

Norddeutsche Landesbank Luxembourg S.A.



## Annual Report per 31.12.2010

## Summary of Key Data

| Performance  | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/Decrease<br>(EUR Million) (%) |                 |
|--|-----------------------------|-----------------------------|--|-----------------|
| Loans and Advances to Banks                              | 5,689.3                     | 8,282.3                     | -2,593.0                               | -31             |
| Loans and Advances to Customers                          | 4,032.3                     | 4,655.6                     | -623.3                                 | -13             |
| Risk Provisions  | -185.3                      | -189.2                      | 3.9                                    | -2              |
| Financial Assets   | 6,863.8                     | 7,375.1                     | -511.2                                 | -7              |
| Other Assets   | 676.0                       | 613.7                       | 62.3                                   | 10              |
| <b>Balance Sheet Total – Assets</b>                      | <b>17,076.1</b>             | <b>20,737.5</b>             | <b>- 3,661.4</b>                       | <b>- 18</b>     |
| Liabilities to Banks                                     | 10,087.0                    | 12,676.5                    | -2,589.5                               | -20             |
| Liabilities to Customers                                 | 3,311.4                     | 3,941.1                     | -629.7                                 | -16             |
| Securitised Liabilities                                  | 2,389.0                     | 2,921.6                     | -532.6                                 | -18             |
| Other Liabilities  | 617.3                       | 497.3                       | 120.0                                  | 24              |
| Reported Equity  | 671.4                       | 701.0                       | -29.6                                  | -4              |
| <b>Balance Sheet Total – Liabilities</b>                 | <b>17,076.1</b>             | <b>20,737.5</b>             | <b>- 3,661.4</b>                       | <b>- 18</b>     |
| Profit/Loss Performance                                  | 2010<br>(KEUR)              | 2009<br>(KEUR)              | Increase/Decrease<br>(KEUR) (%)        |                 |
| Net Interest Income                                      | 129,485                     | 163,192                     | -33,707                                | -21             |
| Net Commission Income                                    | -20,378                     | -8,501                      | -11,877                                | > 100           |
| Profit/Loss from Financial Assets                        | -177                        | -1,639                      | 1,462                                  | -89             |
| Other Profit/Loss  | -4,984                      | 1,102                       | -6,086                                 | > 100           |
| <b>Earnings before Costs</b>                             | <b>103,946</b>              | <b>154,154</b>              | <b>- 50,208</b>                        | <b>- 33</b>     |
| Administrative Expenses                                  | -33,013                     | -30,241                     | -2,772                                 | 9               |
| Profit/Loss from Changes in Valuation and Risk Provision | -21,045                     | -110,543                    | 89,498                                 | -81             |
| Taxes  | 19,427                      | -2,489                      | 21,917                                 | > 100           |
| <b>Earnings after Taxes</b>                              | <b>69,316</b>               | <b>10,881</b>               | <b>58,435</b>                          | <b>&gt; 100</b> |
| Key Economic Data  | 2010                        | 2009                        | Increase/Decrease                      |                 |
| Cost-Income-Ratio in % *)                                | 31.8 %                      | 19.6 %                      | 12.2 %                                 | 62 %            |
| RoRaC in % **)   | 20.2 %                      | 3.6 %                       | 16.6 %                                 | > 100           |

\*) 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<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/Decrease<br>(EUR Million) (%) |     |
|-----------------------------|-----------------------------|-----------------------------|--|-----|
| Risk-weighted Asset Values  | 4,065.6                     | 4,944.6                     | -879.0                                 | -18 |
| Core Capital                | 655.7                       | 719.2                       | -63.5                                  | -9  |
| Equity Capital              | 749.3                       | 806.0                       | -56.7                                  | -7  |
| Core Capital Ratio          | 16.13 %                     | 14.55 %                     | 1.6 %                                  | 11  |
| Overall Coefficient         | 18.43 %                     | 16.30 %                     | 2.1 %                                  | 13  |
| Changes in Employee Numbers | 2010                        | 2009                        | Increase/Decrease<br>Total (%)         |     |
| Number of Employees         | 157                         | 139                         | 18                                     | 13  |



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# Annual Report per 31.12.2010

Norddeutsche Landesbank Luxembourg S.A.  
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R.C.S. Luxembourg B 10405

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



## Members of the Supervisory Board

**Dr. Gunter Dunkel**

Chairman of the Board of Directors  
NORD/LB Norddeutsche Landesbank Girozentrale  
(Chairman)

**Christoph Schulz**

Deputy Chairman of the Board of Directors  
NORD/LB Norddeutsche Landesbank Girozentrale

**Martin Halblaub**

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

**Ulrike Brouzi**

General Manager  
NORD/LB Norddeutsche Landesbank Girozentrale  
(since 1 September 2010)

**Dr. Stephan-Andreas Kaulvers**

Chairman of the Board of Directors  
Bremer Landesbank  
(until 31 December 2010)

**Dr. Johannes-Jörg Riegler**

Member of the Board of Directors  
NORD/LB Norddeutsche Landesbank Girozentrale  
(since 1 January 2011)

**Walter Kleine**

Chairman of the Board of Directors  
Sparkasse Hannover

## Board of Directors

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

Harry Rosenbaum

**Member of the Board of Directors**

Thorsten Schmidt

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

Christian Veit

## Organisation

**Treasury**

Thomas Keith

**IT**

Romain Wantz

**Credit Investments & Solutions**

Olaf-Alexander Priess

**Operation Services**

Rita Kranz

**Private Banking**

Markus Linnert

**Organisation and Project Management**

Frank Seeberger

**Corporate Banking**

Guido Leixner

**Administration**

David Gunson

**Accounting**

Peter Heumüller

**Human Resources**

Christian Ehrismann

**Controlling**

Roman Lux

**Corporate Development**

Melanie Maier

**Credit Risk Management**

Maik Mittelberg

**Internal Audit**

Jürgen Werner

**Legal/Compliance**

Dr. Ursula Hohenadel



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



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



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



## Subsidiaries and Position within the Group

As a full subsidiary of NORD/LB Norddeutsche Landesbank Girozentrale with registered offices in Hanover, Braunschweig and Magdeburg (hereinafter referred to “NORD/LB” in short), the Norddeutsche Landesbank Luxembourg S.A. (hereinafter referred to as “NORD/LB Luxembourg” or in short “the Bank”) belongs to the lending and financial institutions, for which the parent company has submitted a letter of comfort in its annual report. The letter of comfort also includes the political risk.

The consolidated financial statements of NORD/LB can be viewed on the internet at [www.nordlb.de](http://www.nordlb.de).

NORD/LB Luxembourg, Luxembourg is the parent company of a sub-group, to which NORD/LB Covered Finance Bank S.A., Luxembourg and Skandifinanz Bank AG, Zürich belong. NORD/LB Luxembourg holds 100% of the shares in both banks. NORD/LB Luxembourg has issued a letter of comfort for NORD/LB Covered Finance Bank S.A. (see Note 60).

The range of activities of NORD/LB Luxembourg lies in the business sectors of financial markets, corporate banking and private banking. The corporate purpose of NORD/LB Covered Finance Bank S.A. is to conduct any transactions, which are permissible for a covered finance bank according to the laws of the Grand Duchy of Luxembourg. The business activities of Skandifinanz Bank AG, primarily trading-related financial transactions (forfeiting) and the international private customer business were partly reduced or transferred to the parent company in the year under report. For 2011 a further reduction is intended. Skandifinanz Bank AG was renamed Skandifinanz AG with effect from 7 January 2011.

This report relates to the non-consolidated annual financial statements of NORD/LB Luxembourg 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 fiscal policy measures taken in response to the recession, but also 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 been checked by the EU Commission, has turned out to be even higher than the 13.6% reported in April 2010 at 15.4% of GDP, was given a very critical assessment on the financial markets. Growing concerns about the creditworthiness of Greece triggered severe turbulence on the markets in the 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 infected 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. from EU Commission funds (European Stability Mechanism, ESM) and EUR 250 bn. support from the IMF. The first country that needed to shelter under the rescue parachute was Ireland. With the rescue of the Anglo Irish Bank Ireland's state finances were so heavily burdened as well 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 proved that the debt crisis will remain the determining subject in the European Union for the time being. As well as the way back to a sustainable

growth path the budget consolidation poses one of the very big challenges for many countries over the coming years. Politicians continue to search feverishly for opportunities to curb the crisis on the markets for government bonds sustainably. 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 programme for European government bonds (Securities Markets Programme, 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 three 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 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 ten-year treasuries slid from their height of nearly 4.0 % at the beginning of April prior to the announcement of the new purchasing programme of the Fed (Quantitative Easing 2, QE2) to below 2.4 % in October. The yield spread between ten-year US treasuries and federal bonds 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.

After the sharp decline in the spring the most important international stock markets were able to regain the lost ground by the end of the year and achieve an overall positive performance for the year. After a short fall to the low point of 5,433 points in February, the German leading index DAX increased continuously in the past year and was up above the mark of 7000 points at its peak in mid-December. The stock markets were essentially supported by the sustained low yield level and the high liquidity on the markets. Moreover, lower-risk assets such as shares gained in attractiveness again because of the positive economic cycle and outlook; the previously high risk aversion diminished accordingly.

## 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 forecast 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 programmes and the very expansive monetary policy made their contribution to the global economic recovery. There were more and more increased signs of a self-supporting recovery in large parts 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 % 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 programme 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 ten-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 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 Federal Reserve Bank (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

Liquidity risk and interest rate risk management fall within the remit of the Treasury division. This primarily centres on the Bank's liquidity supply for refinancing the balance sheet business and interest rate transformation. The Bank's Treasury Unit is an integral part of the Group's funding and makes use of its international connections for this purpose, especially the access to the primary liquidity of the Swiss National Bank and the active participation on the Swiss repo market. Within the scope of balance sheet transactions the Bank mainly invests in commercial papers, call money and term deposits as well as securities and open-market credits with first order issuers. In addition to this, Treasury operates an active repo business in order to further increase the share of covered active business. In transactions with derivatives the Treasury Unit concentrates on interest rate swaps, forward exchange contracts including currency swaps and futures. The Bank does not enter into any appreciable risks pertaining to complex derivative products.

Refinancing in lending business is widely spread. Sources of refinancing include deposits from banks and institutional investors, issued commercial papers (ECP and USCP) and open market deals on the money market transacted with the European Central Bank and the Swiss National Bank. Foreign currencies in particular represent an important additional diversification. For long term refinancing the Bank uses its EMTN programme, under which benchmark bonds and private placements had been issued on the balance sheet date. The additional unsecured funding required with over 24 months maturity is guaranteed as a rule by NORD/LB.

The use of repurchase transactions in securities was actively expanded again in the year under report 2010 in order to secure the development of new funding sources and refinancing costs.

By consistently pursuing the expansion of liquidity risk monitoring instruments and extending secured business it was possible on the one hand to guarantee the Bank's liquidity supply at all times and on the other hand to generate a considerably positive contribution to profit. An actively driven maturity transformation based on an integrated trading approach is the basis for the above-average high transformation results this year.

### Credit Investments & Solutions

The Bank pursues a conservative, value-stabilising investment strategy in this business sector. Traditionally, the Bank has been investing in banks and financials/financial institutions in the past. The Bank does not enter into any appreciable risks pertaining to complex derivative products. It concentrates mainly on the criteria of safety, liquidity and earnings and therefore only allows the purchase of securities from OECD countries with an investment grade rating. At the same time the regional focus is on Europe. The Bank regularly reviews and adapts its investment strategy to changed requirements.

As a result of the turbulence in the capital market the investment strategy has had a more passive orientation in the last two years. The focus was on the reduction of volume, which was achieved through targeted sales from the portfolios and by foregoing reinvestment of payable securities.

The quality of the portfolio is still high, despite the insidious rating migration, there was no need for depreciation. Currently there are only a few investments with sub-investment grade in the inventory. For 2011 a further reduction in old stocks is intended, and on top of this an active regrouping of the portfolio into covered bonds is to take place.

The department was supplemented in 2009 by the "Solutions" segment. The aim is the active use of the specific advantages of the location in Luxembourg in terms of the Group. In the past, the division was able to be instrumental in structured transactions of the NORD/LB Group, but currently this sphere of the business is more orientated to the equity and liabilities side as a consequence of a reticent business development in the Group.

### Private Banking

Customer relationships are always based on close, fair cooperation and on a focus on the different needs of customers.

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

In terms of asset management, the investors choose between "individual asset management" tailored to customer

preferences, which is based on a successful 10-year history and “fund asset management”, in which the investors profit from the strategies of superb fund managers globally.

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

Moreover, it should be highlighted in particular that, after the successful conception and launch of a public fund at the end of 2009, around EUR 100 million of customer money has flowed into the fund in 2010. The fund is managed by the Bank, which acts as its fund manager. The group-wide marketing of the fund was reflected by the fact that representatives of NORD/LB and Bremer Landesbank are involved in the asset allocation of the fund through an investment committee of an advisory nature.

The financing of income real estate in Germany and Luxembourg for customers with a private banking background was newly adopted among the services on offer.

On the customer side, 2010 was characterised by a slightly more offensive approach to the capital and share markets. Risk-buffered investments in certificates evolved as a focus for investments in the year just ended too. Moreover, it could be seen that customers took more notice of the creditworthiness of the issuers, especially in the case of pension securities, as well as yield and term to maturity.

Overall, Private Banking was able to significantly expand the Assets under Management.

## Corporate Banking

The Corporate Banking sector of NORD/LB Luxembourg primarily operates the two business areas of cooperative lending and group business.

Within the segment of cooperative lending there exists a long-term successful and faithful cooperation in particular with the value drivers Corporate Clients, Structured Finance and Real Estate.

In terms of the cooperation model, the aforementioned market units are responsible for business acquisition. At

the centre of the activities of the Bank are comprehensive services for the assets business.

On the products side the classical credit universe in all of the popular currencies is reflected. The range of services includes the whole spectrum surrounding the subject of loan servicing and management, including assumption of the facility agent function.

The Bank aspires to stringent specialisation in keeping with the Group strategy. Together with the customers (market sectors, incl. respective market service sectors within the NORD/LB Group), starting points for the expansion of the depth of services and the extension of the service/product range were identified. Noteworthy here are in particular the broadening of the Agency Competence (keyword Documentation Agent) and the expansion of the segment accounts receivable purchases (accounts receivable – trade debtors).

Competence in services that has been acquired over many years and a sustained high level of service quality in loans administration form the foundation of the business segment cooperative lending.

In addition to this core business, foreign currency loans are issued primarily to affiliated savings banks (customer loans under the guarantee of the respective agent savings bank) in the business segment Affiliated Businesses. Here the Bank creates added value through the promotion of the affiliation principle and by contributing its strengths in the foreign currency refinancing sector.

Core sources of income are predominantly the lending terms contribution and the earnings from commission from the cooperative loan business.

## Outlook

The strategy of the Bank will continue to lie in the business sectors of corporate banking, private banking and financial markets in the future too. The adjustment of the business strategy carried out in 2010 is having an effect within the business sectors. Stronger focusing and deepening of the product range and the expansion of strategic cooperation are the main thrusts. Parallel to this the systems environment of the Bank will be consolidated and technically modernised in the years 2011 and 2012 within the scope of a major project. An important aspect will be to highlight the locational benefits of Luxembourg within the Group as com-

prehensively as possible, to react flexibly and quickly to new customer needs, and to restrict the risks as far as possible.

In the lending field, the Bank is expecting a continued good level of margin, which will come increasingly under pressure. In accordance with the initiatives already started in 2009 the lending portfolio will be diversified further. Increasing specialisation in connection with the increase in numbers at the same time as a reduction of average batch sizes increases the need for qualified staff on the market and market consequence side.

In 2011, Private Banking is expecting a further expansion of income from services. The low interest rate phase that has now been prevalent for a long time is causing customers increasingly to be on the lookout for alternatives in the field of securities.

For the business sector Financial Markets, the preparation for impending changes in the regulatory environment are at the centre of project activities.

In the middle of 2011 NORD/LB Luxembourg will complete a strategic project and relocate its headquarters to near the airport (7, Rue Lou Hemmer).

Overall the Bank is expecting a satisfactory result for 2011 again despite the continuing difficult economic situation.

## Earnings

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

The Bank was able to achieve a satisfactory operational result against the background of the market environment, which was difficult in this year under report too. The profit/loss before taxes rose against the previous year by EUR 36.5 million to EUR 49.9 million.

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<br>(KEUR) | 2009<br>(KEUR) | Increase/Decrease <sup>*)</sup><br>(KEUR) |
|--|----------------|----------------|---|
| Net Interest Income  | 129,485        | 163,192        | -33,707                                   |
| Loan Loss Provisions   | -24,749        | -123,588       | 98,839                                    |
| Commission Expenses/Net Income   | -20,378        | -8,501         | -11,877                                   |
| Profit/Loss from Financial Instruments stated at Fair Value through Profit or Loss, including Hedge Accounting | 3,704          | 13,045         | -9,342                                    |
| Other operating Profit/Loss  | -4,984         | 1,102          | -6,085                                    |
| Administrative Expenses  | -33,013        | -30,241        | -2,772                                    |
| Profit/Loss from Financial Assets  | -177           | -1,639         | 1,462                                     |
| <b>Earnings before Income Taxes</b>  | <b>49,888</b>  | <b>13,370</b>  | <b>36,518</b>                             |
| Income Taxes   | 19,427         | -2,489         | 21,917                                    |
| <b>Profit for the Year</b>   | <b>69,316</b>  | <b>10,881</b>  | <b>58,435</b>                             |

<sup>\*)</sup> The prefix in the Increase/Decrease column indicates effects on the results.

Net interest income fell against the previous year by EUR 33.7 million to EUR 129.5 million.

It was possible to keep the risk provision well below the level of the previous year despite the tense economic situation in the year under report 2010 because of security measures. In comparison to the previous year, expenses for the risk provision fell by EUR 98.8 million to EUR 24.7 million.

Earnings from commission fell against the comparative period by EUR 11.9 million to EUR -20.4 million. Decisive in this was in particular costs for the security measures mentioned above.

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.

Other operating profit/loss is below the comparative value. Administrative expenses rose in comparison to the previous year. The negative profit/loss from financial assets results from sales of securities.

Before taxes the Bank is reporting a profit in 2010 in the sum of EUR 49.9 million; after taxes the net income for the year amounts to EUR 69.3 million.

The components of this result are as described below.

## Net Interest Income

|                            | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/Decrease <sup>*)</sup><br>(KEUR) |
|----------------------------|----------------|----------------|---|
| Interest Income            | 541,345        | 769,315        | -227,971                                  |
| Interest Expense           | -411,859       | -606,123       | 194,263                                   |
| <b>Net Interest Income</b> | <b>129,485</b> | <b>163,192</b> | <b>-33,707</b>                            |

<sup>\*)</sup> The prefix in the Increase/Decrease column indicates effects on the results.

Both interest income and interest expense recorded significant reductions in the year under report in comparison to the previous year. This is due on the one hand to balance sheet structural changes between the reporting dates and on the other caused by reductions in market prices.

## Loan Loss Provisions

The tense economic situation led to a further need for risk provisions for individual borrowers.

## Net Commission Income

|                              | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/Decrease <sup>*)</sup><br>(KEUR) |
|------------------------------|----------------|----------------|---|
| Commission Income            | 32,358         | 34,121         | -1,763                                    |
| Commission Expense           | -52,736        | -42,622        | -10,114                                   |
| <b>Net Commission Income</b> | <b>-20,378</b> | <b>-8,501</b>  | <b>-11,877</b>                            |

<sup>\*)</sup> The prefix in the Increase/Decrease column indicates effects on the results.

Net commission income only includes income and expense from banking. Commission expenses result predominantly from security measures (guarantee commission) and margin splitting for the lending business operated in cooperation.

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

|   | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/Decrease <sup>*)</sup><br>(KEUR) |
|---|----------------|----------------|---|
| Trading Profit/Loss   | 2,105          | 6,093          | -3,988                                    |
| Profit/Loss from Financial Instruments designated at Fair Value through Profit or Loss at Initial Recognition         | -374           | 2,391          | -2,765                                    |
| Profit/Loss from Hedge Accounting   | 1,972          | 4,561          | -2,588                                    |
| <b>Profit/Loss from Financial Instruments stated at Fair Value through Profit or Loss, including Hedge Accounting</b> | <b>3,704</b>   | <b>13,045</b>  | <b>-9,342</b>                             |

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

The trading profit/loss includes primarily the profit/loss from derivative transactions, which do not satisfy the restrictive criteria of Hedge Accounting. Opposing valuation changes in underlying transactions can therefore not be offset.

## Other operating Profit/Loss

|                                    | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/Decrease <sup>*)</sup><br>(KEUR) |
|------------------------------------|----------------|----------------|---|
| Other operating Income             | 3,128          | 3,365          | -236                                      |
| Other operating Expenses           | -8,112         | -2,263         | -5,849                                    |
| <b>Other operating Profit/Loss</b> | <b>-4,984</b>  | <b>1,102</b>   | <b>-6,085</b>                             |

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

Other operating profit/loss results mainly from the settlement of services with NORD/LB.

## Administrative Expenses

|                                      | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/Decrease <sup>*)</sup><br>(KEUR) |
|--------------------------------------|----------------|----------------|---|
| Wages and Salaries                   | 12,239         | 10,540         | -1,699                                    |
| Other Staff Expenses                 | 2,609          | 1,814          | -794                                      |
| <b>Staff Expenses</b>                | <b>14,847</b>  | <b>12,354</b>  | <b>-2,493</b>                             |
| <b>Other Administrative Expenses</b> | <b>17,761</b>  | <b>12,297</b>  | <b>-5,465</b>                             |
| Depreciation and Value Adjustments   | 404            | 5,590          | 5,186                                     |
| <b>Administrative Expenses</b>       | <b>33,013</b>  | <b>30,241</b>  | <b>-2,772</b>                             |

<sup>\*)</sup> The prefix in the Increase/Decrease column indicates effects on the results.

Administrative expenses, including depreciations, record a rise by a total of EUR 2.8 million to EUR 33.0 million. In comparison to the previous year other administration expenses are higher by EUR 5.5 million. This is caused by increased costs for office furniture and equipment and legal and other advice and increased staff expenses. In contrast, the costs for depreciation have fallen.

## Profit/Loss from Financial Assets

|  | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/Decrease <sup>*)</sup><br>(KEUR) |
|--|----------------|----------------|---|
| Profit/Loss from Financial Assets classified as LaR                                      | -303           | -586           | 283                                       |
| Profit/Loss from Financial Assets classified as AfS<br>(without participating interests) | 126            | -1,053         | 1,179                                     |
| Profit/Loss from affiliated Companies  | 0              | 0              | 0   |
| Profit/Loss from Joint Ventures and associated<br>Companies                              | 0              | 0              | 0   |
| Profit/Loss from other participating Interests   | 0              | 0              | 0   |
| <b>Profit/Loss from Financial Assets</b>   | <b>-177</b>    | <b>-1,639</b>  | <b>1,462</b>                              |

<sup>\*)</sup> The prefix in the Increase/Decrease column indicates effects on the results.

The profit/loss from financial assets results in both years under report almost exclusively from the disposal of financial instruments.

## Income Taxes

|                     | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/Decrease <sup>*)</sup><br>(KEUR) |
|---------------------|----------------|----------------|---|
| Current Taxes       | 5,890          | -2,680         | 8,570                                     |
| Deferred Taxes      | 13,538         | 191            | 13,347                                    |
| <b>Income Taxes</b> | <b>19,427</b>  | <b>-2,489</b>  | <b>21,917</b>                             |

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

The Bank and NORD/LB CFB form a tax group in accordance with Article 164bis of the Luxembourg income tax law. Because of a loss that can be offset against tax there are no current income taxes incurred by the tax group in 2010.

## Proposal for Appropriation of Earnings

The profit of the year under report incl. profit carried forward amounts to EUR 80.2 million. The Board of Directors proposes to the annual general meeting the following appropriation of earnings:

|   | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/Decrease<br>(KEUR) |
|---|----------------|----------------|-----------------------------|
| Profit/Loss for the Year under Report     | 69,316         | 10,881         | 58,435                      |
| Profit carried forward from previous Year | 10,901         | 20             | 10,881                      |
| <b>Sub-Total</b>                          | <b>80,217</b>  | <b>10,901</b>  | <b>69,316</b>               |
| Dividend Payment                          | 40,000         | 0              | 40,000                      |
| Allocation to the statutory Reserves      | 0              | 0              | 0                           |
| Transfer to the other Reserves            | 31,000         | 0              | 31,000                      |
| Profit carried forward under Report       | 9,217          | 10,901         | -1,684                      |

|                           | 2010          | 2009    | Increase/Decrease |
|---------------------------|---------------|---------|-------------------|
| Dividends (EUR)           | 40,000,000.00 | 0.00    | 40,000,000.00     |
| Number of Shares          | 820,000       | 820,000 | 0                 |
| Dividends per Share (EUR) | 48.78         | 0.00    | 48.78             |

## Schedule of Assets and Financial Data

|  | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/Decrease<br>(EUR Million) |
|--|-----------------------------|-----------------------------|------------------------------------|
| Loans and Advances to Banks                                | 5,689.3                     | 8,282.3                     | -2,593.0                           |
| Loans and Advances to Customers                            | 4,032.3                     | 4,655.6                     | -623.3                             |
| Risk Provisions  | -185.3                      | -189.2                      | 3.9                                |
| Financial Assets at Fair Value through Profit or Loss      | 419.6                       | 292.6                       | 126.9                              |
| Financial Assets   | 6,863.8                     | 7,375.1                     | -511.2                             |
| Equity-accounted Investments                               | 0.0                         | 0.0                         | 0.0                                |
| Other Assets   | 256.4                       | 321.1                       | -64.7                              |
| <b>Total Assets</b>  | <b>17,076.1</b>             | <b>20,737.5</b>             | <b>-3,661.4</b>                    |
| Liabilities to Banks                                       | 10,087.0                    | 12,676.5                    | -2,589.5                           |
| Liabilities to Customers                                   | 3,311.4                     | 3,941.1                     | -629.7                             |
| Securitised Liabilities                                    | 2,389.0                     | 2,921.6                     | -532.6                             |
| Financial Liabilities at Fair Value through Profit or Loss | 296.1                       | 215.8                       | 80.4                               |
| Provisions   | 14.6                        | 11.4                        | 3.2                                |
| Other Liabilities  | 306.6                       | 270.1                       | 36.5                               |
| Reported Equity  | 671.4                       | 701.0                       | -29.6                              |
| <b>Total Equity and Liabilities</b>                        | <b>17,076.1</b>             | <b>20,737.5</b>             | <b>-3,661.4</b>                    |

The Bank reviewed its business structure in the year under report just ended. This is shown in particular in the balance sheet total, which has fallen in comparison to the previous year by EUR 3.7 billion to EUR 17.1 billion. In the balance sheet structure, the fall mainly affected the interbank business. The accounts payable by and liabilities to banks fell by EUR 2.6 billion. The balance sheet business volume with customers fell on the assets and liabilities side by EUR 0.6 billion. A similar development was recorded in the items financial assets and securitised liabilities, which fell by EUR 0.5 billion.

The Financial Assets at Fair Value through Profit or Loss include trading assets of EUR 0.3 billion on the reporting date 31 December 2010 (previous year EUR 0.2 billion) and EUR 0.1 billion (previous year EUR 0.1 billion) financial instruments designated at Fair Value.

The other assets include the cash reserves as well at EUR 0.1 billion, which are below the previous year's amount (EUR 0.2 billion).

Financial liabilities at Fair Value through Profit or Loss exclusively include trading liabilities of EUR 0.3 billion (previous year EUR 0.2 billion) on the reporting date 31 December 2010.

The reported equity of the Bank was EUR 671 million on the reporting date 31 December 2010 (previous year EUR 701 million).

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

## Risk Report

The risk report of NORD/LB Luxembourg to 31 December 2010 was prepared on the basis of IFRS 7.

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

### Overall Bank Management

#### Principles of Risk Management

Banking business is inextricably linked to the conscious entering into of 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 proper business organisation, which ensures adherence to the statutory provisions to be observed by the institution and its operating requirements. Proper business organisation includes the specification of strategies on the basis of procedures for ascertaining and securing risk-bearing capacity, which comprises both risks and the capital available for covering these risks. For the Bank these statutory requirements are firmly established in Luxembourg law as well as German law.

The new edition of the German MaRisk published in August 2009 resulted in various reforms and extensions e.g. in relation to taking into account risk concentrations and risk management at Group level. NORD/LB Luxembourg had already carried out a preliminary study before publication of the final version to identify areas needing action and brought an implementation project into being. In the year under report, the identified measures were implemented in close cooperation with NORD/LB AöR.

Among other things, NORD/LB Luxembourg has drawn up a multi-stage process to derive an overall risk profile in the year under report, which depicts the risk categories relevant to the Bank as well as a further distinction between significant and insignificant risks. In this connection, all relevant risk categories, which can significantly impair the capital adequacy, earnings, liquidity situation or achievement of strategic goals of the NORD/LB Group, are significant.

Furthermore the following risks are also deemed to be significant: credit risk, participation risk, market price risk, liquidity risk and operational risk. In addition, the following risks are deemed to be relevant: business and strategic risk, reputational risk, syndication risk and model risk. Appropriate precautions were taken for all identified risks. The overall risk profile is checked at least once a year in relation to events (risk stocktaking) and adjusted if necessary.

A further need for amendments results from the third revision of the MaRisk published on 15 December 2010. NORD/LB Luxembourg has carried out an analysis of the need for action on the basis of the second draft version dated 7 October 2010 and prepared an implementation plan.

#### Risk Management Strategies

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

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

For NORD/LB Luxembourg a conservative definition was set, under which in normal circumstances 80 % of the economic risk pool (status quo in the RBC model) may be covered by the risk potential. The economic capital adequacy item should exhibit a minimum cover ratio of 125 %.

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

The risk strategy was reviewed in 2010 and adjusted and discussed in detail with the supervisory bodies after being passed by the Board of Directors. The focuses of the review that was undertaken lay on the integration of the overall risk profile and the improved RBC model into the risk strategy.

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

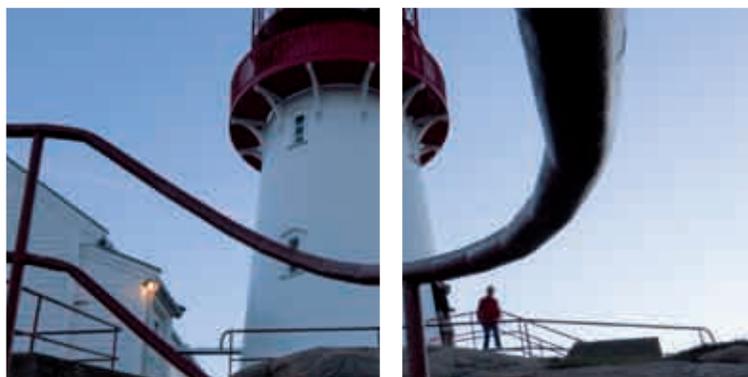
### Risk-Bearing Capacity

The risk-bearing capacity model (RBC model) forms the methodological basis for monitoring compliance with the risk strategy of NORD/LB Luxembourg. Monitoring is done by the Controlling division of the Bank.

The aim of the model is the aggregated depiction of the risk-bearing capacity (RBC) both at individual bank and sub-group levels in terms of a comparison of the risk potential resulting from the significant 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, which also applies to NORD/LB Luxembourg, in the year under report. 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 of 31 December 2010 the reports were only produced on the basis of the reviewed model for the first time.

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

Concentrations across risk categories are taken into account via the stress test. When selecting the stress 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 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<br>31.12.2010 |                | Risk-Bearing Capacity<br>31.12.2009 |                |
|-------------------------------|-------------------------------------|----------------|-------------------------------------|----------------|
| <b>Risk Capital</b>           | <b>766.7</b>                        | <b>100.0 %</b> | <b>806.0</b>                        | <b>100.0 %</b> |
| Credit Risks                  | 233.1                               | 30.4 %         | 574.0                               | 71.2 %         |
| Investment Risks              | 8.2                                 | 1.1 %          | 6.6                                 | 0.8 %          |
| Market price Risks            | 33.7                                | 4.4 %          | 16.0                                | 2.0 %          |
| Liquidity Risks               | 8.2                                 | 1.1 %          | 5.7                                 | 0.7 %          |
| Operational Risks             | 9.5                                 | 1.2 %          | 8.1                                 | 1.0 %          |
| <b>Overall Risk Potential</b> | <b>292.7</b>                        | <b>38.2 %</b>  | <b>610.5</b>                        | <b>75.7 %</b>  |
| <b>Over Cover</b>             | <b>474.0</b>                        | <b>61.8 %</b>  | <b>195.5</b>                        | <b>24.3 %</b>  |
| <b>Level of Risk Cover</b>    |                                     | <b>261.9 %</b> |                                     | <b>132.0 %</b> |

The level of risk coverage was 261.9% as at 31 December 2010.

When comparing the reporting dates it must be considered that the comparative values to 31 December 2009 were determined using the RBC model that applied in 2009.

The considerable fall in credit risks results from methodological and technical improvements in the determination of credit risks. The participation risks increased significantly because of the increase of the participation in NORD/LB Covered Finance Bank S.A. by EUR 10 million.

The changes in the other risk categories are predominantly due to methodical improvements. The increase in liquidity

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.

risks results from the integration of the foreign currency risks. The market price risks increase as a result of taking credit-spread risks into account (liquidity reserve).

## Risk Management Structure and Organisation

The responsibility for risk management is borne by the Board of Directors of NORD/LB Luxembourg, which also defines the risk strategy of the Bank. After the risk strategy has been decided by the Board of Directors of NORD/LB Luxembourg, it is passed on to the Supervisory Board of NORD/LB Luxembourg for information and discussed with it in detail. The responsibility for developing and monitoring the risk strategy is borne by the Chief Risk Officer (CRO).

This includes the monitoring of all significant risks including risk reporting.

Risk management is subject to continual review and improvement. The banks apply standard Group methods in the process, both at individual and sub-group level. Any adjustments that might be necessary comprise regulatory requirements, organisational measures, improvement of procedures of risk quantification and the ongoing updating of relevant parameters. Risk-orientated and process-independent checks of the effectiveness and appropriateness of the risk management are also tasks for the internal auditors. The aims of the internal auditors include making a contribution to securing the effectiveness, efficiently and orderliness of the business activities, among other things. 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 standardised Group audit policy and an evaluation matrix for the audit findings. Cross-institutional competence centres were also set up in this regard, in order to develop complex specialised subjects and conduct audits in the banks.

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

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

## 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. The organisational units Corporate Banking (lending front office), Credit Risk Management (lending back office), Controlling, Treasury and Credit Investments & Solutions (CIS) are particularly involved in this system. 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, is clearly defined at employee level. In accordance with the requirements of the Luxembourg bank supervisory authorities, lending business processes are characterised by a clear organisational separation of the front and back office, right up to Board level.

The 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.

To this end, the Bank's Controlling division compiles a quarterly counterparty risk report as part of the management information system for the Board of Directors and for the directors of the Corporate Banking, Credit Risk Management and Credit Investments & Solutions sectors in order to make existing risks and/or risk concentrations transparent at an early stage and, if appropriate, introduce necessary measures.

The counterparty risk report contains a detailed and comprehensive presentation and analysis of the counterparty risk of the Bank at an overall portfolio level according to various aspects. The counterparty risk report also features a stress test. The exposure considered comprises all of the assets, including possible liabilities and approvals, as well as derivatives and repo transactions. The counterparty risk report is based on the data from the regulatory reporting process. The counterparty default risks are determined on the basis of Basel II: 1. At the same time the Bank uses the IRB base rate.

As well as the Credit-Risk-Watchlist (monitoring borrowers with bad creditworthiness), the Controlling division also compiles a so-called borrower's default risk notification on a monthly basis as another instrument for controlling and monitoring credit risks in order to make existing risks or concentrations of risk transparent in good time.

### 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 aid of an economic credit risk model for different confidence levels and a time horizon of one year. The credit risk model used by the NORD/LB Group draws correlations and concentrations into the risk assessment too.

The credit risk model determines the unexpected loss at the level of the overall portfolio. The model used is based on the basic model CreditRisk+. Systematic sector influences on the distribution of loss are depicted 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 among the main companies in the Group in order to ensure a standardised approach within the Group. The current risk management and control procedures are carried out for the Bank by the Controlling division of NORD/LB Luxembourg taking into account any characteristics specific to the Bank.

### 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 submitted quarterly to the Board of Directors of NORD/LB Luxembourg 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 case of guarantees, the nominal value, and in the case of securities, the carrying amount) and the credit equivalent resulting from derivatives (including add-ons and on consideration of netting). Irrevocable lending commitments are included in the credit exposure at 61 % and revocable lending commitments at 5 %, while securities remain disregarded.

### Analysis of Credit Exposure

The credit exposure as at 31 December 2010 amounts to EUR 18.3 billion (previous year EUR 22.5 billion). 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 uniform Group-rating categories of the 18-step DSGV rating master scale used by NORD/LB Luxembourg can be transposed directly to the IFD categories.

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

| Rating Structure <sup>1) 2)</sup><br>EUR Million | Loans <sup>3)</sup> | Securities <sup>4)</sup><br>31.12.2010 | Derivatives <sup>5)</sup> | Other <sup>6)</sup> | 31.12.2010    | Total<br>31.12.2009 |
|--|---------------------|--|---------------------------|---------------------|---------------|---------------------|
| Very good to good                                | 7,452               | 7,409                                  | 330                       | 0                   | 15,191        | 18,786              |
| Good/satisfactory                                | 976                 | 190                                    | 0                         | 0                   | 1,166         | 1,489               |
| Still good/adequate                              | 393                 | 15                                     | 1                         | 9                   | 417           | 550                 |
| Bad Risk   | 744                 | 26                                     | 0                         | 16                  | 786           | 785                 |
| High Risk  | 215                 | 0                                      | 0                         | 0                   | 215           | 290                 |
| Very high Risk                                   | 214                 | 0                                      | 3                         | 0                   | 217           | 219                 |
| Default (=NPL)                                   | 282                 | 21                                     | 0                         | 4                   | 307           | 384                 |
| <b>Total</b>                                     | <b>10,276</b>       | <b>7,661</b>                           | <b>333</b>                | <b>29</b>           | <b>18,299</b> | <b>22,503</b>       |

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, whereby in compliance with the RBC report, the irrevocable loan commitments are included at 61 % and revocable ones at 5 %

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 (83.0 %) 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 administrative offices.

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

| Sectors <sup>1)2)</sup><br>EUR Million         | Loans <sup>3)</sup> | Securities <sup>4)</sup><br>31.12.2010 | Derivatives <sup>5)</sup> | Other <sup>6)</sup> | 31.12.2010    | Total<br>31.12.2009 |
|--|---------------------|--|---------------------------|---------------------|---------------|---------------------|
| Financing Institutions/<br>Insurance Companies | 6,377               | 6,333                                  | 330                       | 16                  | 13,056        | 17,230              |
| Service Industries/Others                      | 1,535               | 1,303                                  | 3                         | 9                   | 2,849         | 2,004               |
| of which: Property and Housing                 | 497                 | 0                                      | 0                         | 0                   | 497           | 556                 |
| of which: Public Administration                | 157                 | 1,257                                  | 0                         | 0                   | 1,414         | 544                 |
| Transport/Communication                        | 383                 | 26                                     | 0                         | 0                   | 408           | 430                 |
| of which: Shipping                             | 14                  | 0                                      | 0                         | 0                   | 14            | 0                   |
| of which: Aviation                             | 0                   | 0                                      | 0                         | 0                   | 0             | 0                   |
| Manufacturing Industry                         | 1,197               | 0                                      | 0                         | 4                   | 1,201         | 1,410               |
| Energy- and Water Supplies<br>and Mining       | 368                 | 0                                      | 0                         | 0                   | 368           | 425                 |
| Trade, Maintenance and Repairs                 | 319                 | 0                                      | 0                         | 0                   | 319           | 342                 |
| Agriculture, Forestry and Fishing              | 1                   | 0                                      | 0                         | 0                   | 1             | 33                  |
| Construction Industry                          | 92                  | 0                                      | 0                         | 0                   | 93            | 183                 |
| Other  | 4                   | 0                                      | 0                         | 0                   | 4             | 446                 |
| <b>Total</b>                                   | <b>10,276</b>       | <b>7,661</b>                           | <b>333</b>                | <b>29</b>           | <b>18,299</b> | <b>22,503</b>       |

1) Allocation in alignment with that of the RBC report in accordance with economic criteria  
2) to 6) see previous table on the rating structure

The table shows that the business with financial institutions/insurers of good creditworthiness, which till now was relatively low risk with a total share of 71.3 %, continues to

make up a significant share of the total exposure. When the service sector is included the proportion of the total exposure is 86.9 %.

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

| Regions <sup>1)2)</sup><br>EUR Million | Loans <sup>3)</sup> | Securities <sup>4)</sup><br>31.12.2010 | Derivatives <sup>5)</sup> | Other <sup>6)</sup> | 31.12.2010    | Total<br>31.12.2009 |
|--|---------------------|--|---------------------------|---------------------|---------------|---------------------|
| Euro Countries                         | 7,721               | 6,569                                  | 274                       | 12                  | 14,577        | 16,690              |
| Remaining Western Europe               | 820                 | 462                                    | 58                        | 16                  | 1,356         | 2,534               |
| Eastern Europe                         | 308                 | 0                                      | 0                         | 0                   | 308           | 359                 |
| North America                          | 1,106               | 212                                    | 1                         | 0                   | 1,319         | 1,902               |
| Latin America                          | 31                  | 83                                     | 0                         | 0                   | 114           | 124                 |
| Middle East/Africa                     | 29                  | 0                                      | 0                         | 0                   | 29            | 18                  |
| Asia                                   | 254                 | 219                                    | 0                         | 0                   | 473           | 855                 |
| Other                                  | 8                   | 115                                    | 0                         | 0                   | 124           | 22                  |
| <b>Total</b>                           | <b>10,276</b>       | <b>7,661</b>                           | <b>333</b>                | <b>29</b>           | <b>18,299</b> | <b>22,503</b>       |

1) Allocation in alignment with that of the RBC report in accordance with economic criteria  
2) to 6) see previous table on the rating structure

The Bank invests almost exclusively in economically strong regions. The country risk tends to be of low importance due to the good country ratings. The Eurozone, with a high proportion (79.7 %) of loans, continues to be the most important business region by far.

The discrepancies between the totals of the credit exposures according to internal reporting and according to book values result from the definition of the credit exposure for internal purposes on the basis of 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.

The Bank's loan loss provisions amount to EUR 193.8 million at the reporting date and, as well as portfolio based provisions in the sum of EUR 13.0 million, contain specific value adjustments in the sum of EUR 93.4 million for Icelandic commitments. A provision of a further EUR 9.8 million was made for two borrowers in the energy sector and EUR 69.1 million for two borrowers in the automotive sector and one in real estate financing. On top of this, there are also provisions in the total sum of EUR 8.5 million for two borrowers from the energy sector and one borrower from the automotive sector.

### 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.

## Participation Risk

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

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

### Strategy

Securing and improving its own market position is the main motive behind the Bank's investment policy. Investments serve the targeted strengthening of the universal banking activities.

The risks that arise from entering into participation are controlled and monitored by the extended sub-group Board of Directors of the Bank. Participation controlling organisationally resides in the Controlling division, which, in conjunction with other sectors, in particular the business development sector, monitors the participation risk and has to supply the necessary information to the Controlling units. The Internal Audit department is integrated into the monitoring of the investments in its function as sub-group auditors.

Monitoring is performed by analysing the reports drawn up during the year, the interim and annual financial statements and the audit reports prepared by the external auditors. The Bank exercises the control function by sending representatives of NORD/LB Luxembourg to operational posts in the companies or by exercising the function of the Administrative Board. Moreover, the Bank has established Group-wide committees, in which likewise control-relevant subjects are discussed.

### Participation Risk – Measurement

The risks from the investments are integrated using the quantified risk potentials per risk category in the risk control of the Bank and sub-group. The risk potential is quantified on the basis of the respective carrying amount of the investment and the allocated probability of default.

### Participation Risk – Development in 2010

The composition of the participation portfolio remained unchanged in year under report 2010.

Skandifinanz Bank AG had to handle a loss in reported year 2009 in the sum of about EUR 130 million from a fraud case in the export financing business. The loss was borne by the Group itself and with the financial funds of the Group. Over the course of 2010, the governing bodies of the Swiss institution, in which NORD/LB Luxembourg is represented by the Chairman of its Board, decided to halt any new business and to reduce the business activities both in private banking and in trade financing in an orderly fashion. This resolution was enforced in January 2011 with the restriction of the purpose of the company in the articles of association of Skandifinanz Bank AG. Moreover the company was renamed Skandifinanz AG as of 7 January 2011.

## Market Price Risk

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

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

Currency risks (or exchange rate risks) arise when the value of a position or portfolio reacts sensitively to changes in one or 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 Luxembourg associated with market price risks are concentrated on selected markets, customers and product segments. Their position on the money, currency and capital markets should comply with the significance and size of the Bank.

As regards the interest rate risk, it is the aim to operate term transformation and to participate in the general market developments within the defined risk limits. Credit-spread risks also arise from the strategic investment in refinanced securities with matching maturities. A buy & hold strategy is essentially pursued for these positions. 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. Risk monitoring is carried out by the Bank's Controlling division.

In accordance with national requirements and the German MaRisk, the Controlling division 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

Value-at-Risk (VaR) methods are employed for managing and monitoring the market price risks of NORD/LB Luxembourg (except 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.

A limit is defined for the Value-at-Risk value. Any losses incurred in the trading book and bank book are immediately added to the loss limits, resulting in a reduction in Value-at-Risk limits in accordance with the principle of self-absorption.

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 trading and bank books were both in the green region in accordance with the Basel traffic light approach.

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 Luxembourg 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

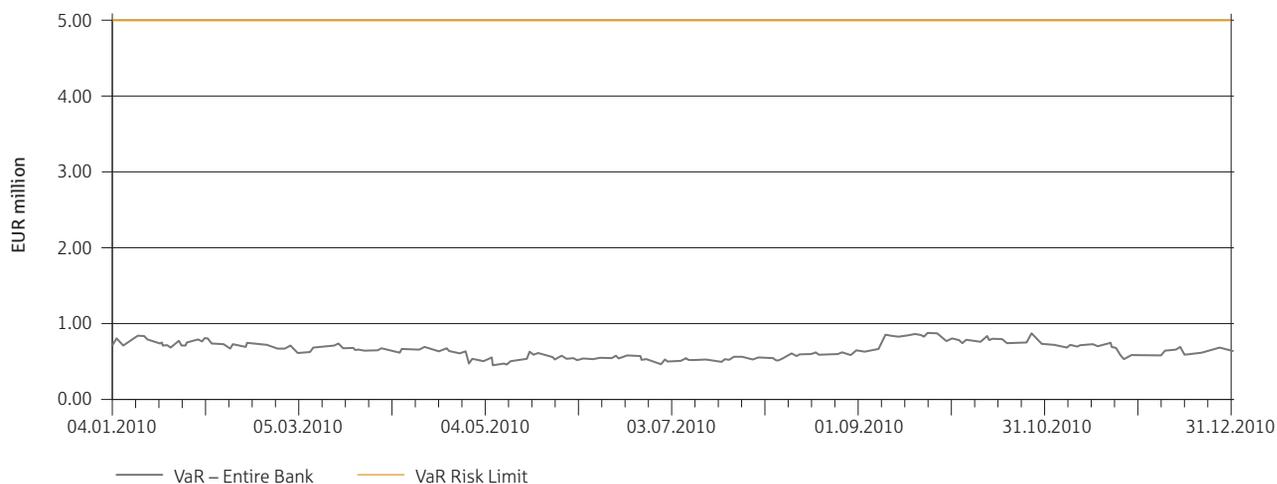
In compliance with MaRisk requirements, the Controlling division, which is independent of the divisions responsible for the positions, reports the market price risks to the Board of Directors on a daily basis.

## Market Price Risks – Development in 2010

It was possible to keep the market price risks of the Bank shown in the following illustrations at a low level overall in the year under report:

The utilisation of the market price risk limits (Value-at-Risk limit) in NORD/LB Luxembourg was 12.6 % on a yearly average basis (previous year 15.7 %); the maximum utilisation was 17.2 % (24.6 %) and the minimum utilisation 8.6 % (9.9 %). The average utilisation in NORD/LB Luxembourg continues to be low and results from the conscious reduction of interest rate risks within the scope of the general financial market crisis. The Value-at-Risk that is calculated on a daily basis (confidence level of 95 % and holding time of 1 day) in NORD/LB Luxembourg on 31 December 2010 was EUR 0.619 million (previous year EUR 0.725 million).

## Average Utilisation of VaR – NORD/LB Luxembourg 2010



The proportion of interest rate and foreign currency risks in the total risk on 31 December 2010 amounts to KEUR 235 and KEUR 468 respectively.

The interest rate sensitivities on 31 December 2010 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  | +1  | +0  | -0  | -100 | +2  | +0  | +0  | +20 | -0  | +0  | +0  | -0  | +0  | -8  | -0  | -86        |

The credit-spread risk in the investment book on 31 December 2010 was EUR 15.3 million (holding time ten days).

With regard to the interest rate risks in the investment book the effects of a standardised interest rate shock of +130 base points is analysed monthly in accordance with the requirements of SolvV in addition. 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 are expecting a moderate increase in the interest rate and foreign currency risks for the year 2011.

With regard to the future developments in the credit-spread risk the introduction of a credit-spread Value-at-Risk will take place in 2011 via historical simulation within the scope of the daily management. This method is already applied in

the risk-bearing capacity calculation to 31 December 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. The focus is essentially on the control of the classical liquidity risk and the control of the refinancing risk.

### Organisational Units

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

The Controlling division plays a key role in the implementation and development of internal procedures for measuring, limiting, and monitoring liquidity risks, and assumes a control function in the calculation of the refinancing risk as well as in ascertaining and monitoring classical liquidity risk.

## 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. A distinction is made here between one dynamic and three static scenarios.

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

The static scenarios are split into:

### Market wide Liquidity Disruption:

There is a marked financial market induced liquidity bottleneck prevalent on the financial markets, which is blocking 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. The basis for this scenario is currently the loss of the short term ratings A1/P1.

### Market wide Credit Event:

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

Within the scope of the 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. Periods from intraday to unlimited terms are taken into consideration. In terms of the control of the refinancing risk, volume structural limits for the individual maturity bands are defined, which accordingly restrict the refinancing risk. 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 daily basis. A potential rise in the price of liquidity in the individual maturity bands is limited via a cash value limit.

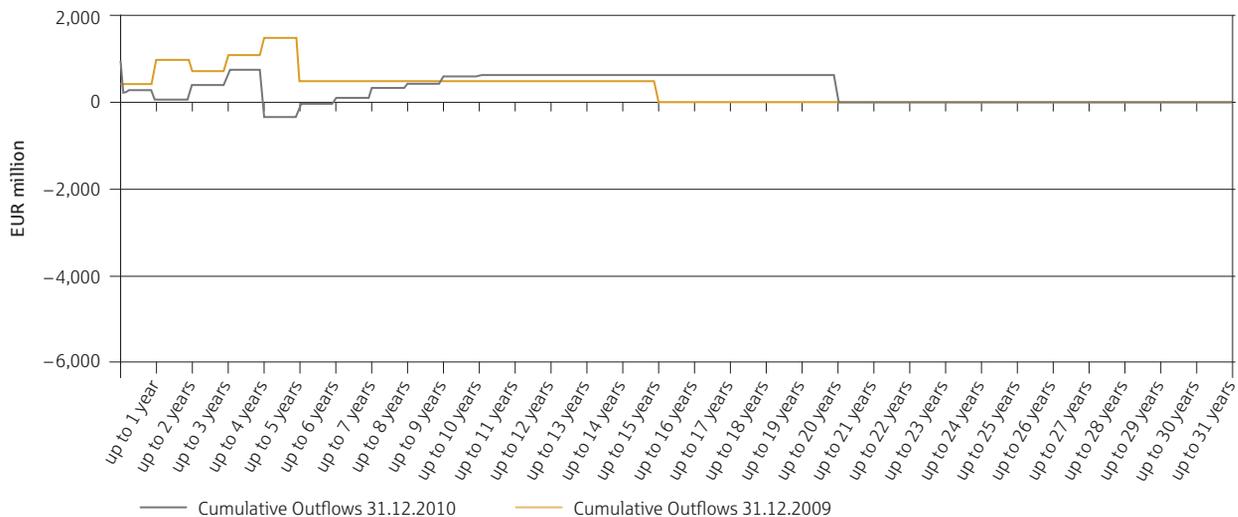
## Liquidity Risk – Reporting

The liquidity risk situation in the classical and in the refinancing liquidity risk of the Bank is determined on a daily basis and made available to the Treasury and 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 worked up on the basis of the refinancing liquidity risk for the monthly meeting of the disposition committee at bank and group level, which are discussed in the regular meetings.

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 the cumulative outflows results mainly from the introduction of this new logic and is therefore only comparable with the previous year's reporting date to a limited extent.

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

## Liquidity Risk – Development in 2010

There continues to be a tense mood over the course of 2010 too. The liquidity supply of NORD/LB Luxembourg was guaranteed at all times and improved in comparison to the previous year.

## Liquidity Risk – Outlook

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

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

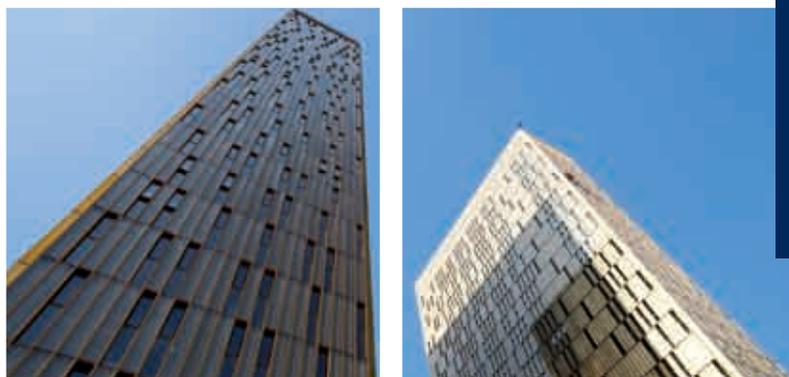
### Operational Risk – Control

#### 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 division 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 division, instructions on procedures, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Safety concepts and contingency plans supplement the pre-emptive measures in order to prevent loss or damage resulting from the failure, tampering or manipulation of systems and information.

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

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

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

### Operational Risk – Measurement

Since the middle of 2005, 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).

The collection of historical loss events is supplemented by future components with the aid of the risk-assessment methods carried out annually at NORD/LB Luxembourg. Expert appraisals provide detailed insight into the risk situation of the Bank's individual divisions, so that relevant measures can be 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 standardised 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<br>Net Loss as a Percentage of the Total Amount of Loss |      |      |
|---|------|------|
|   | 2010 | 2009 |
| External Influences   | 0    | 4.1  |
| Internal Procedures   | 0    | 4.6  |
| Staff   | 100  | 91.3 |
| Technology  | 0    | 0    |

### Operational Risk – Outlook for 2011

In 2011, the NORD/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

Apart from the credit, participation, market price, liquidity and operational risks already illustrated, there are no significant risks identified. 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 Luxembourg fulfilled the regulatory provisions on equity and liquidity at all times. 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.

# Personnel Report

## Number of Employees

NORD/LB Luxembourg expanded its personnel level as follows:

| Reporting Date     | 31.12.2010 | 31.12.2009 | Absolute Change | Increase/Decrease (%) |
|--------------------|------------|------------|-----------------|-----------------------|
| NORD/LB Luxembourg | 157        | 139        | 18              | 12.9                  |

All members of staff deserve the special recognition of the Board of Directors and Supervisory Board for the company results that can be described as very satisfactory in the context of the circumstances in 2010. The Bank's success is largely driven by the professionalism and competence of its staff. The Board of Directors and Supervisory Board therefore thank staff for their commitment, motivation and, last but not least, their faithful cooperation.

The 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.

## Personnel Changes

### **Martin Halblaub**

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

### **Thorsten Schmidt**

Treasury Manager of NORD/LB Luxembourg, was appointed to the Board of Directors of NORD/LB Luxembourg by the Supervisory Board with effect from 1 July 2010.

### **Ulrike Brouzi**

General Manager of NORD/LB Norddeutsche Landesbank Girozentrale, was elected to the Supervisory Board of NORD/LB Luxembourg with effect from 1 September 2010.

### **Dr. Stephan-Andreas Kaulvers**

Chairman of the Board of the Bremer Landesbank, Bremen, left the Supervisory Board of NORD/LB Luxembourg on 31 December 2010.

## Supplementary Report

Dr. Johannes-Jörg Riegler, Member of the Board of Directors of NORD/LB Norddeutsche Landesbank Girozentrale, was elected to the Supervisory Board of NORD/LB Luxembourg with effect from 1 January 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 Luxembourg. These include primarily the development of the financial markets and the changes in interest rates and market prices. The actual results and developments can differ considerably from the statements made today. NORD/LB Luxembourg assumes no responsibility and also does not intend to update the statements relating to the future or to correct them in the event of a development other than that expected.

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.

## Income Statement

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

|  | Notes     | 2010<br>(KEUR) | 2009<br>(KEUR)  |
|--|-----------|----------------|-----------------|
| <b>Net Interest Income and current Income</b>                                      | <b>16</b> | <b>129,485</b> | <b>163,192</b>  |
| Net Interest Income and current Income   |           | 541,345        | 769,315         |
| Interest Expense   |           | 411,859        | 606,123         |
| <b>Loan Loss Provisions</b>  | <b>17</b> | <b>-24,749</b> | <b>-123,588</b> |
| <b>Net Commission Income</b>   | <b>18</b> | <b>-20,378</b> | <b>-8,501</b>   |
| Commission Income  |           | 32,358         | 34,121          |
| Commission Expense   |           | 52,736         | 42,622          |
| <b>Profit/Loss from Financial Instruments at Fair Value through Profit or Loss</b> | <b>19</b> | <b>1,731</b>   | <b>8,485</b>    |
| Trading Profit/Loss  |           | 2,105          | 6,093           |
| Profit/Loss from the Fair Value Option   |           | -374           | 2,391           |
| <b>Profit/Loss from Hedge Accounting</b>   | <b>20</b> | <b>1,972</b>   | <b>4,561</b>    |
| <b>Profit/Loss from Financial Assets</b>   | <b>21</b> | <b>-177</b>    | <b>-1,639</b>   |
| <b>Administrative Expenses</b>   | <b>22</b> | <b>33,013</b>  | <b>30,241</b>   |
| Staff Expenses   |           | 14,847         | 12,354          |
| Other Administrative Expenses  |           | 17,761         | 12,297          |
| Depreciation of Property, Plant and Equipment                                      |           | 228            | 1,255           |
| Depreciation on Intangible Assets  |           | 176            | 4,335           |
| <b>Other operating Profit/Loss</b>   | <b>23</b> | <b>-4,984</b>  | <b>1,102</b>    |
| <b>Earnings before Taxes (EBT)</b>   |           | <b>49,888</b>  | <b>13,370</b>   |
| <b>Income Taxes</b>  | <b>24</b> | <b>-19,427</b> | <b>2,489</b>    |
| <b>Profit for the Year</b>   |           | <b>69,316</b>  | <b>10,881</b>   |
| of which: attributable to Shareholders   |           | 69,316         | 10,881          |
| of which: attributable to non-controlling Shares                                   |           | 0              | 0               |

## Overall Profit and Loss Account

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

|   | 2010<br>(KEUR) | 2009<br>(KEUR) |
|---|----------------|----------------|
| <b>Profit for the Year</b>  | <b>69,316</b>  | <b>10,881</b>  |
| Increase/Decrease from Available-for-Sale (AfS) Financial Instruments | 1,374          | 49,870         |
| of which: unrealised Profit/Losses                                    | 715            | 48,817         |
| of which: Reclassifications on the Grounds of Profit/Loss Realisation | 659            | 1,053          |
| Actuarial Gains/Losses for defined Benefit Provisions for Pensions    | 20             | -347           |
| Deferred Taxes  | -315           | -15,114        |
| <b>Profit/Loss recognised directly in Equity</b>                      | <b>1,079</b>   | <b>34,409</b>  |
| <b>Total Income for the Year</b>                                      | <b>70,395</b>  | <b>45,290</b>  |
| of which: attributable to Shareholders                                | 70,395         | 45,290         |
| of which: attributable to non-controlling Shares                      | 0              | 0              |

In terms of appropriation of earnings it is intended to pay out a dividend in the sum of EUR 40.0 million to the shareholders.

## Balance Sheet

| Assets  | Notes | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|---|-------|-----------------------------|-----------------------------|
| Cash Reserve  | 25    | 96.0                        | 206.9                       |
| Loans and Advances to Banks                           | 26    | 5,689.3                     | 8,282.3                     |
| Loans and Advances to Customers                       | 27    | 4,032.3                     | 4,655.6                     |
| Risk Provisions                                       | 28    | -185.3                      | -189.2                      |
| Financial Assets at Fair Value through Profit or Loss | 29    | 419.6                       | 292.6                       |
| Derivatives – Fair Values from Hedge Accounting       | 30    | 38.6                        | 44.0                        |
| Financial Assets                                      | 31    | 6,863.8                     | 7,375.1                     |
| Property, Plant and Equipment                         | 32    | 60.6                        | 33.7                        |
| Intangible Assets                                     | 33    | 5.2                         | 0.3                         |
| Income Tax Assets                                     | 34    | 49.5                        | 27.8                        |
| Other Assets  | 35    | 6.5                         | 8.4                         |
| <b>Total Assets</b>                                   |       | <b>17,076.1</b>             | <b>20,737.5</b>             |

| Equity and Liabilities                                     | Notes     | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|--|-----------|-----------------------------|-----------------------------|
| Liabilities to Banks                                       | 36        | 10,087.0                    | 12,676.5                    |
| Liabilities to Customers                                   | 37        | 3,311.4                     | 3,941.1                     |
| Securitised Liabilities                                    | 38        | 2,389.0                     | 2,921.6                     |
| Financial Liabilities at Fair Value through Profit or Loss | 39        | 296.1                       | 215.8                       |
| Derivatives – Fair Values from Hedge Accounting            | 40        | 166.8                       | 135.2                       |
| Provisions   | 41        | 14.6                        | 11.4                        |
| Income Tax Liabilities                                     | 42        | 6.6                         | 8.5                         |
| Other Liabilities  | 43        | 39.6                        | 39.6                        |
| Subordinated Capital                                       | 44        | 93.6                        | 86.8                        |
| <b>Equity</b>  | <b>46</b> |                             |                             |
| Issued Capital   |           | 205.0                       | 205.0                       |
| Capital Reserves   |           | 0.0                         | 0.0                         |
| Revenue Reserves   |           | 494.5                       | 525.2                       |
| Revaluation Reserve  |           | -28.1                       | -29.2                       |
| Currency Translation Reserve                               |           | 0.0                         | 0.0                         |
| <b>Equity attributable to Shareholders</b>                 |           | <b>671.4</b>                | <b>701.0</b>                |
| Shares without controlling Influence                       |           | 0.0                         | 0.0                         |
|  |           | <b>671.4</b>                | <b>701.0</b>                |
| <b>Total Equity and Liabilities</b>                        |           | <b>17,076.1</b>             | <b>20,737.5</b>             |

## Cash Flow Statement

|  | 2010<br>(EUR Million) | 2009<br>(EUR Million) |
|--|-----------------------|-----------------------|
| <b>Profit for the Year</b>   | <b>69.3</b>           | <b>10.9</b>           |
| 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 | -3.8                  | 103.4                 |
| Increase/Decrease in Provisions  | 3.2                   | 3.6                   |
| Gains/Losses from the Disposal of Property, Plant and Equipment and Financial Assets   | 0.2                   | 1.6                   |
| Increase/Decrease in other non-cash Items  | 8.4                   | 20.7                  |
| Other Adjustments  | -204.0                | -207.3                |
| <b>Sub-Total</b>   | <b>-126.7</b>         | <b>-67.2</b>          |
| Increase/Decrease in Assets and Liabilities from operating Activities after Adjustment for non-cash Items  |                       |                       |
| Loans and Advances to Banks and Customers  | 3,204.6               | -142.1                |
| Other Assets from operating Activities   | 0.0                   | 0.0                   |
| Liabilities to Banks and Customers   | -3,203.4              | 1,414.9               |
| Securitised Liabilities  | -521.7                | -809.5                |
| Other Liabilities from operating Activities  | -0.6                  | -9.3                  |
| Interest received  | 600.5                 | 956.3                 |
| Dividends received   | 5.5                   | 6.8                   |
| Interest paid  | -468.0                | -742.2                |
| Income Taxes paid  | -3.6                  | -10.5                 |
| <b>Cash Flow from operating Activities</b>   | <b>-513.5</b>         | <b>597.2</b>          |
| Cash Receipts from the Disposal of   |                       |                       |
| Financial Assets   | 1,893.3               | 6,260.9               |
| Property, Plant and Equipment and intangible Assets  | 9.5                   | 0.0                   |
| Cash Payments for the Acquisition of   |                       |                       |
| Financial Assets   | -1,358.0              | -6,528.1              |
| Property, Plant and Equipment and intangible Assets  | -41.4                 | -34.6                 |
| Increase/Decrease in Funds from other Investment Activity  | 0.0                   | 0.0                   |
| <b>Cash Flow from Investment Activities</b>  | <b>503.3</b>          | <b>-301.9</b>         |

|  | 2010<br>(EUR Million) | 2009<br>(EUR Million) |
|--|-----------------------|-----------------------|
| Cash Receipts from Equity Contributions  | 0.0                   | 0.0                   |
| Increase/Decrease in Funds from other Capital  | -100.0                | -155.3                |
| Interest Expense on subordinated Capital   | -0.6                  | -10.0                 |
| Dividends paid   | 0.0                   | -18.8                 |
| <b>Cash Flow from financing Activities</b>   | <b>-100.6</b>         | <b>-184.1</b>         |
| <b>Cash and Cash Equivalents at End of the previous Year</b>   | <b>206.9</b>          | <b>95.6</b>           |
| Cash Flow from operating Activities  | -513.5                | 597.2                 |
| Cash Flow from investment Activities   | 503.3                 | -301.9                |
| Cash Flow from financing Activities  | -100.6                | -184.1                |
| <b>Cash flow total</b>   | <b>-110.8</b>         | <b>111.3</b>          |
| Effects of Exchange Rate Differences and Valuation Changes and Changes in the Basis of Consolidation | 0.0                   | 0.0                   |
| <b>Cash and Cash Equivalents at End of the Year under Report</b>                                     | <b>96.0</b>           | <b>206.9</b>          |

## Statement of Changes in Equity

| EUR Million                                  | Issued<br>Capital | Capital<br>Reserves                               | Revenue<br>Reserves | Revalu-<br>ation<br>Reserve | Currency<br>Trans-<br>lation<br>Reserve           | Equity<br>before<br>Shares<br>without<br>control-<br>ling<br>Influence | Shares<br>without<br>control-<br>ling<br>Influence | Equity        |
|--|-------------------|---|---------------------|-----------------------------|---|--|--|---------------|
| <b>Equity at 01.01.2009</b>                  | <b>205.0</b>      | <b>0.0</b>  | <b>533.3</b>        | <b>-63.9</b>                | <b>0.0</b>  | <b>674.4</b>   | <b>0.0</b>   | <b>674.4</b>  |
| Distribution                                 | 0.0               | 0.0   | -18.8               | 0.0                         | 0.0   | -18.8  | 0.0  | -18.8         |
| Profit for the Year                          | 0.0               | 0.0   | 10.9                | 0.0                         | 0.0   | 10.9   | 0.0  | 10.9          |
| Profit/Loss recognised<br>directly in Equity | 0.0               | 0.0   | 0.0                 | 34.7                        | 0.0   | 34.7   | 0.0  | 34.7          |
| Other Capital Changes                        | 0.0               | 0.0   | -0.3                | 0.0                         | 0.0   | -0.3   | 0.0  | -0.3          |
| <b>Equity at 31.12.2009</b>                  | <b>205.0</b>      | <b>0.0</b>  | <b>525.2</b>        | <b>-29.2</b>                | <b>0.0</b>  | <b>701.0</b>   | <b>0.0</b>   | <b>701.0</b>  |
| Distribution                                 | 0.0               | 0.0   | 0.0                 | 0.0                         | 0.0   | 0.0  | 0.0  | 0.0           |
| Profit for the Year                          | 0.0               | 0.0   | 69.3                | 0.0                         | 0.0   | 69.3   | 0.0  | 69.3          |
| Profit/Loss recognised<br>directly in Equity | 0.0               | 0.0   | 0.0                 | 1.1                         | 0.0   | 1.1  | 0.0  | 1.1           |
| Other Capital Changes                        | 0.0               | 0.0   | -100.0              | 0.0                         | 0.0   | -100.0   | 0.0  | -100.0        |
| <b>Equity at 31.12.2010</b>                  | <b>205.0</b>      | <b>0.0</b>  | <b>494.5</b>        | <b>-28.1</b>                | <b>0.0</b>  | <b>671.4</b>   | <b>0.0</b>   | <b>671.4</b>  |
|  |                   | <b>In 2010 relating to Year under Report 2009</b> |                     |                             | <b>In 2009 relating to Year under Report 2008</b> |  |  |               |
| Dividends (EUR)                              |                   |   |                     | 0.00                        |   |  |  | 18,750,000.00 |
| Number of Shares                             |                   |   |                     | 820,000                     |   |  |  | 820,000       |
| Dividends per Share (EUR)                    |                   |   |                     | 0.00                        |   |  |  | 22.87         |



# Notes

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|----|---|
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## Accounting Policies

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

The financial statements of Norddeutsche Landesbank Luxembourg S.A. (NORD/LB Luxembourg) 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 the Bank 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 statement of recognised income and expense, 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 percentage discrepancies shown relate to un-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) (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 wages, salary and pension development, mortality rate and the discount rate assumptions. Because of the long term nature of the underlying assumptions and the complex calculation methods, changes made to those assumptions can have significant consequences.

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

### 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 Luxembourg adopts only those IFRS that have been endorsed by the EU.

The financial statements of NORD/LB Luxembourg to 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                                  |

No account was taken of IFRS 2, 3, 4, 5 and 6, IAS 2, 11, 20, 23, 26, 28, 29, 31, 33, 34, 40 and 41 or IFRIC 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 18 and SIC 7, 10, 12, 13, 21, 25, 29, 31 and 32, because they are not relevant to NORD/LB Luxembourg or it was not obligatory to apply them to the financial statements as of 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 years under report 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 01 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. NORD/LB Luxembourg's financial instruments are recognised in its accounts accordingly. They are classified in accordance with

the requirements of IAS 39 and measured in line with that classification.

### a) Recognition and Derecognition of Financial Instruments

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

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

In the event of only a partial transfer of risks and rewards and the retention of control, the continuing involvement approach is applied. The financial asset is then subject to specific accounting policies to the extent of the entity's continuing involvement. The extent of the entity's continuing involvement is determined by the extent to which 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 Luxembourg.

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

This category is divided into two sub-categories:

- a) Held-for-Trading (HfT)

This sub-category comprises financial instruments (trading assets and trading liabilities) that were acquired with the intention of making profit from short term buying and selling. It includes all derivatives in so far as they are not hedging instruments. Trading assets are essentially

composed of money market papers, bonds and debt securities, as well as derivatives with positive Fair Value. Trading liabilities comprise, in particular, derivatives with negative Fair Value as well as short sale delivery obligations. The subsequent measurement of trading assets and trading liabilities is at Fair Value through Profit or Loss. 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. The Bank uses this category solely for balance sheet items covered by derivative products outside Hedge Accounting in order to avoid an accounting mismatch.

- **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 impairment.

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

#### • Other Liabilities (OL)

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

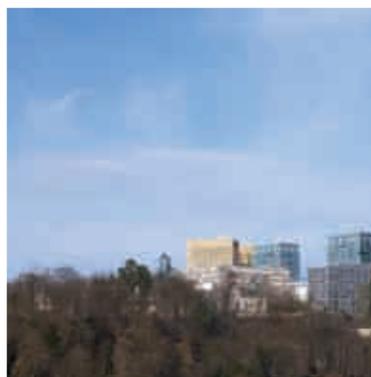
### c) Determination of Fair Value

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

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

The Bank initially uses prices provided by market makers to determine the Fair Value (Mark-to-Market or Level 1).

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



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

Measurement models are used mainly for OTC derivatives and for securities listed on inactive markets. Various 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 Luxembourg applies this valuation model to the stocks of illiquid securities categorised as AfS.

All the measurement models used are audited periodically. In contrast to the previous year there were no changes 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) to (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.

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

## (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.

## (7) Property, Plant and Equipment

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

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

|                                     | Useful Life in Years |
|-------------------------------------|----------------------|
| Buildings                           | 50                   |
| Operating and Office Equipment      | 3–15                 |
| Other Property, Plant and Equipment | 3–15                 |

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

## (8) Leasing

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 lease contracts on 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.

Agreements as operating lessees are within normal business frameworks

## (9) Intangible Assets

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

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

Intangible assets with a finite useful life are amortised over three to five years. There are no intangible assets with limited useful life in NORD/LB Luxembourg.

## (10) Provisions for Pensions and similar Obligations

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

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

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

The components of pension provisions 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 scheme is outsourced to a Luxembourg insurance company.

## (11) Other Provisions

In accordance with IAS 37, other provisions are made for contingent liabilities to third parties and anticipated losses from pending transactions if an obligation is probable and its size can be reliably 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.

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. The income from first-time adoption was taken into account for tax purposes in year under report 2008 rather than being apportioned over time.

In a letter dated 2 August 2007, the Luxembourg financial authorities approved the establishment of a tax group with effect for corporation and trade tax comprising Norddeutsche Landesbank Luxembourg S.A. and NORD/LB Covered Finance Bank S.A. starting from financial year 2007. Pursuant to Article 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. The Bank 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 Art. 164bis L.I.R.

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

### (13) Subordinated Capital

The item subordinated capital comprises unsecured subordinated liabilities.

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

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

# Segment Reporting

## Classification by Business Segment

Segment reporting is done in accordance with IFRS 8 and 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 Bank's organisational structures.

Net interest income for the individual segments is determined in accordance with the market interest rate method. Segment expenditure comprises original expenses as well as expenses allocated on the basis of cost and accounting for services. Risk provisions were assigned to the segments on the basis of actual cost. Classification of the use of interest from equity investments underwent a systematic change. Due to a lack of controllability by the market divisions, both performance indicators are now assigned to the Shareholdings/Other segment rather than to the Bank's operative profit centres.

### Affiliated Savings Banks

This includes institutional business with affiliated savings banks and syndicated business conducted with savings banks in the network with the profit/loss incurred (interest rate conditions contribution and net income from commission).

### Private Banking

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

### Financial Markets

This includes the Treasury and Credit Investments & Solutions divisions which are active in the investment banking of NORD/LB Luxembourg. The Treasury sector mainly invests in commercial papers, call money and term deposits as well as securities and open-market credits with first order issuers and the Credit Investments & Solutions business sector mainly in securities of banks and financial institutions. Profits/losses are generated in particular from liquidity and term transformation

### Group Cooperation

This segment shows the lending business transferred by the Group with the profit/loss contributions incurred.

### Shareholdings/Other

This segment covers other items and reconciliatory items. Among other things the profit/loss contributions resulting from holding investments is shown here.

## Classification by Region

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

## (14) Classification by Business Segment

| EUR Million  | Segments                 |                 |                   |                   |                     | Total  |
|--|--------------------------|-----------------|-------------------|-------------------|---------------------|--------|
|  | Affiliated Savings Banks | Private Banking | Financial Markets | Group Cooperation | Participation/Other |        |
| <b>Net Interest Income</b>   | 1.9                      | 1.0             | 51.9              | 65.9              | 8.7                 | 129.5  |
| do. previous Year  | 1.8                      | 2.1             | 70.7              | 72.1              | 16.6                | 163.2  |
| <b>Loan Loss Provisions</b>  | 0.0                      | 0.0             | 0.0               | -24.7             | 0.0                 | -24.7  |
| do. previous Year  | 0.0                      | 0.0             | -2.8              | -120.8            | 0.0                 | -123.6 |
| <b>Net Interest Income after Loan Loss Provisions</b>                              | 1.9                      | 1.0             | 51.9              | 41.2              | 8.7                 | 104.7  |
| do. previous Year  | 1.8                      | 2.1             | 67.9              | -48.7             | 16.6                | 39.6   |
| <b>Net Commission Income</b>   | -1.6                     | 9.3             | -1.6              | -26.5             | 0.0                 | -20.4  |
| do. previous Year  | -1.5                     | 7.1             | -1.5              | -12.7             | 0.0                 | -8.5   |
| <b>Profit/Loss from Financial Instruments at Fair Value through Profit or Loss</b> | 0.0                      | 0.0             | 1.7               | 0.0               | 0.0                 | 1.7    |
| do. previous Year  | 0.0                      | 0.0             | 8.5               | 0.0               | 0.0                 | 8.5    |
| <b>Profit/Loss from Hedge Accounting</b>   | 0.0                      | 0.0             | 0.0               | 0.0               | 2.0                 | 2.0    |
| do. previous Year  | 0.0                      | 0.0             | 0.0               | 0.0               | 4.6                 | 4.6    |
| <b>Profit/Loss from Financial Assets</b>   | 0.0                      | 0.0             | 0.1               | 0.0               | -0.3                | -0.2   |
| do. previous Year  | 0.0                      | 0.0             | -1.6              | 0.0               | 0.0                 | -1.6   |
| <b>Profit/Loss from Participation valued at Equity/Other</b>                       | 0.0                      | 0.0             | 0.0               | 0.0               | 0.0                 | 0.0    |
| do. previous Year  | 0.0                      | 0.0             | 0.0               | 0.0               | 0.0                 | 0.0    |
| <b>Administrative Expenses</b>   | 0.2                      | 8.7             | 10.4              | 4.2               | 9.5                 | 33.0   |
| do. previous Year  | 0.1                      | 8.0             | 9.3               | 3.4               | 9.4                 | 30.2   |
| <b>Other Income/Expenses</b>   | 0.0                      | 0.0             | 2.5               | 0.0               | -7.5                | -5.0   |
| do. previous Year  | 0.0                      | 0.0             | 0.8               | 0.0               | 0.3                 | 1.1    |
| <b>Operating Profit/Loss before Taxes</b>  | 0.1                      | 1.7             | 44.4              | 10.4              | -6.7                | 49.9   |
| do. previous Year  | 0.2                      | 1.2             | 64.9              | -64.9             | 11.9                | 13.4   |
| <b>Taxes</b>   | 0.0                      | 0.0             | 0.0               | 0.0               | 19.4                | 19.4   |
| do. previous Year  | 0.0                      | 0.0             | 0.0               | 0.0               | -2.5                | -2.5   |
| <b>Operating Profit/Loss after Taxes</b>   | 0.1                      | 1.7             | 44.4              | 10.4              | 12.8                | 69.3   |
| do. previous Year  | 0.2                      | 1.2             | 64.9              | -64.9             | 9.4                 | 10.9   |

| EUR Million   | Segments                 |                 |                   |                   |                     | Total           |
|---|--------------------------|-----------------|-------------------|-------------------|---------------------|-----------------|
|   | Affiliated Savings Banks | Private Banking | Financial Markets | Group Cooperation | Participation/Other |                 |
| <b>Segment Assets</b>                                 | <b>306.1</b>             | <b>64.9</b>     | <b>11,973.0</b>   | <b>4,060.4</b>    | <b>671.7</b>        | <b>17,076.1</b> |
| do. previous Year                                     | 342.0                    | 56.0            | 14,658.2          | 5,559.0           | 122.3               | 20,737.5        |
| <b>Segment Liabilities (incl. Equity)</b>             | <b>0.0</b>               | <b>212.0</b>    | <b>16,038.3</b>   | <b>0.0</b>        | <b>825.8</b>        | <b>17,076.1</b> |
| do. previous Year                                     | 0.0                      | 238.0           | 20,439.2          | 0.0               | 60.3                | 20,737.5        |
| <b>Risk assets (annual average Values)</b>            | <b>35.9</b>              | <b>60.5</b>     | <b>1,285.6</b>    | <b>2,112.6</b>    | <b>439.5</b>        | <b>3,934.2</b>  |
| do. previous Year (annual average Values)             | 159.0                    | 54.0            | 1,322.0           | 2,366.0           | 131.0               | 4,032.0         |
| <b>Equity locked in (Basis annual average Values)</b> | <b>1.8</b>               | <b>3.0</b>      | <b>64.3</b>       | <b>105.6</b>      | <b>22.0</b>         | <b>196.7</b>    |
| do. previous Year (annual average Values)             | 8.0                      | 3.0             | 66.0              | 158.0             | 7.0                 | 242.0           |
| <b>CIR</b>  | <b>55.8 %</b>            | <b>83.8 %</b>   | <b>19.6 %</b>     | <b>10.8 %</b>     | <b>1071.4 %</b>     | <b>31.8 %</b>   |
| do. previous Year                                     | 44.3 %                   | 86.8 %          | 13.5 %            | 5.8 %             | 55.8 %              | 19.6 %          |
| <b>RoRaC/RoE*</b>                                     | <b>7.8 %</b>             | <b>28.9 %</b>   | <b>63.8 %</b>     | <b>6.8 %</b>      | <b>-30.3 %</b>      | <b>20.2 %</b>   |
| do. previous Year                                     | 1.7 %                    | 45.3 %          | 74.1 %            | -24.4 %           | 182.7 %             | 3.6 %           |

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

| Further Segment Information:                                       |                          |                 |                   |                   |                     |             |
|--|--------------------------|-----------------|-------------------|-------------------|---------------------|-------------|
| EUR Million  | Affiliated Savings Banks | Private Banking | Financial Markets | Group Cooperation | Participation/Other | Total       |
| <b>Property, Plant and Equipment, net</b>                          | <b>0.2</b>               | <b>10.3</b>     | <b>21.1</b>       | <b>5.1</b>        | <b>23.8</b>         | <b>60.6</b> |
| do. previous Year  | 0.1                      | 3.0             | 13.5              | 2.9               | 14.3                | 33.7        |
| <b>Depreciation of Property, Plant and Equipment, current Year</b> | <b>0.0</b>               | <b>0.0</b>      | <b>-0.1</b>       | <b>0.0</b>        | <b>-0.1</b>         | <b>-0.2</b> |
| do. previous Year  | 0.0                      | -0.1            | -0.5              | -0.1              | -0.6                | -1.3        |
| <b>Intangible Assets, net</b>                                      | <b>0.0</b>               | <b>0.9</b>      | <b>1.8</b>        | <b>0.4</b>        | <b>2.0</b>          | <b>5.2</b>  |
| do. previous Year  | 0.0                      | 0.0             | 0.1               | 0.2               | 0.0                 | 0.3         |
| <b>Depreciation of Intangible Assets, current year</b>             | <b>0.0</b>               | <b>0.0</b>      | <b>-0.1</b>       | <b>0.0</b>        | <b>-0.1</b>         | <b>-0.2</b> |
| do. previous Year  | 0.0                      | -0.6            | -0.8              | -2.9              | 0.0                 | -4.3        |
| <b>Value Adjustments on Financial Assets, current Year</b>         | <b>0.0</b>               | <b>0.0</b>      | <b>0.0</b>        | <b>0.0</b>        | <b>0.0</b>          | <b>0.0</b>  |
| do. previous Year  | 0.0                      | 0.0             | -2.8              | 0.0               | 0.0                 | -2.8        |

## (15) Segmentation by geographical Characteristics

| EUR Million   | Segments       |                 |                  |                   |                |                    |                    | Total           |
|---|----------------|-----------------|------------------|-------------------|----------------|--------------------|--------------------|-----------------|
|   | Germany        | Luxem-<br>bourg | Switzer-<br>land | Rest of<br>Europe | USA            | Rest of<br>America | Other<br>Countries |                 |
| <b>Operating Profit/Loss<br/>before Taxes</b>             | <b>17.9</b>    | <b>9.0</b>      | <b>1.0</b>       | <b>16.2</b>       | <b>3.5</b>     | <b>0.6</b>         | <b>1.5</b>         | <b>49.9</b>     |
| do. previous Year   | 4.7            | 2.3             | 0.4              | 4.3               | 1.0            | 0.1                | 0.6                | 13.4            |
| <b>Segment Assets</b>                                     | <b>6,137.2</b> | <b>3,090.8</b>  | <b>346.6</b>     | <b>5,546.3</b>    | <b>1,214.1</b> | <b>222.0</b>       | <b>519.1</b>       | <b>17,076.1</b> |
| do. previous Year   | 7,210.4        | 3,498.4         | 686.4            | 6,625.6           | 1,567.8        | 194.9              | 953.9              | 20,737.5        |
| <b>Segment Liabilities<br/>(incl. Equity)</b>             | <b>7,201.0</b> | <b>3,389.6</b>  | <b>3,002.0</b>   | <b>3,044.7</b>    | <b>80.3</b>    | <b>56.4</b>        | <b>302.2</b>       | <b>17,076.1</b> |
| do. previous Year   | 7,345.2        | 3,446.6         | 4,410.9          | 5,076.5           | 114.1          | 0.0                | 344.2              | 20,737.5        |
| <b>Risk Assets<br/>(annual average Values)</b>            | <b>1,414.0</b> | <b>712.1</b>    | <b>79.9</b>      | <b>1,277.8</b>    | <b>279.7</b>   | <b>51.1</b>        | <b>119.6</b>       | <b>3,934.2</b>  |
| do. previous Year<br>(annual average Values)              | 1,401.9        | 680.2           | 133.5            | 1,288.2           | 304.8          | 37.9               | 185.5              | 4,032.0         |
| <b>Equity locked in (Basis<br/>annual average Values)</b> | <b>70.7</b>    | <b>35.6</b>     | <b>4.0</b>       | <b>63.9</b>       | <b>14.0</b>    | <b>2.6</b>         | <b>6.0</b>         | <b>196.7</b>    |
| do. previous Year (Basis<br>annual average Values)        | 84.1           | 40.8            | 8.0              | 77.3              | 18.3           | 2.3                | 11.1               | 242.0           |
| <b>Further Segment Information:</b>                       |                |                 |                  |                   |                |                    |                    |                 |
| <b>Property, Plant and<br/>Equipment, net</b>             | <b>0.0</b>     | <b>60.6</b>     | <b>0.0</b>       | <b>0.0</b>        | <b>0.0</b>     | <b>0.0</b>         | <b>0.0</b>         | <b>60.6</b>     |
| do. previous Year   | 0.0            | 33.7            | 0.0              | 0.0               | 0.0            | 0.0                | 0.0                | 33.7            |
| <b>Intangible Assets, net</b>                             | <b>0.0</b>     | <b>5.2</b>      | <b>0.0</b>       | <b>0.0</b>        | <b>0.0</b>     | <b>0.0</b>         | <b>0.0</b>         | <b>5.2</b>      |
| do. previous Year   | 0.0            | 0.3             | 0.0              | 0.0               | 0.0            | 0.0                | 0.0                | 0.3             |

## Notes to the Income Statement

### (16) Interest Income and current Income

The items interest income and expenses include pro rata reductions of premiums and discounts arising from financial instruments and dividend income as well as interest income and expenses.

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

|   | 2010<br>(KEUR)   | 2009<br>(KEUR)  | Increase/<br>Decrease (%) |
|---|------------------|-----------------|---------------------------|
| <b>Interest Income</b>                                      | <b>541,345</b>   | <b>769,315</b>  | <b>-30</b>                |
| Interest Income from Lending and Money Market Transactions  | 249,338          | 366,400         | -32                       |
| Interest Income from fixed Income and Book Entry Securities | 140,504          | 206,262         | -32                       |
| Current Income  | 5,800            | 9,370           | -38                       |
| from Shares and other variable Yield Securities             | 300              | 0               | -                         |
| from participating Interests                                | 5,500            | 9,370           | -41                       |
| Interest Income from Hedge Derivatives                      | 143,785          | 187,182         | -23                       |
| Other Interest Income and similar Income                    | 1,916            | 101             | > 100                     |
| <b>Interest Expense</b>                                     | <b>- 411,859</b> | <b>-606,123</b> | <b>-32</b>                |
| Interest Expense from Lending and Money Market Transactions | -170,612         | -273,267        | -38                       |
| Interest Expense from securitised Liabilities               | -40,638          | -67,891         | -40                       |
| Interest Expense from subordinated Capital                  | -618             | -5,001          | -88                       |
| Interest Expense from Hedge Derivatives                     | -197,996         | -259,206        | -24                       |
| Interest Expense for Provisions and Liabilities             | -183             | -173            | 6                         |
| Other Interest Expense and similar Expense                  | -1,813           | -585            | > 100                     |
| <b>Total</b>  | <b>129,485</b>   | <b>163,192</b>  | <b>-21</b>                |

Both interest income and expenses have fallen sharply in 2010 in comparison to the previous year's values. This was predominantly caused by the market interest rate trend.

Interest in the sum of KEUR 230 (previous year KEUR 843) was not received on value-adjusted securities, on value-adjusted loans KEUR 5,172 (previous year KEUR 4,259).

Current income from participation results in 2010 from the dividends of NORD/LB CFB in the sum of EUR 5.5 million (previous year EUR 4.0 million). There was no dividend from Skandifinanz Bank AG in this year under report (previous year EUR 2.8 million). The LUX-Cofonds was dissolved in the previous year. The dividend in 2009 was EUR 2.6 million.

**(17) Loan Loss Provisions**

|  | 2010<br>(KEUR) | 2009<br>(KEUR)  | Increase/<br>Decrease (%) |
|--|----------------|-----------------|---------------------------|
| <b>Income from Loan Loss Provisions</b>                  | <b>32,788</b>  | <b>0</b>        | <b>–</b>                  |
| Reduction in Provisions for Claims                       | 18,898         | 0               | –                         |
| Reductions in portfolio-based Provisions for Receivables | 11,483         | 0               | –                         |
| Reversal of Provisions in Lending Business               | 2,408          | 0               | –                         |
| Additions to Receivables written off                     | 0              | 0               | –                         |
| <b>Loan Loss Provision Expense</b>                       | <b>57,537</b>  | <b>123,588</b>  | <b>–53</b>                |
| Allocations to Provisions for Claims                     | 49,050         | 108,621         | –55                       |
| Allocation to portfolio-based Provisions for Claims      | 0              | 9,267           | –100                      |
| Allocation to Provisions for Lending Business            | 8,487          | 5,700           | 49                        |
| Direct write-offs of Claims                              | 0              | 0               | –                         |
| <b>Total</b>   | <b>–24,749</b> | <b>–123,588</b> | <b>–80</b>                |

The reversal of provisions for claims results essentially

- from the sale of a value-adjusted loan claim from the automotive sector in the year under report 2010 in the sum of EUR 3,549
- from the sale of three US-American real estate financing deals KEUR 7,849

The allocation to the provisions for claims relates essentially to

- the new establishment of provisions for lending and non-received interest of a real estate financing deal KEUR 6,730

- the increase in provisions for lending and non-received interest on two commitments from the automotive sector KEUR 30,118
- the increase in provisions for lending at risk of default and non-received interest from Icelandic counterparties in the inventory of LAR (KEUR 10,601, previous year KEUR 13,955) and security positions designated in the category AfS (KEUR 230, previous year KEUR 2,814) of Icelandic issuers because of the developments determined in the year under report 2010

The allocation to the provisions for the lending business relates to off-balance sheet transactions, the reduction results from the abovementioned sales of real estate financing deals.

## (18) Net Commission Income

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

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

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

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

|   | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/<br>Decrease (%) |
|---|----------------|----------------|---------------------------|
| <b>Commission Income</b>                | <b>32,358</b>  | <b>34,121</b>  | <b>-5</b>                 |
| From Security and Custody Transactions  | 5,000          | 4,413          | 13                        |
| From the Arrangement Business           | 2,332          | 2,131          | 9                         |
| From Lending and Guarantee Transactions | 22,570         | 26,095         | -14                       |
| Other Commission Income                 | 2,457          | 1,483          | 66                        |
| <b>Commission Expense</b>               | <b>52,736</b>  | <b>42,622</b>  | <b>24</b>                 |
| From the Arrangement Business           | 36,331         | 24,540         | 48                        |
| From Lending and Guarantee Transactions | 14,428         | 15,812         | -9                        |
| Other Commission Expense                | 1,977          | 2,271          | -13                       |
| <b>Total</b>                            | <b>-20,378</b> | <b>-8,501</b>  | <b>&gt; 100</b>           |

Commission income relates in particular to the arrangement business (EUR 2.3 million; previous year EUR 2.1 million), the security and custodian business (EUR 5.0 million; previous year EUR 4.4 million) and the lending and surety business (EUR 22.6 million; previous year EUR 26.1 million).

Commission expense relates in particular to the arrangement business (EUR 36.3 million; previous year EUR 24.5 million) and the lending and surety business (EUR 14.4 million; previous year EUR 15.8 million). The increase results

mainly from back payments due to a change in the base data used for the calculation (EUR 9.3 million).

In 2009, the Bank included the arrangement of insurance contracts in its range of products as an approved insurance broker in Luxembourg. Income from this branch of business is shown in commission income. As a broker, the Bank is not subject to the provisions of IFRS 4.

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

|   | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/<br>Decrease (%) |
|---|----------------|----------------|---------------------------|
| <b>Trading Profit/Loss</b>                                    | <b>2,105</b>   | <b>6,093</b>   | <b>-65</b>                |
| Realised Profit/Loss  | -428           | -200           | > 100                     |
| from Debt Securities and other fixed Interest Securities      | 0              | 0              | -                         |
| from Shares and other variable Yield Securities               | 0              | 0              | -                         |
| from Derivatives  | -428           | -200           | > 100                     |
| from other Trading Transactions                               | 0              | 0              | -                         |
| Measurement Gains/Losses                                      | 3,250          | 5,562          | -42                       |
| from Debt Securities and other fixed Interest Securities      | 0              | 0              | -                         |
| from Shares and other variable Yield Securities               | 0              | 0              | -                         |
| from Derivatives  | 3,250          | 5,562          | -42                       |
| from other Trading Transactions                               | 0              | 0              | -                         |
| Foreign Exchange Profit/Loss                                  | -1,298         | 224            | > 100                     |
| Other Profit/Loss   | 582            | 507            | 15                        |
| <b>Profit/Loss from the Fair Value Option</b>                 | <b>-374</b>    | <b>2,391</b>   | <b>&gt; 100</b>           |
| Profit/Loss achieved  | 0              | 0              | -                         |
| from Debt Securities and other fixed Interest Rate Securities | 0              | 0              | -                         |
| from Shares and other variable Yield Securities               | 0              | 0              | -                         |
| from other Business   | 0              | 0              | -                         |
| Measurement Gains/Losses                                      | -374           | 2,391          | > 100                     |
| from Debt Securities and other fixed Interest Rate Securities | -374           | 2,391          | > 100                     |
| from Shares and other variable Yield Securities               | 0              | 0              | -                         |
| from other Business   | 0              | 1              | -100                      |
| Other Profit/Loss   | 0              | 0              | -                         |
| <b>Total</b>  | <b>1,731</b>   | <b>8,485</b>   | <b>-80</b>                |

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). Interest profit/loss from trading activities in the sum of EUR 0.6 million (previous year EUR 0.5 million) is reported under other profit/loss.

The positive trading result in the previous year resulted primarily from the measurement gains/losses from derivative transactions (EUR +5.6 million). In the current year to be reported this value was EUR +3.3 million.

The profit/loss from the Fair Value option includes the profit/loss from the debt securities designated at Fair Value.

## (20) Profit/Loss from Hedge Accounting

Profit/loss from Hedge Accounting includes offset Fair Value adjustments related to the hedged risk of an underlying transaction and offset Fair Value adjustments to hedging instruments in effective micro Fair Value hedging relationships.

|   | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/<br>Decrease (%) |
|---|----------------|----------------|---------------------------|
| <b>Profit/Loss from Micro Fair Value Hedge Transactions</b>     | <b>1,972</b>   | <b>4,561</b>   | <b>-57</b>                |
| From hedged underlying Transactions                             | -19,588        | -26,923        | -27                       |
| From Derivatives used as hedging Instruments                    | 21,560         | 31,484         | -32                       |
| <b>Profit/Loss from Portfolio Fair Value Hedge Transactions</b> | <b>0</b>       | <b>0</b>       | <b>-</b>                  |
| From hedged underlying Transactions                             | 0              | 0              | -                         |
| From Derivatives used as hedging Instruments                    | 0              | 0              | -                         |
| <b>Total</b>  | <b>1,972</b>   | <b>4,561</b>   | <b>-57</b>                |

The Bank uses micro Fair Value Hedge Accounting to hedge the interest rate risk. Covered underlying transactions are accounts receivable from banks or customers, financial assets or own issues.

## (21) Profit/Loss from Financial Assets

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

|   | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/<br>Decrease (%) |
|---|----------------|----------------|---------------------------|
| <b>Profit/Loss from Financial Assets classified as LaR</b>                                    | <b>-303</b>    | <b>-586</b>    | <b>-48</b>                |
| <b>Profit/Loss from Financial Assets classified as AfS<br/>(no Joint Ownership)</b>           | <b>126</b>     | <b>-1,053</b>  | <b>&gt; 100</b>           |
| Profit/Loss from Disposal   | 126            | -1,053         | > 100                     |
| of debt Securities and other fixed Interest Securities  | 126            | -1,053         | > 100                     |
| 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<br>fixed Interest Securities | 0              | 0              | -                         |
| <b>Profit/Loss from affiliated Companies</b>  | <b>0</b>       | <b>0</b>       | <b>-</b>                  |
| <b>Profit/Loss from Joint Ventures and associated Companies</b>                               | <b>0</b>       | <b>0</b>       | <b>-</b>                  |
| <b>Profit/Loss from other participating Interests</b>   | <b>0</b>       | <b>0</b>       | <b>-</b>                  |
| <b>Total</b>  | <b>-177</b>    | <b>-1,639</b>  | <b>-89</b>                |

## (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<br>(KEUR) | 2009<br>(KEUR) | Increase/<br>Decrease (%) |
|--|----------------|----------------|---------------------------|
| <b>Staff Expenses</b>                                    | <b>14,847</b>  | <b>12,354</b>  | <b>20</b>                 |
| Wages and Salaries                                       | 12,239         | 10,540         | 16                        |
| Social Security Contributions                            | 1,105          | 1,039          | 6                         |
| Expenses for Pension Provision                           | 1,050          | 775            | 36                        |
| Other Staff Expenses                                     | 454            | 0              | –                         |
| <b>Other Administrative Expenses</b>                     | <b>17,761</b>  | <b>12,297</b>  | <b>44</b>                 |
| Expense for Operating and Office Equipment and IT        | 8,375          | 5,886          | 42                        |
| Occupancy Costs  | 2,243          | 2,318          | –3                        |
| Expense for Marketing, Communications and Representation | 395            | 459            | –14                       |
| Personnel-related operating expenditure                  | 1,478          | 1,244          | 19                        |
| Legal, Audit, Survey and professional Fees               | 5,004          | 2,066          | > 100                     |
| Other administrative Expenses                            | 267            | 323            | –17                       |
| <b>Depreciation and Impairments</b>                      | <b>404</b>     | <b>5,590</b>   | <b>–93</b>                |
| Depreciation   | 404            | 5,590          | –93                       |
| Property, Plant and Equipment                            | 228            | 1,255          | –82                       |
| Intangible Assets  | 176            | 4,335          | –96                       |
| Impairments  | 0              | 0              | –                         |
| <b>Total</b>   | <b>33,013</b>  | <b>30,241</b>  | <b>9</b>                  |

In the year under report the costs for consultancy and EDP rose. The income from accounting for services with subsidiaries was cut in the administrative expense.

With the expansion of the staffing level comes an essential rise in staff expenses. Staff expenses include amounts to be reported under old age provision for staff according to a defined contribution plan in accordance with IAS 19 in the sum of KEUR 568 (previous year KEUR 217). For the expanded management this value was KEUR 6 (previous year KEUR 2). Expenses in connection with the defined benefit obligations are shown in Note (41).

The rental costs for the bank building are shown accordingly in occupancy costs. In the previous year the site acquisition for the resolved new build of the bank building was under-

taken and building work started. Completion is anticipated in mid-2011.

In 2009 a consolidation and reorganisation of the software products used by the Bank within the sub-group was also resolved. It is anticipated that this project will be completed in 2012.

The decision for both investments will have the effect of shortening the useful life of various items of property, plant and equipment and intangible assets (software). The depreciation period of these assets was adjusted accordingly, which increased the scheduled depreciation amount by a total of KEUR 4,398 in the previous year (property, plant and equipment KEUR 926, intangible assets KEUR 3,472).

**(23) Other operating Profit/Loss**

|                                   | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/<br>Decrease (%) |
|-----------------------------------|----------------|----------------|---------------------------|
| <b>Other operating Income</b>     | <b>3,128</b>   | <b>3,365</b>   | <b>-7</b>                 |
| From the Reversal of Provisions   | 129            | 0              | -                         |
| Other Income                      | 2,999          | 3,365          | -11                       |
| <b>Other operating Expenses</b>   | <b>8,112</b>   | <b>2,263</b>   | <b>&gt; 100</b>           |
| From the Allocation of Provisions | 0              | 0              | -                         |
| Other Expenses                    | 8,112          | 2,263          | > 100                     |
| <b>Total</b>                      | <b>-4,984</b>  | <b>1,102</b>   | <b>&gt; 100</b>           |

Property taxes are included in the sum of KEUR 5,235 in other operating expenses (previous year KEUR 0).

**(24) Income Taxes**

|                      | 2010<br>(KEUR) | 2009<br>(KEUR) | Increase/<br>Decrease (%) |
|----------------------|----------------|----------------|---------------------------|
| Current Income Taxes | 5,890          | -2,680         | > 100                     |
| Deferred Taxes       | 13,538         | 191            | > 100                     |
| <b>Total</b>         | <b>19,427</b>  | <b>-2,489</b>  | <b>&gt; 100</b>           |

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<br>(KEUR) | 2009<br>(KEUR) |
|---|----------------|----------------|
| <b>IFRS Earnings before Taxes (EBT)</b>                       | <b>49,888</b>  | <b>13,370</b>  |
| Expected Income Tax Expense                                   | -14,368        | -3,823         |
| <b>Effects of Reconciliation:</b>                             |                |                |
| Effects of different Tax Rates                                | 0              | 0              |
| Taxes from previous Years recognised in the Year under Report | 5,890          | -6             |
| Effects of Tax Rate Changes                                   | -              | 0              |
| Non-allowable Income Taxes                                    | -              | 0              |
| Non-deductible operating Expenses                             | -1,539         | -30            |
| Effects of tax-free Income                                    | 1,584          | 1,934          |
| Effects of permanent Effects affecting the Balance Sheet      | -              | 0              |
| Other Effects   | 14,323         | -755           |
| <b>Income Tax Expense shown</b>                               | <b>5,890</b>   | <b>-2,680</b>  |

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

Because of the allocation of losses from a subsidiary of the Bank under fiscal legislation in the year under report, the profit and loss account 2010 does not show any current income tax expense. From tax losses carried forward that can be used in the future, and which amounted to EUR 47.0 million on 31 December 2010, active deferred taxes in the sum of EUR 13.5 million were taken into consideration for corporation tax purposes with an effect on earnings.

The losses carried forward are not subject to any time limit. The estimates of management planning documents for the coming five years to be reported, which contain the information on profitability and forecast company earnings of the Bank, were used for the calculation of the tax

losses carried forward that can be used in the future and the amounts of deferred tax claims to be reported, supplemented by other relevant considerations. The activation of corresponding deferred taxes was undertaken to the extent that it appears probable that taxable income will be available that is needed to realise the losses carried forward.

The determination of the deferred taxes was carried out on the basis of the combined tax ratio of the tax group of the Bank of 28.80 % in future. The combined income tax rate comprises corporation tax including a surcharge of 5 % for the unemployment fund and the trade income tax. Losses carried forward, for which no active deferred taxes were established, do not exist on the reporting date.

In the year under report 2009 the fall in the tax ratio from 29.63 % to 28.59 % was reflected in the deferred tax obligations affecting profit/loss.

## Notes to the Balance Sheet

### (25) Cash Reserve

|                             | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|-----------------------------|-----------------------------|-----------------------------|---------------------------|
| Cash                        | 1.4                         | 1.0                         | 46                        |
| Balances with Central Banks | 94.6                        | 205.9                       | -54                       |
| <b>Total</b>                | <b>96.0</b>                 | <b>206.9</b>                | <b>-54</b>                |

EUR 94.5 million (previous year EUR 205.2 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<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| <b>Receivables from Money Market Transactions</b> | <b>3,892.3</b>              | <b>5,976.3</b>              | <b>-35</b>                |
| Luxembourg Banks                                  | 1,474.6                     | 1,682.8                     | -12                       |
| Foreign Banks                                     | 2,417.7                     | 4,293.5                     | -44                       |
| <b>Other Receivables</b>                          | <b>1,797.0</b>              | <b>2,306.0</b>              | <b>-22</b>                |
| Luxembourg Banks                                  | 721.6                       | 404.6                       | 78                        |
| due on Demand                                     | 3.8                         | 40.2                        | -91                       |
| deferred  | 717.8                       | 364.4                       | 97                        |
| Foreign Banks                                     | 1,075.4                     | 1,901.4                     | -43                       |
| due on Demand                                     | 42.0                        | 104.0                       | -60                       |
| deferred  | 1,033.4                     | 1,797.4                     | -43                       |
| <b>Total</b>                                      | <b>5,689.3</b>              | <b>8,282.3</b>              | <b>-31</b>                |

Of the total amount, EUR 3,493.1 million (previous year EUR 6,194.9 million) relate to loans and advances to foreign Banks. A partial amount of EUR 1,295.0 million (previous year EUR 1,460.1 million) of the loans and advances to banks is not due for over twelve months.

**(27) Loans and Advances to Customers**

|   | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| <b>Receivables from Money Market Transactions</b> | <b>0.0</b>                  | <b>0.0</b>                  | <b>–</b>                  |
| Luxembourg Customers                              | 0.0                         | 0.0                         | –                         |
| Foreign Customers                                 | 0.0                         | 0.0                         | –                         |
| <b>Other Receivables</b>                          | <b>4,032.3</b>              | <b>4,655.6</b>              | <b>–13</b>                |
| Luxembourg Customers                              | 103.3                       | 73.1                        | 41                        |
| due on Demand                                     | 9.2                         | 0.1                         | >100                      |
| deferred  | 94.0                        | 73.0                        | 29                        |
| Foreign Customers                                 | 3,929.0                     | 4,582.4                     | –14                       |
| due on Demand                                     | 21.9                        | 219.9                       | –90                       |
| deferred  | 3,907.1                     | 4,362.5                     | –10                       |
| <b>Total</b>                                      | <b>4,032.3</b>              | <b>4,655.6</b>              | <b>–13</b>                |

The total amount relates almost exclusively to loans and advances to foreign customers. EUR 2,802.0 million (previous year EUR 3,259.3 million) of the loans and advances to customers is not due for over twelve months.

**(28) Risk Provisions**

|   | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| <b>Individual Value Adjustments for Receivables</b> | <b>–172.3</b>               | <b>–164.7</b>               | <b>5</b>                  |
| Foreign Banks                                       | –79.4                       | –72.4                       | 10                        |
| Luxembourg Customers                                | 0.0                         | 0.0                         | –                         |
| Foreign Customers                                   | –92.9                       | –92.4                       | 1                         |
| <b>Portfolio-based Provisions for Receivables</b>   | <b>–13.0</b>                | <b>–24.5</b>                | <b>–47</b>                |
| <b>Total</b>  | <b>–185.3</b>               | <b>–189.2</b>               | <b>–2</b>                 |

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        |
|--|----------------------------|----------------------------|--------------------------------|--------------|
| <b>01.01.2009</b>  | <b>76.2</b>                | <b>15.2</b>                | <b>0.0</b>                     | <b>91.4</b>  |
| Allocations  | 108.6                      | 9.3                        | 5.7                            | 123.6        |
| Reductions   | 0.0                        | 0.0                        | 0.0                            | 0.0          |
| Utilisation  | 19.5                       | 0.0                        | 0.0                            | 19.5         |
| Effects from Currency Translation, Unwinding and other Changes | -0.6                       | 0.0                        | -0.1                           | -0.7         |
| <b>31.12.2009</b>  | <b>164.7</b>               | <b>24.5</b>                | <b>5.6</b>                     | <b>194.8</b> |
| Allocations  | 49.0                       | 0.0                        | 8.5                            | 57.5         |
| Reductions   | 18.9                       | 11.5                       | 2.4                            | 32.8         |
| Utilisation  | 24.3                       | 0.0                        | 3.6                            | 27.9         |
| Effects from Currency Translation, Unwinding and other Changes | 1.7                        | 0.0                        | 0.5                            | 2.2          |
| <b>31.12.2010</b>  | <b>172.3</b>               | <b>13.0</b>                | <b>8.5</b>                     | <b>193.8</b> |

Through the sale of four value-adjusted loan claims, value adjustments in the sum of EUR 24.3 million were 2010 exercised. This amount comprises the sale of three commitments from the real estate sector (EUR 16.3 million) and a sale from the automotive sector (EUR 8.0 million).

Value-adjusted loans in a nominal volume of EUR 52.5 million to Icelandic banks and one Icelandic company were sold at the end of November. The transaction is under reserve by the winding-up board. A net reduction in loan loss provisions in the sum of EUR 2.2 million is expected from the sale.

The volume of the loans in default amounts to EUR 148.2 million on the reporting date.

## (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<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| <b>Trading Assets</b>   | <b>334.1</b>                | <b>216.9</b>                | <b>54</b>                 |
| <b>Debt Securities and other fixed Interest Securities</b>      | <b>0.0</b>                  | <b>0.0</b>                  | <b>-</b>                  |
| Money Market Securities   | 0.0                         | 0.0                         | -                         |
| from public Issuers   | 0.0                         | 0.0                         | -                         |
| from other Issuers  | 0.0                         | 0.0                         | -                         |
| Bonds and Debt Securities                                       | 0.0                         | 0.0                         | -                         |
| from public Issuers   | 0.0                         | 0.0                         | -                         |
| from other Issuers  | 0.0                         | 0.0                         | -                         |
| <b>Shares and other variable Yield Securities</b>               | <b>0.0</b>                  | <b>0.0</b>                  | <b>-</b>                  |
| Shares  | 0.0                         | 0.0                         | -                         |
| Investment Shares   | 0.0                         | 0.0                         | -                         |
| <b>Positive Fair Values from Derivatives in Connection with</b> | <b>334.1</b>                | <b>216.9</b>                | <b>54</b>                 |
| Interest Rate Risks   | 67.4                        | 51.5                        | 31                        |
| Currency Risks  | 266.7                       | 165.4                       | 61                        |
| Share and other Price Risks                                     | 0.0                         | 0.0                         | -                         |
| Trading Portfolio Claims  | 0.0                         | 0.0                         | -                         |
| <b>Financial Assets designated at Fair Value</b>                | <b>85.5</b>                 | <b>75.8</b>                 | <b>13</b>                 |
| <b>Loans and Advances to Banks and Customers</b>                | <b>0.0</b>                  | <b>0.0</b>                  | <b>-</b>                  |
| <b>Debt Securities and other fixed Interest Securities</b>      | <b>85.5</b>                 | <b>75.8</b>                 | <b>13</b>                 |
| <b>Shares and other variable Yield Securities</b>               | <b>0.0</b>                  | <b>0.0</b>                  | <b>-</b>                  |
| <b>Total</b>  | <b>419.6</b>                | <b>292.6</b>                | <b>43</b>                 |

Financial Assets designated at Fair Value include three debt securities, which are economically hedged against interest rate change risks with derivatives. The aim of the designation is to reduce. Of the total amount EUR 235.7 million (previous year EUR 143.3 million) is only due after more than twelve months.

### (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<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|--|-----------------------------|-----------------------------|---------------------------|
| Positive Fair Values from allocated Micro Fair Value Hedge Derivatives | 38.6                        | 44.0                        | -12                       |
| Fair Values from Derivatives in portfolio Fair Value Hedge Accounting  | 0.0                         | 0.0                         | -                         |
| <b>Total</b>   | <b>38.6</b>                 | <b>44.0</b>                 | <b>-12</b>                |

The Bank uses micro Fair Value Hedge Accounting to hedge the interest rate risk. Hedge derivatives with a Fair Value of EUR 38.5 million are due at the earliest after twelve months (previous year EUR 28.1 million).

### (31) Financial Assets

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

|   | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| <b>Financial Assets classified as LaR</b>           | <b>623.6</b>                | <b>1,184.4</b>              | <b>-47</b>                |
| <b>Financial Assets classified as AfS</b>           | <b>6,240.2</b>              | <b>6,190.6</b>              | <b>1</b>                  |
| Debt Securities and other fixed Interest Securities | 6,124.8                     | 6,085.4                     | 1                         |
| Money Market Securities                             | 50.0                        | 57.6                        | -13                       |
| from public Issuers                                 | 0.0                         | 0.0                         | -                         |
| from other Issuers                                  | 50.0                        | 57.6                        | -13                       |
| Bonds and Debt Securities                           | 6,074.7                     | 6,027.8                     | 1                         |
| from public Issuers                                 | 1,243.9                     | 530.2                       | > 100                     |
| from other Issuers                                  | 4,830.9                     | 5,497.5                     | -12                       |
| Shares and other variable Yield Securities          | 20.3                        | 20.1                        | 1                         |
| Shares  | 0.0                         | 0.0                         | -                         |
| Investment Shares                                   | 20.3                        | 20.1                        | 1                         |
| Profit Participation Certificates                   | 0.0                         | 0.0                         | -                         |
| Shares in Companies                                 | 95.2                        | 85.2                        | 12                        |
| Shares in affiliated Companies                      | 95.2                        | 85.2                        | 12                        |
| Banks   | 95.2                        | 85.2                        | 12                        |
| other Companies                                     | 0.0                         | 0.0                         | -                         |
| special Purpose Companies (special Funds)           | 0.0                         | 0.0                         | -                         |
| Joint Ventures                                      | 0.0                         | 0.0                         | -                         |
| Associated Companies                                | 0.0                         | 0.0                         | -                         |
| Other Investments                                   | 0.0                         | 0.0                         | -                         |
| Other AfS Financial Assets                          | 0.0                         | 0.0                         | -                         |
| <b>Total</b>  | <b>6,863.8</b>              | <b>7,375.1</b>              | <b>-7</b>                 |

In the previous year the Bank launched the NORD/LB Horizont Fund. The self-commitment in this fund is shown under investment shares.

Of the financial assets, EUR 5,076.3 million (previous year EUR 5,471.8 million) is due for over twelve months.

The volume of financial assets to PIIGS states amounts to a nominal EUR 25.0 million. This is a debt security of the Greek state with a term of May 2013.

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

| Name/registered Office                        | Equity Share | Investment Book Value (EUR Million) | Equity before Revaluation Reserve (EUR Million) | Profit/Loss (EUR Million) |
|---|--------------|-------------------------------------|---|---------------------------|
| NORD/LB Covered Finance Bank S.A., Luxembourg | 100 %        | 73.7                                | 85.0  | 7.2                       |
| Skandifinanz Bank AG, Zürich                  | 100 %        | 21.5                                | 31.0  | 0.0                       |
| <b>Total</b>                                  |              | <b>95.2</b>                         | <b>116.0</b>                                    | <b>7.2</b>                |

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

The business activities of Skandifinanz Bank AG were reduced in the year under report or transferred to the parent company. For 2011 a further reduction is intended. It is not expected that the equity of Skandifinanz Bank AG will fall below the investment book value after completing the reduction measures and after taking the costs incurred for this into account.

## (32) Property, Plant and Equipment

|                                     | 31.12.2010 (EUR Million) | 31.12.2009 (EUR Million) | Increase/Decrease (%) |
|-------------------------------------|--------------------------|--------------------------|-----------------------|
| Land and Buildings                  | 23.0                     | 23.0                     | 0                     |
| Operating and Office Equipment      | 0.6                      | 0.4                      | 58                    |
| Investments under Construction      | 37.0                     | 10.3                     | > 100                 |
| Other Property, Plant and Equipment | 0.0                      | 0.0                      | –                     |
| <b>Total</b>                        | <b>60.6</b>              | <b>33.7</b>              | <b>79.8</b>           |

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

| EUR Million  | Land and Buildings | BGA         | Investments under Construction | Other Property, Plant and Equipment | Total       |
|--|--------------------|-------------|--------------------------------|-------------------------------------|-------------|
| <b>Acquisition and Manufacturing Costs at 01.01.2009</b> | <b>0.0</b>         | <b>11.2</b> | <b>0.0</b>                     | <b>0.0</b>                          | <b>11.2</b> |
| Accruals   | 23.4               | 0.2         | 10.3                           | 0.0                                 | 34.0        |
| Disposals  | 0.0                | 0.0         | 0.0                            | 0.0                                 | 0.0         |
| Changes from Currency Translations                       | 0.0                | 0.0         | 0.0                            | 0.0                                 | 0.0         |
| <b>Total 31.12.2009</b>                                  | <b>23.4</b>        | <b>11.5</b> | <b>10.3</b>                    | <b>0.0</b>                          | <b>45.2</b> |
| <b>Cumulative Depreciation at 01.01.2009</b>             | <b>0.0</b>         | <b>10.3</b> | <b>0.0</b>                     | <b>0.0</b>                          | <b>10.3</b> |
| Scheduled Depreciation                                   | 0.4                | 0.9         | 0.0                            | 0.0                                 | 1.3         |
| Impairments (Write-Downs)                                | 0.0                | 0.0         | 0.0                            | 0.0                                 | 0.0         |
| Disposals  | 0.0                | 0.0         | 0.0                            | 0.0                                 | 0.0         |
| Changes from Currency Translations                       | 0.0                | 0.0         | 0.0                            | 0.0                                 | 0.0         |
| <b>Total 31.12.2009</b>                                  | <b>0.4</b>         | <b>11.1</b> | <b>0.0</b>                     | <b>0.0</b>                          | <b>11.5</b> |
| <b>Closing Balance at 31.12.2009</b>                     | <b>23.0</b>        | <b>0.4</b>  | <b>10.3</b>                    | <b>0.0</b>                          | <b>33.7</b> |
| <b>Acquisition and Manufacturing Costs at 01.01.2010</b> | <b>23.4</b>        | <b>11.5</b> | <b>10.3</b>                    | <b>0.0</b>                          | <b>45.2</b> |
| Accruals   | 0.0                | 0.4         | 26.7                           | 0.0                                 | 27.1        |
| Disposals  | 0.0                | 0.2         | 0.0                            | 0.0                                 | 0.2         |
| Changes from Currency Translations                       | 0.0                | 0.0         | 0.0                            | 0.0                                 | 0.0         |
| <b>Total 31.12.2010</b>                                  | <b>23.4</b>        | <b>11.7</b> | <b>37.0</b>                    | <b>0.0</b>                          | <b>72.1</b> |
| <b>Cumulative Depreciation at 01.01.2010</b>             | <b>0.4</b>         | <b>11.1</b> | <b>0.0</b>                     | <b>0.0</b>                          | <b>11.5</b> |
| Scheduled Depreciation                                   | 0.0                | 0.2         | 0.0                            | 0.0                                 | 0.2         |
| Impairments (Write-Downs)                                | 0.0                | 0.0         | 0.0                            | 0.0                                 | 0.0         |
| Disposals  | 0.0                | 0.2         | 0.0                            | 0.0                                 | 0.2         |
| Changes from Currency Translations                       | 0.0                | 0.0         | 0.0                            | 0.0                                 | 0.0         |
| <b>Total 31.12.2010</b>                                  | <b>0.4</b>         | <b>11.1</b> | <b>0.0</b>                     | <b>0.0</b>                          | <b>11.5</b> |
| <b>Closing Balance at 31.12.2010</b>                     | <b>23.0</b>        | <b>0.6</b>  | <b>37.0</b>                    | <b>0.0</b>                          | <b>60.6</b> |

On the reporting date there were contractual obligations relating to the new build of the bank building in the sum of EUR 10.0 million which are due on acceptance on 15 January 2011. For further information see Note (22).

**(33) Intangible Assets**

|                                     | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|-------------------------------------|-----------------------------|-----------------------------|---------------------------|
| Software                            | 0.3                         | 0.3                         | -17                       |
| acquired for Consideration          | 0.3                         | 0.3                         | -17                       |
| self-Produced                       | 0.0                         | 0.0                         | -                         |
| Intangible Assets under Development | 4.9                         | 0.0                         | -                         |
| Other                               | 0.0                         | 0.0                         | -                         |
| <b>Total</b>                        | <b>5.2</b>                  | <b>0.3</b>                  | <b>&gt; 100</b>           |

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

Intangible assets developed as follows:

| EUR Million  | Software                      |                   | Other                         |                   | Total       |
|--|-------------------------------|-------------------|-------------------------------|-------------------|-------------|
|  | Acquired for<br>Consideration | Self-<br>Produced | Acquired for<br>Consideration | Self-<br>Produced |             |
| <b>Acquisition and Manufacturing Costs<br/>at 01.01.2009</b> | <b>15.4</b>                   | <b>0.0</b>        | <b>0.0</b>                    | <b>0.0</b>        | <b>15.4</b> |
| Accruals   | 0.7                           | 0.0               | 0.0                           | 0.0               | 0.7         |
| Disposals  | 0.0                           | 0.0               | 0.0                           | 0.0               | 0.0         |
| Transfers  | 0.0                           | 0.0               | 0.0                           | 0.0               | 0.0         |
| <b>Total 31.12.2009</b>                                      | <b>16.1</b>                   | <b>0.0</b>        | <b>0.0</b>                    | <b>0.0</b>        | <b>16.1</b> |
| <b>Cumulative Depreciation at 01.01.2009</b>                 | <b>11.4</b>                   | <b>0.0</b>        | <b>0.0</b>                    | <b>0.0</b>        | <b>11.4</b> |
| Scheduled Depreciation                                       | 4.3                           | 0.0               | 0.0                           | 0.0               | 4.3         |
| Disposals  | 0.0                           | 0.0               | 0.0                           | 0.0               | 0.0         |
| <b>Total 31.12.2009</b>                                      | <b>15.8</b>                   | <b>0.0</b>        | <b>0.0</b>                    | <b>0.0</b>        | <b>15.8</b> |
| <b>Closing Balance at 31.12.2009</b>                         | <b>0.3</b>                    | <b>0.0</b>        | <b>0.0</b>                    | <b>0.0</b>        | <b>0.3</b>  |
| <b>Acquisition and Manufacturing Costs<br/>at 01.01.10</b>   | <b>16.1</b>                   | <b>0.0</b>        | <b>0.0</b>                    | <b>0.0</b>        | <b>16.1</b> |
| Accruals   | 0.1                           | 0.0               | 4.9                           | 0.0               | 5.0         |
| Disposals  | 0.0                           | 0.0               | 0.0                           | 0.0               | 0.0         |
| Transfers  | 0.1                           | 0.0               | 0.0                           | 0.0               | 0.0         |
| <b>Total 31.12.2010</b>                                      | <b>16.2</b>                   | <b>0.0</b>        | <b>0.0</b>                    | <b>0.0</b>        | <b>21.1</b> |

| EUR Million                           | Software                   |               | Other                      |               | Total       |
|---------------------------------------|----------------------------|---------------|----------------------------|---------------|-------------|
|                                       | Acquired for Consideration | Self-Produced | Acquired for Consideration | Self-Produced |             |
| Cumulative Depreciation at 01.01.2010 | 15.8                       | 0.0           | 0.0                        | 0.0           | 15.8        |
| Scheduled Depreciation                | 0.2                        | 0.0           | 0.0                        | 0.0           | 0.2         |
| Disposals                             | 0.0                        | 0.0           | 0.0                        | 0.0           | 0.0         |
| <b>Total 31.12.2010</b>               | <b>15.9</b>                | <b>0.0</b>    | <b>0.0</b>                 | <b>0.0</b>    | <b>15.9</b> |
| Closing Balance at 31.12.2010         | 0.3                        | 0.0           | 0.0                        | 0.0           | 5.2         |

For further information see Note (22).

### (34) Income Tax Assets

Income tax assets are broken down as follows:

|                           | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---------------------------|-----------------------------|-----------------------------|---------------------------|
| Current Income Tax Assets | 24.6                        | 16.1                        | 53                        |
| Active deferred Taxes     | 25.0                        | 11.8                        | > 100                     |
| <b>Total</b>              | <b>49.5</b>                 | <b>27.8</b>                 | <b>78</b>                 |

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

The tax provisions have been applied to the IFRS financial statements since reported year 2008. This means that many of the temporary differences no longer apply. Deferred taxes on the assets side relate to financial assets categorised as AfS and result from taking losses carried forward in the profit/loss affecting taxes into account. For further information see Note (24).

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

|  | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|--|-----------------------------|-----------------------------|---------------------------|
| <b>Assets</b>  |                             |                             |                           |
| Risk Provisions  | 0.0                         | 0.0                         | –                         |
| Financial Assets   | 11.4                        | 11.7                        | –3                        |
| Property, Plant and Equipment                              | 0.0                         | 0.0                         | –                         |
| Other Assets   | 0.0                         | 0.0                         | –                         |
| <b>Equity and Liabilities</b>                              |                             |                             |                           |
| Financial Liabilities at Fair Value through Profit or Loss | 0.0                         | 0.0                         | –                         |
| Fair Values from Hedge Accounting                          | 0.0                         | 0.0                         | –                         |
| Provisions   | 0.1                         | 0.1                         | –10                       |
| Other Liabilities  | 0.0                         | 0.0                         | –                         |
| Tax Losses carried forward                                 | 13.5                        | 0.0                         | –                         |
| <b>Total</b>   | <b>25.0</b>                 | <b>11.8</b>                 | <b>&gt; 100</b>           |

### (35) Other Assets

|   | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Tax Reimbursement Rights from other Taxes           | 0.6                         | 1.7                         | –63                       |
| Other Assets  | 1.4                         | 1.6                         | –14                       |
| Other Assets including Accruals and deferred Income | 4.5                         | 5.2                         | –13                       |
| <b>Total</b>  | <b>6.5</b>                  | <b>8.4</b>                  | <b>–23</b>                |

**(36) Liabilities to Banks**

|   | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| <b>Deposits from other Banks</b>                          | <b>2,784.7</b>              | <b>3,725.9</b>              | <b>-25</b>                |
| Luxembourg Banks  | 284.0                       | 785.7                       | -64                       |
| Foreign Banks   | 2,500.7                     | 2,940.3                     | -15                       |
| <b>Liabilities arising from Money Market Transactions</b> | <b>7,301.3</b>              | <b>8,899.1</b>              | <b>-18</b>                |
| Luxembourg Banks  | 378.5                       | 227.5                       | 66                        |
| Foreign Banks   | 6,922.8                     | 8,671.6                     | -20                       |
| <b>Other Liabilities</b>                                  | <b>1.0</b>                  | <b>51.5</b>                 | <b>-98</b>                |
| Luxembourg Banks  | 0.3                         | 0.6                         | -56                       |
| due on Demand   | 0.3                         | 0.6                         | -56                       |
| deferred  | 0.0                         | 0.0                         | -                         |
| Foreign Banks   | 0.7                         | 50.9                        | -99                       |
| due on Demand   | 0.7                         | 50.9                        | -99                       |
| deferred  | 0.0                         | 0.0                         | -                         |
| <b>Total</b>  | <b>10,087.0</b>             | <b>12,676.5</b>             | <b>-20</b>                |

EUR 2,453.5 million (previous year EUR 2,843.1 million) of the total amount relates to liabilities that are not due for over twelve months.

**(37) Liabilities to Customers**

|   | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| <b>Savings Deposits</b>                                   | <b>0.0</b>                  | <b>0.0</b>                  | <b>-</b>                  |
| <b>Liabilities arising from Money Market Transactions</b> | <b>3,232.9</b>              | <b>3,877.8</b>              | <b>-17</b>                |
| Luxembourg Customers                                      | 41.7                        | 25.4                        | 64                        |
| Foreign Customers   | 3,191.3                     | 3,852.4                     | -17                       |
| <b>Other Liabilities</b>                                  | <b>78.5</b>                 | <b>63.3</b>                 | <b>24</b>                 |
| Luxembourg Customers                                      | 17.7                        | 17.7                        | 0                         |
| due on Demand   | 15.3                        | 15.1                        | 1                         |
| deferred  | 2.4                         | 2.6                         | -8                        |
| Luxembourg Customers                                      | 60.7                        | 45.6                        | 33                        |
| due on Demand   | 57.7                        | 45.4                        | 27                        |
| deferred  | 3.0                         | 0.2                         | > 100                     |
| <b>Total</b>  | <b>3,311.4</b>              | <b>3,941.1</b>              | <b>-16</b>                |

A partial amount of EUR 3.0 million is only due after twelve months (previous year KEUR 25).

### (38) Securitised Liabilities

|                                       | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---------------------------------------|-----------------------------|-----------------------------|---------------------------|
| Issued debt Securities                | 1,863.1                     | 2,418.2                     | -23                       |
| Money Market Papers/Commercial Papers | 525.9                       | 503.4                       | 4                         |
| Other securitised Liabilities         | 0.0                         | 0.0                         | -                         |
| <b>Total</b>                          | <b>2,389.0</b>              | <b>2,921.6</b>              | <b>-18</b>                |

A remaining term of more than twelve months is shown by EUR 1,742.1 million of the total amount (previous year EUR 1,750.1 million). The debt securities issued are listed on the Luxembourg exchange.

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

This item includes trading liabilities (HfT) and financial liabilities designated at Fair Value (dFV).

Trading liabilities comprise negative Fair Values from derivative financial instruments that are not used within the scope of Hedge Accounting and short sale delivery obligations.

The category comprising financial liabilities designated at Fair Value is not currently used.

|   | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| <b>Trading Liabilities</b>                                | <b>296.1</b>                | <b>215.8</b>                | <b>37</b>                 |
| Negative Fair Values from Derivatives in Connection with: | 296.1                       | 215.8                       | 37                        |
| Interest Rate Risks                                       | 84.4                        | 66.7                        | 27                        |
| Currency Risks  | 211.7                       | 149.1                       | 42                        |
| Share and other Price Risks                               | 0.0                         | 0.0                         | -                         |
| Credit Derivatives  | 0.0                         | 0.0                         | -                         |
| Short Sale Delivery Obligations                           | 0.0                         | 0.0                         | -                         |
| <b>Financial Liabilities designated at Fair Value</b>     | <b>0.0</b>                  | <b>0.0</b>                  | <b>-</b>                  |
| Liabilities to Banks and Customers                        | 0.0                         | 0.0                         | -                         |
| Securitised Liabilities                                   | 0.0                         | 0.0                         | -                         |
| <b>Total</b>  | <b>296.1</b>                | <b>215.8</b>                | <b>37</b>                 |

A partial amount of EUR 173.3 million of the trading liabilities is only due after more than twelve months (previous year EUR 111.1 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<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Fair Values from allocated Micro Fair Value Hedge Derivatives | 166.8                       | 135.2                       | 23                        |
| Fair Values in Terms of Portfolio Fair Value Hedge Accounting | 0.0                         | 0.0                         | –                         |
| <b>Total</b>  | <b>166.8</b>                | <b>135.2</b>                | <b>23</b>                 |

The Bank uses micro Fair Value Hedge Accounting to hedge the interest rate risk. Hedge derivatives with a negative Fair Value of EUR 158.0 million are due at the earliest after twelve months (previous year EUR 108.5 million).

## (41) Provisions

Provisions are broken down as follows:

|  | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|--|-----------------------------|-----------------------------|---------------------------|
| <b>Provisions for Pensions and similar Obligations</b> | <b>1.5</b>                  | <b>1.3</b>                  | <b>15</b>                 |
| <b>Other Provisions</b>                                | <b>13.1</b>                 | <b>10.1</b>                 | <b>30</b>                 |
| Provisions in Lending Business                         | 8.5                         | 5.6                         | 53                        |
| Provisions for uncertain Liabilities                   | 4.7                         | 4.6                         | 1                         |
| <b>Total</b>   | <b>14.6</b>                 | <b>11.4</b>                 | <b>28</b>                 |

Other provisions include amounts in the sum of EUR 1.3 million, which are due in the coming year to be reported (previous year EUR 1.0 million). These are primarily personnel provisions in both reported years. Provisions in the sum of EUR 11.8 million represent amounts for uncertain liabilities, which will become due in the coming three years (previous year EUR 9.1 million). These relate primarily to provisions for recourse risks and provisions in the lending business.

**Provisions for Pensions and similar Obligations**

Calculations are based on the following actuarial assumptions:

| Actuarial Assumptions  | 31.12.2010<br>(%)   | 31.12.2009<br>(%) | Increase/<br>Decrease (%) |
|--|---|-------------------|---------------------------|
| Annual Salary Growth   | 2.50  | 2.50              | 0                         |
| Annual Inflation Rate  | 2.50  | 2.50              | 0                         |
| 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              | 0                         |
| Turnover Rate  | 3.00  | 3.00              | 0                         |

Provisions for pensions and similar obligations are as follows:

|   | 31.12.2010<br>(KEUR) | 31.12.2009<br>(KEUR) | Increase/<br>Decrease (%) |
|---|----------------------|----------------------|---------------------------|
| Cash Value of the performance-related Obligation        | 3,826.5              | 3,519.1              | 9                         |
| Deduction for the Fair Value of Plan Assets             | 2,611.8              | 2,464.6              | 6                         |
| Surplus Plan Assets not shown as an Asset               | 0.0                  | 0.0                  | -                         |
| Other Amounts shown in the Balance Sheet (Lump Sum Tax) | 253.9                | 220.4                | 15                        |
| <b>Total</b>  | <b>1,468.6</b>       | <b>1,274.8</b>       | <b>15</b>                 |

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<br>(KEUR) | 31.12.2009<br>(KEUR) | Increase/<br>Decrease (%) |
|--|----------------------|----------------------|---------------------------|
| <b>Opening Balance</b>                         | <b>3,519.1</b>       | <b>3,397.5</b>       | <b>4</b>                  |
| Current Service Cost                           | 338.9                | 316.9                | 7                         |
| Interest Expense                               | 182.7                | 172.8                | 6                         |
| Contributions by Plan Participants             | 0                    | 0.0                  | –                         |
| Actuarial Gains/Losses from the Liability      | –134.3               | 143.5                | > 100                     |
| Increases/Decreases from Currency Translations | 0                    | 0.0                  | –                         |
| Benefits Paid                                  | –79.8                | –511.6               | –84                       |
| Past Service Cost                              | 0                    | 0.0                  | –                         |
| Effects of Curtailments                        | 0                    | 0.0                  | –                         |
| Effects of Settlements                         | 0                    | 0.0                  | –                         |
| <b>Closing Balance</b>                         | <b>3,826.5</b>       | <b>3,519.1</b>       | <b>9</b>                  |

Furthermore the performance-related obligation is to be split on the reporting date into amounts from performance-related plans which are not financed through a fund and amounts from performance-related plans which are totally or partially financed from a fund. The latter applies to NORD/LB Luxembourg's defined benefit obligation. According to the insurance firm, experience adjustments on plan liabilities and plan assets amount to KEUR 280.0 and KEUR –2.2 respectively.

The Fair Value of the plan assets can be shown to have changed as follows:

|  | 31.12.2010<br>(KEUR) | 31.12.2009<br>(KEUR) | Increase/<br>Decrease (%) |
|--|----------------------|----------------------|---------------------------|
| <b>Opening Balance</b>                         | <b>2,464.6</b>       | <b>2,550.7</b>       | <b>–3</b>                 |
| Expected Return on Plan Assets                 | 88.5                 | 101.2                | –13                       |
| Actuarial Gains/Losses on Plan Assets          | –80.3                | 17.3                 | > 100                     |
| Increases/Decreases from Currency Translations | 0.0                  | 0.0                  | –                         |
| Employer Contributions                         | 218.8                | 307.1                | –29                       |
| Contributions by Plan Participants             | 0.0                  | 0.0                  | –                         |
| Benefits Paid                                  | –79.8                | –511.6               | –84                       |
| Effects of Settlements                         | 0.0                  | 0.0                  | –                         |
| <b>Closing Balance</b>                         | <b>2,611.8</b>       | <b>2,464.6</b>       | <b>6</b>                  |

The Fair Value of the plan assets is composed as follows:

|                                      | 31.12.2010<br>(%) | 31.12.2009<br>(%) | Increase/<br>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 117 (previous year KEUR 103), equity instruments of another entity in the sum of KEUR 2,292 (previous year KEUR 2,141) and other assets in the sum of KEUR 203 (previous year KEUR 221). 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 356 will be paid into the plan assets of the defined benefit obligations during the next reporting period (previous year KEUR 330).

Pension costs are made up as follows:

|   | 31.12.2010<br>(KEUR) | 31.12.2009<br>(KEUR) | Increase/<br>Decrease (%) |
|---|----------------------|----------------------|---------------------------|
| Current Service Cost                    | 338.9                | 316.9                | 7                         |
| Interest Expense                        | 182.7                | 172.8                | 6                         |
| Expected Return on Plan Assets          | -88.5                | -101.2               | -13                       |
| Past Service Cost                       | 0.0                  | 0.0                  | -                         |
| Effects of Plan Changes                 | 0.0                  | 0.0                  | -                         |
| Expected Return on Reimbursement Rights | -54.0                | 126.2                | > 100                     |
| <b>Total</b>                            | <b>379.1</b>         | <b>514.7</b>         | <b>-26</b>                |

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

|                            | 31.12.2010<br>(KEUR) | 31.12.2009<br>(KEUR) | 31.12.2008<br>(KEUR) | 31.12.2007<br>(KEUR) |
|----------------------------|----------------------|----------------------|----------------------|----------------------|
| Pension Obligation (DBO)   | 3,826.5              | 3,519.1              | 3,397.5              | 3,443.1              |
| Plan Assets                | -2,611.8             | -2,464.6             | -2,550.7             | -2,515.1             |
| Shortfall                  | 1,214.7              | 1,054.4              | 846.9                | 928.0                |
| Actuarial Profit/Losses    | 54.0                 | -126.2               | 85.4                 | 59.9                 |
| Experience Adjustments to: |                      |                      |                      |                      |
| Pension Obligation (DBO)   | 280.0                | 379.1                | 249.1                | - <sup>*)</sup>      |
| Plan Assets                | -2.2                 | -17.3                | -76.1                | - <sup>*)</sup>      |

<sup>\*)</sup> This information is not available for the period 2007

Other provisions changed during the year under report as follows:

| EUR Million                                       | Provisions<br>in Lending<br>Business | Provisions for<br>Impending<br>Losses | Provisions for uncertain<br>Liabilities |       | Provisions<br>for Insurance<br>Business | Total |
|---|--------------------------------------|---------------------------------------|---|-------|---|-------|
|   |                                      |                                       | From Personnel<br>Field                 | Other |   |       |
| <b>Opening Balance</b>                            | 5.6                                  | 0.0                                   | 1.0                                     | 3.6   | 0.0                                     | 10.1  |
| Increases/Decreases from<br>Currency Translations | 0.5                                  | 0.0                                   | 0.0                                     | 0.0   | 0.0                                     | 0.5   |
| Utilisation                                       | 3.6                                  | 0.0                                   | 0.4                                     | 0.1   | 0.0                                     | 4.2   |
| Reductions  | 2.4                                  | 0.0                                   | 0.0                                     | 0.1   | 0.0                                     | 2.5   |
| Allocations                                       | 8.5                                  | 0.0                                   | 0.7                                     | 0.0   | 0.0                                     | 9.2   |
| <b>Closing Balance</b>                            | 8.5                                  | 0.0                                   | 1.3                                     | 3.4   | 0.0                                     | 13.1  |

## (42) Income Tax Liabilities

Income tax liabilities are broken down as follows:

|                                | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|--------------------------------|-----------------------------|-----------------------------|---------------------------|
| Current Income Tax Liabilities | 1.4                         | 3.3                         | -59                       |
| Passive deferred Taxes         | 5.2                         | 5.2                         | 0                         |
| <b>Total</b>                   | <b>6.6</b>                  | <b>8.5</b>                  | <b>-23</b>                |

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

The tax provisions have been applied to the IFRS financial statements since reported year 2008. This means that many of the temporary differences no longer apply (see table below). The deferred taxes on the liabilities side in 2008 result from the sale of the Bank's office building.

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

|  | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|--|-----------------------------|-----------------------------|---------------------------|
| <b>Assets</b>  |                             |                             |                           |
| Financial Assets at Fair Value through Profit or Loss      | 0.0                         | 0.0                         | -                         |
| Financial Assets   | 0.0                         | 0.0                         | -                         |
| Property, Plant and Equipment                              | 0.0                         | 0.0                         | -                         |
| Other Assets   | 0.0                         | 0.0                         | -                         |
| <b>Equity and Liabilities</b>                              |                             |                             |                           |
| 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  | 5.2                         | 5.2                         | -                         |
| <b>Total</b>   | <b>5.2</b>                  | <b>5.2</b>                  | <b>0</b>                  |

### (43) Other Liabilities

|   | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Liabilities from outstanding Invoices                                   | 18.0                        | 4.8                         | > 100                     |
| Liabilities from short term Remuneration of Workers                     | 3.3                         | 2.3                         | 39                        |
| Accruals and deferred Income  | 4.6                         | 11.2                        | -59                       |
| Liability from Taxes and Social Security Contributions not yet deducted | 7.7                         | 2.0                         | > 100                     |
| Other Liabilities   | 6.1                         | 19.4                        | -68                       |
| <b>Total</b>  | <b>39.6</b>                 | <b>39.6</b>                 | <b>0</b>                  |

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

### (44) Subordinated Capital

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

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

|                                    | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|------------------------------------|-----------------------------|-----------------------------|---------------------------|
| Subordinated Liabilities           | 93.6                        | 86.8                        | 8                         |
| Profit Participation Capital       | 0.0                         | 0.0                         | -                         |
| Contributions from silent Partners | 0.0                         | 0.0                         | -                         |
| <b>Total</b>                       | <b>93.6</b>                 | <b>86.8</b>                 | <b>8</b>                  |

| Type of Transaction | Nominal Amount (Million) | Accrued Interest (Million) | Rate at 31.12.2010 | Balance Sheet Value (EUR Million) | Term (in Years) | Interest Rates (%) | Maturity |
|---------------------|--------------------------|----------------------------|--------------------|-----------------------------------|-----------------|--------------------|----------|
| Subordinated Loans  | USD 60.0                 | USD 0.0                    | 1.3362             | 44.9                              | 15              | 0.45563            | 08.06.16 |
| Subordinated Loans  | USD 65.0                 | USD 0.0                    | 1.3362             | 48.6                              | 15              | 0.74281            | 31.12.17 |
| <b>Total</b>        |                          |                            |                    | <b>93.6</b>                       |                 |                    |          |

## 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<br>before Taxes<br>2010 | Income<br>Tax Effect<br>2010 | Amount<br>after Taxes<br>2010 | Amount<br>before Taxes<br>2009 | Income<br>Tax Effect<br>2009 | Amount<br>after Taxes<br>2009 |
|---|--------------------------------|------------------------------|-------------------------------|--------------------------------|------------------------------|-------------------------------|
| Increase/Decrease from Available-for-Sale (AfS) Financial Instruments | 1,374                          | -310                         | 1,064                         | 49,870                         | -15,202                      | 34,668                        |
| Actuarial Gains/Losses for defined Benefit Provisions for Pensions    | 20                             | -5                           | 15                            | -347                           | 88                           | -259                          |
| <b>Profit/Loss recognised directly in Equity</b>                      | <b>1,395</b>                   | <b>-315</b>                  | <b>1,079</b>                  | <b>49,523</b>                  | <b>-15,114</b>               | <b>34,409</b>                 |
| Of which: due to Shareholders of NORD/LB Luxembourg                   | 1,395                          | -315                         | 1,079                         | 49,523                         | -15,114                      | 34,409                        |
| Of which: attributable to non-controlling Shares                      | 0                              | 0                            | 0                             | 0                              | 0                            | 0                             |

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

The subscribed equity of the company was EUR 205 million on the reporting date 31 December 2010 (previous year EUR 205 million). It is divided into 820,000 registered shares without nominal value (previous year 820,000 registered shares). The subscribed capital is fully paid up. There were no changes over the course of the year under report.

The individual components of 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 amounts shown for NORD/LB Luxembourg in previous reporting years and the allocations from the profit for the year.

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

In February 2010 EUR 100.0 million was paid out to the shareholder from the revenue reserve.

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

As in previous years, the Bank made use of the wealth tax imputation system for the year and appropriated an amount equivalent to five times the imputed wealth tax for the tax group to the other reserves in consideration of the five year lock-in period.

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

| Year         | Property Tax<br>NORD/LB Luxembourg | Wealth Tax<br>NORD/LB CFB | Total       | Locked in Reserves<br>(= five Times the<br>Offset Property Tax) | Locked in until |
|--------------|------------------------------------|---------------------------|-------------|---|-----------------|
| 2005         | 4.2                                | 0.0                       | 4.2         | 21.0  | 31.12.2010      |
| 2006         | 4.0                                | 0.0                       | 4.0         | 20.0  | 31.12.2011      |
| 2007         | 3.6                                | 0.2                       | 3.8         | 19.0  | 31.12.2012      |
| 2008         | 4.1                                | 0.2                       | 4.3         | 21.5  | 31.12.2013      |
| 2009         | 3.6                                | 0.2                       | 3.8         | 11.3 <sup>*)</sup>  | 31.12.2014      |
| 2010         | –                                  | –                         | –           | –   | 31.12.2015      |
| <b>Total</b> | <b>19.5</b>                        | <b>0.6</b>                | <b>20.1</b> | <b>92.8</b>   |                 |

<sup>\*)</sup> Property tax rebate limited by amount of corporation tax 2009 pursuant to Section 8a VStG.

## (47) Notes to the Cash Flow Statement

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

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

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

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

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

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

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

## Notes to Financial Instruments

## (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   | 4,262.1        | 2,281.8            | 1,089.6           | 1,305.2          | 1,148.3        | 10,087.0        |
| Liabilities to Customers   | 2,025.2        | 1,031.6            | 251.6             | 3.0              | 0.0            | 3,311.4         |
| Securitised Liabilities  | 272.5          | 218.6              | 155.9             | 1,742.1          | 0.0            | 2,389.0         |
| Financial Liabilities at Fair Value through Profit or Loss (without Derivatives) | 0.0            | 0.0                | 0.0               | 0.0              | 0.0            | 0.0             |
| Subordinated Capital   | 0.0            | 0.0                | 0.0               | 0.0              | 93.6           | 93.6            |
| Irrevocable Credit Commitments   | 6.1            | 26.4               | 419.7             | 763.9            | 52.4           | 1,268.5         |
| Financial Guarantees   | 35.5           | 29.9               | 97.0              | 223.8            | 441.8          | 828.1           |
| <b>Total</b>   | <b>6,601.4</b> | <b>3,588.4</b>     | <b>2,013.7</b>    | <b>4,038.0</b>   | <b>1,736.1</b> | <b>17,977.6</b> |

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   | 5,571.3        | 2,773.9            | 1,488.2           | 1,027.6          | 1,815.5        | 12,676.5        |
| Liabilities to Customers   | 1,851.5        | 1,543.0            | 546.6             | 0.0              | 0.0            | 3,941.1         |
| Securitised Liabilities  | 204.8          | 153.0              | 813.7             | 841.8            | 908.3          | 2,921.6         |
| 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              | 86.8           | 86.8            |
| Irrevocable Credit Commitments   | 18.4           | 29.2               | 250.8             | 1,086.9          | 314.6          | 1,699.8         |
| Financial Guarantees   | 22.0           | 41.7               | 54.4              | 256.8            | 327.1          | 702.1           |
| <b>Total</b>   | <b>7,668.1</b> | <b>4,540.9</b>     | <b>3,153.6</b>    | <b>3,213.1</b>   | <b>3,452.3</b> | <b>22,028.0</b> |

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<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| <b>Assets</b>   |                             |                             |                           |
| Financial Assets at Fair Value through Profit or Loss                 | 458.2                       | 366.7                       | 36                        |
| Financial Assets Held-for-Trading                                     | 372.7                       | 260.9                       | 43                        |
| Financial Assets designated at Fair Value through Profit or Loss      | 85.5                        | 75.8                        | 13                        |
| Available-for-Sale Assets   | 6,222.6                     | 6,173.0                     | 1                         |
| Loans and Receivables   | 10,273.5                    | 14,157.6                    | -27                       |
| <b>Total</b>  | <b>16,954.3</b>             | <b>20,667.2</b>             | <b>-18</b>                |
| <b>Equity and Liabilities</b>   |                             |                             |                           |
| Financial Liabilities at Fair Value through Profit or Loss            | 463.0                       | 350.9                       | 32                        |
| Financial Liabilities Held-for-Trading                                | 463.0                       | 350.9                       | 32                        |
| Financial Liabilities designated at Fair Value through Profit or Loss | 0.0                         | 0.0                         | -                         |
| Other Liabilities   | 15,881.0                    | 19,626.1                    | -19                       |
| <b>Total</b>  | <b>16,344.0</b>             | <b>19,977.0</b>             | <b>-18</b>                |

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<br>(KEUR)   | 2009<br>(KEUR)   | Increase/<br>Decrease (%) |
|---|------------------|------------------|---------------------------|
| Financial Instruments at Fair Value through Profit or Loss            | -45,061.5        | -60,664.3        | -26                       |
| Financial Instruments Held-for-Trading                                | -47,118.3        | -65,828.4        | -28                       |
| Financial Instruments designated at Fair Value through Profit or Loss | 2,056.8          | 5,164.1          | -60                       |
| Available-for-Sale Assets   | 120,543.0        | 167,542.7        | -28                       |
| Loans and Receivables   | 266,877.8        | 402,711.0        | -34                       |
| Other Liabilities   | -211,320.1       | -339,551.5       | -38                       |
| <b>Total</b>  | <b>131,039.1</b> | <b>170,037.9</b> | <b>-23</b>                |

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<br>(KEUR)   | 2009<br>(KEUR)    | Increase/<br>Decrease (%) |
|---|------------------|-------------------|---------------------------|
| <b>Available-for-Sale Assets</b>  |                  |                   |                           |
| Result from Valuation Adjustments of AfS Financial Assets   | 0.0              | -1,100.0          | -100                      |
| Result from direct Write-Down of uncollectible Receivables/<br>Receipts on written down Receivables | 0.0              | 0.0               | -                         |
| <b>Total</b>  | <b>0.0</b>       | <b>-1,100.0</b>   | <b>-100</b>               |
| <b>Loans and Receivables</b>  |                  |                   |                           |
| Result from Valuation Adjustments of LaR Financial Assets   | -30,151.9        | -107,520.8        | -72                       |
| Result from Portfolio based Valuation Adjustments of LaR<br>Financial Assets                        | 11,482.8         | -9,267.2          | > 100                     |
| Result from the Formation/Reversal of Provisions in Lending Sector                                  | -6,079.6         | -5,699.9          | 7                         |
| Result from direct Write-Down of uncollectible Receivables/<br>Receipts on written down Receivables | 0.0              | 0.0               | -                         |
| <b>Total</b>  | <b>-24,748.7</b> | <b>-122,487.9</b> | <b>-80</b>                |

**(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<br>EUR Million                              | Level 1<br>(Mark-to-<br>Market) | Level 2<br>(Mark-to-<br>Matrix) | Level 3<br>(Mark-to-<br>Model) | Total          |
|--|---------------------------------|---------------------------------|--------------------------------|----------------|
| Trading Assets   | 0.0                             | 334.1                           | 0.0                            | 334.1          |
| Financial Assets designated at Fair Value              | 40.3                            | 45.2                            | 0.0                            | 85.5           |
| Positive Fair Values from Hedge Accounting Derivatives | 0.0                             | 38.6                            | 0.0                            | 38.6           |
| Financial Assets (measured at Fair Value)              | 5,083.1                         | 82.2                            | 979.7                          | 6,145.0        |
| <b>Assets</b>  | <b>5,123.4</b>                  | <b>500.1</b>                    | <b>979.7</b>                   | <b>6,603.2</b> |
| Trading Liabilities                                    | 0.0                             | 296.1                           | 0.0                            | 296.1          |
| Financial Liabilities designated at Fair Value         | 0.0                             | 0.0                             | 0.0                            | 0.0            |
| Negative Fair Values from Hedge Accounting Derivatives | 0.0                             | 166.8                           | 0.0                            | 166.8          |
| <b>Equity and Liabilities</b>                          | <b>0.0</b>                      | <b>463.0</b>                    | <b>0.0</b>                     | <b>463.0</b>   |

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.

The fluctuation of the Fair Value of the Level 3 securities is EUR 6.7 million under this stress scenario in relation to the rating class.

The transfers within the Fair Value hierarchy are as follows:

| 01.01. – 31.12.2010<br>EUR Million                     | From<br>Level 1 to<br>Level 2 | From<br>Level 1 to<br>Level 3 | From<br>Level 2 to<br>Level 1 | From<br>Level 2 to<br>Level 3 | From<br>Level 3 to<br>Level 1 | From<br>Level 3 to<br>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)              | 57.2                          | 366.7                         | 0.0                           | 0.0                           | 211.6                         | 9.7                           |
| <b>Assets</b>  | <b>57.2</b>                   | <b>366.7</b>                  | <b>0.0</b>                    | <b>0.0</b>                    | <b>211.6</b>                  | <b>9.7</b>                    |
| 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                           |
| <b>Equity and Liabilities</b>                          | <b>0.0</b>                    | <b>0.0</b>                    | <b>0.0</b>                    | <b>0.0</b>                    | <b>0.0</b>                    | <b>0.0</b>                    |

The level transfers from Level 1 into Level 2 are two securities, which fell back into the market-to-matrix valuation on the reporting date. In total, 19 securities changed from Level 1 to Level 3, mainly caused by a distorted or inactive market. A total of 14 securities changed back into a market valuation (Level 1) from a distorted market (Level 3) on the reporting date. One security changed from a model valuation to matrix valuation. With respect to the total inventory of securities, the level transfers never rose above 7%.

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 |
|---|----------------|---|--|---|--------------|
| <b>Opening Balance as of 01.01.2009</b> | 0.0            | 0.0                                       | 0.0  | 2,807.2                                   | 2,807.2      |
| Profit/Loss Effect                      | 0.0            | 0.0                                       | 0.0  | -2.2                                      | -2.2         |
| Equity Effect                           | 0.0            | 0.0                                       | 0.0  | 27.6                                      | 27.6         |
| Purchases                               | 0.0            | 0.0                                       | 0.0  | 10.0                                      | 10.0         |
| Sales                                   | 0.0            | 0.0                                       | 0.0  | 0.0                                       | 0.0          |
| Amortisations                           | 0.0            | 0.0                                       | 0.0  | -241.2                                    | -241.2       |
| Moved from Level 1 and 2                | 0.0            | 0.0                                       | 0.0  | 92.4                                      | 92.4         |
| Moved to Level 1 and 2                  | 0.0            | 0.0                                       | 0.0  | -1,858.5                                  | -1,858.5     |
| <b>Closing Balance at 31.12.2009</b>    | 0.0            | 0.0                                       | 0.0  | 835.4                                     | 835.4        |
| <b>Opening Balance as of 01.01.2010</b> | 0.0            | 0.0                                       | 0.0  | 835.4                                     | 835.4        |
| Profit/Loss Effect                      | 0.0            | 0.0                                       | 0.0  | 3.4                                       | 3.4          |
| Equity Effect                           | 0.0            | 0.0                                       | 0.0  | -2.2                                      | -2.2         |
| 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  | -0.1                                      | -0.1         |
| Moved from Level 1 and 2                | 0.0            | 0.0                                       | 0.0  | 366.7                                     | 366.7        |
| Moved to Level 1 and 2                  | 0.0            | 0.0                                       | 0.0  | -223.6                                    | -223.6       |
| <b>Closing Balance at 31.12.2010</b>    | 0.0            | 0.0                                       | 0.0  | 979.7                                     | 979.7        |

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

## (53) Fair Value of Financial Instruments

The Fair Values of financial instruments that are recognised in the balance sheet at amortised cost or with the hedge Fair Value are contrasted with the carrying amounts in the following table:

| EUR Million                                     | Fair Value<br>31.12.2010 | Book value<br>31.12.2010 | Difference<br>31.12.2010 | Fair Value<br>31.12.2009 | Book value<br>31.12.2009 | Difference<br>31.12.2009 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Assets</b>                                   | <b>10,467.8</b>          | <b>10,255.9</b>          | <b>211.9</b>             | <b>14,321.4</b>          | <b>14,140.0</b>          | <b>181.5</b>             |
| <b>Difference</b>                               | <b>96.0</b>              | <b>96.0</b>              | <b>0.0</b>               | <b>206.8</b>             | <b>206.9</b>             | <b>-0.1</b>              |
| Loans and Advances to Banks                     | 5,696.6                  | 5,689.3                  | 7.3                      | 8,293.8                  | 8,282.3                  | 11.5                     |
| Loans and Advances to Customers                 | 4,212.8                  | 4,032.3                  | 180.5                    | 4,801.8                  | 4,655.6                  | 146.3                    |
| Financial Assets                                | 647.8                    | 623.6                    | 24.1                     | 1,208.2                  | 1,184.4                  | 23.8                     |
| Risk Provisions                                 | -185.3                   | -185.3                   | 0.0                      | -189.2                   | -189.2                   | 0.0                      |
| <b>Loans and Advances after Risk Provisions</b> | <b>10,371.8</b>          | <b>10,159.9</b>          | <b>211.9</b>             | <b>14,114.7</b>          | <b>13,933.1</b>          | <b>181.6</b>             |
| <b>Equity and Liabilities</b>                   | <b>16,070.0</b>          | <b>15,881.0</b>          | <b>189.0</b>             | <b>19,774.0</b>          | <b>19,626.1</b>          | <b>147.9</b>             |
| Liabilities to Banks                            | 10,256.2                 | 10,087.0                 | 169.2                    | 12,809.8                 | 12,676.5                 | 133.3                    |
| Liabilities to Customers                        | 3,311.7                  | 3,311.4                  | 0.3                      | 3,941.9                  | 3,941.1                  | 0.8                      |
| Securitised Liabilities                         | 2,397.6                  | 2,389.0                  | 8.6                      | 2,924.0                  | 2,921.6                  | 2.3                      |
| Subordinated Capital                            | 104.5                    | 93.6                     | 11.0                     | 98.3                     | 86.8                     | 11.5                     |

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

Derivative financial instruments denominated in foreign currencies are mainly negotiated in the form of forward exchange transactions, currency swaps, and interest rate/currency swaps. Interest rate derivatives are primarily interest rate swaps.

The nominal values are the gross volume of all purchases and sales. This value is a reference amount used to determine mutually agreed adjustment payments, but does not include receivables or liabilities that are eligible for recognition.

The composition of the derivative portfolio is as follows:

| EUR Million                                     | Nominal Values<br>31.12.2010 | Nominal Values<br>31.12.2009 | Market Values<br>positive<br>31.12.2010 | Market Values<br>positive<br>31.12.2009 | Market Values<br>negative<br>31.12.2010 | Market Values<br>negative<br>31.12.2009 |
|---|------------------------------|------------------------------|---|---|---|---|
| <b>Interest Rate Risks</b>                      | <b>12,748.2</b>              | <b>11,589.6</b>              | <b>105.9</b>                            | <b>95.5</b>                             | <b>251.2</b>                            | <b>201.9</b>                            |
| Interest Rate Swaps                             | 12,728.2                     | 11,589.6                     | 105.8                                   | 95.5                                    | 251.1                                   | 201.9                                   |
| 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                                    | 20.0                         | 0.0                          | 0.1                                     | 0.0                                     | 0.1                                     | 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                                     |
| <b>Currency Risks</b>                           | <b>6,601.1</b>               | <b>12,561.2</b>              | <b>266.7</b>                            | <b>165.4</b>                            | <b>211.7</b>                            | <b>149.0</b>                            |
| Forward Exchange Contracts                      | 40.0                         | 1,223.3                      | 1.1                                     | 1.4                                     | 1.4                                     | 1.5                                     |
| Currency Swaps/<br>Interest Rate-Currency Swaps | 6,561.0                      | 11,337.9                     | 265.6                                   | 164.0                                   | 210.4                                   | 147.5                                   |
| 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                                     |
| <b>Share and other Price Risks</b>              | <b>0.0</b>                   | <b>0.0</b>                   | <b>0.0</b>                              | <b>0.0</b>                              | <b>0.0</b>                              | <b>0.0</b>                              |
| 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                                     |
| <b>Credit Derivatives</b>                       | <b>0.0</b>                   | <b>0.0</b>                   | <b>0.0</b>                              | <b>0.0</b>                              | <b>0.0</b>                              | <b>0.0</b>                              |
| 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                                     |
| <b>Total</b>                                    | <b>19,349.3</b>              | <b>24,150.8</b>              | <b>372.7</b>                            | <b>260.9</b>                            | <b>463.0</b>                            | <b>350.9</b>                            |

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

| Nominal Value<br>(EUR Million) | Interest Rate Risks |                 | Currency Risks |                 | Share and other<br>Price Risks |                | Credit Derivatives |                |
|--------------------------------|---------------------|-----------------|----------------|-----------------|--------------------------------|----------------|--------------------|----------------|
|                                | 31.12.<br>2010      | 31.12.<br>2009  | 31.12.<br>2010 | 31.12.<br>2009  | 31.12.<br>2010                 | 31.12.<br>2009 | 31.12.<br>2010     | 31.12.<br>2009 |
| <b>Term to Maturity</b>        |                     |                 |                |                 |                                |                |                    |                |
| Up to 3 Months                 | 3,602.4             | 4,527.1         | 4,783.9        | 7,808.6         | 0.0                            | 0.0            | 0.0                | 0.0            |
| Over 3 Months and up to 1 Year | 2,244.7             | 3,440.6         | 1,103.0        | 4,009.2         | 0.0                            | 0.0            | 0.0                | 0.0            |
| Over 1 Year and up to 5 Years  | 3,704.1             | 2,224.2         | 714.2          | 403.5           | 0.0                            | 0.0            | 0.0                | 0.0            |
| Over 5 Years                   | 3,197.1             | 1,397.7         | 0.0            | 339.9           | 0.0                            | 0.0            | 0.0                | 0.0            |
| <b>Total</b>                   | <b>12,748.2</b>     | <b>11,589.6</b> | <b>6,601.1</b> | <b>12,561.2</b> | <b>0.0</b>                     | <b>0.0</b>     | <b>0.0</b>         | <b>0.0</b>     |

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                            | 19,028.4        | 23,798.7        | 370.4                  | 255.2        | 455.2                  | 350.4        |
| Banks outside OECD Countries                       | 124.2           | 307.8           | 0.0                    | 2.8          | 5.7                    | 0.1          |
| Public Sector Entities in<br>OECD Countries        | 0.0             | 0.0             | 0.0                    | 0.0          | 0.0                    | 0.0          |
| Other Counterparties<br>(incl. Exchange Contracts) | 196.7           | 44.3            | 2.3                    | 2.9          | 2.0                    | 0.4          |
| <b>Total</b>                                       | <b>19,349.3</b> | <b>24,150.8</b> | <b>372.7</b>           | <b>260.9</b> | <b>463.0</b>           | <b>350.9</b> |

## (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<br>(EUR Million) | 31.12.2009<br>(EUR Million) | Increase/<br>Decrease (%) |
|---------------------------------|-----------------------------|-----------------------------|---------------------------|
| <b>Assets</b>                   |                             |                             |                           |
| Loans and Advances to Banks     | 149.5                       | 38.4                        | > 100                     |
| Loans and Advances to Customers | 408.6                       | 405.0                       | 1                         |
| Financial Assets                | 2,414.3                     | 1,890.4                     | 28                        |
| <b>Total</b>                    | <b>2,972.4</b>              | <b>2,333.7</b>              | <b>27</b>                 |
| <b>Equity and Liabilities</b>   |                             |                             |                           |
| Liabilities to Banks            | 0.0                         | 0.0                         | –                         |
| Liabilities to Customers        | 0.0                         | 0.0                         | –                         |
| Securitised Liabilities         | 535.8                       | 1,197.3                     | –55                       |
| Subordinated Capital            | 0.0                         | 0.0                         | –                         |
| <b>Total</b>                    | <b>535.8</b>                | <b>1,197.3</b>              | <b>–55</b>                |

## (56) NORD/LB Luxembourg as Assignor

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

|  | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|--|-----------------------------|-----------------------------|
| Loans and Advances to Banks                                | 279.1                       | 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   | 4,650.7                     | 6,690.9                     |
| <b>Total</b>   | <b>4,929.8</b>              | <b>6,690.9</b>              |

The furnishing of security in order to borrow funds mostly took the form of genuine repurchase agreements (repos) with a maximum remaining term of nine 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 was carried out at standard market interest rates and mainly covers value adjustments of derivative transactions. The remaining terms of these are shown in Note (54).

The following securities were assigned for liabilities in the amounts stated:

|                                       | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|---------------------------------------|-----------------------------|-----------------------------|
| Financial Assets assigned to the Bank | 2,017.1                     | 3,600.3                     |
| Liabilities to Banks                  | 200.5                       | 0.0                         |
| <b>Total</b>                          | <b>2,217.6</b>              | <b>3,600.3</b>              |

## (57) Securities Repurchase Agreements and Securities Lending

|   | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|---|-----------------------------|-----------------------------|
| Genuine Repurchase Agreements as a Repurchase Buyer (reverse Repos) | 2,021.3                     | 3,602.3                     |
| Loans and Advances to Banks   | 2,021.3                     | 3,602.3                     |
| Loans and Advances to Customers                                     | 0.0                         | 0.0                         |
| Genuine Repurchase Agreements as a Repurchase Seller (Repos)        | 4,677.5                     | 6,664.9                     |
| Liabilities to Banks  | 4,191.6                     | 6,597.5                     |
| Liabilities to Customers  | 485.9                       | 67.4                        |

|  | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(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<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|--|-----------------------------|-----------------------------|
| Securities sold under Repurchase Agreements                                      | 4,672.8                     | 6,659.8                     |
| Securities sold under Repurchase Agreements at Fair Value through Profit or Loss | 0.0                         | 0.0                         |
| Securities sold under Repurchase Agreements from Financial Assets                | 4,672.8                     | 6,659.8                     |
| Securities bought under Repurchase Agreements                                    | 2,017.1                     | 3,600.3                     |

## 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<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|----------------------------|-----------------------------|-----------------------------|
| Risk Assets                | 3,600.3                     | 4,232.8                     |
| Weighted operational Risks | 198.8                       | 101.7                       |
| Market Risk Positions      | 36.5                        | 27.9                        |
| Floor                      | 230.0                       | 582.2                       |
| <b>Total</b>               | <b>4,065.6</b>              | <b>4,944.6</b>              |

The IRB approach applied by the Bank led to a lower equity cost than the earlier regulation in 2009 and 2010. In this case, the Solvency Regulation provides for the equity cost to be gradually reduced to the lower value during a transitional period. A floor in the risk assets was taken into account in both years to this end.

The Bank uses standard methods to determine the equity requirements for operational risks. As at 31 December 2010, this results in an equity requirement of EUR 15.9 million (previous year EUR 8.1 million).

#### Regulatory Equity

|  | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|--|-----------------------------|-----------------------------|
| Contributed Capital                                    | 205.0                       | 205.0                       |
| Other Reserves   | 455.9                       | 514.6                       |
| Remaining Components                                   | -5.2                        | -0.3                        |
| <b>Core Capital</b>                                    | <b>655.7</b>                | <b>719.2</b>                |
| Asset Deposits of silent Shareholders                  | 0.0                         | 0.0                         |
| Subordinated Debt Securities (Part that can be offset) | 93.5                        | 86.8                        |
| <b>Supplementary Capital</b>                           | <b>93.5</b>                 | <b>86.8</b>                 |
| <b>Liable Equity</b>                                   | <b>749.3</b>                | <b>806.0</b>                |
| <b>Equity Capital</b>                                  | <b>749.3</b>                | <b>806.0</b>                |

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 | 18.43 %    | 16.30 %    |
| Core Capital Ratio  | 16.13 %    | 14.55 %    |

The overall coefficient is 18.43 % (previous year 16.30 %) when taking account of the floor. Without the floor, the coefficient improves to 19.53 % (previous year 18.48 %).

### 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. Accounts and guarantees receivable from group companies exist in the sum of EUR 7,979.5 million (previous year: EUR 5,891.6 million) on the reporting date.

## (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          |
|---|----------------|--------------|----------------|--------------|----------------|
| <b>Assets</b>   |                |              |                |              |                |
| Cash Reserve  | 0.0            | 0.0          | 0.0            | 0.0          | 0.0            |
| Loans and Advances to Banks                           | 333.6          | 50.5         | 313.6          | 19.7         | 717.4          |
| Loans and Advances to Customers                       | 1,333.7        | 180.3        | 373.7          | 189.7        | 2,077.5        |
| Risk Provisions                                       | 0.0            | 0.0          | -6.9           | 0.0          | -6.9           |
| Financial Assets at Fair Value through Profit or Loss | 39.6           | 672.9        | 143.9          | 15.2         | 871.6          |
| Positive Fair Values from Hedge Accounting            | 0.0            | 0.0          | 0.0            | 0.0          | 0.0            |
| Financial Assets                                      | 101.6          | 0.0          | 182.6          | 163.8        | 448.0          |
| Other Assets  | 0.1            | 0.0          | 0.0            | 0.0          | 0.1            |
| <b>Total</b>  | <b>1,808.5</b> | <b>903.8</b> | <b>1,006.9</b> | <b>388.5</b> | <b>4,107.7</b> |

| EUR Million  | USD            | JPY          | CHF            | Other        | Total          |
|--|----------------|--------------|----------------|--------------|----------------|
| <b>Equity and Liabilities</b>                              |                |              |                |              |                |
| Liabilities to Banks                                       | 2,869.0        | 110.5        | 939.8          | 296.9        | 4,216.2        |
| Liabilities to Customers                                   | 241.0          | 32.3         | 412.9          | 20.2         | 706.4          |
| Securitised Liabilities                                    | 442.5          | 486.4        | 43.9           | 12.8         | 985.6          |
| Financial Liabilities at Fair Value through Profit or Loss | 20.4           | 280.6        | 104.5          | 12.4         | 418.0          |
| Negative Fair Values from Hedge Accounting                 | 17.3           | 1.3          | 2.0            | 1.0          | 21.6           |
| Other Liabilities  | 0.0            | 0.0          | 0.0            | 0.0          | 0.0            |
| Subordinated Capital                                       | 93.6           | 0.0          | 0.0            | 0.0          | 93.6           |
| <b>Total</b>   | <b>3,683.8</b> | <b>911.1</b> | <b>1,503.1</b> | <b>343.3</b> | <b>6,441.3</b> |

## (60) Contingent Liabilities and other Obligations

|   | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|---|-----------------------------|-----------------------------|
| Contingent Liabilities                                      | 828.1                       | 702.1                       |
| Contingent Liabilities under rediscounted Bills of Exchange | 0.0                         | 0.0                         |
| Liabilities from Guarantees and other Indemnity Agreements  | 828.1                       | 702.1                       |
| Irrevocable Credit Commitments                              | 1,268.5                     | 1,699.8                     |
| <b>Total</b>  | <b>2,096.6</b>              | <b>2,401.9</b>              |

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 made for reasons of practicality. The reporting of liabilities from sureties and guarantee contracts (financial guarantees) is done according to IAS 39. The liabilities from existing rent, lease, guarantee or similar contracts are within the normal business scope.

### Letter of Comfort:

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

## (61) Subordinated Assets

|  | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|--|-----------------------------|-----------------------------|
| Loans and Advances to Banks                                | 38.0                        | 70.3                        |
| Loans and Advances to Customers                            | 0.0                         | 0.0                         |
| Financial instruments at Fair Value through Profit or Loss | 0.0                         | 0.0                         |
| Financial Assets   | 0.0                         | 0.0                         |
| <b>Total</b>   | <b>38.0</b>                 | <b>70.3</b>                 |

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 subordinated loans and advances to banks relate to a subsidiary at EUR 38.0 million (previous year EUR 45.8 million).

## (62) Trust Activities

The trust activities can be broken down as follows:

|  | 31.12.2010<br>(EUR Million) | 31.12.2009<br>(EUR Million) |
|--|-----------------------------|-----------------------------|
| <b>Trust Assets</b>  | <b>12.4</b>                 | <b>11.9</b>                 |
| Loans and Advances to Banks                                | 0.0                         | 0.0                         |
| Loans and Advances to Customers                            | 12.4                        | 11.9                        |
| Financial Instruments at Fair Value through Profit or Loss | 0.0                         | 0.0                         |
| Financial Assets   | 0.0                         | 0.0                         |
| Other Trust Assets   | 0.0                         | 0.0                         |
| <b>Trust Liabilities</b>                                   | <b>12.4</b>                 | <b>11.9</b>                 |
| Liabilities to Banks                                       | 12.4                        | 11.9                        |
| Liabilities to Customers                                   | 0.0                         | 0.0                         |
| Other Trust Liabilities                                    | 0.0                         | 0.0                         |

## (63) Events after the Balance Sheet Date

Dr. Johannes-Jörg Riegler, Member of the Board of Directors of NORD/LB Norddeutsche Landesbank Girozentrale, was elected to the Supervisory Board of NORD/LB Luxembourg with effect from 1 January 2011.

## Related Parties

### (64) Number of Employees

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

|                    | Male<br>2010 | Male<br>2009 | Female<br>2010 | Female<br>2009 | Total<br>2010 | Total<br>2009 |
|--------------------|--------------|--------------|----------------|----------------|---------------|---------------|
| NORD/LB Luxembourg | 104.2        | 94.8         | 43.4           | 37.5           | 147.6         | 132.3         |

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

| Group        | 2010         | 2009         |
|--------------|--------------|--------------|
| Board        | 2.5          | 2.0          |
| Senior Staff | 14.8         | 14.0         |
| Employees    | 130.2        | 116.3        |
| <b>Total</b> | <b>147.6</b> | <b>132.3</b> |

### (65) Related Party Disclosures

All consolidated subsidiaries were qualified as related legal entities. 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 according to IAS 24 are members of the board and the Supervisory Board of NORD/LB Luxembourg and 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     | Subsidiaries     | Persons in Key Functions | Other Related Parties |
|--------------------------------------|------------------|------------------|--------------------------|-----------------------|
| Outstanding Loans and Advances       |                  |                  |                          |                       |
| to Banks                             | 329,728          | 2,417,596        | 0                        | 0                     |
| to Customers                         | 0                | 0                | 20                       | 0                     |
| Other Assets                         | 298              | 739,373          | 0                        | 0                     |
| <b>Total Assets</b>                  | <b>330,025</b>   | <b>3,156,969</b> | <b>20</b>                | <b>0</b>              |
| Outstanding Liabilities              |                  |                  |                          |                       |
| to Banks                             | 3,785,272        | 284,956          | 0                        | 0                     |
| to Customers                         | 0                | 0                | 0                        | 0                     |
| Subordinated Capital                 | 93,581           | 0                | 0                        | 0                     |
| Other Liabilities                    | 54,502           | 105,283          | 1,282                    | 0                     |
| <b>Total Equity and Liabilities</b>  | <b>3,933,354</b> | <b>390,239</b>   | <b>1,282</b>             | <b>0</b>              |
| <b>Guarantees/Sureties Granted</b>   | <b>7,000</b>     | <b>570,298</b>   | <b>0</b>                 | <b>0</b>              |
| Interest Expense                     | 122,783          | 44,676           | 0                        | 0                     |
| Interest Income                      | 26,970           | 80,989           | 0                        | 0                     |
| Commission Expense                   | 48,699           | 20               | 0                        | 0                     |
| Commission Income                    | 0                | 1,396            | 0                        | 0                     |
| Other Income and Expense             | -1,795           | -42,478          | -2,834                   | 0                     |
| <b>Total Contributions to Income</b> | <b>-146,308</b>  | <b>-4,790</b>    | <b>-2,834</b>            | <b>0</b>              |

Dividend payments from subsidiaries in the sum of KEUR 5,500 (previous year KEUR 6,764) are included in other expenses and income.

For the services performed within the scope of the service agreements regarding personnel, use of building and other material costs, Skandifinanz Bank AG was billed KEUR 468 (previous year KEUR 168) and NORD/LB Covered Finance Bank a total of KEUR 1,768 (previous year KEUR 1,591).

At 31 December 2009:

| KEUR                                 | Shareholders     | Subsidiaries     | Persons in Key Functions | Other Related Parties |
|--------------------------------------|------------------|------------------|--------------------------|-----------------------|
| Outstanding Loans and Advances       |                  |                  |                          |                       |
| to Banks                             | 1,055,957        | 2,073,794        | 0                        | 0                     |
| to Customers                         | 0                | 0                | 420                      | 0                     |
| Other Assets                         | 997              | 1,072,288        | 0                        | 1,686                 |
| <b>Total Assets</b>                  | <b>1,056,955</b> | <b>3,146,082</b> | <b>420</b>               | <b>1,686</b>          |
| Outstanding Liabilities              |                  |                  |                          |                       |
| to Banks                             | 4,530,853        | 338,338          | 0                        | 0                     |
| to Customers                         | 0                | 0                | 0                        | 0                     |
| Subordinated Capital                 | 86,798           | 0                | 0                        | 0                     |
| Other Liabilities                    | 58,416           | 37,941           | 1,240                    | 0                     |
| <b>Total Equity and Liabilities</b>  | <b>4,676,067</b> | <b>376,279</b>   | <b>1,240</b>             | <b>0</b>              |
| <b>Guarantees/Sureties Granted</b>   | <b>0</b>         | <b>430,445</b>   | <b>0</b>                 | <b>0</b>              |
| Interest Expense                     | 171,427          | 21,179           | 0                        | 1,547                 |
| Interest Income                      | 30,428           | 81,757           | 18                       | 82                    |
| Commission Expense                   | 38,504           | 36               | 0                        | 0                     |
| Commission Income                    | 523              | 1,597            | 0                        | 0                     |
| Other Income and Expense             | 5,255            | 14,822           | -2,647                   | 1,689                 |
| <b>Total Contributions to Income</b> | <b>-173,725</b>  | <b>76,961</b>    | <b>-2,629</b>            | <b>224</b>            |

All payments and loans to executive bodies in accordance with the provisions relating to trade are set out in Note (67) Remuneration of and loans to executive bodies.

## (66) 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:

- Dr. Gunter Dunkel, Chairman of the Board of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (Chairman)
- Christoph Schulz, Deputy Chairman of the Board of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover
- Martin Halblaub, Member of the Board of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (until 11 January 2010)
- Ulrike Brouzi, General Manager of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (since 1 September 2010)
- Dr. Stephan-Andreas Kaulvers, Chairman of the Board of Bremer Landesbank, Bremen (until 31 December 2010)
- Dr. Johannes-Jörg Riegler, Member of the Board of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (since 1 January 2011)
- Walter Kleine, Chairman of the Board of Sparkasse Hannover, Hanover

### Members of the Board of Directors

The following persons sat on the Bank's Board of Directors in the year under report:

- Harry Rosenbaum, Luxembourg (Chairman)
- Christian Veit, Luxembourg (Deputy Chairman)
- Thorsten Schmidt, Irrel (since 1 July 2010)

### Positions

As at 31 December 2010 the following seats were taken up by the members of the board of Norddeutsche Landesbank Luxembourg S.A.:

#### Harry Rosenbaum

- NORD/LB Covered Finance Bank S.A., Luxembourg, Deputy Chairman of the Supervisory Board
- Skandifinanz Bank AG, Zurich, Member of the Supervisory Board
- NORD/LB G-MTN S.A., Luxembourg, Chairman of the Administrative Board
- NORD/LB Asset Management Holding GmbH, Hanover, Member of the Supervisory Board

#### Christian Veit

- NORD/LB Covered Finance Bank S.A., Luxembourg, Deputy Chairman of the Board of Directors
- NORD/LB G-MTN S.A., Luxembourg, Deputy Chairman of the Supervisory Board

## (67) Remuneration of and Loans to Executive Bodies

|   | 2010<br>(in KEUR) | 2009<br>(in KEUR) |
|---|-------------------|-------------------|
| Payments to active Executive Body Members | 2,834             | 2,647             |
| Extended Management*                      | 2,759             | 2,572             |
| Board of Directors                        | 75                | 75                |
| Pension Obligations                       | 1,282             | 1,240             |
| Extended Management*                      | 1,282             | 1,240             |
| Board of Directors                        | 0                 | 0                 |
| Advances, Loans and Liabilities           | 20                | 420               |
| Extended Management*                      | 20                | 420               |
| Board of Directors                        | 0                 | 0                 |

\* Board of Directors and senior staff

## (68) Auditor's Fees

|                             | 2010<br>(in KEUR) | 2009<br>(in KEUR) |
|-----------------------------|-------------------|-------------------|
| Auditor's Fees for:         |                   |                   |
| Auditing                    | 403               | 413               |
| Other Confirmation Services | 382               | 312               |
| Other Services              | 11                | 53                |

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

## (69) 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.



## 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  
Norddeutsche Landesbank Luxembourg S.A.

Harry Rosenbaum

Christian Veit

Thorsten Schmidt



## Report of the Auditors

To the Board of Directors of  
Norddeutsche Landesbank Luxembourg 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 Norddeutsche Landesbank Luxembourg 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 preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS) as they are to be applied in the European Union, and for the establishment of an internal control system that the Board of Directors considers necessary for the preparation and representation of the annual financial statements, so that they are free from incorrect information.

#### **Auditor's Responsibility**

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

We conducted our audit in accordance with the International Standards on Auditing as 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 procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error, being included in the financial statements. 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 define 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 attestation.

**Opinion**

We believe that the financial statements, in accordance with the International Financial Reporting Standards as they are to be applied in the European Union for the preparation and representation of the financial statements, give a true and fair view of the assets and financial situation of Norddeutsche Landesbank Luxembourg S.A. at 31 December 2010, and of the earnings and cash 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

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 six occasions during the year under report 2010.

The financial statements of NORD/LB Luxembourg for the year under report 2010 were audited by Ernst & Young S.A., Luxembourg and were provided with an unqualified auditor's certificate. In addition, the auditor attended the meeting to discuss the financial statements held by the Supervisory Board on 17 March 2011 and reported on the results of the audit.

After becoming aware of a fraud case in the company subsidiary Skandifinanz Bank AG – now trading under the name Skandifinanz AG – the Supervisory Board and the Board of Directors dealt with this case intensively but not only in the Supervisory Board meetings. They took all the necessary measures immediately. As well as a complete review of the situation, processes and a complete audit were initiated. NORD/LB Luxembourg took over as of September 2010 a large part of Skandifinanz AG's business activities. The Supervisory Board will decide at the appropriate moment about the future activities of Skandifinanz AG. The statutes of Skandifinanz AG were changed at the beginning of 2011 as an initial procedure.

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

The Supervisory Board approved the results of the audit conducted by the auditors and, after consolidating the results of its own assessment, did not raise any objections.

At its meeting on 17 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 general meeting to approve the actions of the Board of Directors and to carry forward the residual value of the profit from the year under report 2010 and profit carried forward after allocation to the voluntary reserves in the sum of EUR 31.0 million and payment of a dividend in the sum of EUR 40.0 million.

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

Luxembourg  
March 2011

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

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Organisation & (+352) 45 22 11-319  
Project Management

**S.W.I.F.T.**

NOLALULL

**Supervision**

Commission de Surveillance du Secteur Financier

**Internet**

[www.nordlb.lu](http://www.nordlb.lu)

**Trade and Companies Register**

B 10405