow a growth in GDP of 1.5 %. Above all, the precarious position of the public finances in a whole range of member states gives very little scope for government investments or other expansive measures. In this respect, it must be expected that the development in the southern member states will slow down the growth in the Eurozone. Moreover, in many states high unemployment remains a problem. In our view, it is not to be anticipated that there will be any significant improvements in 2011, and we are anticipating only a slight fall in the annual average unemployment rates from 10.0 % in 2010 to 9.8 % in 2011 in the coming year. The situation on the employment market is particularly difficult in Spain.

While the rise in the debt levels in the Eurozone to just below 90 % of GDP expected up until 2012 is worrying and needs a change of course, in view of the severe crisis in 2009 and in comparison to other important industrial nations, there is no reason to expect doom and gloom in the Eurozone. Above all, there is no reason to spread propaganda about the breakdown of the Eurozone in any way. It is not only that the enormous advantages – especially from a German point of view – of the common economic and currency zone are being wantonly neglected in the public debate; there is also hardly a country in Eurozone that is entitled to play the judge. Thus all countries in the currency zone bear a common responsibility for the insufficient constitutional structure of the currency union when it was established and for the at best lax supervision of the criteria of the stability and growth pact. On the other hand, the share of the five largest economies, Germany, France, Italy, Spain and the Netherlands of the total debt of the Eurozone as at 2009 was a total of 83.5 %. These countries contributed almost the same amount (83.4 %) to the GDP in the same year. Nevertheless the debt dynamics in some of the small countries has increased markedly during the crisis. Therefore European politics must reach greater unity in economic and fiscal policy and set credible regulations that are compatible with incentives for a budgetary policy in the member states that is orientated towards stability and to monitor compliance with them – without making the acute crisis management prohibitively difficult.

The ECB will retain the current low interest rate for about another year. The surprisingly large jump in inflation in December to 2.2 % Y/Y should not change anything here. The

leap in prices is largely a result of temporary increases in energy, crude oil and foodstuff prices. After an increased rise in prices in the first quarter, a slight fall in price pressure is anticipated over the course of the year, so that the inflation for Germany and the Eurozone inflation will not rise above 2% as an average for the year. Even the latest development in lending in the Eurozone and the monetary aggregates still do not hint at possible inflation dangers. In the face of the continuing tense situation on the financial markets against the background of the debt crisis, the ECB will only very carefully and gradually cut back on the unconventional measures in 2011 and after that introduce the interest rate rise cycle.

The potential of new tensions as a result of the debt crisis may well lead in our view to the federal bonds profiting from the safe haven in 2011 as well – even if it is to a lesser extent. Moreover, a marked increase in inflation expectations is not to be anticipated over the course of 2011, which is why the upwards lift of the federal yields should be moderate. Nevertheless, a completely different picture would emerge if there were a Euro crisis management with high (risk) transfer, which cannot be ruled out, (e. g. through Euro-Bonds, guarantee expansion, etc.) or through a massive purchase of government bonds by the ECB. The latter does however remain a rather unlikely scenario in our view.

Development of Business Sectors

Treasury

Lettres de Gage Publiques (Luxembourg public sector covered bonds) – strategic Element for potential “Future Key Market Segment” covered bonds

2010 was characterized by possibly record-breaking new issue business in the covered bond market, driven and motivated by the purchasing program of the ECB and a rapidly rising number of new covered bond issuers. As anticipated, the development slowed down at the beginning of the second half of the year, which was essentially a result of the uncertainties in connection with the debt situation of some EU periphery countries. The sometimes drastic expansion of credit spreads for various central governments within the EU zone led to extremely investor-friendly conditions for investors in bonds of issues with first class credit ratings. This situation of competition between government bonds and covered bond products that has recently come about led to strong competition in the new issues sector which the Lettre de Gage also found itself subjected to. For a while, supply congested in the secondary market, which continued to be illiquid, and threatened to block primary issue pipelines. In particular, a circle of investors orientated towards making long term and quality investments ensured that the market for covered bonds also received support during these phases. Even the discontinuation of the purchasing program of the ECB for covered bonds could be overcompensated. Furthermore the market situation improved over the course of the second half of the year, so that even a few issuers of covered bonds from periphery states were able to dare enter the market.

During this phase, NORD/LB CFB decided to sharpen its profile by subjecting itself to the critical assessment of a second rating agency – FITCH Ratings – as well as Standard & Poor's. Having passed through the rating process for covered bonds and the issue of a long term senior unsecured rating of A (stable), the rating agency likewise awarded NORD/LB CFB the best rating grade of AAA for its Lettres de Gage publiques.

In the past year under report there was predominantly a demand for the Lettres de Gage publiques of NORD/LB CFB for medium to long-term maturities. This was the first time

that it was possible to issue a single callable in the registered covered bond format. The constant exchange of information with investors and the expansion of Investor Relations is a central point of the communications strategy of NORD/LB CFB. The bank and its staff are actively available in that they both provide information about the development of the cover pool and the bank through publications on their website www.nordlbcfb.lu and in that they also happily accommodate the wishes of interested investors for one-on-one meetings. In addition, in order to expand market presence, pages were set up on the information systems at Reuters and Bloomberg (“NCFB”) on which interested market players can call up the up-to-date issue prices and yields at any time.

Control of Interest Rate and Exchange Rate Risks

Entering into interest rate and exchange rate risks is not a central purpose of NORD/LB CFB's business.

Therefore, it essentially hedges interest rate risks on the basis of a micro-hedge approach using interest rate and interest rate/currency swaps. The purpose of this hedging strategy, which has been used since the bank was formed, is to establish effective hedging relationships that also meet the strict criteria laid down by the International Financial Reporting Standards (IFRS).

Exchange rate risks arise in the bank only to the extent of earnings or expenses that are accrued, which mainly comprise the interest accruals from the underlying transactions. The bank also pursues a conservative risk policy here and strictly limits risks that arise, so that the currency balances that have accrued are regularly exchanged into the balance sheet currency.

Public Finance

The Bank for Municipal Undertakings in Germany

The department Public Finance concentrated in particular on the expansion of the municipal corporate client business in Germany in 2010 too. The bank was able to achieve ground-breaking accounts in this sector successfully and together with the corporate client departments of the NORD/LB group, both in genuine direct business and in consortium loans, through which it was possible to strengthen new business activities in Germany and at the same time win new customers for the group. In contrast to

private lending, which is still characterized by a certain reticence, there was a sense of a lively demand for lending in the municipal corporate client business. The borrowing requirement is in particular a result of expansive investment activities in the energy sector in renewable energies. On top of this there was and is restructuring through the trend of remunicipalisation, which is sometimes financed through credit. The bank was involved in the “Verband kommunaler Unternehmen (VKU)” [Association of Municipal Undertakings] in 2010 too, in which almost all municipal undertakings are organized. As well as the regular work in the association, in which the board of directors and corporate client services are closely involved, joint client events were also organized with the corporate client sectors of the group in North Rhine Westphalia and Hesse.

The bank takes advantage of the Luxembourg covered bond law, which makes coverage of assets from municipal undertakings (public utility companies, water supply, air and sea ports, etc.) possible. This group has a particular relevance to the NORD/LB group as it is particularly interested in securing the supply of credit for municipal undertakings as a house bank with a public service ownership structure. The NORD/LB group has a unique selling point in this market segment in the form of NORD/LB CFB. As the first and only Federal State Bank, it is in a position to offer the municipal undertakings customer group, which is eminently important for the provision of public services, a financing partner tuned into their needs. The Luxembourg covered bond privilege, in conjunction with the special expertise of a group at home in the public sector, opens up optimal financing conditions for municipal undertakings. On the basis of the strategic process carried out in 2009 the Public Finance department is increasing the direct lending business with municipal undertakings in Germany. For this purpose the department was strengthened by a corporate client advisor with experience in this business, who will support existing customers and acquire new ones directly or through the services of the corporate client sector of the NORD/LB group based in Germany. The proportion of directly acquired corporate business with municipal undertakings in Germany will continue to be expanded systematically in future using this same method.

In order to complete the range on offer for municipal corporate client lending, the bank became accredited at the KfW Förderbank. Thus the department Public Finance has already been offering targeted funding consultations for the municipal corporate clients since 2009 and can show the first funding supported by the KfW in its books this year as well as the consultancy service. The bank concen-

trated here in the first step to winning new customers for the group, who turned away from their previous house bank to NORD/LB CFB within the scope of the so-called KfW house bank switch.

Financing of Savings Banks and Other Public Financial Institutions

The possibility of covering loans and advances to public financial institutions and Savings Banks is another benefit of the Luxembourg covered bond law. Thus the NORD/LB group has at its disposal an additional source of refinancing in its function as the central bank for Savings Banks in the three federal states of Lower Saxony, Mecklenburg-Western Pomerania and Saxony Anhalt. Against the background of the final discharge of old liabilities of the Savings Bank and regional bank sector, which were collateralised through maintenance liability and guarantor liability, by the end of 2015 alternative refinancing solutions are becoming more and more important. With NORD/LB CFB, the NORD/LB group is the only German Federal State Bank which has a course of action that

- can provide the Savings Banks with both long term refinancing funds
- and can fall back on well-known forms of documentation as well, such as the investment certificate and is therefore easy to handle
- and which, through its character of general partner to the cover pooling developed in Germany, makes a valuable alternative to other refinancing solutions.

NORD/LB CFB has already been able to support various individual institutions within the Savings Bank group on numerous occasions so that there is already expertise in this sector.

International Public Financing and Replacement Cover Business

With the aim of risk optimisation and diversification, the bank also acquires international municipal lending business and other assets eligible for investment in the cover pool via banks and investment companies that operate internationally, as well as direct customer business.

In this portfolio the department Public Finance undertook a large numbers of steps in the year under report just ended. This was done both for strategic reasons (primarily further

underweighting of assets in USD in favour of the EUR share) and also in order to fulfil the requirements of the rating agency FITCH Ratings (awarding the AAA rating). As well as the rating process successfully carried out by FITCH Ratings and the award of the AAA rating, the consequence of these measures is above all a USA portfolio that was further reduced in 2010 (both in the cover pool and overall) and an increased share in EUR denominated assets. A major part in this was played by the sale of a sub-portfolio to an investor in the USA. Within Europe, Public Finance reduced the accounts outstandings from parties domiciled in Luxembourg, while the Germany share was further expanded. In order to maintain the AAA rating of the agencies S&P and FITCH Ratings, it will also be necessary in future for reasons of diversification and granularity to pursue activities in this business sector. At the same time, assets are selected according to strict investment premises and only within the scope of existing country limits.

Control of the Cover Pool

As was already the case in the previous two years, a stronger concentration on European debtors was also in the foreground in 2010, which in the meantime make up significantly more than half of the cover pool. It is a stated aim to increase the Germany share of the cover pool sustainably and permanently; at the same time the USA share of the cover pool should continue to shrink during the course of time and in future play a less important role. On the reporting date, 31-12-2010, German assets – in particular municipal undertakings and public banks such as Savings Banks and regional investment banks – are already making up the highest share of the bank's cover pool.

NORD/LB CFB has a cover pool of consistently high quality to secure the issued Lettres de Gage publiques. The maxim for the management of this portfolio is to gain and retain investors' trust in Lettres de Gage publiques. The performance of this portfolio is made available by NORD/LB CFB by regularly publishing the cover pool by credit rating class and geographical distribution on the website www.nordlbcfb.lu.

As a rule the Luxembourg covered bond legislation allows the coverage of assets from countries which belong to the OECD, the European Union or the EEA.

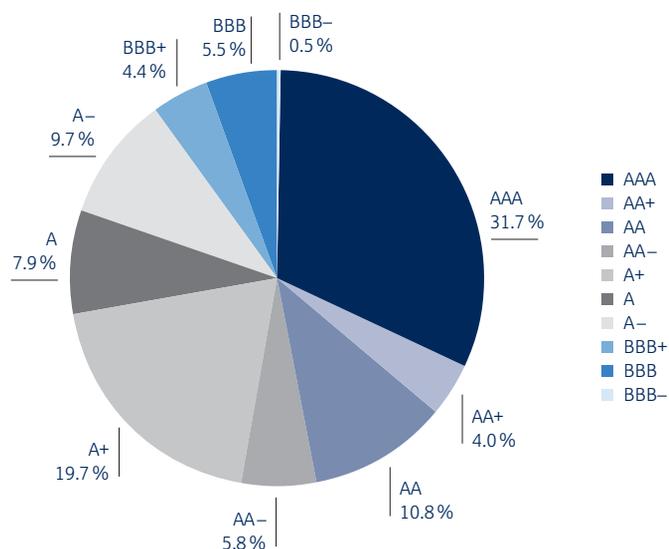
As a full subsidiary of a German Federal State Bank NORD/LB CFB focuses on Germany in particular for the lending business to municipal undertakings and Savings Banks. The lending business that it originates autonomously at present and until

further notice is transacted mainly with German parties. For the purposes of risk diversification, transactions that are not originated autonomously (capital market transactions) are also made in currently twenty other OECD countries apart from Germany, so long as they fulfil the strict investment grade rating specifications of the bank.

The bank has no commitments in Estonia, Latvia, Lithuania, Greece, Iceland, Mexico or Turkey. Because of the difficult economic situation, the bank is not currently planning any new commitments in these countries either.

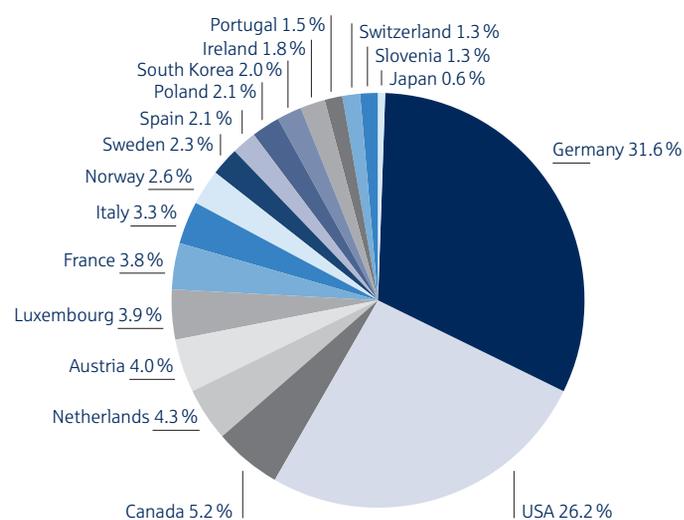
In addition, the bank will not undertake any more new commitments in Eastern Europe (with the exception of Slovenia), Ireland or the USA (except for transactions that are 100% guaranteed by the US central government) until further notice. A continuation of investments in these countries will depend on the further development of the economic situation in the individual economies.

At the reporting date, 31-12-10, the cover pool's credit rating structure was as follows:



Rating	in %	in %	in %
AAA	31.7		
AA	20.6		52.3
A	37.3	89.6	
BBB	10.4		

Geographically, NORD/LB CFB's cover pool is diversified over 21 different OECD states:



Region	in %
Europe	66.0
North America	31.4
Asia	2.6
Other	0

In the cover calculation, the cover ratios are as follows:

Cover calculation	Cover Pool (EUR million)		Issues* (EUR million)		Deficit (-)/Surplus (+) (EUR million)	
	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009
Total	4,422.0	4,459.2	3,645.2	3,928.4	776.8	530.8

*) Nominal amount of the covered issues in circulation incl. own stocks.

Rating

This cover pool has provided the basis of the bank's first-rate assessments from two rating agencies.

In 2010 the rating agency Standard & Poor's also confirmed the best rating grade AAA for the Lettres de Gage publiques issued by NORD/LB CFB even after the reorganisation of their rating model. The change of the CreditWatch to "negative" undertaken in December 2009 was withdrawn. Because of the outlook "negative" in the rating of NORD/LB, the AAA rating of the bank is likewise branded with this outlook. The rating remained in place even when the rating of NORD/LB by Standard & Poor's was changed to "unsolicited" in January 2011.

The quality of the cover pool has moreover been confirmed by a second AAA rating by the agency Fitch Ratings since the middle of the year. The goal of NORD/LB CFB will continue to be to receive the best grade of AAA for the Lettres de Gage of the bank from both rating agencies. The bank is therefore working on a cover pool policy in which it will combine its own strict quantitative and qualitative criteria and international standards of corresponding transparency specifications for cover management. With the publication of this cover pool policy during the course of 2011, the bank will obligate itself to the benefit of its investors and thereby honour their trust in the bank and the Lettres de Gage.

Outlook

NORD/LB CFB will also concentrate on the issue of Lettres de Gage publiques (publicly covered Luxembourg covered bonds) in the future. Under the motto "The bank for Municipal Undertakings" the focus will continue to be the re-financing of public lending business complementary to the other companies in the NORD/LB group of companies.

The feedback from discussions with borrowers, investors and capital market partners, as well as the positive result from an unusually difficult year under report for the financial markets, demonstrate how advantageous it is to have a Luxembourg covered bond bank in the group. With the focus on municipal financing business at the sub-state level the business model of NORD/LB CFB is orientated to the future.

Earnings

The financial statements of NORD/LB CFB as of 31-12-2010 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as implemented by the EU.

The earnings after taxes for 2010 amount to EUR 7.2 million (previous year EUR 6.4 million). The earnings after taxes also exceed the planned values in the fourth full year under report.

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

The components of the profit and loss account have developed as follows for the years under report 2010 and 2009:

	2010 (KEUR)	2009 (KEUR)	Increase/Decrease*) (KEUR)
Net interest income	8,589	8,725	-136
Loan loss provisions	-1,013	-289	-723
Net commission income	-1,201	-903	-298
Profit/loss from financial instruments stated through profit or loss, including hedge accounting	446	66	380
Other operating profit/loss	-2,296	-2,323	27
Administrative expenses	-2,853	-2,675	-177
Profit/loss from financial assets	5,041	5,354	-314
Earnings before income taxes	6,714	7,955	-1,240
Income taxes	482	-1,591	2,073
Profit for the year	7,197	6,364	833

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

The net interest income is at the level of the previous year.

It was possible to keep the loss provision, exclusively comprising value adjustments based on portfolios in accordance with IFRS, at a lower level in year under report 2010. As in previous years under report, direct specific value adjustments are not to be reported.

The net commission result which is typically negative for municipal financiers is EUR -1.2 million after EUR -0.9 million in the previous year.

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

The other operating profit/loss and the administrative expenses are in the range of the previous year. The profit/loss from financial assets results from the price management of own issues and sales because of the reduction in the US portfolio.

Before taxes, the bank reports earnings for 2010 in the sum of EUR 6.7 million; after taxes a profit remains for the year of EUR 7.2 million. This is to be carried forward within the scope of appropriation of earnings after allocations to statutory and voluntary reserves in the sum of EUR 2.0 million and EUR 1.0 million respectively.

The individual items making up the result are as follows:

Net Interest Income

	2010 (KEUR)	2009 (KEUR)	Increase/Decrease*) (KEUR)
Interest income	390,564	378,472	12,092
Interest expense	-381,975	-369,746	-12,228
Net interest income	8,589	8,725	-136

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

The net interest income and the total of the interest income and interest expense are at previous year's levels. In the first half of 2010, a one-off amount of EUR 0.7 million was generated through the early termination of a borrowing commitment. On the other hand, amortisations in connection with hedge designations are also shown in the net interest income. In 2010 this item amounted to EUR -2.5 million (comparison period: EUR -1.6 million).

Loan Loss Provisions

In the year under report 2010 the portfolio based value adjustments on asset stocks were increased further in comparison to previous years. There are no individual provisions for losses.

Net Commission Income

	2010 (KEUR)	2009 (KEUR)	Increase/Decrease*) (KEUR)
Commission income	740	1,175	-435
Commission expense	-1,941	-2,078	138
Net commission income	-1,201	-903	-298

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

Net commission income only includes income and expense from banking. Commission earnings in the previous year included one-off incomes which the bank generated from customer lending with municipal undertakings. Apart from this, the commission loss, which is typical for municipal financiers, is characterized by expenses for the bank's securities custodians and commission on guarantees for the hedging of large lending risks.

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

	2010 (KEUR)	2009 (KEUR)	Increase/Decrease ^{*)} (KEUR)
Trading profit/loss	-587	665	-1,252
Profit/loss from financial instruments designated at fair value at initial recognition	0	0	0
Profit/loss from hedge accounting	1,032	-599	1,632
Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting	446	66	380

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

Trading profit/loss mainly comprises profit/loss from derivative security transactions, which efficiently and economically hedge currency and interest risks arising from the respective underlying transaction in separate transactions, but do not meet the restrictive criteria for hedge accounting.

Other operating Profit/Loss

	2010 (KEUR)	2009 (KEUR)	Increase/Decrease ^{*)} (KEUR)
Other operating income	584	111	473
Other operating expenses	-2,880	-2,434	-446
Other operating profit/loss	-2,296	-2,323	27

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

The other expenses result predominantly from accounting for services with NORD/LB Luxembourg and NORD/LB.

Administrative Expenses

	2010 (KEUR)	2009 (KEUR)	Increase/Decrease ^{*)} (KEUR)
Wages and salaries	1,271	976	-295
Other staff expenses	259	130	-128
Staff expenses	1,530	1,107	-423
Other administrative expenses	1,315	1,360	44
Depreciation and value adjustments	7	209	202
Administrative expenses	2,853	2,675	-177

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

Administrative expenses, including depreciation, increased by a total of EUR 0.2 million to EUR 2.9 million. This is due to the increase in staff expenses arising from the employment of new personnel.

Profit/Loss from Financial Assets

	2010 (KEUR)	2009 (KEUR)	Increase/Decrease ^{*)} (KEUR)
Profit/loss from financial assets classified as LaR	1,653	0	1,653
Profit/loss from financial assets classified as AfS (without participating interests)	3,388	5,354	-1,966
Profit/loss from affiliated companies	0	0	0
Profit/loss from joint ventures and associated companies	0	0	0
Profit/loss from other participating interests	0	0	0
Profit/loss from financial assets	5,041	5,354	-314

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

The profit/loss from financial assets results from own issues bought back for price management purposes and the reduction of the US portfolio.

Income Taxes

	2010 (KEUR)	2009 (KEUR)	Increase/Decrease ^{*)} (KEUR)
Current taxes	482	-1,591	2,073
Deferred taxes	0	0	0
Income taxes	482	-1,591	2,073

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

The bank and NORD/LB Luxembourg form a tax group in accordance with Article 164bis of the Luxembourg income tax law. Because of a tax loss at the parent company, no current income taxes are due in the tax group in 2010.

Appropriation of Earnings

The profit of the year under report incl. profit carried forward amounts to EUR 7.2 million. The board of directors proposes to the annual general meeting the following appropriation of earnings:

	2010 (KEUR)	2009 (KEUR)	Increase/Decrease (KEUR)
Profit/loss for the year under report	7,197	6,364	833
Profit carried forward from previous year	0	0	0
Sub-total	7,197	6,364	833
Dividend payment	0	5,500	-5,500
Allocation to the statutory reserves	2,000	318	1,682
Transfer to the other reserves	1,000	546	454
Profit carried forward from year under report	4,197	0	4,197

	2010	2009	Increase/Decrease
Dividends (EUR)	0.00	5,500,000.00	-5,500,000.00
Number of shares	720,000	620,000	100,000
Dividends per share (EUR)	0.00	8.87	-8.87

Schedule of Assets and Financial Data

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/Decrease (EUR million)
Loans and advances to banks	1,111.0	1,144.8	-33.8
Loans and advances to customers	821.4	856.8	-35.4
Risk provisions	-2.1	-1.0	-1.0
Financial assets at fair value through profit or loss	45.1	11.1	34.0
Financial assets	4,044.9	3,686.4	358.5
Equity-accounted investments	0.0	0.0	0.0
Other assets	388.1	232.6	155.5
Total assets	6,408.5	5,930.6	477.8
Liabilities to banks	2,550.9	1,960.8	590.1
Liabilities to customers	433.0	367.9	65.0
Securitised liabilities	2,701.3	3,032.7	-331.4
Financial liabilities at fair value through profit or loss	25.2	20.9	4.3
Provisions	0.1	0.2	-0.2
Other liabilities	631.0	483.6	147.3
Reported equity	67.0	64.3	2.7
Total equity and liabilities	6,408.5	5,930.6	477.8

The balance sheet total is above previous year's level. This is primarily a result of the development of the EUR/USD exchange rate and the higher valuation results of derivatives, which are in effective hedge relationships, caused by price development. Both lead to balance sheet extensions.

Financial assets and liabilities at fair value through profit or loss include exclusively derivative security transactions, which hedge currency and interest rate risks from the respective underlying transactions in separate transactions economically, however not fulfil the restrictive conditions of hedge accounting.

The reported equity of the bank rose to EUR 67 million. The cause of this is a partial conversion of the Mandatory Convertible Bonds, which were placed in 2008, into shares in the sum of EUR 10 million and the rise in the negative valuation of the securities in the category Available for Sale.

The bank does not have any branches and does not hold any of its own shares.

Risk Report

The risk report for NORD/LB CFB as of 31 December 2010 was drawn up in accordance with IFRS 7. The bank does not enter into any risks pertaining to complex structured derivatives.

Overall Bank Management

Principles of Risk Management

Banking business is inextricably linked to the conscious entering into risks. From a business point of view, the bank defines risk as being potential direct or indirect financial losses due to unexpected negative differences between actual and projected results of business activity. The identification, analysis, measurement, management and monitoring of these risks is a basic prerequisite for the sustainable success of the business.

According to the regulations of the supervisory legislation, institutions must have a 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.

NORD/LB Luxembourg issued a letter of comfort for the bank. The bank is included in the risk capital coverage requirements of NORD/LB Luxembourg within the scope of the consolidated capital adequacy calculation.

Risk Strategies

The bank's risk policy is characterized by a responsible handling of risks. Accordingly, the bank has passed a risk strategy on the basis of its business strategy that is inspected and discussed with the supervisory bodies on an annual basis. The core element of this risk strategy is the risk-bearing capacity model, on the basis of which the willingness to accept risk is determined and the risk capital is allocated. The risk-bearing capacity model therefore defines the barriers within which risks may be taken.

The risk strategies constantly aim for optimal control and monitoring of all relevant types of risk and their transparent presentation to the bank's Board of Directors, supervisory bodies and other third parties with a qualified interest. The risk strategies integrated into the overall risk control contain measures and instruments which are described in more detail in the risk manual.

On the basis of a risk-bearing capacity model that complies with the methods used by the group, the risk strategies – based on the actual situation and taking account of planned business activity – focus on securing the future risk-bearing capacity of individual companies.

In this context the bank, at the operational level, has the instruments that are necessary to control, monitor and communicate risks. These fundamentally standard instruments are described in detail in the bank's working guidelines and in the group's risk manual.

Risk-bearing Capacity

The risk-bearing capacity model (RBC model) forms the methodical basis for monitoring adherence to the risk strategies in NORD/LB CFB. This monitoring is performed for the bank by the Controlling department of NORD/LB Luxembourg.

The aim of the model is the aggregated representation of the risk-bearing capacity (RBC) of the bank in terms of a comparison of the risk potential resulting from the main risks and the risk capital. Through the monitoring and reporting process, which is carried out regularly, it is guaranteed that the competent governing bodies of the bank are informed promptly of the risk-bearing capacity situation. This model serves to secure risk-oriented corporate management.

The NORD/LB group employs a scenario-based RBC model which also fulfils the requirements of the Internal Capital Adequacy Assessment Process (ICAAP) in accordance with Basel II. The NORD/LB group reviewed and extended its existing RBC model in the year under report, which also applies to NORD/LB CFB. One of the central points of the review was the implementation of the requirements of the second MaRisk amendment with regard to an extended consideration of stress scenarios encompassing all risk types, as well as a further optimisation of the group-wide overall bank management. During the year, the reports were produced quarterly on the basis of the reviewed RBC model in parallel to the RBC reporting used to date. As at 31 December 2010, the reports were for the first time produced only on the basis of the reviewed model.

The extended RBC model comprises the three perspectives of Going Concern, Economic Capital Adequacy and Regulatory Capital Adequacy, in which the total of the significant risks (risk potential) is compared to the defined risk capital in each case. The economic and regulatory capital adequacy are both further broken down into the perspectives of status quo and under stress.

The first perspective is represented by the Going Concern Case, which assumes the continuation of the business and functions as an early warning. The risk capital compared to the risks is based on free capital stock under supervisory law beyond a set total key figure. In addition, effects affecting risk capital effects are taken into account during the year within the scope of a dynamisation process.

The second and third perspectives each take account of a higher confidence level of 99.9% on the risk potential side. For the economic capital adequacy, economically calculated risk potentials are used, and for the regulatory capital adequacy, the risk potentials calculated according to regulatory. The capital side is based both in the economic and the regulatory adequacy check on equity and near-equity components, which are to be taken into account according to regulatory rules on capital stock. In the economic perspective, a dynamisation process for effects affecting risk capital during the year is carried out like in the going concern case.

For the proof of the adequacy of the capital base (Internal Capital Adequacy Assessment Process, ICAAP) needed according to bank regulatory laws, the economic capital adequacy (status quo) indicator is looked at primarily. The regulatory capital adequacy in the status quo is to be complied with as a strict secondary condition; the going concern case serves as an early warning level. The derivation of strategic limits from the risk bearing capacity perspective arises from the going concern case taking into account the risk capital allocation undertaken in the risk strategy.

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 mainly relate to credit risks as the most important risk category at NORD/LB CFB. These are integrated into the RBC model via the internal credit risk model and flow into the economic risk potentials.



Concentrations across risk categories are taken into account via the stress test. When selecting the stress scenario, the selection criteria are consciously based on the NORD/LB group's main business and risk points. Amongst others, this includes selecting sectors, segments, regions and customers that have a decisive influence on the risk situation of the group. These risk concentrations are regularly determined, reported and monitored with targeted stress tests in the context of risk-bearing capacity.

The relevant scenarios are merged at NORD/LB group level and are to be applied in all individual companies, in order to ensure comparability between the banks and to ensure that it is possible to aggregate them into group values.

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

The utilisation of the existing risk capital with risk potential in the economic capital adequacy can be seen from the following table:

EUR million	Risk-bearing capacity 31-12-2010		Risk-bearing capacity 31-12-2009	
Risk capital	116.9	100.0 %	112.7	100.0 %
Credit risks	74.2	63.5 %	50.8	45.0 %
Participation risks	0.0	0.0 %	0.0	0.0 %
Market price risks	6.5	5.6 %	3.3	2.9 %
Liquidity risks	17.2	14.7 %	14.0	12.4 %
Operational risks	1.3	1.1 %	1.2	1.1 %
Total risk potential	99.3	84.9 %	69.3	61.5 %
Excess cover	17.7	15.1 %	43.5	38.5 %
Risk cover ratio		117.8 %		162.7 %

The level of risk cover in the ICAAP amounted to 117.8 % on 31 December 2010.

When comparing the reporting dates it must be considered that the comparative values to 31-12-2009 were determined using the RBC model that applied in 2009. Despite falling below the required cover rate of 125 % (AMBER traffic light), a considerable improvement would be seen in the determination of the comparative reporting date according to the new RBC model.

The marked easing in the credit risks by undertaking avilisation moves in the third quarter cannot be seen in the above table because of the changeover of the credit risk model (from Gordy to CreditRisk+).

The changes in the other risk categories are predominantly due to methodical improvements. The rise in liquidity risks results from the integration of the foreign currency risks. The market price risks increase as a result of taking credit spread risks (liquidity reserve) into account.

Outlook

The new risk-bearing capacity calculation implemented for the year ended 31-12-2010 forms a good basis for the further extension and refinement of the capital stock control. The early consideration of upcoming regulatory changes (Basel III) in the existing instruments is on the bank's to-do list for 2011, along with the implementation of bank-specific stress tests. Furthermore the requirement for alignment

arising from the third MaRisk revision will be analysed and processed within the scope of a project in 2011.

Structure and Organisation of Risk Control

The responsibility for risk control lies with the Board of Directors of NORD/LB CFB, which also specifies the bank's risk strategy.

The bank's risk control policy is subject to continuous review and improvement. This involves the use of methods that are standardized for the group. Adjustments which may become necessary include organisational measures, adjustments to procedures for quantifying risk, and the continuous updating of relevant parameters. A risk-related examination of the effectiveness and adequacy of the risk management system is carried out independently of the processes by NORD/LB Luxembourg on the basis of the existing service agreements. The aims of internal auditing also include contributing towards securing the effectiveness, economic viability and orderliness of business activities. It also facilitates the optimisation of business processes as well as the controlling and monitoring of procedures.

As part of the ongoing development of monitoring instruments for the whole group, the internal auditors at NORD/LB and NORD/LB Luxembourg work together closely using a standardized 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 in relation to the ICAAP, in particular those in circular CSSF 07/301 including addenda, are fulfilled in full conformity by NORD/LB CFB. The Compliance Charter of NORD/LB CFB describes which tasks and responsibilities were defined.

All of the procedures and responsibilities relevant to the risk control process are documented in the NORD/LB risk manual and NORD/LB CFB's working guidelines. The risk manual acts as guidance for the entire NORD/LB group.

Credit Risk

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

As well as the original credit risk there is also the country risk in the case of cross-border capital services (transfer risk). This includes the risk of a loss occurring because of overriding state restraints, despite the ability and willingness of the counterparty to fulfil its payment obligations.

Credit Risk – Control

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

- the bank: Public Finance (Lending Market Division) and Treasury
- NORD/LB Luxembourg: Credit Risk Management (Lending Market Consequences) and Controlling

- NORD/LB: Credit Risk Management (Lending Market Consequences)

are involved. New products, markets or distribution channels in the bank's lending business are introduced within the scope of a new product process (NPP). A risk-related organisational structure, as well as the functions, responsibilities and authorisation of the divisions that deal with risk processes, are clearly defined at employee level. In accordance with the requirements of the Luxembourg bank supervisory authorities, lending business processes are characterized by a clear organisational separation of the front and back office, right up to Board level.

The bank's risk management is based on the principles used by NORD/LB and is continuously improved in accordance with commercial and regulatory criteria and, where necessary, adapted to the specific characteristics of the bank. The independent monitoring of the portfolio in relation to strategic and operational standards will be performed by NORD/LB Luxembourg's Controlling department.

As part of its management information system, the bank draws up a quarterly credit/borrower risk report in order to make existing risks or concentrations of risk transparent at an early stage and to introduce any necessary measures. The report sets out the significant structural features (e.g. branch structure, country and term structure) and the parameters that are needed to control the loan portfolio.

Credit Risks – Measurement

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

The Unexpected Loss for the credit risk is quantified across the group with the help of an economic credit risk model for different confidence levels and a time horizon of one year. The calculation was based on the Gordy Model up until 30-06-2010, which is used by the Basel Committee on banking Supervision for modelling the capital adequacy within the scope of Basel II.

The model determines the contributions made by individual borrowers and investment companies towards unexpected loss at the portfolio level, which together add up to unexpected loss for the full portfolio. This model uses the

probabilities of default (PDs) resulting from the internal rating procedure and the loss given default (LGD) relating to specific transactions. Standard instructions under Basel II are generally applied for the remaining model parameters. The credit risk model used since 30-09-2010 determines the unexpected losses at the level of the whole portfolio. The model used is based on the basic model CreditRisk+. It involves representing systematic sector influences on the distribution of loss using correlated sector variables. The estimate of the Probability of Default – PD draws on the internal rating procedure. The loss quotas (Loss Given Default – LGD) are defined specific to the transactions.

The methods and procedures for quantifying risk are coordinated within the sub-group in order to ensure a standardized approach within the sub-group. The measurement for NORD/LB CFB is done by Controlling at NORD/LB Luxembourg.

Credit Risk – Development in 2010

The bank uses a management approach for reporting its risks, which means that its internal and external risk reports are always based on the same terms, methods and data. The categories to be formed in accordance with IFRS 7.6 for the portrayal of credit risk are accordingly in keeping with those of the reports on risk-bearing capacity submit-

ted quarterly to the Board of Directors of NORD/LB CFB and the supervisory bodies.

The credit exposure dimension plays a significant role in the context of credit risk control. This figure shows all of the transactions bearing credit risks concluded with counterparties. Credit exposure is calculated on the basis of credit utilisation (in the case of guarantees, the nominal value, and in the case of securities, the carrying amount) and the credit equivalent resulting from derivatives (including additions and on consideration of netting). Irrevocable commitments to lend are included in the credit exposure calculation at 61 % and revocable commitments to lend at 5 %, while securities remain disregarded.

Analysis of Credit Exposure

The credit exposure of NORD/LB CFB as at 31 December 2010 amounts to EUR 5.5 billion (previous year EUR 5.6 bn.). Classification is equivalent to the standard IFD rating scale agreed upon by the banks, Savings Banks, and associations included in the Initiative Finanzstandort Deutschland (IFD, initiative to promote Germany as a financial and business centre). This has been designed to improve the comparability of the various rating levels of the individual financial institutions. The group's standard 18-tier DSGVO rating master scale of rating categories used at NORD/LB CFB can be transferred directly into the IFD categories.

The following table shows the rating structure of the bank's overall credit exposure (existing and new business), divided into product types and comparing the total to the structure for the previous year.

Rating Structure ¹⁾²⁾ EUR million	Loans ³⁾	Securities ⁴⁾ 31-12-2010	Derivatives ⁵⁾	Other ⁶⁾	31-12-2010	Total 31-12-2009
Very good to good	614	4,130	283	130	5,157	5,332
Good/satisfactory	0	337	0	0	337	317
Still good/adequate	0	0	0	0	0	0
Increased risk	0	53	0	0	53	0
High risk	0	0	0	0	0	0
Very high risk	0	0	0	0	0	0
Default (=NPL)	0	0	0	0	0	0
Total	614	4,519	283	130	5,546	5,649

1) Classification in accordance with IFD rating categories

2) Differences in amount are rounding differences

3) Includes loans taken up or loan commitments, securities, guarantees and other non-derivative off-balance sheet assets, the irrevocable credit commitments being included at 61 % and the revocable ones at 5 %, as in the internal reporting

4) Includes the bank's own stock 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 administration loans

The majority of total exposure (93.0%) 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 entities.

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

Sectors ¹⁾²⁾ EUR million	Loans ³⁾	Securities ⁴⁾ 31-12-2010	Derivatives ⁵⁾	Other ⁶⁾	Total	
					31-12-2010	31-12-2009
Financial institutes/insurers	50	2,280	283	75	2,689	2,596
Service industry/other	89	1,879	0	55	2,023	2,638
of which: real estate and residential	62	0	0	0	62	0
of which: public administration	0	1,797	0	55	1,852	2,097
Transport/news broadcasting	54	83	0	0	138	96
of which: shipping	0	0	0	0	0	10
of which: air transport	0	0	0	0	0	54
Processing industry	0	0	0	0	0	0
Energy, water supply, mining	420	276	0	0	696	319
Trade, maintenance, repair	0	0	0	0	0	0
Agriculture, forestry and fishing	0	0	0	0	0	0
Construction industry	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total	614	4,519	283	130	5,546	5,649

1) Classification same as internal reporting according to economic criteria

2) to 6) see previous table on the rating structure

The table shows that, with a total share of 81.9%, business with financial institutions/insurers of good creditworthiness, which till now was relatively low risk, and with public bodies, continues to make up a significant share of the total exposure.

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

Regions ¹⁾²⁾ EUR million	Loans ³⁾	Securities ⁴⁾	Derivatives ⁵⁾	Other ⁶⁾	Total	
					31-12-2010	31-12-2009
Euro states	533	2,397	164	130	3,224	3,079
Remaining Western Europe	55	221	89	0	365	333
Eastern Europe	25	431	0	0	456	500
North America	0	1,305	31	0	1,336	1,661
Latin America	0	0	0	0	0	0
Middle East/Africa	0	0	0	0	0	0
Asia	0	116	0	0	116	77
Other	0	50	0	0	50	0
Total	614	4,519	283	130	5,546	5,649

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

With a share of 24.1 %, North America, along with the Euro countries at 58.1 %, continues to be a central business region of NORD/LB CFB, whereby the North America exposure was reduced by 19.6 % in comparison to 31-12-2009.

The discrepancies between the total of the credit exposures according to internal reporting and according to book values results from the definition of credit exposures for internal purposes based on the regulatory reporting and from different accounting methods.

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 no specific value adjustments is accounted for by means of portfolio-based provisions for impairments which have already occurred, but were not known at the reporting date.

As at 31-12-2010, the risk provisions of NORD/LB CFB are EUR 2.1 million (excluding portfolio based value adjustment in accordance with IFRS).

The bank does not have any non-performing loans on its books at the balance sheet date.

Credit Risk – Outlook

In 2011, the bank and NORD/LB group are intending to closely cooperate in the implementation of measures for the further optimisation of the model for the quantification and control of credit and participation risks. As well as further developing the economic credit risk model, the loss data collection for the validation of the components LGD and Credit Conversion Factor (CCF) will also be further expanded.

Market Price Risk

Market price risks are potential losses which may be incurred as a result of changes in market parameters. The bank differentiates between interest risk (incl. prepayment risk), currency risk, volatility risk and credit-spread risk within market price risk.

Interest rate risks will always occur when the value of a position or portfolio reacts sensitively to changes in one or more interest rates or to changes in complete interest rate curves and these changes may result in an impairment of the position.

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

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

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

Market Price Risk – Management

Strategy

The activities of NORD/LB CFB associated with market price risk are concentrated on selected markets, customers and product sectors. Their position on the money, currency and capital markets should comply with the significance and size of the bank.

Credit-spread risks also result from security positions. However, the bank primarily pursues a buy & hold strategy. Therefore, these transactions are always shown in the investment book.

Organisational Units

The process of market price risk control extends to all sectors that manage market price risk bearing positions and that bear gains and losses resulting from market changes. The risks are monitored by Controlling department of NORD/LB Luxembourg S.A.

In accordance with national requirements and the German MaRisk, the Controlling department is functionally and organisationally independent of the divisions responsible for market price risk management and performs various monitoring, limiting and reporting tasks for the bank.

Market Price Risk – Management and Monitoring

The bank uses a value-at-risk (VaR) procedure for the management and monitoring of the market price risks of NORD/LB CFB (ex Credit Spread).

The value-at-risk key figures are determined on a daily basis using the method of historical simulation. A unilateral confidence level of 95 % and a holding period of one trading day are applied throughout the group. The analysis is based on historical changes to risk factors over the last twelve months. The models takes account of direct and indirect correlation effects between risk factors, types of risk, currencies and sub-portfolios. In addition to the overall figure, the risk contributions of the individual risk categories are also reported. The contribution of currency risk is also calculated separately internally according to currencies and analysed. A limit is set for the value-at-risk value. Any possible losses to the bank book are directly added to the loss limits and lead to a reduction in the value-at-risk limits following the principle of self-consumption.

On top of this, interest rate sensitivities are also 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.

The credit-spread risks of the investment book are not currently controlled with the aid of a value-at-risk method, but calculated via a scenario analysis and limited separately.

The prediction quality of the value-at-risk model is verified with comprehensive backtesting analyses. This involves the comparison of the daily change in value of the respective portfolios with the value-at-risk of the previous day. A so-called backtesting outlier occurs if the negative change in value observed exceeds the value-at-risk. The number of outliers in the bank book was in the green area according to the Basel traffic light approach at the overall bank level.

The effects of extreme changes on the markets on the risk position of the bank are determined on a daily basis in addition to the value-at-risk. To do so, various stress scenarios, which approximately reflect the highest changes in the respective risk factors to have been observed over the last five to ten years over a period of ten trading days, were defined for each of the risk categories, interest, currency and volatility risk, as well as for credit-spread risk.

The value-at-risk of NORD/LB CFB is also calculated on the basis of the respective regulatory parameters (confidence level of 99 % and a holding period of 10 days).

Market Price Risks – Reporting

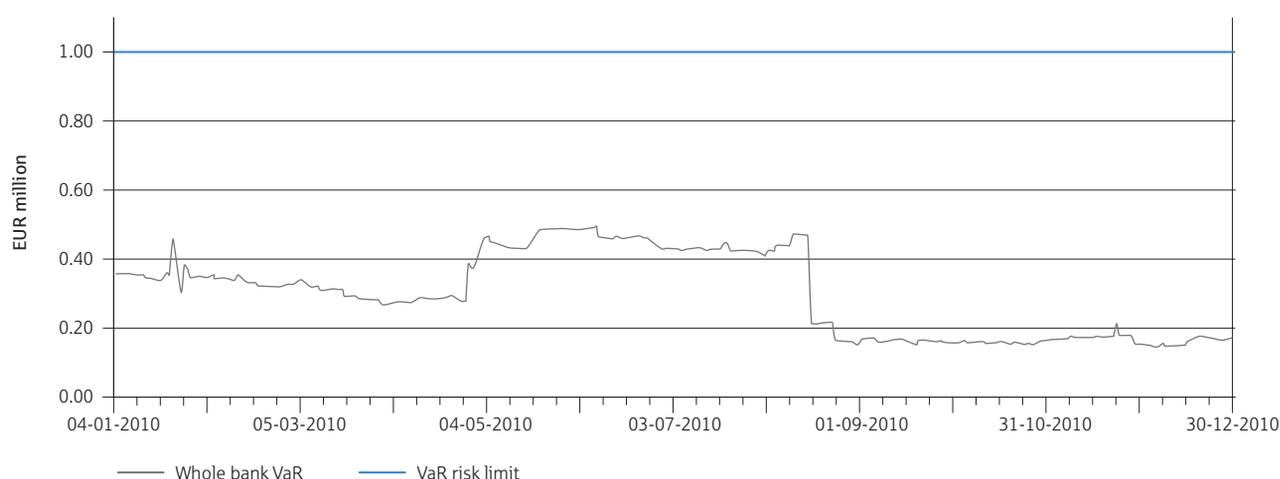
In compliance with MaRisk requirements, the Controlling department, which is independent of the divisions responsible for the positions, reports the market price risks to the Board of Directors on a daily basis.

Market Price Risks – Development in 2010

It was possible to reduce the market price risks shown in the following diagram overall in the year under report:

The annual average utilisation of the market price risk limit (value-at-risk limit) in NORD/LB CFB was 29.7 % (previous year 60.3%). In the last four months of the year, a lower utilisation of the limit can be seen. This is to be seen as a consequence of a conscious reduction of interest risks. The value-at-risk calculated daily (confidence level 95 % and holding time of 1 day) amounted to EUR 0.167 million on 31 December 2010 (previous year EUR 0.353 million) at NORD/LB CFB.

VaR-utilisation NORD/LB CFB 2010



The proportion of interest and foreign currency risks in the total risk as at 31-12-2010 amounts to KEUR 162 and KEUR 96 respectively.

As at 31-12-2010, the interest sensitivities are as follows:

Sensitivities (Interest rates)															31-12-2010			
„Present Value of a Basis Point“ (PVBP) per portfolio and currency															(KEUR)			
Currencies	AUD	CAD	CHF	CZK	DKK	EUR	GBP	HKD	HUF	JPY	NOK	NZD	PLN	SEK	TRY	USD	ZAR	Total
Whole bank	+0.0	+0.0	+4.0	+0.0	+0.0	+5.1	+0.0	+0.0	+0.0	+0.0	-0.0	+0.0	+0.0	+0.0	+0.0	+6.5	+0.0	+15.6

The credit-spread risk of the investment book as at 31 December 2010 was EUR 2.1 million for AFS stock and EUR 41.1 million for LAR stocks (holding time ten days).

With regard to interest rate risks in the investment book, the effects of a standardized interest rate shock of +130

basis points are also analysed in accordance with the requirements of the German Solvency Regulations (SolvV). The result continues to be far below the regulatory threshold, which provides for a maximum proportion of 20 % of authorised equity capital.

Market Price Risks – Outlook

We do not expect interest rate and FX risks to be significantly higher in 2011.

Furthermore, the bank will introduce a credit spread value-at-risk via historical simulation within the scope of the daily controls in 2011. This method is already being applied in the risk-bearing capacity calculation for 31-12-2010 within the scope of the group-wide introduction of the new RBC model.

Liquidity Risk

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

Liquidity Risk – Control

Strategy

The liquidity risk strategy of the bank is orientated towards the recommendations published by the CEBS on efficient liquidity risk management, the requirements derived therefrom on the part of the Luxembourg regulatory authorities and the Central Bank, as well as the requirements according to MaRisk. To this end, the bank implemented a liquidity strategy/policy and an emergency planning system in 2010, which accommodates these requirements and is included in the systematics of the (sub-)group. The focus is essentially on the control of the classical liquidity risk and the control of the refinancing risk.

The bank's liquidity management – alongside its function as a special bank in the sphere of covered financing and the contribution arising therefrom to the diversification of the financing basis of the sub-group – is done in the uncovered area mainly in close coordination with NORD/LB Luxembourg, which performs the function of coordinator of uncovered liquidity within the sub-group.

NORD/LB CFB only has its own market presence in the uncovered sphere in connection with public customers.

Organisational Units

The liquidity risk management process is the responsibility of the Treasury organisational unit.

The Controlling department of NORD/LB Luxembourg performs the control functions for the calculation of the refinancing risk and the calculation and monitoring of the classical liquidity risk and is involved to a large extent in the improvement of internal methods of measurement, limiting and monitoring of liquidity risks.

Liquidity Risk – Management and Measurement

The bank differentiates between the following types of liquidity risk within the scope of its liquidity control:

Classical Liquidity Risk

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

The classical liquidity risk is measured with reference to the so-called liquidity stress tests (LST), which are generated on a daily basis at sub-group level.

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

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

The dynamic stress test reflects the current or nearest crisis situation.

The static scenarios are differentiated into:

Market wide Liquidity Disruption

On the financial markets there is a strong financial market induced liquidity bottleneck which stops interbank and customer business. This is significant for the bank in the

main trading currencies, which are listed by the competency delegation Financial Markets. This scenario is based on the assumption that the central banks are ready to act and intervene helpfully in the financial market.

NORD/LB Credit Event

NORD/LB's creditworthiness is downgraded or NORD/LB is the subject of negative headlines or rumours. This has a considerable impact on the bank's liquidity situation.

Market wide Credit Event

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

Within the scope of the classical liquidity risk the daily business is managed with reference to the dynamic scenario. For this purpose "Distance-to-Illiquidity" is determined as a factor which shall not be fallen short of. The meeting of this core figure is to be reported to the bank's Board of Directors and NORD/LB's Risk Controlling/Liquidity Risk department on a daily basis.

In order to monitor the liquidity risk appetite and tolerance using the "Distance-to-Illiquidity", which is calculated at sub-group level, the bank has defined the following limits:

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

These limits are integrated into the traffic light control system of the dynamic scenario, which is defined across the group.

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

Refinancing Risk

The refinancing risk is defined as the potential falls in profit which would arise for the bank as a result of the worsening of its own refinancing conditions. This refers to positions on both the money and capital markets. A period of between intraday and indefinite maturity is taken into account.

The refinancing risk is measured on a weekly basis.

Volume structure limits are set for the individual maturity bands within the scope of the management of the refinancing risk, which limit the refinancing risk accordingly. The

volume structure limits are defined at individual institution level. The bank uses these limits to record a risk appetite in relation to discrepancies.

The refinancing risk is measured on a weekly basis. A potential increase in price of the liquidity is limited via the volume structure limit (i.e. limits in individual maturity bands).

Liquidity Risk – Reporting

The liquidity risk situation of the bank in the classical liquidity risk is calculated daily and in the refinancing risk weekly by the Controlling department of NORD/LB Luxembourg and provided to the trading board of directors. Any possible over-runs in the volume structure limits of the refinancing liquidity risk or a switch to an amber or red traffic light in the classical liquidity risk are reported to the full Board of Directors.

In addition, liquidity outflow balances are prepared on the basis of the refinancing liquidity risk for the availability committee, which meets monthly at bank and group levels by the Controlling department of NORD/LB Luxembourg, which are discussed within the scope of the regular meetings.

As well as this, the full board is informed about the essential liquidity key figures within the scope of the daily reports.

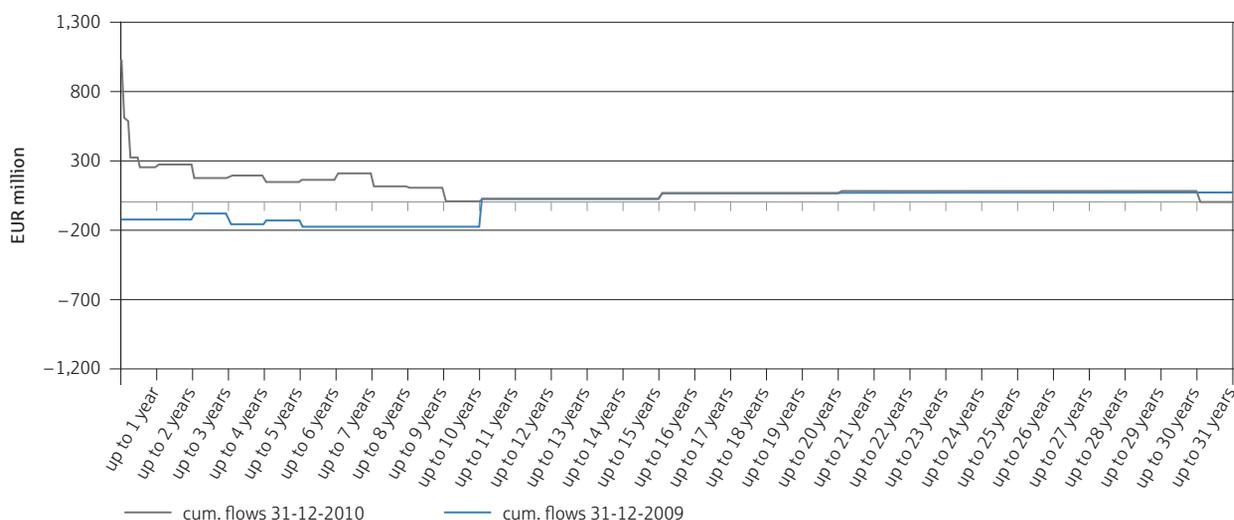
Within the scope of the monitoring of the refinancing structure, a concentration report was introduced in the year under report (for the period ended 31-12-2010, for the first time), which includes the analysis of the funding. As well as the equity and liabilities side (balance sheet), concentrations of off-balance sheet obligations are reported on a quarterly basis as well. A report is prepared for the Board of Directors at annual intervals. The evaluations are consolidated into a group concentration report at group level.

Liquidity Risk – Development in 2010

The financial market continues to find itself in a tense mood over the course of 2010 too. The availability of liquid funds of the bank was guaranteed at all times and improved in comparison to the previous year.

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

Schedule of Liquidity Flows



The regulatory specifications were met constantly in the year under report just ended.

In order to depict and control the liquidity flows accurately, a security classification system was introduced via a methodical improvement, which groups together the whole security stocks into various classes according to the assessment of their convertibility into cash. The change in cumulative outflows results predominantly from the introduction of this new logic and is therefore only comparable with the previous year's outflows to a certain extent.

Liquidity Risk – Outlook

With the management of the liquidity risk that goes beyond the regulatory framework, it is ensured that the bank is always in a position to fulfil its payment obligations on time.

The bank is active on liquid markets as well as in municipal undertakings lending business and maintains a portfolio of high quality securities. There are no concentrations of liquidity risk.

Close observation of the markets and active liquidity management ensured that the bank had a sufficient supply of liquidity in the year under report 2010. For the year 2011, we are not expecting any further substantial increase in the liquidity risks.

In 2011, the methods and risk measurement processes will be optimised further. An essential component of this is the

implementation of the significantly increased requirements of management announced by the international regulatory authorities as a reaction to the financial market crisis, and the external reporting with regard to liquidity risks. As regards the methodical improvement, the bank is participating in a group-wide liquidity management project.

Operational Risk

Operational risks are defined as the risk of incurring losses as a result of the inadequacy or the failure of internal procedures, employees and technology, or losses which occur as a result of external influences. Besides covering legal risks, this definition implicitly includes reputation risks as consequential or secondary risks. Strategic risks and business risks have not been included.

Operational Risk – Control

Strategy

There are operational risks in every business activity. The aim is therefore to avoid them – so far as is economically reasonable. The operational formula that has to be applied in this respect follows the basic idea of providing protection against operational risks to the extent that the costs of the protection do not exceed the costs of the risks that might occur.

Organisational Units

The Board of Directors, the person in charge of Op risks, internal auditors and all other divisions are involved in the

process of controlling operational risks. The Board stipulates the basic method of handling operational risks, taking into consideration the risk situation for the bank as a whole. Within the defined framework conditions, the responsibility for controlling operational risks is decentralised and is borne by the individual divisions. The person in charge of Op risks is responsible for central monitoring and independent reporting on operational risks. This division is also responsible, in cooperation with the group's parent company, for specifying the methods to be applied, for properly implementing centralised methods, and for coordinating the implementation of decentralised methods. The Internal Audit department is in charge of independently auditing the proper and correct implementation and execution of methods and procedures.

Operational Risk – Management

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

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

Risk causes are to be identified and risk concentrations avoided through a continuous analysis of loss events, risk indicators (from 2011) and scenarios. The suitability and effectiveness of the internal management system (IMS) is checked at regular intervals (IMS control loop) in terms of risks. Depending on the occasion, suitable countermeasures are seized. Emergency plans serve to limit damage in the event of unexpected extreme events. In the IT department, instructions on procedures, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Safety concepts and contingency plans supplement the pre-emptive measures in order to prevent loss or damage resulting from the failure, tampering or manipulation of systems and information.

Process-related and structural organisational risks are countered with well-organized structures and procedures. Regular interaction between all of the divisions involved in

the process of controlling operational risks is continuously guaranteed.

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

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

Operational Risk – Measurement

Since the middle of 2006, the bank has been collecting data on loss events arising from operational risks and has classified these events according to cause and effect. There is no "insignificant" level, although a simplified reporting process is applied for gross losses of less than EUR 1,000. Data in the loss database provides the basis for analyses in support of risk management and in the future will be an important foundation for creating a statistical-mathematical risk model.

The collection of loss events is entered into the DakOR data consortium initiated by the German Federal Association of Public Sector Banks (Bundesverband Öffentlicher Banken Deutschlands e. V., or VÖB). NORD/LB uses the loss events reported by the consortium to improve the database of the advanced measurement model for operational risks, which is still in the development stage (advanced measurement approach – AMA).

With the help of the annual risk assessment carried out in NORD/LB CFB, the collection of past-related loss events is supplemented by the future component. Expert appraisals provide detailed insight into the risk situation of the bank's individual divisions, so that relevant measures can be derived if necessary. The method was totally reviewed in the year under report and replaces the self-assessment carried out until then.

Operational Risk – Reporting

In terms of the continual risk management process, the results from the loss event collection, risk assessment, risk indicators (from 2011) and internal model are analysed and communicated to the board of directors quarterly and to the competent divisions in relation to the cause, but at

least once a year. All results are included in the quarterly RBC report.

Operational Risk – Development in 2010

In the year under report the self-assessment method was replaced by the improved method of risk assessment, which comprises the three components of risk map, self-assessment and more in-depth scenario analyses. Based on objective information and a much simplified qualitative self-assessment, a risk map is developed, on the basis of which scenarios in terms of risk are evaluated by experts in those parts of the company that are concerned. The analysis of group-wide scenarios and risk concentrations and the performance of stress tests were further improved as a result of this. The results are included in the internal model, with which an increase in accuracy of measurements is associated and a stronger procedural view of the operational risks of the bank becomes possible.

The internal model was applied across the group for the first time in the period ended 31 December 2010. To this end, the previous model was extended, subjected to a detailed revalidation and expanded to include an allocation procedure. With the expansion of this model, conditions were finally created that allow a group-wide application of an AMA. It was possible to complete the group-wide standardized implementation of all the methods to a large extent. Thus uniformity of risk management and granularisation of the control impulses derived from the model were achieved.

Amounts qualifying for recognition in terms of operational risk were determined using the standard SolvV approach.

The following table shows the distribution of loss events among the risk categories in relation to the total loss amount.

Loss event databank Net loss as a percentage of the total amount of loss		
	2010	2009
External influences	0	0
Internal procedures	0	0
Staff	0	0
Technology	0	0



Operational Risk – Outlook for 2011

In 2011, the NORDB/LB group is seeking regulatory approval of the advanced measurement approach for operational risk. The preliminary work to this end is almost complete; the application is planned for the third quarter of 2011. In addition, the internal model is to be made more complete in order to meet AMA requirements in accordance with SolvV. Steps being taken include the fine-tuning of the management of operational risk on the basis of the internal model and the further expansion of the control of measures in op-risk management. To improve the internal control system, the operational risk control methods are to be made increasingly process-oriented. Extensive improvements to the methods and processes that have already been implemented are planned for 2011. Furthermore, 2011 will also see the implementation of early warning indicators.

Other Risks

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

Summary and Outlook

The bank has taken account of all known risks by employing precautionary measures. The appropriate tools have been implemented in order to identify risks promptly. The core element of the risk strategy is the risk-bearing capacity model (RBC model). The willingness to take risk is determined on the basis of the risk strategy and risk-bearing capacity; developments are regularly monitored using the RBC model. In the RBC model, the combined credit,

participation, market price, liquidity and operational risks are compared to the respective risk potential available on a quarterly basis. The quotients calculated in the RBC model show that the risks were covered at all times in the period under report. According to the estimation of the bank, there are no risks threatening its existence. In 2010, NORD/LB CFB constantly fulfilled the applicable regulatory provisions on capital stock and liquidity. Likewise, the bank accommodated the regulations on large lending limits in accordance with Luxembourg and German law in the year under report just ended. 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 2011 have been covered in the relevant sections.

As already discussed in the description of the business sectors, a first class rating is an important component for the business model of a covered bond bank. A loss of this rating or a downgrade directly or indirectly through the relationships within the group could have an essential negative influence on the success of the business. The bank minimised this risk in 2010 with the inclusion of a second rating agency.

Beyond this and the credit, market price, liquidity and operation risks already illustrated, there are no risks identified as significant. The relevant risks of the bank, which were identified as insignificant are however included in a risk buffer in the management of the risk-bearing capacity.

Personnel Report

Number of Employees

The bank's number of personnel is above the level of the previous year:

Reporting date	31-12-2010	31-12-2009	Absolute change	Change (in %)
NORD/LB CFB	9	7	2	28.6%

All members of staff deserve the particular recognition of the Board of Directors and Supervisory Board for the business results achieved. The bank's success is largely driven by the professionalism and competence of its staff. The Board of Directors and Supervisory Board would therefore like to express their gratitude for their special dedication and motivation and for their faithful cooperation.

The bank takes the further development 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 fringe benefits and promoting an innovative and dynamic team culture, the bank aims to create opportunities for the personal development of its staff and a motivating and constructive working environment.

NORD/LB Cooperation

Market consequence, organisational and administrative functions are performed on the basis of agency contracts by the parent company, NORD/LB Luxembourg or the group parent NORD/LB except for the functions of internal management, compliance and cover pool management.

The staff of NORD/LB Luxembourg and NORD/LB also deserves the thanks and recognition of the Board of Directors and Supervisory Board for their particular dedication, motivation and faithful cooperation.

Personnel Changes

Martin Halblaub

Member of the Board of Directors of NORD/LB Norddeutsche Landesbank Girozentrale, left the Supervisory Board NORD/LB CFB on 11 January 2010.

Ulrike Brouzi

General Manager of NORD/LB Norddeutsche Landesbank Girozentrale, was elected to the Supervisory Board of NORD/LB CFB with effect from 1 September 2010. On 17 November the Supervisory Board elected Ms Brouzi as its chairwoman.

Supplementary Report

There were no significant events between the balance sheet date of 31 December 2010 and the preparation of the present financial statements by the Board of Directors on 25 February 2011.

Statements Relating to the Future

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

Board of Directors
Luxembourg, 28 February 2011



For computational reasons, the following tables may contain rounding differences. The notes that follow are an integral part of the financial statements.

Financial Statements

For the year under report from 1 January to 31 December 2010:

	Notes	2010 (KEUR)	2009 (KEUR)
Net interest income	16	8,589	8,725
Interest income		390,564	378,472
Interest expense		381,975	369,746
Loan loss provisions	17	-1,013	-289
Net commission income	18	-1,201	-903
Commission income		740	1,175
Commission expense		1,941	2,078
Profit/loss from financial instruments at fair value through profit or loss	19	-587	665
Trading profit/loss		-587	665
Profit/loss from the fair value option		0	0
Profit/loss from hedge accounting	20	1,032	-599
Profit/loss from financial assets	21	5,041	5,354
Administrative expenses	22	2,853	2,675
Staff expenses		1,530	1,107
Other administrative expenses		1,315	1,360
Depreciation of property, plant and equipment		6	28
Depreciation on intangible assets		1	181
Other operating profit/loss	23	-2,296	-2,323
Earnings before taxes (EBT)		6,714	7,955
Income taxes	24	482	-1,591
Profit for the year		7,197	6,364
of which: attributable to shareholders		7,197	6,364
of which: attributable to non-controlling shares		0	0

Overall Profit and Loss Account

The total income for 2010 (2009) of NORD/LB CFB comprises the income and expenditure in the profit and loss account and those recorded directly in equity.

	2010 (KEUR)	2009 (KEUR)
Profit for the year	7,197	6,364
Increase/decrease from available for sale (AFS) financial instruments	-12,692	9,425
of which: unrealised profit/losses	-12,692	9,425
of which: reclassifications on the grounds of profit/loss realisation	0	0
Actuarial gains/losses for defined benefit provisions for pensions	-19	-5
Deferred taxes	3,687	-2,923
Profit/loss recognised directly in equity	-9,024	6,498
Total income for the year	-1,827	12,862
of which: attributable to shareholders	-1,827	12,862
of which: attributable to non-controlling shares	0	0

In terms of appropriation of earnings it is intended to allocate EUR 2,000 K to the statutory reserves and EUR 1,000 K to the voluntary reserves and to carry forward the remaining profit for the year in the sum of EUR 4,197 K.

The change in the revaluation reserve from AFS financial instruments results almost exclusively from changes in credit spread of Italian government securities. These securities are to be held until their final maturity.

Balance Sheet

Assets	Notes	31-12-2010 (EUR million)	31-12-2009 (EUR million)
Cash reserve	25	1.4	0.0
Loans and advances to banks	26	1,111.0	1,144.8
Loans and advances to customers	27	821.4	856.8
Risk provisions	28	-2.1	-1.0
Financial assets at fair value through profit or loss	29	45.1	11.1
Derivatives – fair values from hedge accounting	30	379.2	228.9
Financial assets	31	4,044.9	3,686.4
Property, plant and equipment	32	0.0	0.0
Intangible assets	33	0.0	0.0
Income tax assets	34	7.3	3.6
Other assets	35	0.1	0.1
Total assets		6,408.5	5,930.6

Equity and liabilities	Notes	31-12-2010 (EUR million)	31-12-2009 (EUR million)
Liabilities to banks	36	2,550.9	1,960.8
of which: Lettres de Gage		131.9	93.6
Liabilities to customers	37	433.0	367.9
of which: Lettres de Gage		433.0	367.9
Securitised liabilities	38	2,701.3	3,032.7
of which: Lettres de Gage		2,701.3	3,032.7
Financial liabilities at fair value through profit or loss	39	25.2	20.9
Derivatives – fair values from hedge accounting	40	586.8	432.0
Provisions	41	0.1	0.2
Income tax liabilities	42	0.0	0.0
Other liabilities	43	6.1	5.8
Subordinated capital	44	38.0	45.8
Equity	46		
Issued capital		72.0	62.0
Capital reserves		1.7	1.7
Revenue reserves		11.3	9.6
Revaluation reserve		-18.0	-9.0
Currency translation reserve		0.0	0.0
Equity attributable to shareholders		67.0	64.3
Shares without controlling influence		0.0	0.0
		67.0	64.3
Total equity and liabilities		6,408.5	5,930.6

Cash Flow Statement

	2010 (EUR million)	2009 (EUR million)
Profit for the year	7.2	6.4
Adjustment for non-cash items		
Depreciation, value adjustments and write-ups of property, plant and equipment, write-downs, value adjustments and write-ups of financial assets	0.6	0.5
Increase/decrease in provisions	-0.2	0.2
Gains/losses from the disposal of property, plant and equipment and financial assets	-5.0	-5.4
Increase/decrease in other non-cash items	4.9	-3.0
Other adjustments	-52.7	84.0
Sub-total	-45.2	82.7
Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks and customers	58.3	410.8
Other assets from operating activities	0.0	0.0
Liabilities to banks and customers	641.6	-164.8
Securitised liabilities	-352.3	222.5
Other liabilities from operating activities	0.0	0.0
Interest received	443.8	425.9
Dividends received	0.0	0.0
Interest paid	-452.7	-437.2
Income taxes paid	0.5	-1.6
Cash flow from operating activities	294.0	538.3
Cash receipts from the disposal of		
Financial assets	351.2	108.9
Property, plant and equipment and intangible assets	0.0	0.0
Cash payments for the acquisition of		
Financial assets	-635.8	-640.4
Property, plant and equipment and intangible assets	0.0	0.0
Increase/decrease in funds from other investment activity	0.0	0.0
Cash flow from investment activities	-284.6	-531.5

	2010 (EUR million)	2009 (EUR million)
Cash receipts from equity contributions	0.0	0.0
Increase/decrease in funds from other capital	0.0	0.0
Interest expense on subordinated capital	-2.5	-2.9
Dividends paid	-5.5	-4.0
Cash flow from financing activities	-8.0	-6.9
Cash and cash equivalents at end of the previous year	0.0	0.2
Cash flow from operating activities	294.0	538.3
Cash flow from investment activities	-284.6	-531.5
Cash flow from financing activities	-8.0	-6.9
Cash flow total	1.4	-0.2
Effects of exchange rate differences and valuation changes and changes in the basis of consolidation	0.0	0.0
Cash and cash equivalents at end of the year under report	1.4	0.0

Statement of Changes in Equity

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 at 01-01-2009	50.0	1.7	7.3	-15.5	0.0	43.5	0.0	43.5
Distribution	0.0	0.0	-4.0	0.0	0.0	-4.0	0.0	-4.0
Profit for the year	0.0	0.0	6.4	0.0	0.0	6.4	0.0	6.4
Profit/loss recognised directly in equity	0.0	0.0	0.0	6.5	0.0	6.5	0.0	6.5
Other capital changes	12.0	0.0	0.0	0.0	0.0	12.0	0.0	12.0
Equity at 31-12-2009	62.0	1.7	9.6	-9.0	0.0	64.3	0.0	64.3
Distribution	0.0	0.0	-5.5	0.0	0.0	-5.5	0.0	-5.5
Profit for the year	0.0	0.0	7.2	0.0	0.0	7.2	0.0	7.2
Profit/loss recognised directly in equity	0.0	0.0	0.0	-9.0	0.0	-9.0	0.0	-9.0
Other capital changes	10.0	0.0	0.0	0.0	0.0	10.0	0.0	10.0
Equity at 31-12-2010	72.0	1.7	11.3	-18.0	0.0	67.0	0.0	67.0

	In 2010 relating to year under report 2009	In 2009 relating to year under report 2008
Dividends (EUR)	5,500,000.00	4,000,000.00
Number of shares	620,000	500,000
Dividends per share (EUR)	8.87	8.00

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Accounting Policies

(1) Principles for the Preparation of the Financial Statements

The financial statements of NORD/LB Covered Finance Bank S.A. (NORD/LB CFB) to 31 December 2010 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 NORD/LB CFB to 31 December 2009 were passed by the general meeting held on 31 March 2010 and form the basis for the determination and appropriation of profit for the year under report 2009.

The financial statements at 31 December 2010 take into consideration the national requirements of the law of 17 June 1992 on the annual accounts of credit institutions established under Luxembourg law (as at March 2006). 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 reports on the segments are included in the notes. Risk reporting in accordance with IFRS 7 is essentially carried out in the separate report on the risks and rewards of future development (risk report) as part of the management report.

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

The reporting and functional currency used in the financial statements is the Euro. Unless stated otherwise, all amounts are shown in millions of Euros (EUR million) rounded to one decimal place. The statement of percentage discrepancies relates to non-rounded amounts.

(2) Discretionary Decisions, Estimates and Assumptions

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

The essential methods are shown below:

a) Fair Value of Financial Instruments

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

There is more information in Notes (5) and (6) and (52).

b) Pension Payments

The expenditure from performance-related plans and the cash value from pension obligations are determined with reference to actuarial calculations. These were 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.

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

c) Taxes

Deferred tax claims are assessed for unused tax losses carried forward to the extent that it is probable that the taxable income for this purpose will be available, i.e. that it will actually also be possible to use the losses carried forward. The time of entry and the amount of the future taxable income are made by a significant exercise of discretion.

There is more information about taxes in Note (12).

(3) Adopted and New IFRS

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

The financial statements of NORD/LB CFB at 31 December 2010 are based on the conceptual framework of the IASB and the following IFRS:

IFRS 1	First-time adoption of International Financial Reporting Standards
IFRS 7	Financial instruments: disclosures
IFRS 8	Operating segments
IAS 1	Presentation of financial statements
IAS 7	Cash flow statements
IAS 8	Accounting policies, changes in accounting estimates and errors
IAS 10	Events after the balance sheet date
IAS 12	Income taxes
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee benefits
IAS 21	The effects of changes in foreign exchange rates
IAS 24	Related party disclosures
IAS 27	Consolidated and separate financial statements

IAS 32	Financial instruments: presentation
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement (including provisions on the use of the fair value option)
IFRIC 4	Determining whether an arrangement contains a lease
SIC 15	Operating leases – incentives
SIC 27	Evaluating the substance of transactions involving the legal form of a lease

IFRS 2, 3, 4, 5 and 6, IAS 2, 11, 20, 23, 26, 28, 29, 31, 33, 34, 40 and 41, and IFRIC 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 18, and SIC 7, 10, 12, 13, 21, 25, 29, 31 and 32, were not taken into account because they are not relevant or not obligatory for NORD/LB CFB for the financial statements to 31 December 2010.

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 2010.

• IFRS 9 Financial Instruments

A revised version of IFRS 9 was published in October 2010 and it is obligatory to apply it to reported years beginning on or after 1 January 2013. The standard is to gradually supersede the current IAS 39 in three phases. The published first phase includes regulations on the categorisation and evaluation of financial assets and financial liabilities. For the categorisation of financial assets in accordance with IFRS 9 there are only two options now, the valuation at net book value or the valuation at fair value. The categorisation will be aligned with the business model of the balancing entity and the contractually agreed payment flows of the assets in future. The requirements for embedded derivatives and reclassification have also been amended. The requirements in relation to financial obligations are largely unchanged in comparison to IAS 39. Creditworthiness-induced changes in the valuation of financial liabilities will be shown in other profit/loss in principle (other comprehensive income) only when applying the fair value in the future. The final standards of the second and third phases with the topics of impairment and hedge accounting are expected in 2011.

- **IAS 24 (rev. 2009) Related Party Disclosures**

IAS 24 was published in November 2009 and comes into effect for reporting periods starting on or after 1 January 2011. The aim of the review is essentially to make the definition of related companies and persons more precise or to supplement it and the introduction of an exemption rule with regard to the information that must be published for government-related entities.

Furthermore, an early application of the changes to the standard made because of

- the annual improvements project and
- the amendments to IFRS 7 relating to the transfer of financial assets

was refrained from. These are obligatory for years under report beginning on or after 1 January 2011 or 1 July 2011, but some parts have not been transposed into European law yet.

No significant effects on the balance sheet preparation or evaluation are expected for the first application in 2011.

(4) Currency Translation

The methods applied to currency translation are described below.

Translation into the Functional Currency

When monetary assets and liabilities or non-monetary items at fair value are denominated in foreign currencies they must be translated at the ECB reference rate on 31 December 2010. Non-monetary items that are valued at cost are translated at the historical rates. Expense and income in foreign currencies are translated at market rates on the value date. Exchange rate differences on monetary items are reflected in principle in the income statement.

(5) Financial Instruments

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

a) Recognition and Derecognition of Financial Instruments

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

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

In the event of only a partial transfer of risks and rewards and the retention of control, the continuing involvement approach is applied. The financial asset is then subject to specific accounting policies to the extent of the entity's continuing involvement. The extent of the entity's continuing involvement is determined by the extent to which it 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 obligation specified in the contract is discharged or cancelled or expires. The reacquisition of debt instruments is also covered by the derecognition of financial liabilities. At the time of repurchase, the difference between the carrying amount of the liability (including premiums and discounts) and the consideration paid is recognised through profit or loss; disposal at a later stage gives rise to a new financial liability, the acquisition cost of which corresponds to the disposal proceeds. Differences between the new acquisition cost and the redemption amount are spread over the remaining life of the debt instrument using the effective interest method.

b) Classification and Measurement

Financial assets and liabilities are initially measured at fair value. For financial instruments in the categories loans and receivables (LaR), held-to-maturity (HtM), available-for-sale (AfS) and other liabilities (OL), transaction costs are included in the acquisition cost provided that they are

directly attributable. They are accounted for in the context of spreading premiums and discounts using a constant effective rate at the nominal value or redemption amount. For financial instruments in the category financial assets or financial liabilities at fair value through profit or loss (aFV), transaction costs are recognised immediately through profit or loss.

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

- **Loans and Receivables (LaR)**

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

- **Held-to-Maturity (HtM)**

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

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

This category is divided into two sub-categories:

- a) **Held-for-Trading (HfT)**

This sub-category comprises financial instruments (trading assets and trading liabilities) that were acquired with the intention of making profit from short term buying and selling. It includes all derivatives in so far as they are not hedging instruments. Trading assets are essentially composed of money market papers, bonds and debt securities, as well as derivatives with positive fair

value. Trading liabilities comprise, in particular, derivatives with negative fair value as well as short sale delivery obligations. The subsequent measurement of trading assets and trading liabilities is at fair value through profit or loss. Premiums and discounts are not amortised using the effective interest rate.

- b) **Designated at Fair Value through Profit or Loss (dFV)**

As long as they meet certain conditions, all financial instruments may be allocated to this sub-category, known as the fair value option. Using the fair value option avoids or significantly reduces the recognition and measurement discrepancies that arise from the different measurement methods for financial assets and liabilities (e.g. by designating economic hedging relationships without having to meet the restrictive requirements of hedge accounting). Further explanations on the type and scope of use of the fair value option are given in Note (29) Financial assets at fair value through profit or loss and Note (39) Financial liabilities at fair value through profit or loss. When the fair value option is applied to financial instruments they are included in the relevant item on the balance sheet and their subsequent measurement is at fair value through profit or loss. Premiums and discounts are not amortised using the effective interest rate. This category is not used in the financial statements of NORD/LB CFB at present.

- **Available-for-Sale (AFS)**

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

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

below cost of acquisition is an objective indicator of an impairment.

When impairments are due to credit rating, the revaluation reserve is adjusted by the amount of the impairment and the amount is accounted for in the income statement provided that it is an impairment within the meaning of IAS 39. Reversals of impairment losses relating to the equity instruments of another entity are recognised through profit or loss while reversals of impairment losses relating to own equity instruments are recognised in equity as not affecting profit or loss – unless they are valued at cost. Differences between acquisition costs and redemption amounts are amortised using the effective interest method through profit or loss.

• Other Liabilities (OL)

This category comprises, in particular, liabilities to banks and customers, securitised liabilities and subordinated capital. Subsequent measurement is at amortised cost using the effective interest method.

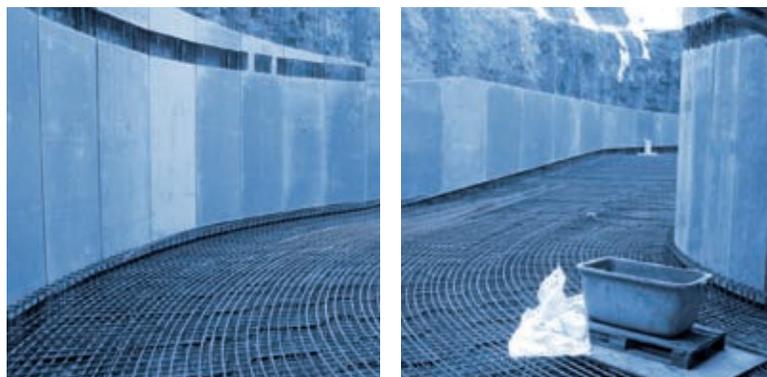
c) Determination of Fair Value

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

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

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

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



when fixing the price must be included in the measurement. Wherever possible, the corresponding parameters are taken from the market where the instrument was issued or acquired.

Measurement models are used mainly for OTC derivatives and for securities listed on inactive markets. Various parameters are included in the models, such as market prices and other market information, for example volatility and market liquidity.

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

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

In the case of financial instruments for which there is no active market on 31 December 2010 and which can no longer be measured on the basis of market prices, the 2008 and subsequent financial statements will use a fair value determined for measurement purposes using a mark-to-matrix process (Level 2) based on discounted cash flows that was established within the NORD/LB group in 2008.

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

The measurement model for financial instruments in inactive markets is based on fixed term interest rates, the credit rating of the respective issuers and an appropriate interest calculation for the equity.

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

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

NORD/LB CFB essentially uses this measurement model to determine the fair value disclosures for portfolios classified as LaR.

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

Further information on the fair value hierarchy and the fair values of financial instruments can be found in Notes (52) – (54).

d) Structured Products

Structured products are made up of two components – one or more 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).

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

e) Hedge Accounting

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

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

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

Hedging relationships may only be reported in accordance with the rules of hedge accounting if the restrictive conditions laid down by IAS 39 are fulfilled. The requirements of hedge accounting, particularly proving hedge effectiveness, must be met on all balance sheet dates and for all hedging relationships. Critical term matching and the market data shift method are used where effectiveness tests must prospectively be carried out. The modified dollar offset method is applied for retrospective effectiveness tests.

In accordance with the rules of fair value hedge accounting, derivatives at fair value used in hedging are reported as positive or negative fair values from hedge accounting (Note (30) or Note (40) Fair values from hedge accounting). The valuation changes are recognised through profit or loss (Note (20) Profit/loss from hedge accounting). With regard to the hedged asset or hedged liability, the changes in fair value attributable to the hedged risk are also stated in recognition of profit or loss under the item profit/loss from hedge accounting.

If financial instruments 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.

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

f) Securities Repurchase Agreements and Securities Lending

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

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



The bank does not operate any non-genuine security repurchase agreements and none are outstanding as of 31 December 2010.

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

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

We refer to the scope and volume of securities repurchase agreements under Note (57) Securities repurchase agreements. There were no reverse repo transactions or security lending business in the inventory on 31 December 2010.

(6) Risk Provisions

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

Checking of intrinsic value is done for all significant outstanding amounts at individual business level. Loan loss provisions cover all discernible credit rating risks by creating specific value adjustments. 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.

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

Risk provisions for off balance sheet transactions (guarantees, endorsement liabilities, loan commitments) are accounted for by creating a provision.

Irrecoverable debts for which there was no specific value adjustment 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.

Except for portfolio loss provisions, the bank has not had to make any provisions/loss provisions so far.

(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. All property, plant and equipment are depreciated over a useful life of 3–15 years.

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

(8) Leasing

In accordance with IAS 17, leasing agreements must be classified as either finance leases or operating leases at their inception. A lease is classified as a finance lease if it substantially transfers the risks and rewards associated with

ownership to the lessee; the leased property is accounted for by the lessee. A lease is classified as an operating lease if it does not substantially transfer the risks and rewards associated with ownership to the lessee; the leased property is accounted for by the lessor.

Finance Leases

There are no finance leases at the reporting date.

Operating Leases

With an operating lease, the lessee recognises the lease payments made as an expense under other administrative expenses. The payments made directly at inception (e.g. survey costs) are recognised immediately in recognition of profit or loss.

Operating leases are of minor significance.

(9) Intangible Assets

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

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

Intangible assets with a finite useful life are amortised over three to five years.

NORD/LB CFB does not have any intangible assets with an indefinite useful life.

(10) Provisions for Pensions and Similar Obligations

The bank's occupational pension scheme is based on various pension schemes. On the one hand, employees build up entitlement to pension rights through a fixed contribution by the bank to an external pension provider (Defined Contribution Plan). These contributions to the pension

scheme are recorded as a current expense under the application of the accounting requirements set out under IAS 19 for contributory plans, so that no pension provisions are to be formed.

On the other hand, NORD/LB CFB's occupational pension scheme is based on a pension scheme in which employees build up entitlement to pension rights, and benefits are determined in line with factors such as anticipated wage and salary increases, age, length of service and pension 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 that are 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, 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 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 schemes are 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 determined. The amount recognised as a provision should be the best estimate. This estimate is based on the management's assessment, based on experience and, where necessary, on expert reports, and should take risks and uncertainties into consideration. Future events that may influence the amount required to settle



an obligation are taken into account if there are objective signs that they will occur. Provisions are discounted provided that the effect is material.

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

(12) Income Tax Assets and Liabilities

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

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

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

The income tax expense or benefit is shown under income tax in the income statement. The split between current and deferred income tax assets and liabilities for the year under report can be found in the Notes. Current and deferred income tax assets and liabilities are presented on the balance sheet under assets or liabilities, with the carrying amount

of a deferred tax asset being reviewed at each balance sheet date.

A Grand Ducal regulation on the taxation of IFRS financial statements was published as a draft bill. This provides for the measurement differences arising from financial instruments shown in the income statement 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.

In a letter dated 2 August 2007, the Luxembourg financial authorities approved the establishment of a tax group with effect for corporation and trade tax comprising Norddeutsche Landesbank Luxembourg S.A. and NORD/LB Covered Finance Bank S.A. starting from financial year 2007. Pursuant to paragraph 164bis 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. NORD/LB Luxembourg and NORD/LB CFB declared their intention of continuing the tax group until at least the end of the required five year period, which ends on 31 December 2011, and that they will fulfil the conditions pursuant to paragraph 164bis L.I.R.

The bank acts as the controlled company.

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. This is accordingly taken into account in the financial statements of NORD/LB CFB.

(13) Subordinated Capital

The item subordinated capital comprises unsecured and securitised 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 subordinated capital.

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

Segment Reporting

Classification by Business Segment

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

Because of the bank's specialisation in covered bond activities, the only distinction made in NORD/LB CFB is that between the Financial Markets segment and Group Cooperation.

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. Classification of the use of interest from equity investments underwent a systematic change. Both measures of success are no longer allocated to the operative profit centres of the bank but rather to the Group Cooperation segment due to the lack of taxability as a result of the market sectors.

A base capital adequacy of 5% of the risks on the assets side applies for the risks on the assets side of the segments in accordance with the group guidelines (7% in the previous year). Capital commitment in the segments is determined on the basis of average annual figures.

Financial Markets

The Public Finance and Treasury business segments of NORD/LB CFB are recognised in this item. Primarily the state lending business with central states, regional administrative bodies and their downstream offices in the OECD falls within this, and loans and securities guaranteed by the same. These are primarily opposed to contributions to profit/loss arising from the issuing activities of the bank.

Group Cooperation

This segment shows the lending business arranged through the group with the contributions to profit/loss incurred through the same.

Segmentation by Regions

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

EUR million	Segments		
	Financial markets	Group cooperation	Total
Net interest income	5.2	3.4	8.6
do. previous year	7.0	1.6	8.6
Loan loss provisions	-0.9	-0.1	-1.0
do. previous year	0.0	-0.3	-0.3
Net interest income after loan loss provisions	4.2	3.1	7.6
do. previous year	6.7	1.6	8.3
Net commission income	-0.5	-0.7	-1.2
do. previous year	-0.5	-0.3	-0.8
Profit/loss from financial instruments at fair value through profit or loss	-0.6	0.0	-0.6
do. previous year	0.7	0.0	0.7
Profit/loss from hedge accounting	1.0	0.0	1.0
do. previous year	-0.6	0.0	-0.6
Profit/loss from financial assets	5.0	0.0	5.0
do. previous year	5.4	0.0	5.4
Profit/loss from equity-accounted investments	0.0	0.0	0.0
do. previous year	0.0	0.0	0.0
Administrative expenses	2.0	0.9	2.9
do. previous year	2.2	0.5	2.7
Other income/expenses	-1.4	-0.9	-2.3
do. previous year	-1.9	-0.4	-2.3
Operating profit/loss before taxes	5.8	0.9	6.7
do. previous year	7.5	0.5	8.0
Taxes	0.5	0.0	0.5
do. previous year	-1.5	-0.1	-1.6
Operating profit/loss after taxes	6.3	0.9	7.2
do. previous year	6.0	0.4	6.4

EUR million	Segments		
	Financial markets	Group cooperation	Total
Segment assets	5,931.0	477.4	6,408.5
do. previous year	5,482.6	448.0	5,930.6
Segment liabilities (incl. equity)	6,408.5	0.0	6,408.5
do. previous year	5,930.6	0.0	5,930.6
Risk-weighted assets (annual averages)	864.8	28.0	892.8
do. previous year (annual averages)	853.0	13.0	866.0
Capital backing (on basis of annual averages)	43.0	-2.0	41.0
do. previous year (on basis of annual averages)	43.0	1.0	44.0
CIR	24.0 %	47.1 %	28.1 %
do. previous year	22.3 %	48.8 %	24.6 %
RoRaC/RoE*	13.5 %	5.4 %	11.7 %
do. previous year	15.7 %	4.8 %	13.8 %

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

Further segment information			
Eur million	Financial markets	Group cooperation	Total
Property, plant and equipment, net	0.0	0.0	0.0
do. previous year	0.0	0.0	0.0
Depreciation of property, plant and equipment, current year	0.0	0.0	0.0
do. previous year	0.0	0.0	0.0
Intangible assets, net	0.0	0.0	0.0
do. previous year	0.0	0.0	0.0
Depreciation of intangible assets, current year	0.0	0.0	0.0
do. previous year	0.2	0.0	0.2
Value adjustments on financial assets	0.0	0.0	0.0
do. previous year	0.0	0.0	0.0

Notes to the Income Statement

(16) Net Interest Income

As well as interest income and interest expense, the interest income and interest expense items include pro rata reductions in premiums and discounts resulting from financial instruments.

Interest income from positions in the trading book allocated to the held-for-trading (HfT) category and financial instruments that are voluntarily allocated to the designated at fair value through profit or loss (dFV) category are excluded in this case since they are reported in trading profit/loss or in the profit/loss from the fair value option.

	2010 (KEUR)	2009 (KEUR)	Increase/ Decrease (%)
Interest income	390,564	378,472	3
Interest income from lending and money market transactions	55,725	66,615	-16
Interest income from fixed income and book entry securities	149,147	142,892	4
Current income	0	0	-
from shares and other variable yield securities	0	0	-
from participating interests	0	0	-
Interest income from hedge derivatives	185,566	168,963	10
Other interest income and similar income	126	2	> 100
Interest expense	-381,975	-369,746	3
Interest expense from lending and money market transactions	-45,121	-51,904	-13
Interest expense from securitised liabilities	-91,532	-97,095	-6
Interest expense from subordinated capital	-2,460	-2,866	-14
Interest expense from hedge derivatives	-242,802	-217,879	11
Interest expense for provisions and liabilities	-4	-3	35
Other interest expense and similar expense	-55	0	-
Total	8,589	8,725	-2

The net interest income and the total of the interest income and interest expense are at the previous year's levels. In the first half of 2010, a one-off amount of EUR 0.7 million was generated through the early termination of a borrowing commitment. On the other hand, amortisations in connection with hedge designations are also shown in the net interest income. In 2010 this item amounted to EUR -2.5 million (comparison period: EUR -1.6 million).

(17) Loan Loss Provisions

	2010 (KEUR)	2009 (KEUR)	Increase/ Decrease (%)
Income from loan loss provisions	0	0	–
Reduction in provisions for claims	0	0	–
Reductions in portfolio-based provisions for receivables	0	0	–
Reversal of provisions in lending business	0	0	–
Additions to receivables written off	0	0	–
Loan loss provision expense	1,013	289	> 100
Allocations to provisions for claims	0	0	–
Allocation to portfolio-based provisions for claims	1,013	289	> 100
Allocation to provisions for lending business	0	0	–
Direct write-offs of claims	0	0	–
Total	–1,013	–289	> 100

(18) Net Commission Income

The bank makes a distinction in commission income between transaction-dependent commission, which is due and entered when the transaction is concluded, and term-related commission, which is allotted to a specific period and entered on a straight-line basis over this period. There is no effective interest spread for term-related commission.

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

The commission income is attributable to lending provisions on a pro rata basis. The other commission income is dependent on transactions.

The pro rata commission expenses result mainly from the lending and guarantee transactions for hedging large risks. The other commission expenses are dependent on transactions and result mainly from depositary charges.

	2010 (KEUR)	2009 (KEUR)	Increase/ Decrease (%)
Commission income	740	1,175	-37
from security and custody transactions	0	0	-
from lending and guarantee transactions	740	1,175	-37
other commission income	0	0	-
Commission expense	1,941	2,078	-7
from security and custody transactions	461	458	1
from lending and guarantee transactions	1,436	1,516	-5
other commission expense	43	104	-59
Total	-1,201	-903	33

The commission income relates to the lending business (KEUR 740; previous year KEUR 1,175).

The commission expenses relates in particular to the lending and guarantee business (KEUR 1,436; previous year KEUR 1,516) and the securities and custodian business (KEUR 461; previous year KEUR 458).

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

	2010 (KEUR)	2009 (KEUR)	Increase/ Decrease (%)
Trading profit/loss	-587	665	> 100
Realised profit/loss	0	0	-
from debt securities and other fixed interest securities	0	0	-
from shares and other variable yield securities	0	0	-
from derivatives	0	0	-
from other trading transactions	0	0	-
Measurement gains/losses	-999	196	> 100
from debt securities and other fixed interest securities	0	0	-
from shares and other variable yield securities	0	0	-
from derivatives	-999	196	> 100
from other trading transactions	0	0	-
Foreign exchange profit/loss	412	109	> 100
Other profit/loss	0	361	-100
Profit/loss from the fair value option	0	0	-
Total	-587	665	> 100

Trading profit/loss includes the measurement gains/losses from trading activities (defined as unrealised expense and income from fair value measurement) as well as the realised profit/loss (defined as the difference between disposal proceeds and carrying amount at the last reporting date).

The bank's trading profit/loss results from derivative hedging instruments that do not meet the restrictive requirements of hedge accounting or from a closed derivative position. The interest on the closed derivative position is shown under other profit/loss in the trading profit/loss.

(20) Profit/Loss from Hedge Accounting

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

	2010 (KEUR)	2009 (KEUR)	Increase/ Decrease (%)
Profit/loss from micro fair value hedge transactions	1,032	-599	> 100
from hedged underlying transactions	49,231	-210,788	> 100
from derivatives used as hedging instruments	-48,198	210,189	> 100
Profit/loss from portfolio fair value hedge transactions	0	0	-
from hedged underlying transactions	0	0	-
from derivatives used as hedging instruments	0	0	-
Total	1,032	-599	> 100

The bank uses micro fair value hedge accounting to hedge the interest rate risk. Hedged underlying transactions are loans and advances and liabilities to banks and customers, financial assets and own issues.

(21) Profit/Loss from Financial Assets

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

	2010 (KEUR)	2009 (KEUR)	Increase/ Decrease (%)
Profit/loss from financial assets classified as LaR	1,653	0	-
Profit/loss from financial assets classified as AfS (no joint ownership)	3,388	5,354	-37
of debt securities and other fixed interest securities	0	0	-
of own issues bought back for price management	3,388	5,354	-37
of shares and other variable yield securities	0	0	-
of other financial assets	0	0	-
profit/loss from value adjustments for debt securities and other fixed interest securities	0	0	-
Profit/loss from affiliated companies	0	0	-
Profit/loss from joint ventures and associated companies	0	0	-
Profit/loss from other participating interests	0	0	-
Total	5,041	5,354	-6

(22) Administrative Expenses

The administrative expenses comprise personnel expenses, other administrative expenses and depreciation and valuation adjustments (impairments) on tangible assets and intangible assets.

	2010 (KEUR)	2009 (KEUR)	Increase/ Decrease (%)
Staff expenses	1,530	1,107	38
Wages and salaries	1,271	976	30
Social security contributions	91	65	39
Expenses for pension provision	50	65	-23
Other staff expenses	118	0	-
Other administrative expenses	1,315	1,360	-3
Expense for operating and office equipment and it	560	451	24
Legal, audit, survey and professional fees	566	732	-23
Other administrative expenses	189	176	7
Depreciation and impairments	7	209	-97
Depreciation of property, plant and equipment	6	28	-77
Depreciation of intangible assets	1	181	-100
Impairments	0	0	-
Total	2,853	2,675	7

The personnel expenses includes contributions to employees' old age pensions in accordance with a performance-related plan (Defined Contribution Plan), which have to be shown as current expenditure according to IAS 19, in the sum of KEUR 18 (previous year KEUR 9). For the board of directors this value was KEUR 0 (previous year KEUR 0). Expenses in connection with defined benefit obligations are shown in Note (41).

(23) Other Operating Profit/Loss

	2010 (KEUR)	2009 (KEUR)	Increase/ Decrease (%)
Other operating income	584	111	> 100
from the reversal of provisions	159	0	–
other income	426	111	> 100
Other operating expenses	2,880	2,434	18
from the allocation of provisions	0	0	–
from accounting for services	2,538	2,041	24
other expenses	342	393	–13
Total	–2,296	–2,323	–1

The other operating expenses comprise primarily expenditure for services received from NORD/LB (KEUR 748; previous year KEUR 450) and NORD/LB Luxembourg (KEUR 1,790; previous year KEUR 1,591), and from wealth tax expenditure.

(24) Income Taxes

	2010 (KEUR)	2009 (KEUR)	Increase/ Decrease (%)
Current income taxes	482	–1,591	> 100
Deferred taxes	0	0	–
Total	482	–1,591	> 100

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 actually income tax expenditure shown.

	2010 (KEUR)	2009 (KEUR)
IFRS earnings before taxes (EBT)	6,714	7,955
Expected income tax expense	-1,920	-2,274
Effects of reconciliation:		
Effects of different tax rates	0	0
Taxes from previous years recognised in the year under report	482	-
Effects of tax rate changes	0	0
Non-allowable income taxes	0	0
Non-deductible operating expenses	-101	-9
Effects of tax-free income	0	0
Effects of permanent effects affecting the balance sheet	0	0
Other effects	2,021	693
Income tax expense shown	482	-1,591

The expected income tax expenditure in the tax reconciliation is calculated from the corporation and trade tax burden applicable in Luxembourg for 2010 in the sum of 28.59% (previous year 28.59%).

The bank and NORD/LB Luxembourg form a tax group in accordance with Article 164bis of the Luxembourg income tax law. No current income taxes are incurred in the tax group in 2010.

Notes to the Balance Sheet

(25) Cash Reserve

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Cash	0.0	0.0	–
Balances with central banks	1.4	0.0	> 100
Total	1.4	0.0	> 100

EUR 1.4 million (previous year EUR 0.0 million) of balances deposited with central banks are deposited at the Luxembourg Central Bank and constitute the planned minimum reserve.

(26) Loans and Advances to Banks

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Receivables from money market transactions	416.0	361.4	15
Luxembourg banks	0.0	0.0	–
Foreign banks	416.0	361.4	15
Other receivables	695.0	783.4	–11
Luxembourg banks	288.9	286.4	1
due on demand	0.3	0.6	–58
deferred	288.6	285.8	1
Foreign banks	406.1	496.9	–18
due on demand	0.0	0.0	–
deferred	406.1	496.9	–18
Total	1,111.0	1,144.8	–3

Of the total amount, EUR 822.1 million (previous year EUR 858.4 million) relate to loans and advances to foreign banks. A partial amount of EUR 653.5 million (previous year EUR 681.7 million) of the loans and advances to banks is not due for over twelve months.

A share in the sum of EUR 341.0 million results from collateral security.

(27) Loans and Advances to Customers

	31-12-2010 (EUR million)	31-12-2009 (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	821.4	856.8	–4
Luxembourg customers	0.0	0.0	–
due on demand	0.0	0.0	–
deferred	0.0	0.0	–
Foreign customers	821.4	856.8	–4
due on demand	0.0	0.0	–
deferred	821.4	856.8	–4
Total	821.4	856.8	–4

The total amount is made up by loans and advances to foreign customers. Of the total amount, EUR 722.1 million (previous year EUR 807.72 million) is only due in more than twelve months.

(28) Risk Provisions

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Individual value adjustments for receivables	0.0	0.0	–
Foreign banks	0.0	0.0	–
Luxembourg customers	0.0	0.0	–
Foreign customers	0.0	0.0	–
Portfolio-based provisions for receivables	–2.1	–1.0	97
Total	–2.1	–1.0	97

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

EUR million	Specific value adjustments	Portfolio-based provisions	Provisions in lending business	Total
01-01-2009	0.0	0.8	0.0	0.8
Allocations	0.0	0.3	0.0	0.3
Reductions	0.0	0.0	0.0	0.0
Utilisation	0.0	0.0	0.0	0.0
31-12-2009	0.0	1.0	0.0	1.0
Allocations	0.0	1.0	0.0	1.0
Reductions	0.0	0.0	0.0	0.0
Utilisation	0.0	0.0	0.0	0.0
31-12-2010	0.0	2.1	0.0	2.1

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

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

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Trading assets	45.1	11.1	> 100
Debt securities and other fixed interest securities	0.0	0.0	–
Shares and other variable yield securities	0.0	0.0	–
Positive fair values from derivatives in connection with:	45.1	11.1	> 100
Interest rate risks	22.6	5.0	> 100
Currency risks	22.5	6.1	> 100
Share and other price risks	0.0	0.0	–
Trading portfolio claims	0.0	0.0	–
Financial assets designated at fair value	0.0	0.0	–
Loans and advances to banks and customers	0.0	0.0	–
Debt securities and other fixed interest securities	0.0	0.0	–
Shares and other variable yield securities	0.0	0.0	–
Total	45.1	11.1	> 100

Of the total amount, EUR 33.5 million is only due after more than 12 months (previous year EUR 9.6 million).

(30) Fair Values from Hedge Accounting

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

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Positive fair values from allocated micro fair value hedge derivatives	379.2	228.9	66
Fair values from derivatives in portfolio fair value hedge accounting	0.0	0.0	–
Total	379.2	228.9	66

The bank uses micro fair value hedge accounting to hedge the interest rate risk. Hedge derivatives with a fair value of EUR 362.0 million are due in 12 months at the earliest.

(31) Financial Assets

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

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Financial assets classified as LaR	3,391.8	3,262.0	4
Bonds and debt securities	3,391.8	3,262.0	4
from public issuers	1,851.0	1,803.2	3
from other issuers	1,540.8	1,458.8	6
Financial assets classified as AfS	653.0	424.4	54
Bonds and debt securities	653.0	424.4	54
from public issuers	150.7	113.7	33
from other issuers	502.3	310.7	62
Shares and other variable yield securities	0.0	0.0	–
Shares in companies	0.0	0.0	–
Total	4,044.9	3,686.4	10

The volume of financial assets, which were issued by central governments in the PIIGS zone, amounts to a nominal EUR 102.0 million. These are two debt securities of the Italian state with terms to 2018 and 2033.

Of the financial assets, EUR 3,882.9 million are only due after more than twelve months (previous year EUR 3,376.1 million).

The bank made use of the options under IAS 39.50E and reclassified 18 securities designated as AfS (bonds and debt securities) as LaR in 2008. At the same time, bonds and debt securities where there was clearly no intention to sell or trade them in the short-term on 1 July 2008, and which were intended to be kept in the inventory for the foreseeable future instead, were recategorised. In accordance with the amended IAS 39, the recategorisation took place with effect from 1 July 2008 at the fair value calculated on this reporting date. In the years 2009 and 2010 no further recategorisations were undertaken.

With the recategorisation, the balance sheet presentation was also changed (reclassification). The following table shows the book values and the fair values of the reclassified assets.

EUR million	31-12-2010			31-12-2009			31-12-2008		
	Book value on transfer date	Carrying amount	Fair value	Book value on transfer date	Carrying amount	Fair value	Book value on transfer date	Carrying amount	Fair value
Reclassified financial assets	645.6	660.3	627.9	645.6	731.4	712.1	645.6	746.7	719.5

The reclassification was done at book value with expected achievable cash flows of EUR 1,038.5 million.

The results not affecting profit/loss recorded in the equity from the reclassified securities amounted to EUR –13.2 million at the time of the reclassification.

The pro rata resolution of this item is in accordance with IAS 39.54 in relation to net interest income. The effective interest rate for each security was determined for this purpose. These were in a bandwidth of 2.53%–6.46%.

KEUR	31-12-2010	31-12-2009	31-12-2008	01-07-2008
Unrealised profit/loss before taxes at time of conversion				–13,193.6
Pro rata reductions in accordance with IAS 39.54	703	676	316	

In the year under report 2010 the pro rata reduction was KEUR 703 (previous year KEUR 676) at the expense of net interest income.

Without reclassification the following additional effects in equity would have occurred (cumulative to the reporting date in each case):

EUR million	31-12-2010	31-12-2009	31-12-2008	01-07-2008
Unrealised profit/loss before taxes	–32.4	–19.3	–27.1	–13.2
Deferred taxes	9.3	5.5	8.0	3.9
Net effect in equity from reclassified financial assets available for sale	–23.1	–13.8	–19.1	–9.3

(32) Property, Plant and Equipment

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Land and buildings	0.0	0.0	–
Operating and office equipment	0.0	0.0	–
Other property, plant and equipment	0.0	0.0	–
Total	0.0	0.0	–

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

KEUR	Land and buildings	BGA	Other property, plant and equipment	Total
Acquisition and manufacturing costs at 01-01-2009	0	89	0	89
Accruals	0	7	0	7
Disposals	0	15	0	15
Transfers	0	0	0	0
Total 31-12-2009	0	81	0	81
Cumulative depreciation at 01-01-2009	0	41	0	41
Scheduled depreciation	0	28	0	28
Total 31-12-2009	0	69	0	69
Closing balance at 31-12-2009	0	12	0	12
Acquisition and manufacturing costs at 01-01-2010	0	81	0	81
Accruals	0	15	0	15
Disposals	0	0	0	0
Transfers	0	0	0	0
Total 31-12-2010	0	96	0	96
Cumulative depreciation at 01-01-2010	0	69	0	69
Scheduled depreciation	0	6	0	6
Total 31-12-2010	0	75	0	75
Closing balance at 31-12-2010	0	20	0	20

(33) Intangible Assets

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Software	0.0	0.0	–
acquired for consideration	0.0	0.0	–
self-produced	0.0	0.0	–
Intangible assets under development	0.0	0.0	–
Other	0.0	0.0	–
Total	0.0	0.0	–

NORD/LB CFB continues to use fully depreciated software.

Intangible assets developed as follows:

KEUR	Software		Other		Total
	Acquired for consideration	Self- produced	Acquired for consideration	Self- produced	
Acquisition and manufacturing costs at 01-01-2009	344	0	0	0	344
Accruals	9	0	0	0	9
Disposals	0	0	0	0	0
Transfers	0	0	0	0	0
Total 31-12-2009	353	0	0	0	353
Cumulative depreciation at 01-01-2009	172	0	0	0	172
Scheduled depreciation	181	0	0	0	181
Total 31-12-2009	353	0	0	0	353
Closing balance at 31-12-2009	0	0	0	0	0
Acquisition and manufacturing costs at 01-01-2010	353	0	0	0	353
Accruals	7	0	0	0	7
Disposals	0	0	0	0	0
Transfers	0	0	0	0	0
Total 31-12-2010	360	0	0	0	360
Cumulative depreciation at 01-01-2010	353	0	0	0	353
Scheduled depreciation	1	0	0	0	1
Total 31-12-2010	354	0	0	0	354
Closing balance at 31-12-2010	7	0	0	0	7

(34) Income Tax Assets

Income tax assets are broken down as follows:

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Current income tax assets	0.0	0.0	–
Active deferred taxes	7.3	3.6	> 100
Total	7.3	3.6	> 100

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

The tax provisions of the IFRS agreement have been applied since the reported year 2008. This means that many of the temporary differences no longer apply. The active deferred taxes relate exclusively to financial assets classified as AfS.

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

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Assets			
Risk provisions	0.0	0.0	–
Financial assets	7.3	3.6	> 100
Property, plant and equipment	0.0	0.0	–
Other assets	0.0	0.0	–
Equity and liabilities			
Financial liabilities at fair value through profit or loss	0.0	0.0	–
Fair values from hedge accounting	0.0	0.0	–
Provisions	0.0	0.0	–
Other liabilities	0.0	0.0	–
Tax losses carried forward	0.0	0.0	–
Total	7.3	3.6	> 100

(35) Other Assets

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Tax reimbursement rights from other taxes	0.1	0.0	> 100
Other assets	0.0	0.1	–
Other assets including accruals and deferred income	0.0	0.0	–
Total	0.1	0.1	34

(36) Liabilities to Banks

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Deposits from other banks	854.5	0.0	–
Luxembourg banks	699.7	0.0	–
Foreign banks	154.8	0.0	–
Liabilities arising from money market transactions	1,696.1	1,960.8	–13
Luxembourg banks	1,474.5	1,566.1	–6
Foreign banks	221.6	394.7	–44
Other liabilities	0.2	0.0	> 100
Luxembourg banks	0.2	0.0	> 100
due on demand	0.2	0.0	> 100
deferred	0.0	0.0	–
Foreign banks	0.0	0.0	–
due on demand	0.0	0.0	–
deferred	0.0	0.0	–
Total	2,550.9	1,960.8	30

EUR 783.3 million (previous year EUR 422.0 million) of the total amount relates to liabilities that are not due for over twelve months.

Registered covered bonds in the sum of EUR 131.9 million (previous year EUR 307.7 million) are included in the liabilities to banks.

(37) Liabilities to Customers

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Savings deposits	0.0	0.0	–
Liabilities arising from money market transactions	0.0	0.0	–
Luxembourg customers	0.0	0.0	–
Foreign customers	0.0	0.0	–
Other liabilities	433.0	367.9	18
Luxembourg customers	0.0	0.0	–98
due on demand	0.0	0.0	–98
deferred	0.0	0.0	–
Luxembourg customers	433.0	367.9	18
due on demand	0.0	0.0	–
deferred	433.0	367.9	18
Total	433.0	367.9	18

The liabilities to customers are exclusively due after 12 months (previous year EUR 367.9 million). In both years, this balance sheet item results exclusively from registered covered bonds.

(38) Securitised Liabilities

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Issued debt securities	2,701.3	3,032.7	–11
Money market papers/commercial papers	0.0	0.0	–
Other securitised liabilities	0.0	0.0	–
Total	2,701.3	3,032.7	–11

EUR 2,528.9 million (previous year EUR 2,437.9 million) of the total amount relates to liabilities that are not due for over twelve months. All issued debt securities are covered bonds under Luxembourg law (Lettres de Gage) (previous year EUR 3,032.7 million), which are listed on the Luxembourg exchange in a volume of EUR 2,348.2 million (previous year EUR 2,738.4 million). Lettres de Gage to a counter value of EUR 220.2 million are listed on the Swiss exchange (previous year EUR 180.3 million).

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

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

The trading liabilities position comprises negative fair values from derivative financial instruments, which do not correspond to the specifications of hedge accounting, and short sale delivery obligations from securities. However short sales were not undertaken by the bank. There is also no intention to conclude any.

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

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Trading liabilities	25.2	20.9	20
Negative fair values from derivatives in connection with:	25.2	20.9	20
Interest rate risks	22.6	1.3	> 100
Currency risks	2.6	19.6	-87
Share and other price risks	0.0	0.0	-
Credit derivatives	0.0	0.0	-
Short sale delivery obligations	0.0	0.0	-
Financial liabilities designated at fair value	0.0	0.0	-
Liabilities to banks and customers	0.0	0.0	-
Securitised liabilities	0.0	0.0	-
Total	25.2	20.9	20

A partial amount of EUR 24.2 million of the trading liabilities is only due after more than 12 months (previous year EUR 11.2 million).

(40) Fair Values from Hedge Accounting

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

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Fair values from allocated micro fair value hedge derivatives	586.8	432.0	36
Fair values in terms of portfolio fair value hedge accounting	0.0	0.0	-
Total	586.8	432.0	36

The bank uses micro fair value hedge accounting to hedge the interest rate risk. Hedge derivatives with a negative fair value of EUR 581.0 million are due after 12 months at the earliest (previous year EUR 412.0 million).

(41) Provisions

Provisions are broken down as follows:

	31-12-2010 (KEUR)	31-12-2009 (KEUR)	Increase/ Decrease (%)
Provisions for pensions and similar obligations	40.5	23.7	71
Other provisions	30.0	220.0	-86
Provisions in lending business	0.0	0.0	-
Restructuring provisions	0.0	0.0	-
Provisions for threatened losses	0.0	0.0	-
Provisions for uncertain liabilities	30.0	220.0	-86
Insurance business provisions	0.0	0.0	-
Total	70.5	243.7	-71

Provisions in the sum of KEUR 30 represent amounts for uncertain liabilities, which will be due in the coming three years (previous year KEUR 220).

Provisions for Pensions and similar Obligations

Calculations are based on the following actuarial assumptions:

Actuarial assumptions	31-12-2010 (%)	31-12-2009 (%)	Increase/ Decrease (%)
Annual salary growth	1.50	1.50	-
Annual inflation rate	2.50	2.50	-
Annual BBG contribution ceiling (including cost of living index)	3.63	3.69	-2
Discount rate	5.25	5.50	-5
Mortality table	Statistical values published in the Grand Ducal regulation of 15 January 2001 and that governing the minimum funding of occupational pensions		
Expected return on plan assets	3.25	3.25	-
Turnover rate	0.00	0.00	-

Provisions for pensions and similar obligations are as follows:

	31-12-2010 (KEUR)	31-12-2009 (KEUR)	Increase/ Decrease (%)
Cash value of the performance-related obligation	110.5	75.5	46
Deduction for the fair value of plan assets	77.0	55.9	38
Surplus not shown as an asset	0.0	0.0	–
Other amounts shown in the balance sheet (lump sum tax)	7.0	4.1	71
Deduction for the past service cost	0.0	0.0	–
Total	40.5	23.7	71

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

	31-12-2010 (KEUR)	31-12-2009 (KEUR)	Increase/ Decrease (%)
Opening balance	75.5	53.5	41
Current service cost	18.7	15.3	23
Interest expense	4.0	2.9	35
Contributions by plan participants	0.0	0.0	–
Actuarial gains/losses from the liability	12.3	3.8	> 100
Increases/decreases from currency translations	0.0	0.0	–
Benefits paid	0.0	0.0	–
Past service cost	0.0	0.0	–
Effects of curtailments	0.0	0.0	–
Effects of settlements	0.0	0.0	–
Closing balance	110.5	75.5	46

Furthermore, the performance-related obligation must be split into amounts from the performance-related plans, which are not financed via a fund, and amounts from performance-related plans which are fully or partially financed from a fund, for the period to the reporting date. The latter applies to the NORD/LB CFB defined benefit obligation.

According to the insurance firm, experience adjustments on plan liabilities and plan assets amount to KEUR 7 and KEUR 0 respectively.

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

	31-12-2010 (KEUR)	31-12-2009 (KEUR)	Increase/ Decrease (%)
Opening balance	55.9	40.7	37
Expected return on plan assets	2.4	1.8	35
Actuarial gains/losses on plan assets	0.7	-0.7	> 100
Increases/decreases from currency translations	0.0	0.0	-
Employer contributions	18.0	14.1	28
Contributions by plan participants	0.0	0.0	-
Benefits paid	0.0	0.0	-
Effects of settlements	0.0	0.0	-
Closing balance	77.0	55.9	38

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

	31-12-2010 (%)	31-12-2009 (%)	Increase/ Decrease (%)
Equity instruments	4	4	7
Equity instruments of another entity	88	87	1
Real estate	4	4	-3
Other assets	4	5	-22

The fair value of the plan assets includes equity instruments in the sum of KEUR 3 (previous year KEUR 2), equity instruments of another entity in the sum of KEUR 68 (previous year KEUR 49) and other assets in the sum of KEUR 6 (previous year KEUR 5). The overall expected yield of 3.25% 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 19 will be paid into the plan assets of the defined benefit obligations during the next reporting period.

Pension costs are made up as follows:

	31-12-2010 (KEUR)	31-12-2009 (KEUR)	Increase/ Decrease (%)
Current service cost	18.7	15.3	23
Interest expense	4.0	2.9	35
Expected return on plan assets	-2.4	-1.8	35
Past service cost	0.0	0.0	-
Effects of plan changes	0.0	0.0	-
Expected return on reimbursement rights	11.6	4.5	> 100
Total	31.9	20.9	52

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

	31-12-2010 (KEUR)	31-12-2009 (KEUR)	31-12-2008 (KEUR)	31-12-2007 (KEUR)
Pension obligation (DBO)	110.5	75.5	53.5	47.6
Plan assets	-76.9	-55.9	-40.7	-30.9
Shortfall	33.5	19.6	12.8	16.7
Actuarial profit/losses	-11.6	-4.5	5.3	0.9
Experience adjustments to:				
Pension obligation (DBO)	7.0	7.7	-0.1	- ^{*)}
Plan assets	0.0	0.7	0.7	- ^{*)}

^{*)} This information is not available for the period 2007

Other provisions changed during the year under report as follows:

EUR million	Provisions in lending business	Restructuring provisions	Provisions for impending losses	Provisions for uncertain liabilities		Provisions for insurance business	Total
				From personnel field	Other		
Opening balance	0.0	0.0	0.0	0.0	220.0	0.0	220.0
Increases/decreases from currency translations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Utilisation	0.0	0.0	0.0	0.0	31.4	0.0	31.4
Reductions	0.0	0.0	0.0	0.0	158.6	0.0	158.6
Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing balance	0.0	0.0	0.0	0.0	30.0	0.0	30.0

(42) Income Tax Liabilities

Income tax liabilities are broken down as follows:

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Current income tax liabilities	0.0	0.0	–
Passive deferred taxes	0.0	0.0	–
Total	0.0	0.0	–

The tax provisions of the IFRS agreement have been applied since the reported year 2008. This means that many of the temporary differences no longer apply. Because of the tax group, the bank shows the liabilities to the controlling company and not to the tax authorities.

(43) Other Liabilities

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Liabilities from outstanding invoices	2.2	1.8	19
Liabilities from contributions	0.0	0.0	–
Liabilities from short term remuneration of workers	0.0	0.0	–
Accruals and deferred income	0.0	0.0	–
Liability from taxes and social security contributions not yet deducted	0.5	0.0	> 100
Liabilities on interim accounts	0.0	0.0	–
Insurance-related liabilities	0.0	0.0	–
Other liabilities	3.5	4.0	–12
Total	6.1	5.8	5

The other liabilities result primarily from taxes payable to the parent company NORD/LB Luxembourg.

(44) Subordinated Capital

Subordinated liabilities are only repaid after the claims of all senior lenders have been settled. They fulfil in the full amount the conditions of Circular CSSF 06/273 in its amended version in relation to the offsetting as regulatory supplementary capital.

The expenses for subordinate liabilities amounted to KEUR 2,460 (previous year KEUR 2,866) in the year under report.

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Subordinated liabilities	38.0	45.8	–17
Profit participation capital	0.0	0.0	–
Contributions from silent partners	0.0	0.0	–
Total	38.0	45.8	–17

In 2008, a Mandatory Convertible Bond in the sum of EUR 30.0 million was placed. After two partial conversions into shares undertaken in the previous year in the sum of EUR 6.0 million each, there was a further partial conversion in the sum of EUR 10.0 million in the current year under report.

The following table shows the subordinated transactions in detail:

Type of transaction	Nominal amount (millions)	Accrued interest (millions)	Rate at 31-12-2010	Balance sheet value (EUR million)	Term (in years)	Interest rates (%)	Maturity
Subordinated loans	USD 40.0	USD 0.0	1.3362	30.0	15	6.400	27.12.22
Mandatory Convertible Bond	EUR 8.0	EUR 0.0	1	8.0	10	4.553	01.04.19
Total				38.0			

Other Disclosures

(45) Notes to the Overall Profit and Loss Account

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

KEUR	Amount before taxes 2010	Income tax effect 2010	Amount after taxes 2010	Amount before taxes 2009	Income tax effect 2009	Amount after taxes 2009
Increase/decrease from available for sale (AFS) financial instruments	-12,692	3,682	-9,011	9,425	-2,923	6,501
Actuarial gains/losses for defined benefit provisions for pensions	-19	5	-13	-5	1	-4
Profit/loss recognised directly in equity	-12,711	3,687	-9,024	9,420	-2,923	6,498
of which: due to shareholders of NORD/LUX	-12,711	3,687	-9,024	9,420	-2,923	6,498
of which: attributable to non-controlling shares	0	0	0	0	0	0

(46) Notes to the Statement of Changes in Equity

The company's subscribed capital amounts to EUR 72 million at 31 December 2010 (previous year EUR 62 million). It is divided into 720,000 registered shares without nominal value (previous year 620,000 registered shares). The subscribed capital is fully paid up.

During the course of the year under report in a share of EUR 10.0 million in the mandatory convertible bond was converted into share capital.

A dividend, relating to year under report 2009, was paid out to the shareholder in the year under report, in the sum of KEUR 5,500 (previous year KEUR 4,000). The individual components of the equity and their development in the years 2009 and 2010 can be seen in the statement of changes in equity.

The revenue reserves comprise the legal reserves, profit and loss carried forward and the first-time adoption reserve.

The revenue reserves mainly include the legal reserve required by Article 72 of the law of 10 August 1915, in accordance with which 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 3.6 million or 5 % of the subscribed capital and must therefore be appropriated at least 5 % of the profit for the year within the scope of the appropriation of earnings.

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

In previous years, the bank made use of the tax option of offsetting the year's wealth tax. Five times the amount of the offset wealth tax of the previous years concerned were earmarked in the voluntary reserves by the parent company taking into consideration the five-year binding period.

Year	Wealth tax NORD/LB CFB (EUR million)	Locked in until
2005	0.0	31-12-2010
2006	0.0	31-12-2011
2007	0.2	31-12-2012
2008	0.2	31-12-2013
2009	0.2	31-12-2014
2010	0.0	31-12-2015
Total	0.6	

(47) Notes to the Cash Flow Statement

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

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

The cash flow statement is prepared using indirect methods. This involves determining the cash flow from operating activities based on the profit for the year 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 CFB.

Please refer to the notes in the risk report section of the management report with regard to NORD/LB CFB's control of the liquidity risk.

Notes to Financial Instruments

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

At 31 December 2010:

EUR million	< 1 month	1 month < 3 months	3 months < 1 year	1 year < 5 years	> 5 years	Total
Liabilities to banks	607.2	837.6	322.9	179.1	604.2	2,550.9
Liabilities to customers	0.0	0.0	0.0	25.5	407.4	433.0
Securitised liabilities	49.4	0.0	123.1	1,113.9	1,415.0	2,701.3
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	0.0	38.0	38.0
Irrevocable credit commitments	0.0	0.0	6.4	0.1	0.1	6.6
Total	656.6	837.6	452.4	1,318.6	2,464.7	5,729.8

At 31 December 2009:

EUR million	< 1 month	1 month < 3 months	3 months < 1 year	1 year < 5 years	> 5 years	Total
Liabilities to banks	822.7	485.7	230.4	190.5	231.5	1,960.8
Liabilities to customers	0.0	0.0	0.0	0.0	367.9	367.9
Securitised liabilities	0.0	230.2	342.8	446.8	2,012.9	3,032.7
Financial liabilities at fair value through profit or loss (without derivatives)	0.0	0.0	0.0	0.0	0.0	0.0
Subordinated capital	0.0	0.0	0.0	0.0	45.8	45.8
Irrevocable credit commitments	0.0	10.8	70.0	0.0	0.0	80.8
Total	822.8	726.7	643.2	637.3	2,658.2	5,488.1

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

(49) Book Values according to Valuation Categories

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Assets			
Financial assets at fair value through profit or loss	424.3	240.0	77
Financial assets held for trading	424.3	240.0	77
Financial assets designated at fair value through profit or loss	0.0	0.0	–
Available for sale assets	653.0	424.4	54
Loans and receivables	5,323.7	5,262.6	1
Total	6,401.0	5,926.9	8
Equity and liabilities			
Financial liabilities at fair value through profit or loss	612.0	452.9	35
Financial liabilities held for trading	612.0	452.9	35
Financial liabilities designated at fair value through profit or loss	0.0	0.0	–
Other liabilities	5,723.2	5,407.3	6
Total	6,335.2	5,860.2	8

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

(50) Net Results according to Valuation Categories

	2010 (KEUR)	2009 (KEUR)	Increase/ Decrease (%)
Financial instruments at fair value through profit or loss	–57,697	–48,250	20
Financial instruments held for trading	–57,697	–48,250	20
Financial instruments designated at fair value through profit or loss	0.0	0.0	–
Available for sale assets	16,934	13,403	26
Loans and receivables	192,979	201,459	–4
Other liabilities	–139,173	–151,867	–8
Total	13,043	14,745	–12

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

(51) Impairments/Reversal of Impairments according to Valuation Categories

	2010 (KEUR)	2009 (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	0.0	0.0	–
Result from portfolio based valuation adjustments of lar financial assets	–1,012.6	–289.3	> 100
Result from direct write-down of uncollectible receivables/ receipts on written down receivables	0.0	0.0	–
Total	–1,012.6	–289.3	> 100

(52) Fair Value Hierarchy

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

31-12-2010 EUR million	Level 1 (Mark-to- Market)	Level 2 (Mark-to- Matrix)	Level 3 (Mark-to- Model)	Total
Trading assets	0.0	45.1	0.0	45.1
Financial assets designated at fair value	0.0	0.0	0.0	0.0
Positive fair values from hedge accounting derivatives	0.0	379.2	0.0	379.2
Financial assets (measured at fair value)	96.8	540.6	15.7	653.0
Assets	96.8	964.9	15.7	1,077.4
Trading liabilities	0.0	25.2	0.0	25.2
Financial liabilities designated at fair value	0.0	0.0	0.0	0.0
Negative fair values from hedge accounting derivatives	0.0	586.8	0.0	586.8
Equity and liabilities	0.0	612.0	0.0	612.0

Only bonds are included in the financial assets which fall under the Level 3 valuation. In the case of the mark-to-model valuation (Level 3) the amount of the fair value depends on the relevant assumptions, so that changes in assumptions can result in fluctuations in the fair value. Significant effects of these value fluctuations that can be traced back to changes in the assumptions are checked for the fair values recorded in the financial statements using a sensitivity analysis. To calculate the sensitivity, each rating category is pushed one step up or down. Both calculated values represent the sum of the absolute difference to the original model value and is divided by two.

Under this stress scenario in regard to the rating category, the fluctuation of the fair value of Level 3 securities is KEUR 62.

The transfers within the fair value hierarchy are as follows:

01-01 – 31-12-2010 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 designated at fair value	0.0	0.0	0.0	0.0	0.0	0.0
Positive fair values from hedge accounting derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets (measured at fair value)	0.0	0.0	10.7	15.7	0.0	75.0
Assets	0.0	0.0	10.7	15.7	0.0	75.0
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities designated at fair value	0.0	0.0	0.0	0.0	0.0	0.0
Negative fair values from hedge accounting derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Equity and liabilities	0.0	0.0	0.0	0.0	0.0	0.0

The level transfer from Level 2 into Level 1 was a security for which there was a market price on the reporting date. Two securities changed from a model valuation (Level 3) to matrix valuation (Level 2), one security changed from Level 2 to Level 3 as a result of an inactive market.

There were no financial liabilities in Level 3 of the Fair Value Hierarchy in either the year under report or the previous year; the development of the financial assets in Level 3 of the Fair Value Hierarchy is as follows:

EUR million	Trading assets	Financial assets designated at fair value	Positive fair values from hedge accounting derivatives	Financial assets (measured at fair value)	Total assets
Opening balance as of 01-01-2009	0.0	0.0	0.0	84.1	84.1
Profit/loss effect	0.0	0.0	0.0	-4.5	-4.5
Equity effect	0.0	0.0	0.0	6.4	6.4
Purchases	0.0	0.0	0.0	0.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0
Amortisations	0.0	0.0	0.0	0.0	0.0
Moved from level 1 and 2	0.0	0.0	0.0	0.0	0.0
Moved to level 1 and 2	0.0	0.0	0.0	0.0	0.0
Closing balance at 31-12-2009	0.0	0.0	0.0	86.0	86.0
Opening balance as of 01-01-2010	0.0	0.0	0.0	86.0	86.0
Profit/loss effect	0.0	0.0	0.0	2.8	2.8
Equity effect	0.0	0.0	0.0	-13.8	-13.8
Purchases	0.0	0.0	0.0	0.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0
Amortisations	0.0	0.0	0.0	0.0	0.0
Moved from level 1 and 2	0.0	0.0	0.0	15.7	15.7
Moved to level 1 and 2	0.0	0.0	0.0	-75.0	-75.0
Closing balance at 31-12-2010	0.0	0.0	0.0	15.7	15.7

The addition of financial assets and liabilities is done at market prices at the time of acquisition. There was no initial valuation at Level 3 in either period under report. A day-one profit or loss consequently did not occur.

(53) Fair Value of Financial Instruments

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

EUR million	Fair value 31-12-2010	Book value 31-12-2010	Difference 31-12-2010	Fair value 31-12-2009	Book value 31-12-2009	Difference 31-12-2009
Assets	5,785.9	5,976.7	-190.8	5,528.7	5,686.9	-158.2
Cash reserve	1.4	1.4	0.0	0.0	0.0	0.0
Loans and advances to banks	1,124.0	1,111.0	13.0	1,151.4	1,144.8	6.6
Loans and advances to customers	808.6	821.4	-12.8	834.9	856.8	-21.9
Risk provisions	0.0	-2.1	2.1	0.0	-1.0	1.0
Financial assets	3,851.8	4,044.9	-193.1	3,542.5	3,686.4	-143.9
Loans and advances after risk provisions	5,784.4	5,975.3	-190.8	5,528.7	5,686.9	-158.2
Equity and liabilities	5,778.6	5,723.2	55.4	5,441.3	5,407.3	34.1
Liabilities to banks	2,560.9	2,550.9	10.0	1,957.8	1,960.8	-3.0
Liabilities to customers	449.0	433.0	16.0	385.0	367.9	17.1
Securitised liabilities	2,726.9	2,701.3	25.6	3,050.3	3,032.7	17.6
Subordinated capital	41.8	38.0	3.8	48.2	45.8	2.4

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

The amounts shown in the "Carrying amount" column include the assets and liabilities shown in the balance sheet at amortised cost or with the hedge fair value. Where a hedge fair value is shown as a carrying amount this value is also shown in the "Fair value" column.

(54) Derivative Financial Instruments

NORD/LB CFB uses derivative financial instruments for hedging purposes as part of asset/liability 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 adjustment payments, but does not include receivables or liabilities that are eligible for recognition.

The composition of the derivative portfolio is as follows:

EUR million	Nominal values 31-12-2010	Nominal values 31-12-2009	Market values positive 31-12-2010	Market values positive 31-12-2009	Market values negative 31-12-2010	Market values negative 31-12-2009
Interest rate risks	7,694.3	5,219.5	199.7	142.0	482.5	370.9
Interest rate swaps	7,694.3	5,219.5	199.7	142.0	482.5	370.9
FRA's	0.0	0.0	0.0	0.0	0.0	0.0
Interest rate options						
Purchases	0.0	0.0	0.0	0.0	0.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0	0.0
Caps, floors	0.0	0.0	0.0	0.0	0.0	0.0
Stock exchange contracts	0.0	0.0	0.0	0.0	0.0	0.0
Other forward interest rate transactions	0.0	0.0	0.0	0.0	0.0	0.0
Currency risks	1,908.3	2,139.3	224.7	98.0	129.5	82.1
Forward exchange contracts	0.3	0.3	0.0	0.0	0.0	0.0
Currency swaps/ interest rate-currency swaps	1,907.9	2,139.0	224.7	98.0	129.5	82.1
Currency options						
Purchases	0.0	0.0	0.0	0.0	0.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0	0.0
Stock exchange contracts	0.0	0.0	0.0	0.0	0.0	0.0
Other currency transactions	0.0	0.0	0.0	0.0	0.0	0.0
Share and other price risks	0.0	0.0	0.0	0.0	0.0	0.0
Forward share transactions	0.0	0.0	0.0	0.0	0.0	0.0
Share swaps	0.0	0.0	0.0	0.0	0.0	0.0
Share options						
Purchases	0.0	0.0	0.0	0.0	0.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0	0.0
Stock exchange contracts	0.0	0.0	0.0	0.0	0.0	0.0
Other forward transactions	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
Secured party	0.0	0.0	0.0	0.0	0.0	0.0
Guarantor	0.0	0.0	0.0	0.0	0.0	0.0
Total	9,602.6	7,358.8	424.3	240.0	612.0	452.9

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- 2010	31-12- 2009	31-12- 2010	31-12- 2009	31-12- 2010	31-12- 2009	31-12- 2010	31-12- 2009
Term to maturity								
up to 3 months	16.5	102.7	200.1	685.4	0.0	0.0	0.0	0.0
over 3 months and up to 1 year	303.8	426.3	70.1	14.7	0.0	0.0	0.0	0.0
over 1 year and up to 5 years	1,650.3	1,105.9	526.3	289.4	0.0	0.0	0.0	0.0
over 5 years	5,723.7	3,584.5	1,111.9	1,149.9	0.0	0.0	0.0	0.0
Total	7,694.3	5,219.5	1,908.3	2,139.4	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		Market values positive		Market values negative	
	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009
Banks in OECD countries	9,602.6	7,358.8	424.3	240.0	612.0	452.9
Banks outside OECD countries	0.0	0.0	0.0	0.0	0.0	0.0
Public sector entities in OECD countries	0.0	0.0	0.0	0.0	0.0	0.0
Other counterparties (incl. exchange contracts)	0.0	0.0	0.0	0.0	0.0	0.0
Total	9,602.6	7,358.8	424.3	240.0	612.0	452.9

(55) Underlying Transactions in Effective Hedging Relationships

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

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

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

	31-12-2010 (EUR million)	31-12-2009 (EUR million)	Increase/ Decrease (%)
Assets			
Loans and advances to banks	299.3	350.6	-15
Loans and advances to customers	317.6	232.3	37
Financial assets	3,501.7	3,054.2	15
Total	4,118.6	3,637.2	13
Equity and liabilities			
Liabilities to banks	152.6	99.3	54
Liabilities to customers	433.0	367.9	18
Securitised liabilities	1,718.2	1,394.1	23
Subordinated capital	0.0	0.0	-
Total	2,303.8	1,861.3	24

(56) NORD/LB CFB as Assignor and Assignee

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

	31-12-2010 (EUR million)	31-12-2009 (EUR million)
Loans and advances to banks	341.0	0.0
Loans and advances to customers	0.0	0.0
Financial instruments at fair value through profit or loss	0.0	0.0
Financial assets	733.8	688.9
Total	1,074.8	688.9

The furnishing of security for financial assets in order to borrow funds took the form of repurchase agreements (repos) with a maximum remaining term of 4 months. Expenses and income from the pledged securities continue to be due to the bank.

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

The above assets were assigned as security for the following liabilities in the amounts stated:

	31-12-2010 (EUR million)	31-12-2009 (EUR million)
Liabilities to banks	734.7	689.7
Liabilities to customers	0.0	0.0
Total	734.7	689.7

(57) Securities Repurchase Agreements and Securities Lending

	31-12-2010 (EUR million)	31-12-2009 (EUR million)
Genuine repurchase agreements as a repurchase buyer (reverse repos)	0.0	0.0
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.0	0.0
Genuine repurchase agreements as a repurchase seller (repos)	734.7	689.7
Liabilities to banks	734.7	689.7
Liabilities to customers	0.0	0.0

	31-12-2010 (EUR million)	31-12-2009 (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

	31-12-2010 (EUR million)	31-12-2009 (EUR million)
Securities sold under repurchase agreements	733.8	688.9
Securities sold under repurchase agreements at fair value through profit or loss	0.0	0.0
Securities sold under repurchase agreements from financial assets	733.8	688.9
Securities bought under repurchase agreements	0.0	0.0

Other Notes

(58) Regulatory Information

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

Risk-weighted Asset Values

The bank uses internal approaches within the scope of risk determination.

	31-12-2010 (EUR million)	31-12-2009 (EUR million)
Risk assets	830.2	875.0
Weighted operational risks	24.1	15.5
Market risk positions	7.4	17.0
Floor	39.9	0.0
Total	901.6	907.6

The IRB approach used by the bank led to a lower equity cost in 2010 compared with the earlier regulation. In this case, the Solvency Regulation provides for the equity cost to be gradually reduced to the lower value during a transitional period. To this end, a floor in the risk assets was taken into account in 2010.

Regulatory Equity

	31-12-2010 (EUR million)	31-12-2009 (EUR million)
Contributed capital	72.0	62.0
Other reserves	5.8	5.0
Remaining components	0.0	0.0
Core capital	77.8	67.0
Mandatory convertible bond (first-class tier 2 capital)	8.0	18.0
Subordinate debt securities (creditable part) (supplementary section 2nd regulation)	29.9	27.8
Supplementary capital	37.9	45.8
Liabile equity	115.8	112.7
Tier three funds	0.0	0.0
Equity capital	115.8	112.7

Revaluation reserves are not taken into account in the regulatory equity. The bank exercised its right to choose accordingly.

Minimum Capital Ratios

The bank has complied with the regulatory minimum capital ratios in 2009 and 2010. At the respective year-ends the bank had the following ratios:

	31-12-2010	31-12-2009
Overall coefficient	12.84 %	12.42 %
Core capital ratio	8.63 %	7.38 %

Large Borrowers Requirements

In 2010, the bank complied with the applicable regulatory requirements for equity and liquidity at all times. Likewise, the bank accommodated the regulations on large borrowing limits in the year under report.

On application of the bank, the regulatory body CSSF released the bank from compliance with the large risk limit for companies in the NORD/LB group in accordance with Section XVI, point 24 of Circular 06/273. There are items of accounts receivable from group companies in the sum of EUR 1,722.4 million (previous year: EUR 392.8 million).

(59) Foreign Currency Volumes

As at 31 December 2010 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	30.1	0.0	57.9	0.0	88.0
Loans and advances to customers	0.0	63.3	0.0	0.0	63.3
Risk provisions	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through profit or loss	-325.3	0.0	117.5	0.0	-207.8
Positive fair values from hedge accounting	-7.7	439.2	113.1	225.2	769.8
Financial assets	1,772.7	165.6	120.9	242.4	2,301.6
Other assets	0.0	0.0	0.0	0.0	0.0
Total	1,469.9	668.1	409.5	467.6	3,015.0

EUR million	USD	JPY	CHF	Other	Total
Equity and liabilities					
Liabilities to banks	98.5	0.0	181.0	0.0	279.5
Liabilities to customers	0.0	0.0	0.0	0.0	0.0
Securitised liabilities	633.0	439.0	353.1	231.2	1,656.2
Financial liabilities at fair value through profit or loss	65.2	0.0	1.0	0.0	66.2
Negative fair values from hedge accounting	476.0	224.8	11.1	243.8	955.7
Other liabilities	0.0	0.0	0.0	0.0	0.0
Subordinated capital	30.0	0.0	0.0	0.0	30.0
Total	1,302.7	663.8	546.2	475.0	2,987.7

(60) Contingent Liabilities and other Obligations

	31-12-2010 (EUR million)	31-12-2009 (EUR million)
Contingent liabilities	0.0	0.0
Contingent liabilities under rediscounted bills of exchange	0.0	0.0
Liabilities from guarantees and other indemnity agreements	0.0	0.0
Irrevocable credit commitments	6.6	80.8
Total	6.6	80.8

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 and the uncertainty with regard to the amount or timing of asset outflows and on the possibility of adjustment payments are not in accordance with IAS 37.91.

(61) Subordinated Assets

	31-12-2010 (EUR million)	31-12-2009 (EUR million)
Loans and advances to banks	45.0	20.0
Loans and advances to customers	0.0	0.0
Financial instruments at fair value	0.0	0.0
Financial assets	0.0	0.0
Total	45.0	20.0

Assets are regarded as subordinated if the claims they represent in the event of the liquidation or insolvency of a debtor are only settled after the claims of other creditors.

The bank is holding two subordinate issues from Austrian banks in its own inventory, which have guarantor liability from Austrian federal states according to former legislation.

(62) Events after the Balance Sheet Date

There were no significant events after the balance sheet date of 31 December 2010 and the preparation of the present financial statements by the Board of Directors on 25 February 2011.

Related Parties

(63) Number of Employees

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

	Male 2010	Male 2009	Female 2010	Female 2009	Total 2010	Total 2009
NORD/LB CFB	6.8	4.9	2.0	1.8	8.8	6.8

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

Group	2010	2009
Board	1.0	1.0
Senior staff	3.0	2.3
Employees	4.8	3.4
Total	8.8	6.8

One of the Board positions is filled by Mr Christian Veit, deputy chairman of the Board of Directors of NORD/LB Covered Finance Bank S.A. and of Norddeutsche Landesbank Luxembourg S.A..

(64) Related Party Disclosures

The shareholder NORD/LB Luxembourg qualifies as a related party. NORD/LB (parent company of NORD/LB Luxembourg) and companies covered by IAS 24.9(f) are also regarded as related parties.

Natural persons who are regarded as related parties in accordance with IAS 24 are members of the Board of Directors and Supervisory Board of NORD/LB CFB and their close family members.

Within the scope of ordinary business activities, transactions with related parties are concluded under normal market terms and conditions. These transactions are subject to the market conformity monitoring used in the bank.

The scope of the transactions with related parties in the years 2010 and 2009 can be seen from the schedules below:

At 31 December 2010:

KEUR	Shareholders	Persons in key functions	Other related parties
Outstanding loans and advances			
to banks	288,832	0	0
to customers	0	5	0
Other assets	106,953	0	92,806
Total assets	395,785	5	92,806
Outstanding liabilities			
to banks	2,153,333	0	100
to customers	0	0	0
Other liabilities	675,822	100	431,381
Total equity and liabilities	2,829,155	100	431,481
Guarantees/sureties granted	0	0	0
Interest expense	77,102	0	72,314
Interest income	44,767	0	56,039
Commission expense	1,231	0	0
Commission income	0	0	0
Other income and expense	46,583	-797	-7,395
Total contributions to income	13,017	-797	-23,670

The bank has transferred a total of KEUR 2,538 (previous year KEUR 2,041) to NORD/LB Luxembourg and NORD/LB for services rendered with regard to personnel, use of buildings and other material costs.

At 31 December 2009:

KEUR	Shareholders	Persons in key functions	Other related parties
Outstanding loans and advances			
to banks	286,417	0	0
to customers	0	5	0
Other assets	0	0	2,746
Total assets	286,417	5	2,746
Outstanding liabilities			
to banks	1,445,240	0	34,400
to customers	0	0	0
Other liabilities	49,990	71	20,272
Total equity and liabilities	1,495,230	71	54,672
Guarantees/sureties granted	0	0	0
Interest expense	78,936	0	-71,497
Interest income	24,897	0	62,311
Commission expense	1,421	0	0
Commission income	0	0	30
Other income and expense	-3,337	-603	-19,262
Total contributions to income	-58,796	-603	114,576

All payments and loans to executive bodies in accordance with the provisions relating to trade are set out in Note (66) Remuneration of and loans to executive bodies.

(65) Members of Executive Bodies and their Positions

Supervisory Board

The bank's Supervisory Board was composed of the following people in the year under report:

- Martin Halblaub, Member of the Board of Directors of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (until 11 January 2010, Chairman)
- Ulrike Brouzi, General Manager of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (since 1 September 2010, Chairman since 17 November 2010)
- Harry Rosenbaum, Chairman of the Board of NORD/LB Norddeutsche Landesbank Luxembourg S.A., Luxembourg (Deputy Chairman)
- Jürgen Machalet, General Manager of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover
- Wolfgang Göhlich, Global Head of Treasury of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover

Members of the Board of Directors

The following people were members of the Board of Directors in the year under report:

- Markus Thesen, Plein (Chairman)
- Christian Veit, Luxembourg (Deputy Chairman)

Positions

As of 31 December 2010 the following positions were taken up by the members of the Board of Directors of NORD/LB CFB:

Markus Thesen

- Institut de Formation Bancaire Luxembourg (IFBL), Luxembourg, Member of the Supervisory Board

Christian Veit

- NORD/LB Norddeutsche Landesbank Luxembourg S.A., Luxembourg, Deputy Chairman
- NORD/LB G-MTN S.A., Luxembourg, Deputy Chairman of the Supervisory Board

(66) Remuneration of and Loans to Executive Bodies

	2010 (in KEUR)	2009 (in KEUR)
Payments to active executive body members		
Extended management*	767	573
Board of Directors	30	30
Pension obligations		
Extended management*	100	71
Board of Directors	0	0
Advances, loans and liabilities		
Extended management*	5	5
Board of Directors	0	0

* Board of Directors and senior staff

(67) Auditor's Fees

	2010 (in KEUR)	2009 (in KEUR)
Auditor's fees for:		
Auditing	152	132
Other confirmation services	35	109
Other services	14	0

No fees in regard to services for tax advice or other fees shown in the table were paid to the auditors. The amounts include statutory VAT.

(68) Deposit Guarantee

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

Since 2001 the AGDL has also been protecting customers' assets held in custody. Thus deposits and custody assets are guaranteed up to an amount of EUR 100,000 and EUR 20,000 respectively. In the event of default, the annual payment obligation for each member of the AGDL is limited to 5% of equity.

Since the bank does not accept deposits from natural persons or small incorporated companies there is no liability in the event of loss.



Responsibility Statement

We confirm to the best of our knowledge that the annual financial statements, in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank, and that the management report includes a fair review of the development and performance of the business and the position together with a description of the main opportunities and risks associated with the expected development of the bank.

Luxembourg, 28 February 2011
NORD/LB Covered Finance Bank S.A.

Markus Thesen

Christian Veit



Auditor's Report

To the Board of Directors of
NORD/LB Covered Finance Bank S.A.
26, Route d'Arlon
L-1140 Luxembourg

Report on the Financial Statements

In accordance with the instructions received from the bank's Board of Directors on 16 November 2010, we have audited the attached annual financial statements of NORD/LB Covered Finance Bank S.A., which comprise the balance sheet at 31 December 2010, the income statement, the statement of income and expense, the statement of changes in equity, the cash flow statement and the notes for the financial year ended on this date.

Responsibility of the Board of Directors for the Annual Financial Statements

The Board of Directors is responsible for the compilation of the annual financial statements and the representation that corresponds to the actual circumstances in accordance with the International Financial Reporting Standards (IFRS), as applicable in the European Union for the compilation and representation of the annual financial statements, and for the establishment of an internal control system which the Board of Directors considers necessary for the compilation and representation of the annual financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We carried out our audit of the annual financial statements according to the International Standards on Auditing adopted by the Commission de Surveillance du Secteur Financier (CSSF). These standards require that we comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The selection of the procedures depend on the auditor's judgement, as well as the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as the overall presentation of the financial statements.

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

Opinion

We believe that the annual financial statements, in accordance with the International Financial Reporting Standards as applicable in the EU for the compilation and representation of the annual financial statements, give a view that represents the actual circumstances of the assets and financial situation of NORD/LB Covered Finance Bank S.A. at 31-12-10 and of the earnings and payment flows for the financial year ending on this date.

Report on other legal and regulatory Requirements

The management report for financial year 2010, which is the responsibility of the Board of Directors, is in accordance with the annual financial statements.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Christoph HAAS

Luxembourg, 28. February 2011



Report of the Supervisory Board

Proposal to be Put to Vote

The Board of Directors of the bank briefed the Supervisory Board and the committees it has appointed in the year under report regularly about the development of the business and the position of the bank. The Supervisory Board met on a total of three occasions during the year under report 2010.

The Supervisory Board passed resolutions on the business matters presented to it and on other matters requiring the decision of this body in accordance with the Articles of Association and regulations pertaining to these Articles of Association. Fundamental issues relating to business strategy and operations were discussed in detail at several meetings.

Ernst & Young S.A., Luxembourg has audited the financial statements of NORD/LB Covered Finance Bank for the year under report 2010 and issued it with an unqualified auditor's opinion. In addition, the auditor attended the meeting to discuss the financial statements held by the Supervisory Board on 16 March 2011 and reported on the results of the audit.

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 16 March 2011, the Supervisory Board approved the management report and the financial statements at 31 December 2010, which are therefore formally approved.

The Supervisory Board proposes to the Annual General Meeting to approve the actions of the Board of Directors and to carry forward the net income for the year under report 2010 of NORD/LB Covered Finance Bank – after allocation to the statutory and voluntary reserves of EUR 2.0 million and EUR 1.0 million respectively – in the sum of EUR 4.2 million.

The Supervisory Board thanks the bank's Board of Directors for their faithful cooperation and expresses its appreciation to the Board and to all the bank's employees for the work performed by them in 2010.

Luxembourg
March 2011

Ulrike Brouzi
General Manager
NORD/LB Norddeutsche Landesbank Girozentrale, Hanover

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S.W.I.F.T.

NOLALULL

Supervision

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