

Norddeutsche Landesbank Luxembourg S.A.



Annual Report per 31.12.2011

Summary of Key Data

| Performance | 31.12.2011 (EUR Million) | 31.12.2010 (EUR Million) | Increase/Decrease (EUR Million) (%) | |
|--|-----------------------------|-----------------------------|--|------------|
| Loans and Advances to Banks | 4,324.6 | 5,689.3 | -1,364.7 | -24 |
| Loans and Advances to Customers | 3,853.8 | 4,032.3 | -178.5 | -4 |
| Risk Provisions | -26.2 | -185.3 | 159.1 | -86 |
| Financial Assets | 6,313.0 | 6,863.8 | -550.9 | -8 |
| Other Assets | 927.0 | 676.0 | 251.0 | 37 |
| Balance Sheet Total – Assets | 15,392.1 | 17,076.1 | -1,684.1 | -10 |
| Liabilities to Banks | 9,443.1 | 10,087.0 | -643.9 | -6 |
| Liabilities to Customers | 2,379.7 | 3,311.4 | -931.7 | -28 |
| Securitised Liabilities | 2,209.0 | 2,389.0 | -180.0 | -8 |
| Other Liabilities | 748.2 | 617.4 | 130.9 | 21 |
| Reported Equity | 612.1 | 671.4 | -59.3 | -9 |
| Balance Sheet Total – Liabilities | 15,392.1 | 17,076.1 | -1,684.1 | -10 |
| Profit/Loss Performance | 2011 (KEUR) | 2010 (KEUR) | Increase/Decrease (KEUR) (%) | |
| Net interest income | 107,202 | 129,485 | -22,284 | -17 |
| Net commission income | -13,375 | -20,378 | 7,003 | -34 |
| Profit/loss from financial assets | -14,368 | -177 | -14,191 | > 100 |
| Other profit/loss | 4,133 | -4,984 | 9,116 | > 100 |
| Earnings before Costs | 83,591 | 103,946 | -20,355 | -20 |
| Administrative Expenses | -34,588 | -33,013 | -1,575 | 5 |
| Profit/loss from Changes in Valuation and Risk Provision | 11,485 | -21,045 | 32,530 | > 100 |
| Taxes | -14,537 | 19,427 | -33,964 | > 100 |
| Earnings after Taxes | 45,952 | 69,316 | -23,364 | -34 |
| Key Economic Data | 2011 | 2010 | Increase/Decrease | |
| Cost-Income-Ratio in % ^{*)} | 41.4 % | 31.8 % | 9.6 % | 30 % |
| RoRaC in % ^{**)} | 27.5 % | 20.2 % | 7.3 % | 36 % |

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

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

| Regulatory Law Key Figures | 31.12.2011 (EUR Million) | 31.12.2010 (EUR Million) | Increase/Decrease (EUR Million) (%) | |
|-----------------------------|-----------------------------|-----------------------------|--|-----|
| Risk-weighted Asset Values | 3,604.6 | 4,065.6 | -461.0 | -11 |
| Core Capital | 653.3 | 655.7 | -2.4 | 0 |
| Equity Capital | 740.6 | 749.3 | -8.6 | -1 |
| Core Capital Ratio | 18.12 % | 16.13 % | 2.0 % | 12 |
| Overall Coefficient | 20.55 % | 18.43 % | 2.1 % | 11 |
| Changes in Employee Numbers | 2011 | 2010 | Increase/Decrease (%) | |
| Number of Employees | 170 | 157 | 13 | 8 |



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Annual Report **per 31.12.2011**

Norddeutsche Landesbank Luxembourg S.A.
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L-1748 Luxembourg-Findel
R.C.S. Luxembourg B 10405

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

Annual Report 2011



NORD/LB Luxembourg

Members of the Supervisory Board

Dr. Gunter Dunkel

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

Christoph Schulz

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

Ulrike Brouzi

Member of the Board of Directors
NORD/LB Norddeutsche Landesbank Girozentrale

Dr. Johannes-Jörg Riegler

Member of the Board of Directors
NORD/LB Norddeutsche Landesbank Girozentrale

Walter Kleine

Chairman of the Board of Directors
Sparkasse Hannover

Board of Directors

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

Harry Rosenbaum

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

Christian Veit

Member of the Board of Directors

Thorsten Schmidt

Organisation

Financial Markets

Thomas Keith

Business Development

Olaf-Alexander Priess

Credit Service Management

Maik Mittelberg

Private Banking

Markus Linnert

Loans

Guido Leixner

Accounting

Peter Heumüller

Controlling

Roman Lux

Credit Risk Management

Jörg Janisch

ORG/IT

Romain Wantz

Operation Services

Rita Kranz

Administration

David Gunson

Human Resources

Christian Ehrismann

Corporate Development

Melanie Maier

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 wholly-owned subsidiary of 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 “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.

NORD/LB Luxembourg, Luxembourg, is the parent company of a sub-group which includes NORD/LB Covered Finance Bank S.A. (hereinafter referred to in short as NORD/LB CFB), Luxembourg and Skandifinanz AG, Zürich. NORD/LB Luxembourg holds 100 % of the shares of both. NORD/LB Luxembourg has issued a letter of comfort for NORD/LB Covered Finance Bank S.A. (see Note 61).

NORD/LB Luxembourg’s field of activity lies in the business sectors Financial Markets, Loans 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 AG were totally restored or transferred to the parent company in the year under report. Skandifinanz AG handed back its banking licence in December 2011 with the consent of the Swiss Federal Banking Commission.

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

International Economic Development

Economic Development in Germany

2011 was another very successful year for the German economy, despite all the turbulence on the financial markets. According to an initial estimate by the German Federal Statistical Office, real gross domestic product (GDP) increased against the previous year. GDP had already grown strongly by 3.7% in 2010. Almost all sectors of the economy recorded a growth in real net output in the year just ended. Thanks to the rapid recovery, economic output had already returned to its pre-crisis level by mid-2011. Owing to cyclical factors, the deficit quota fell to 1.0% of nominal GDP, thereby meeting the deficit criterion of the European Stability and Growth Pact early in 2011.

The upturn of 2011 was broadly sustained; alongside net exports, growth impulses were supplied primarily by investments and private consumption. Germany again profited from high demand from the emerging economies due to its traditional export strength. Nevertheless, some extraordinary factors such as the disaster in Japan and a weak US economy in the first half of the year brought about a deceleration in world trade. The strong growth in exports of 8.2% in comparison to the previous year proves above all the high competitiveness of products “made in Germany”. Due to the similarly high rise in imports (+7.2%), however, net exports “only” contributed 0.8% to real GDP. A good 2 percentage points are therefore attributable to domestic demand.

Private consumption turned in its best performance in five years, with real growth of 1.5% thanks to a significant increase in actual earnings and an employment market that remained robust throughout the year under report. Investment was also heavy in 2011: investment in plant and equipment grew by 8.3% in real terms, due in part to low real interest rates and an increased capacity utilisation rate until the middle of the year. At 5.4%, building investment also grew at a rate not seen for five years. This was due primarily to increased residential building activities, supported by low mortgage interest rates. This may well be at least partially attributable to the flight to real assets (“concrete gold”) triggered by the crisis in the Eurozone.

The high annual growth rate does, however, conceal the fact that the dynamics have slowed notably over the course of the year. In the first quarter, seasonally adjusted real gross

domestic product (GDP) rose by 1.3% in comparison to the previous quarter. This development was facilitated by the particularly mild weather, so that the usual spring revival in the construction sector was brought forward. Because this simultaneously restricted the expansion opportunities in the second quarter, in spring, real GDP only increased 0.3% from the previous quarter. Private consumption suffered under the sharp rise in crude oil prices, and dampening effects also emanated from export trade in the spring. Although gross domestic product increased slightly once again in the third quarter (+0.5%), the economic engine began to falter towards the end of the year. The reported annual growth rate of 3.0% (the Federal Statistical Office had to rely on estimates for output in the final quarter to a certain extent) corresponds to a fall in GDP in the last three months of 2011 of nearly 0.3% in comparison to the previous quarter. This clearly shows that the anticipated downturn phase has already begun. The hard economic indicators available also confirm this. Although industrial output only declined slightly in November, the slump in order receipts mars the outlook. In particular, significantly fewer orders were received from abroad, which has a dampening effect on exports.

The employment market benefited from the good economic performance in the past year. Until recently, the positive trend continued, with the number of unemployed falling again. The annual average showed nearly three million people registered unemployed; 262,000 fewer than in 2010. The unemployment rate fell accordingly to an average of 6.8%. This is the lowest level since records began for the whole of the reunited Germany. The improved employment market situation also led to a significant rise in collectively agreed wages. Special payments and payments in excess of the pay scale due to the favourable business conditions have in addition contributed to an even greater rise in actual earnings. The inflation trend, on the other hand, dampened real purchasing power and prevented an even more dynamic growth in private consumption. The national consumer price index rose 2.3% in 2011. The fall in the value of money therefore sped up considerably in comparison to the previous two years (1.1% and 0.4%). This was primarily attributable to the sharp rise in the price of crude oil. At the end of the year, however, pricing pressures weakened as more favourable base effects also began to take effect.

... in the USA

In 2011, the US economy was characterised by two different developments: while the first half of the year was marked by surprisingly weak economic growth despite a continued

upbeat mood, there was remarkably solid economic growth in the second half of the year despite a significantly less positive mood. The economic dip in the first six months was blamed primarily on a few negative extraordinary factors such as freak weather, the increase in the price of crude oil and the disaster in Japan, which had negative implications for the automotive industry. The catch-up effects that had become necessary made a large contribution to the very robust growth achieved in the second half of the year, especially in the investment and consumer sectors.

The phase starting in August was overshadowed by a new financial crisis. First the financial markets came under huge pressure when US politicians delayed a budget compromise until practically the last minute and the US American rating agency Standard & Poor's downgraded the country's credit rating from AAA to AA+ as a direct consequence. Apart from this, the crisis in the Eurozone also gave rise to uncertainty throughout the world. In addition to the insecure US budgetary policy, it is precisely these unresolved problems that pose the two main risks to the US economy in the coming year.

The Federal Reserve also stuck to its zero interest rate policy in 2011. The loose US monetary policy was a burden to the currency primarily in the first half of the year. Over the course of the year, the market players focussed more on the sovereign debt crisis of the Eurozone countries, which gradually had an increasingly damaging effect on the euro. The easing of monetary policy by the ECB at the end of the year also further increased the pressure on the euro. Within the framework of this movement, the level of USD/EUR 1.30 even moved back into focus. The crisis in the Eurozone gave US treasuries a boost; at the end of 2011, the yield in the ten-year sector was just below 2.0 %.

... in Asia

In 2011, the growth dynamic in the Asian region slowed. After the rapid recovery in 2010 there was a certain moderation of growth in China, even though the Chinese economy presented itself as surprisingly robust at the end of the year. The fears of a hard landing were therefore revealed to be unfounded. The economic development in Japan was overshadowed by the threefold disaster on 11 March 2011 in the form of an earthquake, tsunami and nuclear meltdown in Fukushima. From an economic point of view, the major factor was the serious disruption of the value creation chains, which sharpened the fall in GDP in the first quarter. However, it was mainly the second quarter which was considerably affected by the slump in exports in particular. The picture



was furthermore clouded by the Japanese government's high and further increasing levels of debt.

The importance of China as the economic driving force of the region strengthened further last year. China is already the biggest customer for countries like South Korea and Taiwan. The political decision makers focussed their attention in the year just ended on combating inflation by energetically continuing to follow the monetary policy already started in 2010 with increases in the base rate and minimum reserves. The measures did in fact have the desired effect by the end of the year. The inflation target was almost reached again in December with an inflation rate of 4.1 %.

Financial Markets

In the year just ended, the crisis in the Eurozone still dominated the financial markets. From as early as the spring of 2010, the debt situation of some Eurozone countries has kept the capital markets and European politics on tenterhooks. After Portugal became the third country to have to resort to the European rescue package, the crisis deepened further. Beginning with the huge budgetary problems in Greece, the debt crisis increasingly spread to other Eurozone countries such as Italy and Spain. The movements in government bond yields reflect the high level of mistrust in the markets, which even appeared to react with something close to panic in the second half of 2011. This posed a major threat to financial stability and global economic development.

Due to maturing bonds alone, Spain and Italy will have considerable refinancing needs in the next few years, which is why clear budgetary improvements per se will hardly promise relief – unless there is success in turning the expectations of the capital market players around. For both countries, it is essential that average interest rates do not increase dramatically so that improvements in the primary balance can also lead to a reduction in the real burden of debt.

European politicians have tried in the past year to calm the capital markets by expanding the current rescue mechanism and thereby prevent the debt crisis spreading to more countries in the Eurozone. More and more measures have been resolved at a whole series of European summits, but have only met with moderate success so far. European politicians did not find a sustainable solution in their latest summit decisions either. Although Greece is receiving a second support package from its partners in the euro with the voluntary participation of private investors, for which negotiations for a 50 percent haircut have begun, and the European Financial Stability Facility (EFSF) was improved both in quality and quantity, these measures have been seen by the markets to be insufficient or not credible due to the volume restrictions of the EFSF. Therefore, in order to increase the clout of the EFSF, a leverage system was also adopted. Nevertheless, such leverage depends on whether and to what extent investors can be won over.

Only through massive government bond purchases by the ECB could the yields for Spain and Italy be kept to a reasonably bearable level. In autumn, even government bonds from countries with the highest credit ratings such as France, Austria and Finland came under increased pressure due to inadequate political decisions. In addition, the crisis is having an increasingly detrimental effect on the real economy. Because of the steps needed to consolidate state finances in many Eurozone countries and the dismal prospects for the global economy, the outlook for the European economy darkened over the course of the year. The rating agency Standard & Poor's warned practically all the Eurozone countries of a downgrade before the summit in December, unless convincing measures were taken. According to the agency, there was even a risk of Germany losing its AAA rating. However, German government bonds were still regarded on the market as a safe haven in the Eurozone so that at least Germany remained spared a downgrade by S&P at the beginning of 2012. Nevertheless, two countries, France and Austria, lost their top rating, which also led to a downgrading of the EFSF.

Due to the escalating crisis in the Eurozone, the European Central Bank (ECB) recommenced its purchasing programme for European government bonds (Securities Markets Programme, SMP) in August, which it had suspended, and purchased government bonds in a volume of more than EUR 137 billion by the end of the year. Thus, the total volume of its government bond portfolio nearly tripled within half a year. This sometimes attracted hefty criticism, which culminated in the resignations of Axel Weber and Jürgen Stark. In addition to this, the central bank resolved two re-

ductions in the interest rate to 1.0% at its first two board meetings under the leadership of the new ECB President Mario Draghi, thereby cancelling out the two rate increases in April and July. Because the Eurozone crisis was the most important topic on the capital markets, federal securities remained in high demand as a safe haven. Yields on ten-year federal bonds fell heavily by the end of 2011 and lay below 2.0%. US treasuries were also sought as a safe haven. During the course of the Eurozone crisis, yields on ten-year treasuries fell from their February peak of 3.7% to 1.7% in September. The yield spread between ten-year US treasuries and federal bonds narrowed gradually over the course of the year. After a weak issue result for German government bonds in November, ten-year US government bonds even yielded 30 basis points below German government bonds for a short time. By the end of the year, this situation normalised and the spread was almost even.

On the interbank market, new tensions arose in the wake of the Eurozone crisis and the impending involvement of the private sector in the rescue of Greece. After money market rates had mostly normalised in the previous year, the 3-month EURIBOR was listed a good 120 basis points above its benchmark for secured lending (EUREPO). The ECB reacted to this by flooding the markets with liquidity, providing liquidity for a period of up to three years for the first time in its history. The banks matured almost EUR 500 billion in the three-year tender in December. Despite this, the situation still did not settle down fully. The European banks therefore made increasing use of the deposit facility. At the end of 2011, the volume of overnight deposits climbed to a volume of up to EUR 452 billion. In particular, banks from countries particularly badly affected by the debt crisis continue to experience considerable problems refinancing themselves via the markets and therefore away from the ECB. Many banks have not yet completed the process of adjusting their balance sheets. In particular, the qualitative and quantitative liable capital requirements, which are soon to increase significantly, have put many banks in a difficult position.

In the first half of the year, the euro gained significantly in value against the US dollar. Primarily the loose US monetary policy was a burden to the currency. Over the course of the year, the national debt crisis in the Eurozone countries then came under the increasing scrutiny of the market players, which gradually and increasingly damaged the euro. The easing of monetary policy by the ECB at the end of the year also further increased the pressure on the euro. With the escalating crisis developments in the Eurozone, the US dollar increased in value against the euro and at the end

of the year slightly undercut the level of 1.30 USD/EUR. In comparison to the British pound, the euro moved in a relatively narrow band over the course of the year of between 0.91 and 0.83 GBP/EUR and was valued at 0.83 GBP/EUR at the end of the year. The Japanese yen, on the other hand, increased in value against the euro. The same applied to the Swiss franc until August, until the Swiss National Bank announced a floor of CHF 1.20 to the euro. This floor has been maintained since then and there has been no need to defend it intensively.

The most important international stock markets on both sides of the Atlantic were also drawn into the debt crises. The slowdown of the global growth prospects also played a role in this, however. In the summer, the DAX, the leading German index, fell from its high above 7,500 points noted in May to 5,000 points. Even though the DAX was able to recover gradually from its lowest levels, its annual performance was negative as for most of the other international share indices.

Forecasts and Other Statements on Anticipated Developments

World economic growth is far slower this year than in the previous two years. The consequences of the Eurozone crisis for the real economy were already increasingly noticeable at the end of 2011. The US economy did however start the year with strong momentum. Consumption remains an important driving force for growth, with income in private households growing gradually and the inflation rate falling. Investment also continues to rise, albeit at a slightly slower rate than in the previous year. In the face of recent brighter opinion polls in the corporate sector and improved consumer confidence, we are anticipating a growth in GDP of 2.2% in 2012. The US Federal Bank will not be making any interest rate increases this year either, according to its announcement. The employment market, which only appears to be showing slow signs of improvement, will initially continue to impede the economy in 2012. Other disturbances in the domestic economy could come from US fiscal policy, which will have to tighten its belt – if not in 2012, then from 2013 at the latest. New controversial budget discussions with a lack of sustainable decisions and resulting in critical market reactions are to be feared in the run-up to the presidential elections in November. The biggest risk to the global economy and therefore also to the US economy comes, however, from the debt crisis in the Eurozone.

The calming of the European crisis is made more difficult by growing burdens on the real economy. For 2012, a fall in GDP of 0.2% in comparison to the previous year is to be anticipated in the Eurozone. Harsh austerity programmes in several countries are having a dampening effect. For example, we anticipate an even heftier economic slump in Spain and Italy than in the Eurozone overall. In 2012, NORD/LB expects the annual average unemployment rate to rise further, reaching 10.6%. The high level of unemployment in many countries remains a major problem. The situation on the employment market is particularly difficult in Spain. Greece and Portugal will not be able to free themselves from the sharp recession in 2012 either because of the austerity policies.

Germany will not be able to detach itself from this because of its heavy focus on exports, but we do expect a slight economic growth of 0.5% thanks to a robust domestic economy. Predominantly private consumption will become the cornerstone of macroeconomic development. The extent of the economic slump and the question of how fast the economy can recover depend greatly on the future development of the debt crisis, however.

The rate of inflation will return to the region tolerated by the ECB due to the clear slowdown in economic activity and as a result of base effects in the current year. The rise in administered prices may well prevent an excessively sharp fall, however, which is why we are assuming an average annual inflation rate (HICP) of 1.9% for the Eurozone. In Germany, the fall in the value of money is likely to be slightly slower. The European Central Bank has already returned to a base rate level of 1.0%. This level may well not be touched until well into 2013, and there is even a certain chance of a further interest rate cut. The development of lending in the Eurozone and the monetary aggregates are running at such a slow pace that, even in the mid-term, no notable inflation risks are to be anticipated. In the face of continuing tensions on the financial markets and against the backdrop of the debt crisis, the ECB will continue its unconventional measures in 2012.

Federal bonds do remain safe, but their reputation as a safe haven may well gradually fade – depending on the crisis strategy of the politicians. By the end of the year, we expect to see a moderate rise in yields with a continued steep yield curve. However, uncertainty is extraordinarily high in this regard too due to the course of European politics, which can be difficult to anticipate.

Development of Business Sectors

Financial Markets

The trading sector of Norddeutsche Landesbank Luxembourg repositioned itself at the beginning of financial year 2011 under the name Financial Markets. The new structure enforces the stronger focus on client-orientated business. The groups “Client Relationship Management”, “Corporate Sales” and “Risk Distribution & Solutions” are new, and became operational within the shortest space of time, being able to successfully transact the first business for the bank in financial year 2011. The classic internal service functions close to trading are bundled together in “ALM/Treasury”. The bank thus pursues an integrated trading approach with the objective of generating a value creation chain that is as efficient as possible, thereby making a high, sustainable contribution to results. Credit Investments is no longer operated by the bank; the existing portfolio is being successively dismantled.

Client Relationship Management (CRM)

The target group of CRM, which was intensified in 2011, is exclusively institutional clients in Switzerland, the Benelux states and Liechtenstein. CRM is the central point of contact for clients and brokers transactions from the entire range of products established in the NORD/LB Group.

Via this new business initiative, new strategic clients are being won for the NORD/LB Group, building on the network that already exists. This is an extension of the activities of “Relationship Management Institutional Clients” in NORD/LB.

Corporate Sales (CS)

The Corporate Sales Team is a product specialist for interest rate and currency management and offers evaluation of potential and processing of proposals for individual solutions for clients, initially building on existing customer relationships in the corporate division of NORD/LB. Like CRM, CS also offers both products from the sub-group NORD/LB Luxembourg and NORD/LB. As well as the acquisition of new clients, the focus is on the exploitation of cross-selling potential.

Risk Distribution & Solutions (RDS)

In close cooperation with the participating departments of NORD/LB, the RDS team, which was only established in

the middle of the year, is to be the placement agent for a wide range of credit products – both for external mandates and counterparties and for internal market segments and products of NORD/LB. Banks, funds, pension funds and insurance companies in Europe are to be supported from the European financial centre of Luxembourg. Added to this is the structuring expertise, which makes the locational benefits of the banking centre useful for the Group.

ALM/Treasury

ALM/Treasury is a service provider for the bank and offers solutions for all matters regarding supply of liquidity and interest rate and currency management. The sector is substantially responsible for the management of the balance sheet, purchases and sells securities for the purpose of managing liquidity and interest rate risks and generates an additional contribution to the results within the framework of risk limits set by the Board of Directors through an active management of client flows. At the centre is the securing of the liquidity supply of the sub-group at all times. ALM/Treasury is an integral component of the funding of the Group and uses its international connections to this end, in particular via access to primary liquidity of the Swiss National Bank and the active participation in the Swiss repo market. The Group is involved in committees and coordination processes spanning the institution. A broad diversification of the refinancing sources for the lending business and a high flexibility with regard to currencies, maturities and redemption structures is guaranteed. Deposits by banks and institutional investors, issuance programmes (ECP, EMTN), open market transactions and internal group funding for long-term maturity brackets over 24 months all serve this purpose. Moreover, the bank also actively operates as a lender in repo transactions in order to increase its share in the collateralised lending business.

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

Based on a broad spectrum of instruments for liquidity risk management and through the consistent use of collateralised lending, it was possible to both secure the liquidity supply of the bank at all times and also generate a considerable positive contribution to the results. An active maturity transformation policy on the basis of the bank’s integrated trading approach forms the basis for the good transformation result in this year as in previous years.

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

In addition to the above, the bank is also active as an approved insurance broker in Luxembourg. In this context, 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.

In addition to this, the range of services offered by the bank also includes the conception and launch of public funds both for the bank's own Private Banking clientele and the clientele of other Private Banking units within the Group as well as for external parties. In January 2012, another mutual fund open to the general public was floated, following on from the first one, which was successfully launched in 2009. The funds are supported by the bank as Fund Manager and Initiator; the custodian bank and investment company activities are outsourced to a service provider. The Group-wide marketing of the fund is achieved by including representatives from NORD/LB GZ and Bremer Landesbank in the launch of the fund via an investment committee, which can make recommendations, and a Group-wide steering committee for Private Banking.

On the customer side, the first half of 2011 was characterised by a muted approach on the capital and stock markets. The uncertainties in relation to the further economic development in the Eurozone and the USA and the ongoing discussions on the further development of the pension markets, in particular including government bonds here, led to rather reticent investment behaviour among the clientele. This development was reinforced in the second half of 2011 through the intense distortions on the capital markets. The search for presumably secure capital investments led to a further reduction in the share quota within customer deposits in favour of money market investments.

Despite the difficult markets, it was possible to significantly increase the results in Private Banking in comparison to the previous year.

Lending

The lending business comprises the two business segments Cooperative Lending Business and Affiliated Business. It is looked after by the Lending and Loan Servicing Management departments.

Within the segment "Cooperative Lending Business", successful and confident cooperation has existed for many years, especially with the value driver corporate clients of NORD/LB Hannover. At the centre of the activities of the bank are comprehensive services for the assets business. On the products side, the classic 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 is involved in the lending business of NORD/LB as an efficient quality service provider in the loan servicing segment relating to standard products, but also structured transactions.

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

As a classic business segment, the lending business represents an important pillar of income for the bank, although this business has performed regressively over the last few years due to the strategic re-positioning of the parent company. Formerly large-volume products such as euro syndicated loans have increasingly taken a back seat.

The bank therefore strives to achieve specialisation in keeping with the Group strategy. Together with the NORD/LB market segments, starting points for the expansion of the level of servicing and the extension of the service/product range were identified. At the same time, the strategic focus is on achieving clear product and service responsibilities within the Group. As well as this, selected business segments are to be taken up in agreement with the Group. Here, the segment "Accounts Receivable Purchasing" (trade debtors) is to be highlighted, which was already successfully concentrated in Luxembourg, and will in future enrich the bank's range of products as a strategic business segment in the long-term.

In addition to this core business within the business sector

“Affiliated Business”, foreign currency loans are issued primarily to associated savings banks (customer loans under guarantee of the respective agent savings bank). Here the bank creates added value through the promotion of the affiliation principle and by contributing its strengths in the foreign currency refinancing sector. This business is also to be further expanded in future.

Outlook

In the middle of June 2011 NORD/LB Luxembourg concluded a strategic project with the completion of the new bank building and relocated its registered office to near the airport (7, Rue Lou Hemmer, L-1748 Luxembourg-Findel).

The bank’s strategy will focus on the business segments Loans, Private Banking and Financial Markets in the future too. The adjustment of the business strategy carried out in 2011 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. An important aspect will be to highlight the locational benefits of Luxembourg within the Group as comprehensively as possible, to react flexibly and quickly to new customer needs, and to restrict the risks as far as possible.

In parallel with this, the bank’s IT system landscape is being consolidated and technically modernised within the scope of a large project. This strategic project should be completed towards the middle of 2012 as things currently stand.

In the lending segment, the bank is expecting further pressure on volumes and margin levels. Targeted countermeasures have already been introduced. The central starting point is an increasing specialisation in connection with the increase in quantities with a simultaneous reduction in the average batch sizes. Efforts are being made to address further specific business segments, just as accounts receivable purchasing in the past.

The trend seen in the first half of 2011 towards increasing interest rates reversed in the second half of the year. Private Banking is also expecting sustained low interest rates at the short end in 2012 as well as further volatility on the capital markets. Risk-cushioned capital investments will be a significant focus for investments amongst the clients in 2012 too. In addition, the investment in bonds with good credit ratings (Corporates and Financials) will move further into the foreground.

Private Banking sees real estate financing as a growth field for 2012. The uninterrupted trend towards real estate ownership from the aspects of yield and security will lead to intensified activities in this segment.

For the business segment Financial Markets, the main focus is on client business and the efficient control of liquidity supply for the bank. Projects within the scope of changes in the regulatory environment, in particular in connection with the new liquidity ratios (LCR/NSFR), represent another central sphere of activity, which will leave its mark on the coming financial year.

Using the subsidiary NORD/LB CFB, the bank will also concentrate in the future on the issue of Lettres de Gage Publiques (public covered Luxembourg bonds). To this end, NORD/LB CFB will be integrated still further into the structures and procedures as well as the control mechanisms of the parent bank NORD/LB Luxembourg in 2012. The objective is the harmonisation of corporate policy and the standardisation of the control of both banks in the sub-group as well as the use of savings potentials on the cost side. The focus of the subsidiary will continue to lie in the refinancing of public lending business as a complement to the other business activities in the NORD/LB Group of companies.

Following the successful reduction of the business activities and return of the banking licence, the sale of Skandifinanz AG will be striven for in 2012.

Overall, the bank expects another satisfactory result in 2012, despite the continuing difficult economic situation and high degree of uncertainty on the financial markets.

Earnings

The financial statements of NORD/LB Luxembourg as at 31.12.2011 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 10.6 million to EUR 60.5 million.

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

The components of the income statement for the years under report 2011 and 2010 performed as follows:

| | 2011 (KEUR) | 2010 (KEUR) | Increase/Decrease ^{*)} (KEUR) |
|--|----------------|----------------|---|
| Net interest income | 107,202 | 129,485 | -22,284 |
| Risk provisions in lending business | 18,201 | -24,749 | 42,950 |
| Commission expenses/net income | -13,375 | -20,378 | 7,003 |
| Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting | -6,716 | 3,704 | -10,420 |
| Other operating profit/loss | 4,133 | -4,984 | 9,116 |
| Administrative expenses | -34,588 | -33,013 | -1,575 |
| Profit/loss from financial assets | -14,368 | -177 | -14,191 |
| Earnings before income taxes | 60,488 | 49,888 | 10,600 |
| Income taxes | -14,537 | 19,427 | -33,964 |
| Profit for the year | 45,952 | 69,316 | -23,364 |

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

Net interest income fell against the previous year by EUR 22.3 million to EUR 107.2 million.

Thanks to hedging measures, the risk provisions generated a positive result in the year under report 2011 despite the tense economic situation. In comparison to the previous year there was no new notable need for value adjustments and income from the sale of value-adjusted commitments.

The commission result improved against the previous year by EUR 7.0 million to EUR -13.4 million. The decisive factor in this was lower costs for the abovementioned hedging measures.

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

The other operating profit/loss is clearly positive. Administrative expenses rose in comparison to the previous year. The negative result from financial investments results primarily from a value-adjusted security to the central Greek government.

Before taxes, the bank is reporting a profit for 2011 in the sum of EUR 60.5 million; after taxes, the net income for the year amounts to EUR 46.0 million. The components of the income are broken down as follows:

Net Interest Income

| | 2011 (KEUR) | 2010 (KEUR) | Increase/Decrease ^{*)} (KEUR) |
|----------------------------|----------------|----------------|---|
| Interest income | 557,811 | 541,345 | 16,467 |
| Interest expense | -450,610 | -411,859 | -38,750 |
| Net interest income | 107,202 | 129,485 | -22,284 |

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

Both interest income and interest expense expanded in the year under report in comparison to the previous year. This is attributable on the one hand to changes in the balance sheet structure between the reporting dates and on the other by changes in the market interest rate.

Risk Provisions in Lending Business

It was possible to achieve a positive result from risk provisions despite the tense economic situation.

Net Commission Income

| | 2011 (KEUR) | 2010 (KEUR) | Increase/Decrease ^{*)} (KEUR) |
|------------------------------|----------------|----------------|---|
| Commission income | 24,021 | 32,358 | -8,338 |
| Commission expense | -37,395 | -52,736 | 15,341 |
| Net commission income | -13,375 | -20,378 | 7,003 |

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

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

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

| | 2011 (KEUR) | 2010 (KEUR) | Increase/Decrease ^{*)} (KEUR) |
|---|----------------|----------------|---|
| Trading profit/loss | -1,477 | 2,105 | -3,582 |
| Profit/loss from initial recording as financial instruments stated at fair value through profit or loss | -1,227 | -374 | -853 |
| Profit/loss from hedge accounting | -4,012 | 1,972 | -5,985 |
| Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting | -6,716 | 3,704 | -10,420 |

^{*)}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

| | 2011 (KEUR) | 2010 (KEUR) | Increase/Decrease ^{*)} (KEUR) |
|------------------------------------|----------------|----------------|---|
| Other operating income | 17,893 | 3,128 | 14,765 |
| Other operating expenses | -13,761 | -8,112 | -5,649 |
| Other operating profit/loss | 4,133 | -4,984 | 9,116 |

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

The other operating income is characterised by the reversal of Accruals to NORD/LB GZ due to changes in accounting terms. The rise in other operating expense results primarily from the depreciation to the "Value in Use" of a current project.

Administrative Expenses

| | 2011 (KEUR) | 2010 (KEUR) | Increase/Decrease ^{*)} (KEUR) |
|--------------------------------------|----------------|----------------|---|
| Wages and salaries | 15,249 | 12,239 | 3,010 |
| Other staff expenses | 2,313 | 2,609 | -296 |
| Staff expenses | 17,562 | 14,847 | 2,715 |
| Other administrative expenses | 15,182 | 17,761 | -2,579 |
| Depreciation and value adjustments | 1,844 | 404 | 1,440 |
| Administrative expenses | 34,588 | 33,013 | 1,575 |

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

Administrative expenses including depreciation show an overall rise of EUR 1.6 million to EUR 34.6 million. The expansion of the staffing levels, especially in the second half of the year 2010, leads to a fundamental rise in staff expenses. In comparison to the previous year, the other administrative expenses are EUR 2.6 million lower. This is primarily caused by reduced costs for audits and consultancy.

Profit/Loss from Financial Assets

| | 2011 (KEUR) | 2010 (KEUR) | Increase/Decrease ^{*)} (KEUR) |
|--|----------------|----------------|---|
| Profit/loss from financial assets classified as LaR | -239 | -303 | 65 |
| Profit/loss from financial assets classified as AfS (without participating interests) | -14,130 | 126 | -14,256 |
| Profit/loss from affiliated companies | 0 | 0 | 0 |
| Profit/loss from joint ventures and associated companies | 0 | 0 | 0 |
| Profit/loss from other participating interests | 0 | 0 | 0 |
| Profit/loss from financial assets | -14,368 | -177 | -14,191 |

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

Profit/loss from financial assets in the previous year resulted almost exclusively from the disposal of financial instruments. Income was generated from the disposal of securities in 2011. On the negative side, there is an impairment on a Greek central government security (EUR -18.5 million).

Income Taxes

| | 2011 (KEUR) | 2010 (KEUR) | Increase/Decrease ^{*)} (KEUR) |
|---------------------|----------------|----------------|---|
| Current taxes | -999 | 5,890 | -6,888 |
| Deferred taxes | -13,538 | 13,538 | -27,076 |
| Income taxes | -14,537 | 19,427 | -33,964 |

*) 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.

Proposal for Appropriation of Earnings

The profit of the year under report including profit carried forward amounts to EUR 55.2 million. The Board of Directors proposes to the annual general meeting the following appropriation of earnings:

| | 2011 (KEUR) | 2010 (KEUR) | Increase/Decrease ^{*)} (KEUR) |
|---|----------------|----------------|---|
| Profit/loss for the year under report | 45,952 | 69,316 | -23,364 |
| Profit carried forward from previous year | 9,217 | 10,901 | -1,684 |
| Sub-total | 55,169 | 80,217 | -25,048 |
| Dividend payment | -40,000 | -40,000 | 0 |
| Allocation to the legal reserve | 0 | 0 | 0 |
| Transfer to the other reserves | -15,000 | -31,000 | 16,000 |
| Retained profit brought forward for year under report | 169 | 9,217 | -9,048 |

| | 2011 | 2010 | Increase/Decrease |
|---------------------------|---------------|---------------|-------------------|
| Dividends (EUR) | 40,000,000.00 | 40,000,000.00 | 0.00 |
| Number of shares | 820,000 | 820,000 | 0 |
| Dividends per share (EUR) | 48.78 | 48.78 | 0.00 |

Schedule of Assets and Financial Data

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/Decrease (EUR million) |
|--|-----------------------------|-----------------------------|------------------------------------|
| Loans and advances to banks | 4,324.6 | 5,689.3 | -1,364.7 |
| Loans and advances to customers | 3,853.8 | 4,032.3 | -178.5 |
| Risk provisions | -26.2 | -185.3 | 159.1 |
| Financial assets at fair value through profit or loss | 604.8 | 419.6 | 185.2 |
| Financial assets | 6,313.0 | 6,863.8 | -550.9 |
| Equity-accounted investments | 0.0 | 0.0 | 0.0 |
| Other assets | 322.2 | 256.4 | 65.8 |
| Total assets | 15,392.1 | 17,076.1 | -1,684.1 |
| Liabilities to banks | 9,443.1 | 10,087.0 | -643.9 |
| Liabilities to customers | 2,379.7 | 3,311.4 | -931.7 |
| Securitised liabilities | 2,209.0 | 2,389.0 | -180.0 |
| Financial liabilities at fair value through profit or loss | 347.6 | 296.1 | 51.4 |
| Provisions | 12.8 | 14.6 | -1.8 |
| Other liabilities | 387.9 | 306.6 | 81.2 |
| Reported equity | 612.1 | 671.4 | -59.3 |
| Total equity and liabilities | 15,392.1 | 17,076.1 | -1,684.1 |

The bank also revised its business structure in the year under report. This is shown in particular in the balance sheet total, which has fallen in comparison to the previous year by EUR 1.7 billion to EUR 15.4 billion. In the balance sheet structure, the fall mainly affected the interbank business. The loans and advances and the liabilities to banks fell by EUR 1.4 billion and EUR 0.6 billion respectively. The business volume with customers recorded on the balance sheet fell on the assets and liabilities sides by EUR 0.2 billion and EUR 0.9 billion respectively. A similar development was recorded in the items Financial assets and Securitized liabilities, which fell by EUR 0.5 billion and EUR 0.2 billion respectively.

On the reporting date 31 December 2011, the financial assets at fair value through profit or loss consist of trading

assets at EUR 0.6 billion (previous year EUR 0.3 billion) and financial instruments at fair value through profit or loss at EUR 0.0 billion (previous year EUR 0.1 billion).

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

Financial liabilities at fair value through profit or loss exclusively include trading liabilities of EUR 0.3 billion (previous year EUR 0.3 billion) on the reporting date.

The bank's reported equity on 31 December 2011 was EUR 612 million (previous year EUR 671 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 2011 was prepared on the basis of IFRS 7.

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

Risk Management

Risk Management – Policy

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

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

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 version of MaRisk contains changed requirements for risk management. The recommendations for action derived from the project to implement the second MaRisk amendment have been completed successfully. The necessary measures identified during the analysis of the third version of MaRisk have likewise been implemented.

In order to identify risks, NORD/LB Luxembourg has drafted a multi-stage process to derive an overall risk profile, which shows the risk types relevant to the bank, and which makes a distinction between significant and insignificant risks to aid further differentiation. In this context, significant risks are

all relevant types of risk which could significantly impair the capital resources, the income situation, the liquidity situation or the achievement of strategic targets of NORD/LB Luxembourg.

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

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

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.

Through this conservative, Group-wide model, it was established that, in normal cases, a maximum of 80 percent of the economic risk coverage (status quo of the RBC model) may be burdened with risk potential. The economic capital adequacy item should exhibit a minimum cover ratio of 125 percent.

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

The risk strategy was reviewed in 2011 and adjusted and discussed in detail with the supervisory bodies after being passed by the Board of Directors.

Risk Management – Structure and Organisation

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

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

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

The following organisational units are involved in the risk management process:

| Market/Market Consequence | Organisational Unit |
|---------------------------|---------------------------|
| Market | Financial Markets |
| | Lending |
| | Business Development |
| | Loan Servicing Management |
| Market Consequence | Accounting/Reporting |
| | Controlling |
| | Credit Risk Management |
| | Operation Services |
| | Legal/Compliance |
| | Auditing |

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

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

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

The handling of new products, new markets, new distribution channels, new services and their variations is regulated within the scope of the New Product Processes (NPP). The essential aim of the NPP is for all potential risks for NORD/LB

Luxembourg to be highlighted, analysed and assessed in the run-up to business being established. Associated with this are the integration of all necessary audit areas and documentation of new business activities, their treatment in the overall operational process, the decisions to establish business and any appropriate associated restrictions.

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

Risk Management – Risk-bearing Capacity Model

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

The aim of the model is the aggregated representation of the risk-bearing capacity (RBC) both at individual bank and NORD/LB Luxembourg Group level in terms of a comparison of the risk potential resulting from the main risks and the risk capital. Through the regular monitoring and reporting process, it is ensured that the competent governing bodies of the bank are informed promptly of the risk-bearing capacity situation. This model serves to secure risk-oriented corporate management.

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

The RBC model comprises the three perspectives of going concern, economic capital adequacy and regulatory capital adequacy, in each of which the total of the significant risks (risk potential) is compared with the defined risk capital. The economic and regulatory capital adequacies 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 percent 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. From an economic perspective, a dynamisation process for effects affecting risk capital during the year is carried out as for 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 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 scenarios, the business and risk focuses of the NORD/LB Group are

initially drawn upon as selection guidelines. Amongst others, this includes selecting sectors, segments, regions and customers that have a decisive influence on the risk situation of the Group. These risk concentrations are regularly determined, reported and monitored with targeted stress tests in the context of risk-bearing capacity.

The relevant scenarios are merged at NORD/LB Group level and are to be applied as a standard across all individual companies, in order to ensure comparability between the banks and to ensure that it is possible to aggregate them into group values. On top of this, in 2011, the bank developed stress tests which are adapted to its own specific risk profile.

In the year under report, the NORD/LB Group revised its existing RBC model, which also applies to NORD/LB Luxembourg, and improved it, especially with regard to determining risk potential. This primarily includes comprehensive improvements to the loan portfolio model, in areas such as the modelling of the amount of losses in the event of default, and taking into account independence between individual borrowers as well as the integration of losses through rating migration. Conversely, model mark-ups that had been undertaken until now were reduced. The transfer of the data from the internal credit risk reporting into a new IT environment enables a further improvement of data quality, for example in relation to the market values and securities to be taken into account. Furthermore, the method of quantifying the participation risk was redrafted in order to take suitable account of the book value of continuing risks. When determining the market price risks, the scaling factor used for longer holding periods was adjusted.

Both for the requirements of MaRisk (AT 4.3.3) and of Circular CSSF 11/506 of 11 March 2011, inverse stress tests are to be carried out for NORD/LB Luxembourg. Inverse stress tests examine which events could threaten the ability of the bank to survive because the original business model would prove no longer viable or sustainable, or, for example, there would be insufficient equity or liquidity reserves. Inverse stress tests complement the other stress tests in that unfavourable events or combinations of unfavourable events which could lead to such a situation are imputed. Based on Group methodology, a combination of qualitative and quantitative inverse stress tests are used in order to identify the events which question the overall adequacy of the existing business model, risk profile and existing capacity to control and bear current and future risks. The results of the inverse stress test were included in the report on risk-bearing capacity as at 31 December 2011.

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.

Risk Management – Development in 2011

The cover ratio in the economic capital adequacy (status quo) improved considerably in the year under report and amounts to 316% on the reporting date. Overall, the risk cover level is therefore considerably higher than the internal target value of 125%; the risk strategy requirements as regards the allocated risk capital to the risk types are likewise met. Of the significant risk types, the credit risk is of the greatest importance by far.

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

| EUR million | Risk-bearing Capacity 31.12.2011 | | Risk-bearing Capacity 31.12.2010 | |
|-----------------------------|-------------------------------------|--------------|-------------------------------------|--------------|
| Risk capital | 728 | 100 % | 767 | 100 % |
| Credit risks | 139 | 19 % | 233 | 30 % |
| Participation risks | 17 | 2 % | 8 | 1 % |
| Market price risks | 56 | 8 % | 34 | 4 % |
| Liquidity risks | 8 | 1 % | 8 | 1 % |
| Operational risks | 10 | 1 % | 10 | 1 % |
| Total risk potential | 231 | 32 % | 293 | 38 % |
| Excess cover | 497 | 68 % | 474 | 62 % |
| Risk cover ratio | | 316 % | | 262 % |

The considerable fall in credit risks results from the methodological and technical improvements in credit risk determination. The participation risks are rising significantly due to the increase of the participation in NORD/LB Covered Finance Bank S.A. by EUR 8 million as well as due to adjustments in the determination methodology. The rise in the market price risks is attributable to an expansion of trading activities, in particular in the securities business. Liquidity risks and operation risks remain almost unchanged in comparison to the previous year.

Risk Management – Outlook

The RBC model is currently undergoing a critical review within the NORD/LB Group, against the background of an industry-wide discussion with the German regulatory authorities on the assessment of internal bank risk-bearing capacity concepts and the requirements formulated in this respect by the regulatory authorities, in order to ensure compliance with the minimum requirements of risk management in the future. NORD/LB Luxembourg is participating in this process. The switchover to the revised RBC model is anticipated for the cut-off date of 31 March 2012.

Credit Risk

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

Strategy

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

The bank's lending business is focussed on the cooperative/transfer lending business with NORD/LB. There has

been successful and trusting cooperation for many years in this field.

In its private customer business, the bank only issues collateralised loans in exchange for assets. Furthermore, the bank offers investment property financing to the customer segment. Cover is provided by means of land charges or similar securities.

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

Structure and Organisation

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

The organisational units Corporate Banking and Loans Servicing Management (Lending – Market segment) and Credit Risk Management (Lending – Market Consequences) in particular are integrated into this system.

Credit Risk – Control

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

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

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

In order to control the risks at individual transaction level, specific limits are set for each borrower within the scope of the operational limiting, which act as an upper lending limit. Significant parameters for deriving the limits are the

creditworthiness of the debtor and the free funds available to it to operate the debt service.

Risk concentrations and correlations at portfolio level are portrayed within the scope of the quantification of the credit risk potential in the credit risk model. Moreover, risk concentrations at NORD/LB Group level are limited and monitored via strategic limiting for the identification and monitoring of risk concentrations at counterparty, country and sector level. In addition to this superior limiting, there is also limiting at NORD/LB Luxembourg Group level regarding countries and sectors.

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

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

The counterparty risk report contains a detailed and comprehensive presentation and analysis of the counterparty risk of the bank at an overall portfolio level according to various aspects. The counterparty risk report also features a stress test. The exposure considered comprises all of the assets, including possible liabilities and approvals, as well as derivatives and repo transactions. The counterparty risk report is based on the data from the regulatory reporting process. The counterparty default risks are determined on the basis of Basel II: 1. All of the above processes are performed on the basis of 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 incorporates correlations and concentrations into the risk assessment.

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

The 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 2011

The maximum credit default risk amount for reported and off-balance sheet financial instruments is EUR 17.4 billion on the reporting date and has fallen by 9.3% in 2011.

| Risk-bearing Financial Instruments EUR million | Maximum Default Risk Amount | Maximum Default Risk Amount |
|--|--------------------------------|--------------------------------|
| | 31.12.2011 | 31.12.2010 |
| Loans and advances to banks | 4,325 | 5,689 |
| Loans and advances to customers | 3,854 | 4,032 |
| Financial assets stated at fair value through profit or loss | 605 | 420 |
| Positive fair values from hedge accounting derivatives | 43 | 39 |
| Financial assets | 6,313 | 6,864 |
| Sub-total | 15,139 | 17,044 |
| Non-utilised loan commitments | 963 | 1,269 |
| Guarantees for third-party invoices | 1,258 | 828 |
| Total | 17,360 | 19,140 |

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

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

The basis for the calculation of the credit exposure is the drawdown (in the case of guarantees, the nominal value; in the case of securities, the book value) and the credit equiv-

alents from derivatives (including add-on and taking into account netting). Irrevocable loan commitments are added to the credit exposure at 61% and revocable ones at 5%, while securities are not taken into account.

Analysis of credit exposure

The credit exposure as at 31 December 2011 is EUR 21.6 billion (previous year EUR 18.3 billion). The rise in exposure is essentially due to the method of its determination being adapted within the scope of the technical renewal of the interface to NORD/LB. As at 31 December 2011, financial securities are no longer netted directly in the exposure but instead are entered into the credit risk calculation via the parameter “LGD after collateralisation”. This means that in

the case of repo transactions, the security with the pension provider is shown on the one hand as credit exposure with the issuer and on the other as credit exposure with the counterparty of the repo transaction. Exposure is therefore shown more conservatively on the basis of gross values. The credit exposure according to the new methodology for the comparative reporting date of 31 December 2010 was recalculated retrospectively and amounts to EUR 23.1 billion. In the year under report 2011, taking into account the conformity of the methodology, the exposure therefore falls to 6.4 %.

NORD/LB Luxembourg uses an internal model to classify the credit exposure. The central component of this is the standard IFD rating scale agreed upon by the banks, savings banks and associations which have signed up to the Initiative Finanzstandort Deutschland (IFD – Initiative of the Financial Centre Germany). This has been designed to improve the comparability of the various rating levels of the individual financial institutions. The uniform Group-rating categories of the 18-step DSGV rating master scale used by NORD/LB Luxembourg can be transposed directly to the IFD categories.

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

| Rating Structure ¹⁾²⁾ EUR million | Loans ³⁾ | Securities ⁴⁾ 31.12.2011 | Derivatives ⁵⁾ | Other ⁶⁾ | Total | | |
|---|---------------------|--|---------------------------|---------------------|---------------|--------------------------|--------------------------|
| | | | | | 31.12.2011 | 31.12.2010 ⁷⁾ | 31.12.2010 ⁸⁾ |
| very good to good | 11,086 | 7,110 | 413 | 0 | 18,609 | 15,191 | 20,010 |
| good/satisfactory | 1,090 | 95 | 0 | 0 | 1,185 | 1,166 | 1,437 |
| still good/adequate | 929 | 39 | 8 | 0 | 976 | 417 | 224 |
| increased risk | 369 | 49 | 0 | 0 | 418 | 786 | 763 |
| high risk | 139 | 0 | 0 | 0 | 139 | 215 | 218 |
| very high risk | 82 | 0 | 0 | 0 | 82 | 217 | 103 |
| Default (=NPL) | 178 | 28 | 3 | 0 | 209 | 307 | 337 |
| Total | 13,873 | 7,321 | 424 | 0 | 21,618 | 18,299 | 23,093 |

1) Classification in accordance with IFD rating categories.

2) Differences in amount are rounding differences.

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

4) Includes the bank's own stocks of securities of external issuers (investment book only.)

5) Includes derivative financial instruments, such as financial swaps, options, futures, forward rate agreements and currency transactions.

6) Includes other products such as transmitted loans and administrative loans.

7) Comparative reporting date in accordance with risk report as at 31.12.2010.

8) Retrospectively recalculated comparative reporting date due to adjusted calculation method.

The majority of total exposure (86.1 %) is in the “very good to good” rating category. The proportion of this rating, the best rating category, in the total exposure continues to be very high due to the large volume of business conducted with financing institutions and public administrative offices.

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

| Sectors ¹⁾²⁾ EUR million | Loans ³⁾ | Securities ⁴⁾ 31.12.2011 | Derivatives ⁵⁾ | Other ⁶⁾ | Total | | |
|---|---------------------|--|---------------------------|---------------------|---------------|--------------------------|--------------------------|
| | | | | | 31.12.2011 | 31.12.2010 ⁷⁾ | 31.12.2010 ⁸⁾ |
| Financial institutes/insurers | 9,662 | 6,165 | 409 | 0 | 16,237 | 13,056 | 17,866 |
| Service industry/other | 1,598 | 1,130 | 0 | 0 | 2,729 | 2,849 | 2,690 |
| of which real estate and residential | 476 | 0 | 0 | 0 | 476 | 497 | 557 |
| of which public administration | 520 | 1,057 | 0 | 0 | 1,578 | 1,414 | 1,425 |
| Transport/ news broadcasting | 387 | 26 | 0 | 0 | 413 | 408 | 408 |
| of which shipping | 14 | 0 | 0 | 0 | 14 | 14 | 14 |
| of which air transport | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Processing industry | 1,225 | 0 | 3 | 0 | 1,227 | 1,201 | 1,227 |
| Energy, water supply, mining | 532 | 0 | 5 | 0 | 536 | 368 | 371 |
| Trade, maintenance, repair | 247 | 0 | 6 | 0 | 253 | 319 | 323 |
| Agriculture, forestry and fishing | 1 | 0 | 0 | 0 | 1 | 1 | 1 |
| Construction industry | 52 | 0 | 0 | 0 | 52 | 93 | 93 |
| Other | 169 | 0 | 0 | 0 | 169 | 4 | 115 |
| Total | 13,873 | 7,321 | 424 | 0 | 21,618 | 18,299 | 23,093 |

1) Classification in line with internal reporting according to economic criteria.

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

7) Comparative reporting date in accordance with risk report as at 31.12.2010.

8) Retrospectively recalculated comparative reporting date due to adjusted calculation method.

The table shows that the business with financial institutions/insurers of good creditworthiness, which until now was relatively low-risk, with a total share of 75.1 %, continues to make up a significant share of the total exposure. When the service sector is included, the proportion of the total exposure is 87.7 %.

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

| Regions ¹⁾²⁾ EUR million | Loans ³⁾ | Securities ⁴⁾ | Derivatives ⁵⁾ | Other ⁶⁾ | Total | | |
|--|---------------------|--------------------------|---------------------------|---------------------|---------------|--------------------------|--------------------------|
| | | | | | 31.12.2011 | 31.12.2010 ⁷⁾ | 31.12.2010 ⁸⁾ |
| Euro states | 10,538 | 5,825 | 155 | 0 | 16,518 | 14,577 | 16,758 |
| of which Germany | 5,637 | 1,822 | 85 | 0 | 7,544 | 7,246 | 9,012 |
| Other Europe | 1,700 | 815 | 269 | 0 | 2,784 | 1,665 | 4,250 |
| North America | 1,122 | 137 | 0 | 0 | 1,259 | 1,319 | 1,337 |
| Latin America | 30 | 70 | 0 | 0 | 100 | 114 | 115 |
| Middle East/Africa | 21 | 0 | 0 | 0 | 21 | 29 | 36 |
| Asia | 459 | 13 | 0 | 0 | 472 | 473 | 267 |
| Other | 2 | 462 | 0 | 0 | 464 | 124 | 330 |
| Total | 13,873 | 7,321 | 424 | 0 | 21,618 | 18,299 | 23,093 |

1) Classification in line with internal reporting according to economic criteria.

2) to 6) see previous table for rating structure.

7) Comparative reporting date in accordance with risk report as at 31.12.2010.

8) Retrospectively recalculated comparative reporting date due to adjusted calculation method.

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 (76.4 %) of loans, continues to be the most important business region by far.

Non-Performing Loans (NPL)

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

The latent borrower's default risk for the total amount of reported and off-balance-sheet transactions for which 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 risk provision on the reporting date amounts to EUR 33.8 million and, as well as portfolio loss provisions in the sum of EUR 13.2 million, includes individual loan loss provisions in the sum of EUR 12.9 million. Of this, EUR 7.0 million is attributable to one borrower from the service

provider industry. For two borrowers from the processing industry sector, there are individual loan loss provisions of EUR 4.5 million and provisions of EUR 5.5 million. The remaining individual loan loss provisions, which total EUR 1.5 million, are attributable to three borrowers from different sectors. In addition, provisions for EUR 2.2 million for off-balance sheet risks were established.

Credit Risk – Outlook

In 2012, measures are being planned in close cooperation with the NORD/LB Group for the further optimisation of the models for the quantification and control of credit and participation risks. As well as the improvement of the economic credit risk model (including depiction of domino effects and integration of credit spread risks), the loss data collection for the validation of the LGD and Credit Conversion Factor (CCF) components is being expanded further.

Participation Risk

Participation risk is also a component of counterparty risk. It describes the risk that losses may arise by providing equity to third parties. On top of this, participation risk

also includes the risk of a potential loss because of other financial obligations, if it has not been taken into account in other risks.

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

Participation Risk – Management

Strategy

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

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

Structure and Organisation

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. Internal auditing is integrated into the monitoring of the participation alongside them in its function as sub-group auditors.

The risks that arise from entering into participation are controlled and monitored by the extended sub-group Board of Directors of the bank.

Investment Risk – Control

Participating interests are constantly monitored by analysing reports drawn up during the year, interim and annual financial statements and audit reports prepared by the external auditors. The bank implements control impulses by despatching representatives of NORD/LB Luxembourg to the companies in operational mandates and/or exercising the function of the administrative board. Moreover, the

bank has established Group-wide committees, in which likewise control-relevant subjects are discussed.

Participation Risk – Measurement

The risks from the investments are integrated into the risk management policy of the bank and of the NORD/LB Luxembourg Group with reference to the quantified risk potentials per risk type. 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 2011 and Outlook

The composition of the investment portfolio remained unchanged in the year under report 2011.

Skandifinanz Bank AG was renamed Skandifinanz AG on 7 January 2011. Following the resolution of the governing bodies of the Swiss bank in 2010, the business activities both in Private Banking and in Trade Financing were reduced in an orderly manner in 2011. In a further step, its banking licence was handed back at the end of December 2011. The sale of the investment is being striven for during the first half of 2012.

The bank has begun to implement a restructuring of the investment in NORD/LB CFB in terms of personnel and organisation. The aim is to bring about increased efficiency through the standardised control and synchronisation of processes, responsibilities and bodies between the parent company and its subsidiary bank.

The avatisation of individual counterparties started in 2010 within the portfolio of NORD/LB CFB was carried forward by the bank in the year under report. The associated receivables show dormant hidden liabilities in the subsidiary bank in the sum of EUR 145 million as at 31 December 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 potential price changes resulting from market movements in the volatilities used to value the option, and that these changes could lead to a reduction in value of the position.

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

Market Price Risk – Management

Strategy

The activities of NORD/LB Luxembourg associated with market price risks are concentrated on selected markets, customers and product segments. The positioning in the money, foreign exchange and capital markets should correspond to the importance and size of the bank and is orientated primarily to the needs of the clients and the support of the overall bank management.

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

Structure and Organisation

All divisions that manage market price risk bearing positions and bear gains and losses arising from market changes are included in the process of controlling market price risks. The Controlling division monitors the risks.

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

of the divisions responsible for market price risk management, in terms of both function and organisation. It performs various monitoring, limiting, and reporting activities for the bank.

Market Price Risk – Control and Monitoring

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

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

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

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

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

As well as this, interest rate sensitivities are calculated on a daily basis. These are reported in the daily report in aggregat-

ed form for each currency at the level of the individual portfolios, for the various product types and in maturity bands.

In order to refine internal controlling at bank level, a credit spread value-at-risk method is implemented at NORD/LB Luxembourg using the method of historical simulation, which also takes into account the credit spread risks of the asset. A unilateral confidence level of 95 % and a holding period of 130 days are used in the process. The limitation of the liquidity reserve following the principle of self-consumption arises from the aforementioned standard group value-at-risk control. The non-self-consuming limits for the credit spread value-at-risk for the assets are derived from the stress scenarios of the risk-bearing capacity.

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

Market Price Risks – Reporting

In compliance with MaRisk requirements, 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 2011

As at 31 December 2011, the value-at-risk limit of NORD/LB Luxembourg amounts to EUR 7 million. The value-at-risk calculated on a daily basis (confidence level 95 % and holding period of 1 day) was EUR 1.8 million on 31 December 2011 (previous year EUR 0.6 million). The utilisation of the market price risk limit (value-at-risk limit) at NORD/LB Luxembourg was 19.1 % on average through the year (previous year 12.6 %); the maximum utilisation was 29.3 % (17.2 %) and the minimum utilisation 11.4 % (8.6 %). The credit spread risks of the liquidity reserve and the trading book were integrated into the daily value-at-risk management on 1 March 2011.

The spread of the overall risk according to risk type as at 31 December 2011 is shown in the following table:

| VaR according to Risk Factor: FX, Interest, Vega and Credit Spread Per Portfolio | | | | as at 31.12.2011 in KEUR |
|---|-------|----------|------|-----------------------------|
| Risk Factor | FX | Interest | Vega | Credit Spread |
| Bank total | + 687 | + 1,537 | + 0 | + 1,466 |
| Bank total excl. EC | + 455 | + 1,499 | + 0 | + 1,466 |
| Liquidity reserve | + 0 | + 0 | + 0 | + 1,400 |
| Banking book | + 686 | + 594 | + 0 | + 0 |
| Trading book | + 1 | + 140 | + 0 | + 141 |

Abbreviation: EC = Equity Capital

The security positions in connection with the interest rate and liquidity control of the Treasury division lead to an emphasis on the market price risks from credit spreads.

As at 31.12.2011, the interest sensitivities are as follows:

| Sensitivities (Interest) | | | | | | | | | | | | | | | | | as at 31.12.2011 | |
|--|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------------------|-------|
| Present Value of a Basis Point (PVBP) per Portfolio and Currency | | | | | | | | | | | | | | | | | in KEUR | |
| Currencies | AUD | CAD | CHF | CZK | DKK | EUR | GBP | HKD | HUF | JPY | NOK | NZD | PLN | SEK | TRY | USD | ZAR | Total |
| Bank total | +0 | +0 | -6 | +0 | +0 | -84 | +2 | +0 | +0 | -3 | -0 | +0 | +0 | +0 | +0 | -36 | +0 | -127 |
| Bank total excl. EC | +0 | +0 | -6 | +0 | +0 | -17 | +2 | +0 | +0 | -3 | -0 | +0 | +0 | +0 | +0 | -36 | +0 | -59 |
| Banking book | +0 | +0 | -6 | +0 | +0 | -86 | +2 | +0 | +0 | -3 | -0 | +0 | +0 | +0 | +0 | -36 | +0 | -129 |
| Trading book | +0 | +0 | +0 | +0 | +0 | -1 | +0 | +0 | +0 | -0 | +0 | +0 | +0 | +0 | +0 | +0 | +0 | -1 |

Abbreviation: EC = Equity Capital

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

With regard to the interest rate risks in the investment book, the effects of a standardised interest rate shock of +130 basis points are also analysed monthly in accordance with the requirements of SolvV. The result continues to be far below the regulatory threshold, which provides for a maximum proportion of 20 % of authorised equity capital.

The credit spread risk via the group-wide scenario analysis (holding period ten days) is limited to EUR 40.0 million at NORD/LB Luxembourg. The utilisation was 42.5 % on average in 2011, the maximum utilisation was 66.1 % and minimum utilisation was 26.3 %. As at 31 December 2011 the credit spread risk via the standard group scenario analysis was EUR 22.7 million (EUR 15.3 million as at 31 December 2010).

The credit spread value-at-risk method used at NORD/LB Luxembourg for the purpose of internal control, which also takes into account the positions of the assets, was introduced on 15 June 2011. As at 31 December 2011, the credit spread value-at-risk (95 %, holding period 130 days) of the assets was EUR 55.0 million.

Market Price Risks – Outlook

In 2012, we are expecting a moderate increase in the market price risks against the background of new regulatory requirements for liquidity management. With respect to the further development of the credit spread risks, we are anticipating a lateral movement or slight recovery in the credit spread level. This will essentially be characterised by the further development of the situation in the countries

mostly affected by the crisis (especially PIIGS), which is ultimately dependent on the efficiency of the crisis management and the feasibility of the reforms at European level as well as specifically in individual countries.

Liquidity Risk

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

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

Liquidity Risk – Management

Strategy

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

To this end, the bank has implemented a liquidity strategy, liquidity policy and Contingency Funding Plan which accommodates these requirements and integrates the bank into the systems of the NORD/LB Luxembourg Group. Ensuring liquidity at all times represents a strategic necessity for the bank.

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

Structure and Organisation

The process of liquidity risk control is the responsibility of the organisational unit Financial Markets.

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 classic liquidity risk.

Liquidity Risk – Control and Measurement

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

Classic Liquidity Risk:

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

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

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

externally-induced market distortions in the models, and the effects of unexpected events in the lending or deposit businesses.

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

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

The static scenarios are split into:

Market Wide Liquidity Disruption:

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

NORD/LB Credit Event:

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

Market Wide Credit Event:

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

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

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

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

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

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

Refinancing Risk

The refinancing risk is defined as the potential falls in profit which would arise for the bank as a result of the worsening of its own refinancing conditions. This refers to positions on both the money and capital markets. A period of intra-day to indefinite maturity is observed. For a more detailed depiction and control of liquidity flows, the whole security portfolio is grouped into different liquidity classes (according to the liquidity risk class concept of the NORD/LB) after assessing the liquidity. The resultant liquidity outflow is assessed with reference to the risk of a rise in the cost of refinancing arising from the potential closing of liquidity gaps in the liquidity outflow balance.

A distinction must be made between two drivers here:

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

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

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

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

Market Liquidity Risk

Market liquidity risk defines the potential losses that the bank will have to bear if it needs to conclude transactions under conditions which are not in line with the fair market

value due to a lack of liquidity in individual market segments. Market liquidity risks can result in the first instance from security positions in the investment books. The objective is to essentially restrict the market liquidity risk.

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

Liquidity Risk – Reporting

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

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

In 2011, a liquidity buffer report was introduced on a subgroup basis as a complement to the control of the classic liquidity risk, in accordance with the requirements of MaRisk. The report provides Trading with daily information on the amount and quality of the free assets which are available over a period of 7 or 30 days as cover or liquidity buffer.

Within the scope of the monitoring of the refinancing structure, a concentration report is compiled, which contains the analysis of the funding. As well as the liabilities side (balance sheet) concentrations of off-balance sheet obligations are also reported regularly to the Market division and the directors. The evaluations are consolidated into a group concentration report at Group level.

Liquidity Risk – Development in 2011

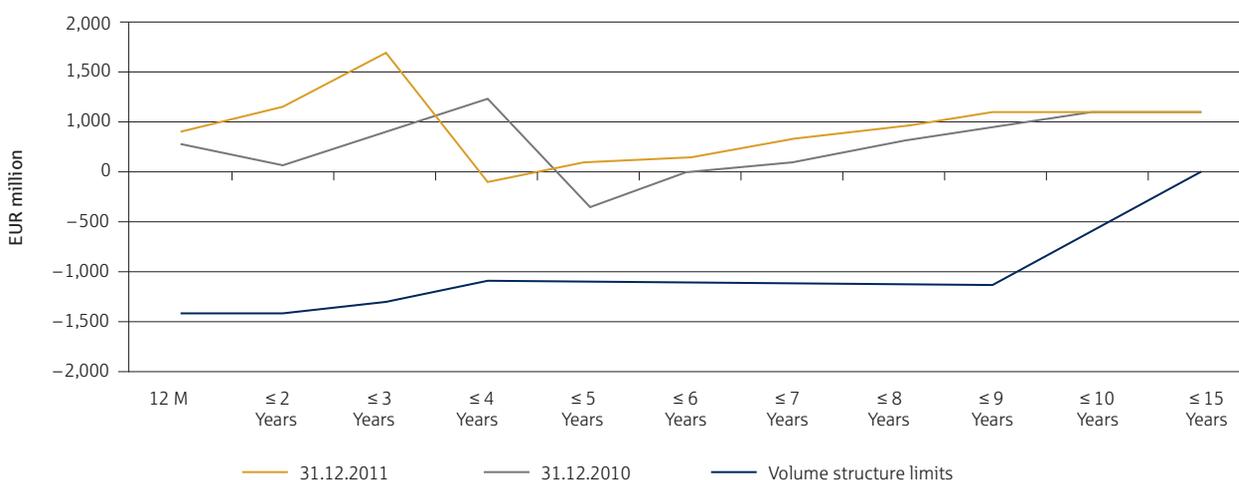
The financial market continued to find itself in a tense mood over the course of 2011 too. The liquidity supply of NORD/LB Luxembourg was guaranteed at all times and im-

proved in comparison to the previous year. The bank continues to have a balanced funding mix. Due to the business strategy and the local characteristics of the Luxembourg banking centre, there are concentrations with regard to refinancing via banks. As well as this, the cover of the refinancing requirement in the sector “over two years” is carried out predominantly via the parent company (uncovered funding).

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



Cumulative schedule of liquidity flows NORD/LB Luxembourg as at 31.12.2011



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

Liquidity Risk – Outlook

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

The bank is primarily active on liquid markets and maintains a portfolio of high quality securities. There are no concentrations of liquidity risk.

Through careful observation of the markets and active liquidity control it was ensured that the bank was equipped with adequate liquidity at all times during the year under

report 2011. For the year 2012, we are not expecting any further substantial increase in the liquidity risks.

The methods of risk assessment and the reporting processes are being improved. In particular, new concepts and processes for controlling liquidity and liquidity risks in relation to securities as collateral are being developed. In this context, a security liquidity classes concept which describes the liquidity grade of the assets and thereby their capacity as collateral was developed for liquidity risk management. As at 31 December 2011, the methodology of the security liquidity classes concept was implemented. On this basis, this logic will replace the modelling of securities for the purposes of the liquidity outflow balance and for the purposes of LST using the new information in 2012.

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 – Management

Strategy

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

Structure and Organisation

The Board of Directors, the op-risk officer, internal auditors and all other divisions are involved in the process of controlling operational risks. The Board stipulates the basic method of handling operational risks, taking into consideration the risk situation for the bank as a whole. Within the defined framework conditions, the responsibility for controlling operational risks is decentralised and is borne by the individual divisions. The op-risk officer is responsible for central monitoring and independent reporting on operational risks. This person is also responsible, in cooperation with the 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 – Control

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

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

Using a constant analysis of loss events, risk indicators (starting from 31 March 2011) and scenarios, causes of risks are to be identified and risk concentrations avoided. The suitability and effectiveness of the internal management system (IMS) is checked at regular intervals (IMS control loop) in terms of risks. Depending on the occasion, suitable countermeasures are taken. Emergency plans serve to limit damage in the event of unexpected extreme events. In the IT division, instructions on procedures, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Safety concepts and contingency plans supplement the pre-emptive measures in order to prevent loss or damage resulting from the failure, tampering or manipulation of systems and information.

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

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

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

Operational Risk – Measurement

Since the middle of 2005, the bank has been compiling data on loss events arising from operational risks and has classified these events according to cause and effect. A minimum limit does not exist. However, there is a simplified reporting process for losses under EUR 1,000. The data for the loss event database provides the starting point for analyses to support risk management and form an essential building block for a statistical and mathematical risk model. This performance is closely aligned to the requirements of SolvV for an advanced measurement approach (AMA) and is used in the overall bank control and risk-bearing capacity.

The compilation of loss events is entered into the DakOR data consortium initiated by the German Federal Association of Public Sector Banks (Bundesverband Öffentlicher Banken Deutschlands e. V., or VÖB). NORD/LB uses the loss events supplied by the consortium to improve the database of the value-at-risk model for operational risks.

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.

Operational Risk – Reporting

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

Operational Risk – Development in 2011

The analysis of group-wide scenarios and risk concentrations as well as the performance of stress tests was improved further in 2011. 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.

With the expansion of the model, the prerequisite for group-wide application of an internal model was achieved. 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.

The NORD/LB Group postponed the planned announcement of the advanced measurement approach in 2011 in order to give priority to the qualitative expansion of the op-risk methods.

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 Database Net Loss as a Percentage of the Total Amount of Loss | | |
|---|------------|------------|
| | 2011 | 2010 |
| External influences | 9 | 0 |
| Internal procedures | 27 | 0 |
| Staff | 55 | 100 |
| Technology | 9 | 0 |
| Total | 100 | 100 |

For materiality reasons, a detailed report of the individual loss events has not been prepared.

Operational Risk – Outlook for 2012

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-orientated. This includes closer involvement of the Market and Market Consequence divisions, stronger preventative risk management, awareness and training mechanisms, the improvement of analysis and reporting and the cooperation on the expansion of group-wide evidence.

Other Risks

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

Summary and Outlook

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

compared with summarised credit, participation, market price, liquidity and operational risks on a quarterly basis. 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 2011, NORD/LB Luxembourg fulfilled the regulatory provisions on equity and liquidity at all times. Likewise, the bank accommodated the regulations on large credit limits in accordance with Luxembourg and German law in the past year under report. The methods and processes that are currently used to control significant risks are subject to ongoing verification and are refined as necessary. More details can be found regarding the risk type-specific improvements being striven for in 2012 in each of the relevant sections.

Personnel Report

Number of Employees

NORD/LB Luxembourg expanded its personnel level as follows:

| Reporting Date | 31.12.2011 | 31.12.2010 | Absolute Change | Increase/Decrease (%) |
|--------------------|------------|------------|-----------------|-----------------------|
| NORD/LB Luxembourg | 170 | 157 | 13 | 8.3 % |

All members of staff deserve the special recognition of the Board of Directors and Supervisory Board for the company results for the year under report 2011, which can be described as very satisfactory. The bank's success is largely driven by the professionalism and competence of its staff. The Board of Directors and Supervisory Board therefore thank staff for their commitment, motivation and, last but not least, their faithful cooperation.

The 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

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.

Supplementary Report

There were no major events between the balance sheet reporting date of 31 December 2011 and the preparation of this annual report on 20 February 2012 by the Board of Directors.

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.

Harry Rosenbaum

Christian Veit

Thorsten Schmidt

20 February 2012



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

Income Statement

Norddeutsche Landesbank Luxembourg S.A., for the year under report from 1 January to 31 December 2011:

| | Notes | 2011 (KEUR) | 2010 (KEUR) |
|--|-----------|----------------|----------------|
| Net interest income and current income | 16 | 107,202 | 129,485 |
| Net interest income and current income | | 557,811 | 541,345 |
| Interest expense | | 450,610 | 411,859 |
| Risk provision in lending business | 17 | 18,201 | -24,749 |
| Net commission income | 18 | -13,375 | -20,378 |
| Commission income | | 24,021 | 32,358 |
| Commission expense | | 37,395 | 52,736 |
| Profit/loss from financial instruments at fair value through profit or loss | 19 | -2,704 | 1,731 |
| Trading profit/loss | | -1,477 | 2,105 |
| Profit/loss from the fair value option | | -1,227 | -374 |
| Profit/loss from hedge accounting | 20 | -4,012 | 1,972 |
| Profit/loss from financial assets | 21 | -14,368 | -177 |
| Administrative expenses | 22 | 34,588 | 33,013 |
| Staff expenses | | 17,562 | 14,847 |
| Other administrative expenses | | 15,182 | 17,761 |
| Depreciation of property, plant and equipment | | 1,345 | 228 |
| Depreciation on intangible assets | | 499 | 176 |
| Other operating profit/loss | 23 | 4,133 | -4,984 |
| Earnings before taxes (EBT) | | 60,488 | 49,888 |
| Income taxes | 24 | 14,537 | -19,427 |
| Net income for the year | | 45,952 | 69,316 |
| of which: attributable to shareholders | | 45,952 | 69,316 |
| of which: attributable to non-controlling shares | | 0 | 0 |

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

Overall Profit and Loss Account

The total income for 2011 (2010) of NORD/LB Luxembourg comprises the income and expenses recorded in the profit and loss account and the income and expenses recorded directly in the equity.

Norddeutsche Landesbank Luxembourg S.A., for the year under report from 1 January to 31 December 2011:

| | 2011 (KEUR) | 2010 (KEUR) |
|---|----------------|----------------|
| Net income for the year | 45,952 | 69,316 |
| Increase/decrease from available for sale (AFS) financial instruments | -92,185 | 1,374 |
| of which unrealised profit/losses | -88,134 | 715 |
| of which reclassifications on the grounds of profit/loss realisation | -4,051 | 659 |
| Actuarial gains/losses for defined benefit provisions for pensions | 530 | 20 |
| Deferred taxes | 26,397 | -315 |
| Profit/loss recognised directly in equity | -65,258 | 1,079 |
| Total income for the year | -19,307 | 70,395 |
| of which: attributable to shareholders | -19,307 | 70,395 |
| of which: attributable to non-controlling shares | 0 | 0 |

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

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

Balance Sheet

Norddeutsche Landesbank Luxembourg S.A., for the reporting date 31 December 2011:

| Assets | Notes | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) |
|--|-----------|-----------------------------|-----------------------------|
| Cash reserve | 25 | 138.9 | 96.0 |
| Loans and advances to banks | 26 | 4,324.6 | 5,689.3 |
| Loans and advances to customers | 27 | 3,853.8 | 4,032.3 |
| Risk provisions | 28 | -26.2 | -185.3 |
| Financial assets at fair value through profit or loss | 29 | 604.8 | 419.6 |
| Derivatives – fair values from hedge accounting | 30 | 43.4 | 38.6 |
| Financial assets | 31 | 6,313.0 | 6,863.8 |
| Property, plant and equipment | 32 | 76.5 | 60.6 |
| Intangible assets | 33 | 6.6 | 5.2 |
| Current income tax assets | 34 | 14.6 | 24.6 |
| Deferred income tax assets | 34 | 37.9 | 25.0 |
| Other assets | 35 | 4.2 | 6.5 |
| Total assets | | 15,392.1 | 17,076.1 |
| Liabilities | Notes | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) |
| Liabilities to banks | 36 | 9,443.1 | 10,087.0 |
| Liabilities to customers | 37 | 2,379.7 | 3,311.4 |
| Securitised liabilities | 38 | 2,209.0 | 2,389.0 |
| Financial liabilities at fair value through profit or loss | 39 | 347.6 | 296.1 |
| Derivatives – fair values from hedge accounting | 40 | 260.0 | 166.8 |
| Provisions | 41 | 12.8 | 14.6 |
| Current income tax liabilities | 42 | 2.3 | 1.4 |
| Deferred tax liabilities | 42 | 5.3 | 5.2 |
| Other liabilities | 43 | 23.6 | 39.6 |
| Subordinated capital | 44 | 96.7 | 93.6 |
| Equity | 46 | | |
| Issued capital | | 205.0 | 205.0 |
| Capital reserves | | 0.0 | 0.0 |
| Revenue reserves | | 500.8 | 494.5 |
| Revaluation reserve | | -93.8 | -28.1 |
| Currency translation reserve | | 0.0 | 0.0 |
| Equity attributable to shareholders | | 612.1 | 671.4 |
| Shares without controlling influence | | 0.0 | 0.0 |
| Total equity | | 612.1 | 671.4 |
| Total equity and liabilities | | 15,392.1 | 17,076.1 |

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

Cash Flow Statement

Nordeutsche Landesbank Luxembourg S.A., for the year under report from 1 January to 31 December 2011:

| | 2011 (EUR million) | 2010 (EUR million) |
|--|-----------------------|-----------------------|
| Profit for the year before taxes | 60.5 | 49.9 |
| 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 | 12.2 | -3.8 |
| Increase/decrease in provisions | -1.8 | 3.2 |
| Gains/losses from the disposal of property, plant and equipment and financial assets | -4.3 | 0.2 |
| Increase/decrease in other non-cash items | 6.3 | 8.4 |
| Profit/loss from interest | -107.2 | -129.5 |
| Other adjustments | -56.9 | -55.1 |
| Sub-total | -91.3 | -126.7 |
| Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items | | |
| Loans and advances to banks and customers | 1,454.9 | 3,204.6 |
| Other assets and liabilities from operational business activities | -72.9 | -0.6 |
| Liabilities to banks and customers | -1,554.8 | -3,203.4 |
| Securitised liabilities | -180.5 | -521.7 |
| Interest received | 593.0 | 600.5 |
| Dividends received | 0.0 | 5.5 |
| Interest paid | -484.0 | -468.0 |
| Income taxes paid | 9.9 | -3.6 |
| Cash flow from operating activities | -325.8 | -513.5 |
| Cash receipts from the disposal of | | |
| Financial assets | 1,699.7 | 1,893.3 |
| Property, plant and equipment and intangible assets | 1.1 | 0.2 |
| Cash payments for the acquisition of | | |
| Financial assets | -1,262.2 | -1,358.0 |
| Property, plant and equipment and intangible assets | -29.3 | -32.2 |
| Increase/decrease in funds from other investment activity | 0.0 | 0.0 |
| Cash flow from investment activity | 409.3 | 503.3 |

| | 2011 (EUR million) | 2010 (EUR million) |
|--|-----------------------|-----------------------|
| Cash receipts from equity contributions | 0.0 | 0.0 |
| Increase/decrease in funds from other capital | 0.0 | -100.0 |
| Interest expense on subordinated capital | -0.6 | -0.6 |
| Dividends paid | -40.0 | 0.0 |
| Cash flow from financing activities | -40.6 | -100.6 |
| Cash and cash equivalents at end of the previous year | 96.0 | 206.9 |
| Cash flow from operating activities | -325.8 | -513.5 |
| Cash flow from investment activity | 409.3 | 503.3 |
| Cash flow from financing activities | -40.6 | -100.6 |
| Cash flow total | 42.9 | -110.8 |
| Effects of exchange rate differences and valuation changes and changes in the basis of consolidation | 0.0 | 0.0 |
| Cash and cash equivalents at the end of the year under report | 138.9 | 96.0 |

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

Statement of Changes in Equity

Norddeutsche Landesbank Luxembourg S.A., for the year under report from 1 January to 31 December 2011:

| EUR million | Issued Capital | Capital Reserves | Revenue Reserves | Revaluation Reserve | Currency Translation Reserve | Equity before Shares without Controlling Influence | Shares without Controlling Influence | Equity |
|---|--|------------------|------------------|---------------------|--|--|--------------------------------------|--------------|
| Equity on 01.01.2010 | 205.0 | 0.0 | 525.2 | -29.2 | 0.0 | 701.0 | 0.0 | 701.0 |
| Distribution | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income for the year | 0.0 | 0.0 | 69.3 | 0.0 | 0.0 | 69.3 | 0.0 | 69.3 |
| Profit/loss recognised 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 |
| Equity on 31.12.2010 | 205.0 | 0.0 | 494.5 | -28.1 | 0.0 | 671.4 | 0.0 | 671.4 |
| Distribution | 0.0 | 0.0 | -40.0 | 0.0 | 0.0 | -40.0 | 0.0 | -40.0 |
| Net income for the year | 0.0 | 0.0 | 46.0 | 0.0 | 0.0 | 46.0 | 0.0 | 46.0 |
| Profit/loss recognised directly in equity | 0.0 | 0.0 | 0.0 | -65.6 | 0.0 | -65.6 | 0.0 | -65.6 |
| Other capital changes | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.4 | 0.0 | 0.4 |
| Equity on 31.12.2011 | 205.0 | 0.0 | 500.8 | -93.8 | 0.0 | 612.1 | 0.0 | 612.1 |
| | In 2011 relating to the year under report | | | | In 2010 relating to the year under report | | | |
| Dividends (EUR) | | | | 40,000,000 | | | | 0.00 |
| Number of shares | | | | 820,000 | | | | 820,000 |
| Dividends per share (EUR) | | | | 48.78 | | | | 0.00 |

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

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Accounting Policies

(1) Principles for the Preparation of the Financial Statements

The financial statements of Norddeutsche Landesbank Luxembourg S.A. (NORD/LB Luxembourg) to 31 December 2011 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 2010 were passed at the general meeting held on 31 March 2011 and formed the basis for the determination and appropriation of profit for the financial year 2010.

The financial statements at 31 December 2011 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 2009). 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 statement of percentage differences relates to unrounded figures.

(2) Discretionary Decisions, Estimates and Assumptions

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

The essential methods are shown below:

a) Fair Value of Financial Instruments

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

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

b) Pension Payments

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

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

(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 2011 are based on the conceptual framework of the IASB and the following IFRS:

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

| | |
|---------|---|
| IFRIC 4 | Determining whether an arrangement contains a lease |
|---------|---|

| | |
|--------|-------------------------------|
| SIC 15 | Operating leases – incentives |
|--------|-------------------------------|

| | |
|--------|--|
| SIC 27 | Evaluating the substance of transactions involving the legal form of a lease |
|--------|--|

No account was taken of IFRS 2, 3, 4, 5 and 6, IAS 2, 11, 20, 23, 26, 28, 29, 31, 33, 34, 40 and 41 or IFRIC 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 18 and SIC 7, 10, 12, 13, 21, 25, 29, 31 and 32, because they are not relevant to NORD/LB Luxembourg or because it was not obligatory to apply them to the financial statements as at 31 December 2011.

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 2011.

- **IAS 19 (rev. 2011) – Employee Benefits**

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

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

- **IFRS 9 – Financial Instruments**

Within the scope of the project to replace IAS 39, a revised version of IFRS 9 was published in October 2010. The first of three phases includes regulations on the categorisation and valuation of financial assets and financial obligations. For the categorisation of financial assets in accordance with IFRS 9 there are only two options now, the valuation at net book value or the valuation at fair value. In future, categorisation will be aligned to the business model of the reporting entity and the contractually agreed payment flows of the assets. The requirements for embedded derivatives and reclassification have also been amended. The regulations regarding financial obligations are largely unchanged from IAS 39. The only difference is that the application of the fair value option will basically result in credit rating-induced valuation changes in financial obligations being shown in other profit/loss (other comprehensive income). Publications from the IASB regarding the other phases cov-

ering the subjects of Impairment and Hedge Accounting are expected in the first half of 2012. Conditional upon EU endorsement, it will be mandatory to apply IFRS 9 in its current version for financial years starting on or after 1 January 2015.

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

- **IFRS 10 – Consolidated Financial Statements**

Published in May 2011, IFRS 10 changes the definition of control and creates standardised rules on the determination of control both for subsidiaries and for structured entities (single purpose entities), which form the basis for assessing whether there is an obligation to consolidate. The Standard replaces the regulations of IAS 27 in this respect as well as SIC-12 and comes into effect for financial years beginning on or after 1 January 2013.

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

- **IFRS 11 – Joint Arrangements**

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

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

- **IFRS 12 – Disclosure of Interests in Other Entities**

The new IFRS 12 summarises the disclosure requirements for subsidiaries, joint ventures, affiliated undertakings, and non-consolidated, structured companies in one standard. The aim is the provision of information regarding the type of control options regarding the said companies and the associated risks and effects arising from the influence on balance sheet, income statement and cash flow. It will be mandatory to apply IFRS 12 for

the first time to financial years beginning on or after 1 January 2013.

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

- **IFRS 13 – Fair Value Measurement**

The IASB published IFRS 13 – Fair Value Measurement in May 2011, which is to be applied to financial years beginning on or after 1 January 2013; the statement of adjusted comparison figures is not obligatory. The specific rules within the framework of IFRS 13 relate among other things to the definition of fair value and the level valuation, the reporting of a day-one-profit/loss and the application of a bid/ask spread when valuing assets and liabilities.

The effects of the regulations of IFRS 13 on reporting, valuation and information in the notes within NORD/LB Luxembourg are currently being checked.

- **Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income**

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

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

- **Amendments to IAS 32 – Balancing of Financial Assets and Financial Liabilities**

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

- **Amendments to IFRS 7 – Disclosures: Transfer of Financial Assets**

In October 2010, the IASB published Amendments to IFRS 7 – Financial Instruments: Disclosures, in connection with a comprehensive review of business transactions not affecting profit or loss. The amendments are intended to enable a better overview of transactions for the purpose of transfer of assets, including the possible effects of the risks remaining at the transferring entity.

- **Amendments to IFRS 7 – Disclosure: Balancing of Financial Assets and Financial Liabilities**

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

The effects of the amendments to IAS 32 and IFRS 7 in relation to the balancing of financial instruments on NORD/LB Luxembourg are currently being checked.

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

- Amendments to IAS 12 – Deferred Taxes: Recycling of underlying assets
- IAS 27 (rev. 2011) – Separate Financial Statements
- IAS 28 (rev. 2011) – Investments in Associates and Joint Ventures

These amendments are obligatory for financial years that begin on or after 1 January 2012 (Amendments to IAS 12) and 1 January 2013 respectively.

No major effects are expected from the amendments to IAS 12, IAS 27 and IAS 28.

With the exception of the amendments to IFRS 7 – Disclosure: Transfer of Financial Assets, the endorsement of which took place on 22 November 2011, the adoption into European law is still pending for all the aforementioned standards and amendments.

(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 2011. Non-monetary items that are valued at cost are translated at the historical rates. Expenses and income in foreign currencies are translated at market rates on value dates. Exchange rate differences on monetary items are reflected in principle in the income statement.

(5) Financial Instruments

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

a) Recognition and Derecognition of Financial Instruments

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

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

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

tinuing 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. Upfront payments are amortised using the effective interest rate. At the same time, the bank differentiates between trading book derivatives, where amortisation is not carried out using the effective interest rate and banking book derivatives, where amortisation is carried out using the effective interest rate in the profit/loss from interest.

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

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

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

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

• Other Liabilities (OL)

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

c) 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. The market situation, which had meanwhile relaxed, worsened once again in 2011 as a result of the “Euro crisis” and the “sovereign debt crisis”.

In the case of financial instruments for which there is no active market on 31 December 2011 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 is included which cannot be observed on the market. The proportion of these parameters is kept to a minimum and the inclusion of market-specific data is preferred, i.e. basic market signals which can be observed on the balance sheet date are included in the methodology.

NORD/LB Luxembourg applies this measurement model to the illiquid securities categorised as AfS.

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

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

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. The Critical Term Matching method is used for the prospective performance of effectiveness tests. For retrospective effectiveness tests, a modified dollar Offset method is used, which takes into account the problem arising with small figures in the case of slight changes in value of hedging transactions and underlying transactions through an additional tolerance limit.

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

value attributable to the hedged risk are also stated in recognition of profit or loss under the item profit/loss from hedge accounting.

If financial instruments 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 2011.

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

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

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

(6) Risk Provisions

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

Checking of intrinsic value is done for all significant 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.

The risks for off-balance sheet transactions (guarantees, endorsement liabilities, loan commitments) are accommodated 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

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

Operating Leases

With an operating lease, the lessee recognises the lease payments made as an expense under other administra-

tive expenses. The initial direct costs (for example expert fees) are recognised immediately as affecting profit or loss. Contracts as operating lessees are within normal business frameworks.

(9) Intangible Assets

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

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

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

(10) Provisions for Pensions and Similar Obligations

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

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

The components of pension provisions through profit or loss are the service cost and the interest cost on the cash value

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

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

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

The pension scheme is outsourced to a Luxembourg insurance company.

(11) Other Provisions

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

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

(12) Income Tax Assets and Liabilities

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

Deferred tax assets and liabilities are calculated on the

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

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

The income tax expense or benefit is shown under 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. In the process, the income from the initial application was not spread pro rata but taken into account integrally for taxation in the reporting year 2008.

In a letter dated 2 August 2007, the Luxembourg financial authorities approved the establishment of a tax group with effect for corporation and trade tax comprising Norddeutsche Landesbank Luxembourg S.A. and NORD/LB Covered Finance Bank S.A. starting from financial year 2007. Pursuant to Article 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 time span of five years ended on 31 December 2011, so that the conditions pursuant to Art. 164bis of L.I.R. were fulfilled.

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

(13) Subordinated Capital

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

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

Affiliated Savings Banks

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 result from the sectors of securities and custodian business, the lending and deposit business, fund and asset management and the profit/loss from services to private customers.

Financial Markets

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

Lending Business

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

Shareholdings/Other

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

Segmentation by Regions

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

(14) Classification by Business Segment

| EUR million | Segments | | | | | Total |
|--|--------------------|-----------------|-------------------|------------------|-------------------------|----------|
| | Affiliated Savings | Private Banking | Financial Markets | Lending Business | Participation valued at | |
| Net interest income | 2.0 | 3.0 | 41.9 | 57.1 | 3.2 | 107.2 |
| do. previous year | 1.9 | 1.0 | 51.9 | 65.9 | 8.7 | 129.5 |
| Risk provision in lending business | 0.0 | 0.0 | 3.6 | 14.6 | 0.0 | 18.2 |
| do. previous year | 0.0 | 0.0 | 0.0 | -24.7 | 0.0 | -24.7 |
| Net interest income after loan loss provisions | 2.0 | 3.0 | 45.5 | 71.7 | 3.2 | 125.4 |
| do. previous year | 1.9 | 1.0 | 51.9 | 41.2 | 8.7 | 104.7 |
| Net commission income | -0.7 | 8.3 | -1.2 | -20.3 | 0.5 | -13.4 |
| do. previous year | -1.6 | 9.3 | -1.6 | -26.5 | 0.0 | -20.4 |
| Profit/loss from financial instruments at fair value | 0.0 | 0.0 | -2.7 | 0.0 | 0.0 | -2.7 |
| do. previous year | 0.0 | 0.0 | 1.7 | 0.0 | 0.0 | 1.7 |
| Profit/loss from hedge accounting | 0.0 | 0.0 | 0.0 | 0.0 | -4.0 | -4.0 |
| do. previous year | 0.0 | 0.0 | 0.0 | 0.0 | 2.0 | 2.0 |
| Profit/loss from financial assets | 0.0 | 0.0 | -14.4 | 0.0 | 0.0 | -14.4 |
| do. previous year | 0.0 | 0.0 | 0.1 | 0.0 | -0.3 | -0.2 |
| Profit/loss from equity accounted investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| do. previous year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Administrative expenses | 0.2 | 8.3 | 9.3 | 3.7 | 13.2 | 34.6 |
| do. previous year | 0.2 | 8.7 | 10.4 | 4.2 | 9.5 | 33.0 |
| Other income/expenses | 0.0 | 0.0 | 0.5 | 0.0 | 3.7 | 4.1 |
| do. previous year | 0.0 | 0.0 | 2.5 | 0.0 | -7.5 | -5.0 |
| Operating profit/loss before taxes | 1.1 | 3.0 | 18.5 | 47.7 | -9.8 | 60.5 |
| do. previous year | 0.1 | 1.7 | 44.4 | 10.4 | -6.7 | 49.9 |
| Taxes | 0.0 | 0.0 | 0.0 | 0.0 | -14.5 | -14.5 |
| do. previous year | 0.0 | 0.0 | 0.0 | 0.0 | 19.4 | 19.4 |
| Operating profit/loss after taxes | 1.1 | 3.0 | 18.5 | 47.7 | -24.3 | 46.0 |
| do. previous year | 0.1 | 1.7 | 44.4 | 10.4 | 12.8 | 69.3 |
| Segment assets | 236.2 | 89.6 | 10,832.4 | 3,737.9 | 495.9 | 15,392.1 |
| do. previous year | 306.1 | 64.9 | 11,973.0 | 4,060.4 | 671.7 | 17,076.1 |
| Segment liabilities (incl. equity) | 0.0 | 166.8 | 14,472.6 | 0.0 | 752.7 | 15,392.1 |
| do. previous year | 0.0 | 212.0 | 16,038.3 | 0.0 | 825.8 | 17,076.1 |

| EUR million | Segments | | | | | Total |
|---|--------------------|-----------------|-------------------|------------------|-------------------------|----------------|
| | Affiliated Savings | Private Banking | Financial Markets | Lending Business | Participation valued at | |
| Risk assets (annual average values) | 44.0 | 109.8 | 1,227.7 | 1,606.8 | 514.5 | 3,502.8 |
| do. previous year (annual average values) | 35.9 | 60.5 | 1,285.6 | 2,112.6 | 439.5 | 3,934.2 |
| Equity locked in (Basis annual average values) | 2.2 | 5.5 | 61.4 | 80.3 | 25.7 | 175.1 |
| do. previous year (Basis annual average values) | 1.8 | 3.0 | 64.3 | 105.6 | 22.0 | 196.7 |
| CIR | 12.0 % | 73.7 % | 34.5 % | 10.0 % | 177.6 % | 41.4 % |
| do. previous year | 55.8 % | 83.8 % | 19.6 % | 10.8 % | 1071.4 % | 31.8 % |
| RoRaC/RoE* | 50.7 % | 50.8 % | 25.4 % | 42.0 % | -36.8 % | 27.5 % |
| do. previous year | 7.8 % | 28.9 % | 63.8 % | 6.8 % | -30.3 % | 20.2 % |

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

| Further segment information: | | | | | | |
|--|--------------------|-----------------|-------------------|------------------|-------------------------|-------------|
| EUR million | Affiliated Savings | Private Banking | Financial Markets | Lending Business | Participation valued at | Total |
| Property, plant and equipment, net | 0.3 | 13.1 | 26.6 | 6.4 | 30.1 | 76.5 |
| do. previous year | 0.2 | 10.3 | 21.1 | 5.1 | 23.8 | 60.6 |
| Depreciation of property, plant and equipment, current year | 0.0 | 0.2 | 0.5 | 0.1 | 0.5 | 1.3 |
| do. previous year | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.2 |
| Intangible assets, net | 0.0 | 1.1 | 2.3 | 0.6 | 2.6 | 6.6 |
| do. previous year | 0.0 | 0.9 | 1.8 | 0.4 | 2.0 | 5.2 |
| Scheduled depreciation of intangible assets current year | 0.0 | 0.1 | 0.2 | 0.0 | 0.2 | 0.5 |
| do. previous year | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.2 |
| Value adjustments on financial assets, current year | 0.0 | 0.0 | 18.6 | 0.0 | 0.0 | 18.6 |
| do. previous year | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

(15) Segmentation by Geographical Characteristics

| EUR million | Segments | | | | | | | Total |
|---|----------|-----------------|------------------|-------------------|---------|--------------------|--------------------|----------|
| | Germany | Luxem- bourg | Switzer- land | Rest of Europe | USA | Rest of America | Other Countries | |
| Operating profit/loss before taxes | 21.1 | 14.1 | 0.1 | 18.4 | 3.7 | 0.6 | 2.5 | 60.5 |
| do. previous year | 17.9 | 9.0 | 1.0 | 16.2 | 3.5 | 0.6 | 1.5 | 49.9 |
| Segment assets | 5,362.6 | 3,575.6 | 36.9 | 4,693.0 | 945.1 | 144.7 | 634.2 | 15,392.1 |
| do. previous year | 6,137.2 | 3,090.8 | 346.6 | 5,546.3 | 1,214.1 | 222.0 | 519.1 | 17,076.1 |
| Segment liabilities (incl. equity) | 5,855.9 | 6,014.1 | 1,662.1 | 1,653.2 | 47.7 | 57.9 | 101.1 | 15,392.1 |
| do. previous year | 7,201.0 | 3,389.6 | 3,002.0 | 3,044.7 | 80.3 | 56.4 | 302.2 | 17,076.1 |
| Risk assets (annual average values) | 1,220.4 | 813.7 | 8.4 | 1,068.0 | 215.1 | 32.9 | 144.3 | 3,502.8 |
| do. Previous year (annual average values) | 1,414.0 | 712.1 | 79.9 | 1,277.8 | 279.7 | 51.1 | 119.6 | 3,934.2 |
| Equity locked in (Basis annual average values) | 61.0 | 40.7 | 0.4 | 53.4 | 10.8 | 1.6 | 7.2 | 175.1 |
| do. Previous year (Basis annual average values) | 70.7 | 35.6 | 4.0 | 63.9 | 14.0 | 2.6 | 6.0 | 196.7 |
| Further segment information: | | | | | | | | |
| Property, plant and equipment, net | 0.0 | 76.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 76.5 |
| do. previous year | 0.0 | 60.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 60.6 |
| Intangible assets, net | 0.0 | 6.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.6 |
| do. previous year | 0.0 | 5.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.2 |

Notes to the Income Statement

(16) Interest Income and Current Income

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

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

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|---|-----------------|-----------------|---------------------------|
| Interest income | 557,811 | 541,345 | 3 |
| Interest income from lending and money market transactions | 220,183 | 249,338 | -12 |
| Interest income from fixed income and book entry securities | 154,659 | 140,504 | 10 |
| Current income | 203 | 5,800 | -96 |
| from shares and other variable yield securities | 203 | 300 | -32 |
| from participating interests | 0 | 5,500 | -100 |
| Interest income from hedge derivatives | 182,028 | 143,785 | 27 |
| Other interest income and similar income | 738 | 1,916 | -61 |
| Interest expense | -450,610 | -411,859 | 9 |
| Interest expense from lending and money market transactions | -177,542 | -170,612 | 4 |
| Interest expense from securitised liabilities | -35,885 | -40,638 | -12 |
| Interest expense from subordinated capital | -568 | -618 | -8 |
| Interest expense from hedge derivatives | -235,800 | -197,996 | 19 |
| Interest expense for provisions and liabilities | -187 | -183 | 3 |
| Other interest expense and similar expense | -629 | -1,813 | -65 |
| Total | 107,202 | 129,485 | -17 |

Both interest income and interest expense expanded in the year under report in comparison to the previous year. This is attributable on the one hand to changes in the balance sheet structure between the reporting dates and on the other by changes in the market interest rate.

Interest in the sum of KEUR 175 (previous year KEUR 230) has not been received on value-adjusted securities, on value-adjusted loans KEUR 505 (previous year KEUR 5,172).

In the year under report there are no dividend payouts by Skandifinanz AG (previous year EUR 0.0 million) or NORD/LB CFB (previous year EUR 5.5 million).

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

(17) Loan Loss Provisions

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|--|----------------|----------------|---------------------------|
| Income from loan loss provisions | 22,410 | 32,788 | -32 |
| Reduction in provisions for claims | 20,410 | 18,898 | 8 |
| Reductions in portfolio-based provisions for receivables | 0 | 11,483 | -100 |
| Reversal of provisions in lending business | 2,000 | 2,408 | -17 |
| Additions to receivables written off | 0 | 0 | - |
| Loan loss provision expense | 4,209 | 57,537 | -93 |
| Allocations to provisions for claims | 2,514 | 49,050 | -95 |
| Allocation to portfolio-based provisions for claims | 206 | 0 | - |
| Allocation to provisions for lending business | 1,182 | 8,487 | -86 |
| Direct write-offs of claims | 308 | 0 | - |
| Total | 18,201 | -24,749 | > 100 |

The reduction of loan loss provisions for claims results primarily from the sale of

- loan claims and securities of Icelandic counterparties, for which loss provisions have been made, in the sum of EUR 5,827 and
- loan claims of two counterparties in the automotive sector, for which loss provisions have been, in the sum of EUR 13,365.

The allocations to the individual loan loss provisions for claims relate primarily to loans to natural persons.

The reversal of loan provisions results from the aforementioned sales of loan claims from the automotive sector. The allocation results from portfolio-based risk provisions for off-balance sheet transactions.

(18) Net Commission Income

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

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

Most of the commission income relates to 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 GZ Hanover. The transaction-related commission results mainly from payments and securities transactions carried out by the bank.

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|---|----------------|----------------|---------------------------|
| Commission income | 24,021 | 32,358 | -26 |
| from security and custody transactions | 4,689 | 5,000 | -6 |
| from the arrangement business | 2,030 | 2,332 | -13 |
| from lending and guarantee transactions | 15,177 | 22,570 | -33 |
| Other commission income | 2,124 | 2,457 | -14 |
| Commission expense | 37,395 | 52,736 | -29 |
| from security and custody transactions | 1,584 | 1,834 | -14 |
| from the arrangement business | 28,624 | 36,331 | -21 |
| from lending and guarantee transactions | 7,111 | 14,428 | -51 |
| Other commission expense | 76 | 143 | -47 |
| Total | -13,375 | -20,378 | -34 |

The commission income relates in particular to arrangement activities (EUR 2.0 million; previous year EUR 2.3 million), the security and custodian business (EUR 4.7 million; previous year EUR 5.0 million) and the lending and guarantee business (EUR 15.2 million, previous year EUR 22.6 million). The decline in the lending and guarantee business is based primarily on specific effects in the previous year. Pro-rata deferred commissions were reversed on the grounds of several premature redemptions. As a result, commission to be deferred also declined in 2011.

Commission expense relates in particular to the arrangement business (EUR 28.6 million; previous year EUR 36.6 million) and the loans and guarantee business (EUR 7.1 million; previous year EUR 14.4 million). The decline results on the one hand from a reduction in the guaranteed business and on the other from changed offsetting terms within the Group.

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

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

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|--|----------------|----------------|---------------------------|
| Trading profit/loss | -1,477 | 2,105 | > 100 |
| Realised profit/loss | -1,599 | -428 | > 100 |
| from debt securities and other fixed interest securities | 0 | 0 | - |
| from shares and other variable yield securities | 0 | 0 | - |
| from derivatives | -1,599 | -428 | > 100 |
| from other trading transactions | 0 | 0 | - |
| Measurement gains/losses | -1,250 | 3,250 | > 100 |
| from debt securities and other fixed interest securities | 4,249 | 0 | - |
| from shares and other variable yield securities | 0 | 0 | - |
| from derivatives | -5,499 | 3,250 | > 100 |
| from other trading transactions | 0 | 0 | - |
| Foreign exchange profit/loss | -432 | -1,298 | -67 |
| Other profit/loss | 1,804 | 582 | > 100 |
| Profit/loss from the fair value option | -1,227 | -374 | > 100 |
| Profit/loss achieved from | 0 | 0 | - |
| debt securities and other fixed interest rate securities | 0 | 0 | - |
| from shares and other variable yield securities | 0 | 0 | - |
| other business | 0 | 0 | - |
| Measurement gains/losses | -1,227 | -374 | > 100 |
| debt securities and other fixed interest rate securities | -1,227 | -374 | > 100 |
| from shares and other variable yield securities | 0 | 0 | - |
| other business | 0 | 0 | - |
| Other profit/loss | 0 | 0 | - |
| Total | -2,704 | 1,731 | > 100 |

Trading profit/loss includes the measurement gains/losses from trading activities (defined as unrealised expense and income from fair value measurement) as well as the realised profit/loss (defined as the difference between disposal proceeds and carrying amount at the last reporting date). The interest profit/loss from trading activities in the sum of EUR 1.8 million (previous year EUR 0.6 million) is shown under other profit/loss.

The positive trading result in the previous year resulted primarily from the measurement gains/losses from derivative transactions (EUR +3.3 million). In the current year under report, this value amounted to EUR -5.5 million. This includes changes in value against securities in the trading portfolio (EUR +4.2 million); the interest rate risks associated with the corresponding securities in the trading portfolio were closed economically. The profit/loss from the fair value option includes the profit/loss from a bond designated at fair value (final maturity in 2012).

(20) Profit/Loss from Hedge Accounting

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

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|---|----------------|----------------|---------------------------|
| Profit/loss from micro fair value hedge transactions | -4,012 | 1,972 | > 100 |
| from hedged underlying transactions | 104,096 | -19,588 | > 100 |
| from derivatives used as hedging instruments | -108,108 | 21,560 | > 100 |
| Profit/loss from portfolio fair value hedge transactions | 0 | 0 | - |
| from hedged underlying transactions | 0 | 0 | - |
| from derivatives used as hedging instruments | 0 | 0 | - |
| Total | -4,012 | 1,972 | > 100 |

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.

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|---|----------------|----------------|---------------------------|
| Profit/loss from financial assets classified as LaR | -239 | -303 | -21 |
| Profit/loss from financial assets classified as AfS (no joint ownership) | -14,130 | 126 | > 100 |
| Profit/loss from disposal | 4,340 | 126 | > 100 |
| of debt securities and other fixed interest securities | 4,340 | 126 | > 100 |
| of shares and other variable yield securities | 0 | 0 | - |
| of other financial assets | 0 | 0 | - |
| Profit/loss from value adjustments for | -18,470 | 0 | - |
| debt securities and other fixed interest securities | -18,470 | 0 | - |
| variable yield securities | 0 | 0 | - |
| Profit/loss from affiliated companies | 0 | 0 | - |
| Profit/loss from joint ventures and associated companies | 0 | 0 | - |
| Profit/loss from other participating interests | 0 | 0 | - |
| Total | -14,368 | -177 | > 100 |

The profit/loss from financial assets in the year under report is characterised by the sale of individual security positions with positive results and the value adjustment of a bond issued by the Greek Republic (EUR 18.5 million).

(22) Administrative Expenses

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

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|--|----------------|----------------|---------------------------|
| Staff expenses | 17,562 | 14,847 | 18 |
| Wages and salaries | 15,249 | 12,239 | 25 |
| Social security contributions | 1,532 | 1,105 | 39 |
| Expenses for pension provision | 760 | 1,050 | -28 |
| Other staff expenses | 20 | 454 | -96 |
| Other administrative expenses | 15,182 | 17,761 | -15 |
| Expense for operating and office equipment and IT | 9,130 | 8,375 | 9 |
| Occupancy costs | 1,503 | 2,243 | -33 |
| Expense for marketing, communications and representation | 470 | 395 | 19 |
| Personnel-related operating expenditure | 1,370 | 1,478 | -7 |
| Legal, audit, survey and professional fees | 2,403 | 5,004 | -52 |
| Other administrative expenses | 306 | 267 | 15 |
| Depreciation and impairments | 1,844 | 404 | > 100 |
| Depreciation | 1,844 | 404 | > 100 |
| Property, plant and equipment | 1,345 | 228 | > 100 |
| Intangible assets | 499 | 176 | > 100 |
| Total | 34,588 | 33,013 | 5 |

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

With the expansion of the staffing level comes an essential rise in staff expenses. Staff expenses includes contributions to employees' old age pensions in accordance with a contribution-related plan (Defined Contribution Plan), which have to be shown as current expenditure according to IAS 19, in the sum of KEUR 344 and in accordance with a performance-related plan (Defined Benefit Plan) in the sum of KEUR 533. Expenses in connection with Defined Benefit Obligations are shown in Note (41). Due to accrued back service premiums, accruals were formed in 2010 and liquidated in 2011.

The costs of consultancy were characterised by specific effects in 2010.

The rise in depreciation of property, plant and equipment is in direct connection with the new bank building in Luxembourg, which was completed and occupied in June 2011. For the same reason, there are no more rental costs in the second half of the year. This had a positive effect on occupancy costs.

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 the project will be completed in 2012.

(23) Other Operating Profit/Loss

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|-----------------------------------|----------------|----------------|---------------------------|
| Other operating income | 17,893 | 3,128 | > 100 |
| from the reversal of provisions | 0 | 129 | -100 |
| other income | 17,893 | 2,999 | > 100 |
| Other operating expenses | 13,761 | 8,112 | 70 |
| from the allocation of provisions | 0 | 0 | - |
| other expenses | 13,761 | 8,112 | 70 |
| Total | 4,133 | -4,984 | > 100 |

The other operating expense includes depreciation to “value in use” of a current project (KEUR 10,049, previous year KEUR 0), the expenses for accounting of services with NORD/LB (KEUR 3,102, previous year KEUR 2,297) and taxes on wealth in the sum of KEUR 70 (previous year KEUR 5,235). The other operating income results primarily from the reversal of accruals from previous years as a result of changed offsetting terms.

(24) Income Taxes

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|----------------------|----------------|----------------|---------------------------|
| Current income taxes | -999 | 5,890 | > 100 |
| Deferred taxes | -13,538 | 13,538 | > 100 |
| Total | -14,537 | 19,427 | > 100 |

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

| | 2011 (KEUR) | 2010 (KEUR) |
|---|----------------|----------------|
| IFRS earnings before taxes (EBT) | 60,488 | 49,888 |
| Expected income tax expense | -17,421 | -14,368 |
| Effects of reconciliation: | | |
| Effects of different tax rates | 0 | 0 |
| Taxes from previous years recognised in the year under report | 438 | 5,890 |
| Effects of tax rate changes | - | - |
| Non-allowable income taxes | - | - |
| Non-deductible operating expenses | 253 | -1,539 |
| Effects of tax-free income | 2,193 | 1,584 |
| Effects of permanent effects affecting the balance sheet | - | - |
| Other effects | 13,538 | 14,323 |
| Income tax expense shown | -999 | 5,890 |

The anticipated income tax expense in the tax reconciliation is calculated from the corporation tax and trade tax burden applicable in Luxembourg in 2011 at 28.80% (previous year 28.59%).

In 2010, deferred taxes were formed on the assets side with an effect on profit/loss in the sum of EUR 13.5 million due to the tax losses brought forward for corporation tax purposes. In the year under report, these deferred taxes on the assets side were totally used up.

Notes to the Balance Sheet

(25) Cash Reserve

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|-----------------------------|-----------------------------|-----------------------------|---------------------------|
| Cash | 1.2 | 1.4 | -14 |
| Balances with central banks | 137.7 | 94.6 | 46 |
| Total | 138.9 | 96.0 | 45 |

The balances with central banks at EUR 137.7 million (previous year EUR 94.5 million) are attributable to balances at the Luxembourg central bank and relate to the minimum reserve credit balance.

(26) Loans and Advances to Banks

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Receivables from money market transactions | 3,017.3 | 3,892.3 | -22 |
| Luxembourg banks | 1,469.6 | 1,474.6 | 0 |
| Foreign banks | 1,547.7 | 2,417.7 | -36 |
| Other receivables | 1,307.3 | 1,797.0 | -27 |
| Luxembourg banks | 883.0 | 721.6 | 22 |
| due on demand | 5.4 | 3.8 | 42 |
| deferred | 877.6 | 717.8 | 22 |
| Foreign banks | 424.3 | 1,075.4 | -61 |
| due on demand | 31.5 | 42.0 | -25 |
| deferred | 392.8 | 1,033.4 | -62 |
| Total | 4,324.6 | 5,689.3 | -24 |

Of the total amount, EUR 1,972.0 million (previous year EUR 3,493.1 million) relate to loans and advances to foreign banks. A partial amount of EUR 1,058.0 million (previous year EUR 1,295.0 million) of the loans and advances to banks only becomes due after more than twelve months.

(27) Loans and Advances to Customers

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Receivables from money market transactions | 0.0 | 0.0 | – |
| Luxembourg customers | 0.0 | 0.0 | – |
| Foreign customers | 0.0 | 0.0 | – |
| Other receivables | 3,853.8 | 4,032.3 | –4 |
| Luxembourg customers | 107.3 | 103.3 | 4 |
| due on demand | 41.8 | 9.2 | > 100 |
| deferred | 65.5 | 94.0 | –30 |
| Foreign customers | 3,746.5 | 3,929.0 | –5 |
| due on demand | 9.6 | 21.9 | –56 |
| deferred | 3,736.9 | 3,907.1 | –4 |
| Total | 3,853.8 | 4,032.3 | –4 |

The total amount relates almost exclusively to loans and advances to foreign customers. Of the loans and advances to customers, EUR 2,242.3 million (previous year EUR 2,802.0 million) only becomes due after more than twelve months.

(28) Risk Provisions

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Individual value adjustments for receivables | –13.0 | –172.3 | –92 |
| Foreign banks | 0.0 | –79.4 | –100 |
| Luxembourg customers | 0.0 | 0.0 | – |
| Foreign customers | –13.0 | –92.9 | –86 |
| Portfolio-based provisions for receivables | –13.2 | –13.0 | 2 |
| Total | –26.2 | –185.3 | –86 |

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

| EUR million | Specific Value Adjustments | Portfolio-based Provisions | Provisions in Lending Business | Total |
|--|----------------------------|----------------------------|--------------------------------|--------------|
| 01.01.2010 | 164.7 | 24.5 | 5.6 | 194.8 |
| 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 |
| 31.12.2010 | 172.3 | 13.0 | 8.5 | 193.8 |
| Allocations | 2.8 | 0.2 | 1.2 | 4.2 |
| Reductions | 20.6 | 0.0 | 2.0 | 22.6 |
| Utilisation | 141.7 | 0.0 | 0.0 | 141.7 |
| Effects from currency translation, unwinding and other changes | 0.2 | 0.0 | 0.0 | 0.2 |
| 31.12.2011 | 13.0 | 13.2 | 7.7 | 33.8 |

Through the sale of loans with loss provisions to five Icelandic counterparties, a total of EUR 88.5 million was utilised in 2011. As well as this, utilisation was made through the sale of two receivables from customers from the automotive sector (EUR 48.8 million) as well as the restructuring of the credit lines of a customer from the renewable energy sector (EUR 4.4 million).

The reductions result from the sale of receivables from Icelandic counterparties (EUR 5.8 million), the sale of receivables from the automotive sector (EUR 13.4 million) and a partial reduction relating to a customer from the renewable energy sector (EUR 1.3 million).

The volume of loans in default amounts to EUR 1.9 million on the reporting date (previous year EUR 148.2 million). Of

this amount, EUR 1.5 million is attributable to loan redemptions and EUR 0.3 million to outstanding interest payments. The two underlying commitments have been in default since 2008 and 2010 respectively.

(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.

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|--|-----------------------------|-----------------------------|---------------------------|
| Trading assets | 559.7 | 334.1 | 68 |
| Debt securities and other fixed interest securities | 130.7 | 0.0 | – |
| from public issuers | 0.0 | 0.0 | – |
| from other issuers | 130.7 | 0.0 | – |
| Positive fair values from derivatives in connection with: | 429.0 | 334.1 | 28 |
| Interest rate risks | 180.4 | 67.4 | > 100 |
| Currency risks | 248.7 | 266.7 | –7 |
| Share and other price risks | 0.0 | 0.0 | – |
| Trading portfolio claims | 0.0 | 0.0 | – |
| Financial assets designated at fair value | 45.0 | 85.5 | –47 |
| Loans and advances to banks and customers | 0.0 | 0.0 | – |
| Debt securities and other fixed interest securities | 45.0 | 85.5 | –47 |
| Shares and other variable yield securities | 0.0 | 0.0 | – |
| Total | 604.8 | 419.6 | 44 |

The financial assets designated at fair value include a bond, which is economically covered by a derivative against interest rate change risks. The aim of the designation is to reduce an accounting mismatch. The change in fair value due to changes in the credit risk of the receivable designated at fair value amounts to EUR 0.2 million in the year under report (EUR 0.6 million) and EUR –0.3 million (EUR –0.5 million) cumulatively. The credit risk-induced change in fair value is calculated from an observation of differences between two fair values calculated on the basis of market data valid at the beginning of the year. The stated amount results from the sole change in the relevant spread curves which takes place over the course of the year under report.

Of the total amount, EUR 499.7 million (previous year EUR 235.7 million) is only due in 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.

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|--|-----------------------------|-----------------------------|---------------------------|
| Positive fair values from allocated micro fair value hedge derivatives | 43.4 | 38.6 | 13 |
| Fair values from derivatives in portfolio fair value hedge accounting | 0.0 | 0.0 | – |
| Fair values in terms of cash flow hedge accounting | 0.0 | 0.0 | – |
| Total | 43.4 | 38.6 | 13 |

The bank operates micro fair value hedge accounting to cover interest rate risks. Hedge derivatives with a fair value of EUR 43.4 million will become due at the earliest after twelve months (previous year EUR 38.5 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.

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Financial assets classified as LaR | 607.1 | 623.6 | -3 |
| Financial assets classified as AfS | 5,705.9 | 6,240.2 | -9 |
| Debt securities and other fixed interest securities | 5,583.7 | 6,124.8 | -9 |
| Money market securities | 45.2 | 50.0 | -10 |
| from public issuers | 0.0 | 0.0 | - |
| from other issuers | 45.2 | 50.0 | -10 |
| Bonds and debt securities | 5,538.5 | 6,074.7 | -9 |
| from public issuers | 1,038.7 | 1,243.9 | -16 |
| from other issuers | 4,499.8 | 4,830.9 | -7 |
| Shares and other variable yield securities | 19.0 | 20.3 | -6 |
| Shares | 0.0 | 0.0 | - |
| Investment shares | 19.0 | 20.3 | -6 |
| Profit participation certificates | 0.0 | 0.0 | - |
| Shares in companies | 103.2 | 95.2 | 8 |
| Shares in affiliated companies | 103.2 | 95.2 | 8 |
| Banks | 81.7 | 95.2 | -14 |
| Other companies | 21.5 | 0.0 | - |
| Special purpose companies (special funds) | 0.0 | 0.0 | - |
| Total | 6,313.0 | 6,863.8 | -8 |

Of the financial assets, EUR 4,788.0 million (previous year EUR 5,076.3 million) is due for over twelve months. The volume of financial assets in PIIGS countries amounts to a nominal EUR 25.0 million. This is an issue of the Greek Republic with a maturity date of May 2013. As at 31.12.2011, the bond was depreciated at a fair value of 34%.

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

| Name/registered office | Equity Share | Investment Book Value (EUR million) | Equity before NBR (EUR million) | Profit/Loss (EUR million) |
|---|--------------|-------------------------------------|---------------------------------|---------------------------|
| NORD/LB Covered Finance Bank S.A., Luxembourg | 100 % | 81.7 | 97.1 | 4.1 |
| Skandifinanz AG, Zürich | 100 % | 21.5 | 26.8 | -5.0 |
| Total | | 103.2 | 123.9 | -0.9 |

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

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

(32) Property, Plant and Equipment

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/Decrease (%) |
|-------------------------------------|--------------------------|--------------------------|-----------------------|
| Land and buildings | 68.9 | 23.0 | > 100 |
| Operating and office equipment | 7.7 | 0.6 | > 100 |
| Investments under construction | 0.0 | 37.0 | -100 |
| Other property, plant and equipment | 0.0 | 0.0 | - |
| Total | 76.5 | 60.6 | 26.3 |

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

| EUR million | Land and Buildings | BGA | Investments under Construction | Other Property, Plant and Equipment | Total |
|--|--------------------|-------------|--------------------------------|-------------------------------------|-------------|
| Acquisition and manufacturing costs at 01.01.10 | 23.4 | 11.5 | 10.3 | 0.0 | 45.2 |
| Accruals | 0.0 | 0.4 | 26.7 | 0.0 | 27.1 |
| Disposals | 0.0 | 0.2 | 0.0 | 0.0 | 0.2 |
| Transfers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Changes from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total 31.12.2010 | 23.4 | 11.7 | 37.0 | 0.0 | 72.1 |
| Cumulative depreciation at 01.01.2010 | 0.4 | 11.1 | 0.0 | 0.0 | 11.5 |
| 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 |
| Total 31.12.2010 | 0.4 | 11.1 | 0.0 | 0.0 | 11.5 |
| Closing balance at 31.12.2010 | 23.0 | 0.6 | 37.0 | 0.0 | 60.6 |
| Acquisition and manufacturing costs at 01.01.2011 | 23.4 | 11.7 | 37.0 | 0.0 | 72.1 |
| Accruals | 0.2 | 1.6 | 15.6 | 0.0 | 17.4 |
| Disposals | 0.0 | 1.1 | 0.0 | 0.0 | 1.1 |
| Transfers | 46.1 | 6.4 | -52.6 | 0.0 | 0.0 |
| Changes from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total 31.12.2011 | 69.7 | 18.6 | 0.0 | 0.0 | 88.4 |
| Cumulative depreciation at 01.01.2011 | 0.4 | 11.1 | 0.0 | 0.0 | 11.5 |
| Scheduled depreciation | 0.5 | 0.9 | 0.0 | 0.0 | 1.3 |
| Impairments (write-downs) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | 1.0 | 0.0 | 0.0 | 1.0 |
| Changes from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total 31.12.2011 | 0.9 | 11.0 | 0.0 | 0.0 | 11.9 |
| Closing balance at 31.12.2011 | 68.9 | 7.7 | 0.0 | 0.0 | 76.5 |

The newly built bank building was occupied in June of the year under report. The assets in the course of construction were therefore transferred to land and buildings. For further information see Note (22).

(33) Intangible Assets

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|-------------------------------------|-----------------------------|-----------------------------|---------------------------|
| Software | 0.6 | 0.3 | > 100 |
| Acquired for consideration | 0.6 | 0.3 | > 100 |
| Self-produced | 0.0 | 0.0 | – |
| Intangible assets under development | 6.0 | 4.9 | 22 |
| Other | 0.0 | 0.0 | – |
| Total | 6.6 | 5.2 | 27 |

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

| EUR million | Software | | Intangible Assets under Development | | Total |
|--|-------------------------------|--------------------|--|--------------------|-------------|
| | Acquired for Consideration | Self-pro- duced | Acquired for Consideration | Self-pro- duced | |
| Acquisition and manufacturing costs at 01.01.2010 | 16.1 | 0.0 | 0.0 | 0.0 | 16.1 |
| 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 |
| Total 31.12.2010 | 16.2 | 0.0 | 0.0 | 0.0 | 21.1 |
| 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 |
| Total 31.12.2010 | 15.9 | 0.0 | 0.0 | 0.0 | 15.9 |
| Closing balance at 31.12.2010 | 0.3 | 0.0 | 0.0 | 0.0 | 5.2 |
| Acquisition and manufacturing costs at 01.01.2011 | 16.2 | 0.0 | 4.9 | 0.0 | 21.1 |
| Accruals | 0.1 | 0.0 | 11.8 | 0.0 | 12.0 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transfers | 0.7 | 0.0 | –0.7 | 0.0 | 0.0 |
| Changes from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total 31.12.2011 | 17.0 | 0.0 | 16.1 | 0.0 | 33.1 |

| EUR million | Software | | Intangible Assets under Development | | Total |
|---------------------------------------|----------------------------|---------------|-------------------------------------|---------------|-------------|
| | Acquired for Consideration | Self-produced | Acquired for Consideration | Self-produced | |
| Cumulative depreciation at 01.01.2011 | 15.9 | 0.0 | 0.0 | 0.0 | 15.9 |
| Scheduled depreciation | 0.5 | 0.0 | 0.0 | 0.0 | 0.5 |
| Impairments (write-downs) | 0.0 | 0.0 | 10.0 | 0.0 | 10.0 |
| Transfers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total 31.12.2011 | 16.4 | 0.0 | 10.0 | 0.0 | 26.5 |
| Closing balance at 31.12.2011 | 0.6 | 0.0 | 6.0 | 0.0 | 6.6 |

A non-scheduled depreciation to "value in use" of a current project in the sum of EUR 10.0 million (previous year EUR 0.0 million) is shown in other operational expense. The impairments relate primarily to the reduced chargeable rendering of services founded on the changes in the sub-group using the corresponding computer system application. Future cash flows and cost savings plans were used to calculate the "value in use". At the same time, a discount interest rate of 4.07% was applied. For further information see Note (23).

(34) Income Tax Assets

Income tax assets are broken down as follows:

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---------------------------|-----------------------------|-----------------------------|---------------------------|
| Current income tax assets | 14.6 | 24.6 | -41 |
| Active deferred taxes | 37.9 | 25.0 | 52 |
| Total | 52.5 | 49.5 | 6 |

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 the reporting 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 into account losses carried forward in the profit/loss affecting taxes. For further information see Note (24).

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

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|--|-----------------------------|-----------------------------|---------------------------|
| Assets | | | |
| Risk provisions | 0.0 | 0.0 | – |
| Financial assets | 37.9 | 11.4 | > 100 |
| Property, plant and equipment | 0.0 | 0.0 | – |
| Other assets | 0.0 | 0.0 | – |
| Liabilities | | | |
| Financial liabilities at fair value through profit or loss | 0.0 | 0.0 | – |
| Fair values from hedge accounting | 0.0 | 0.0 | – |
| Provisions | 0.0 | 0.1 | –100 |
| Other liabilities | 0.0 | 0.0 | – |
| Tax losses carried forward | 0.0 | 13.5 | –100 |
| Total | 37.9 | 25.0 | 52 |

(35) Other Assets

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Tax reimbursement rights from other taxes | 0.2 | 0.6 | –60 |
| Other assets | 1.8 | 1.4 | 25 |
| Other assets including accruals and deferred income | 2.2 | 4.5 | –50 |
| Total | 4.2 | 6.5 | –35 |

(36) Liabilities to Banks

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Deposits from other banks | 2,880.3 | 2,784.7 | 3 |
| Luxembourg banks | 285.0 | 284.0 | 0 |
| Foreign banks | 2,595.3 | 2,500.7 | 4 |
| Liabilities arising from money market transactions | 6,561.2 | 7,301.3 | -10 |
| Luxembourg banks | 2,344.4 | 378.5 | > 100 |
| Foreign banks | 4,216.8 | 6,922.8 | -39 |
| Other liabilities | 1.6 | 1.0 | 59 |
| Luxembourg banks | 1.3 | 0.3 | > 100 |
| due on demand | 1.3 | 0.3 | > 100 |
| deferred | 0.0 | 0.0 | - |
| Foreign banks | 0.4 | 0.7 | -51 |
| due on demand | 0.4 | 0.7 | -51 |
| deferred | 0.0 | 0.0 | - |
| Total | 9,443.1 | 10,087.0 | -6 |

Of the total amount, EUR 2,107.5 million (previous year EUR 2,453.5 million) is attributable to liabilities which will only become due after more than twelve months.

(37) Liabilities to Customers

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Savings deposits | 0.0 | 0.0 | - |
| Liabilities arising from money market transactions | 2,261.3 | 3,232.9 | -30 |
| Luxembourg customers | 679.3 | 41.7 | > 100 |
| Foreign customers | 1,581.9 | 3,191.3 | -50 |
| Other liabilities | 118.4 | 78.5 | 51 |
| Luxembourg customers | 16.0 | 17.7 | -9 |
| due on demand | 16.0 | 15.3 | 5 |
| deferred | 0.0 | 2.4 | -100 |
| Foreign customers | 102.4 | 60.7 | 69 |
| due on demand | 81.7 | 57.7 | 41 |
| deferred | 20.7 | 3.0 | > 100 |
| Total | 2,379.7 | 3,311.4 | -28 |

A partial amount of EUR 270.0 million will only become due after 12 months (previous year EUR 3.0 million).

(38) Securitised Liabilities

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Issued debt securities | 1,792.6 | 1,863.1 | -4 |
| Money market papers / Commercial papers | 416.4 | 525.9 | -21 |
| Other securitised liabilities | 0.0 | 0.0 | - |
| Total | 2,209.0 | 2,389.0 | -8 |

EUR 1,292.5 million of the total amount (previous year EUR 1,742.1 million) shows a remaining term of more than 12 months. 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.

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Trading liabilities | 347.6 | 296.1 | 17 |
| Negative fair values from derivatives in connection with: | 347.6 | 296.1 | 17 |
| Interest rate risks | 210.2 | 84.4 | > 100 |
| Currency risks | 137.4 | 211.7 | -35 |
| Share and other price risks | 0.0 | 0.0 | - |
| Credit derivatives | 0.0 | 0.0 | - |
| Short sale delivery obligations | 0.0 | 0.0 | - |
| Financial liabilities designated at fair value | 0.0 | 0.0 | - |
| Liabilities to banks and customers | 0.0 | 0.0 | - |
| Securitised liabilities | 0.0 | 0.0 | - |
| Total | 347.6 | 296.1 | 17 |

A partial amount of EUR 315.0 million of the trading liabilities will only become due after more than 12 months (previous year EUR 173.3 million).

(40) Fair Values from Hedge Accounting

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

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|--|-----------------------------|-----------------------------|---------------------------|
| Negative fair values from allocated micro fair value hedge derivatives | 260.0 | 166.8 | 56 |
| Fair values in portfolio fair value hedge accounting | 0.0 | 0.0 | – |
| Fair values in cash flow hedge accounting | 0.0 | 0.0 | – |
| Total | 260.0 | 166.8 | 56 |

The bank operates micro fair value hedge accounting for interest rate hedging. Hedge derivatives with a negative fair value of EUR 250.8 million will become due at the earliest after twelve months (previous year EUR 158.0 million).

(41) Provisions

Provisions are broken down as follows:

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|--|-----------------------------|-----------------------------|---------------------------|
| Provisions for pensions and similar obligations | 0.8 | 1.5 | –43 |
| Other provisions | 12.0 | 13.1 | –9 |
| Provisions in lending business | 7.7 | 8.5 | –10 |
| Provisions for uncertain liabilities | 4.3 | 4.7 | –8 |
| Total | 12.8 | 14.6 | –12 |

The other provisions include amounts in the sum of EUR 1.2 million, which will become due in the reporting year ahead (previous year EUR 1.3 million). These are primarily provisions for staff costs in both years under report. Provisions in the sum of EUR 10.8 million represent amounts for contingent liabilities, which will become due in the next three years (previous year EUR 11.8 million). These relate primarily to provisions for recourse risks and provisions in the lending business.

Provisions for Pensions and Similar Obligations

Calculations are based on the following actuarial assumptions:

| Actuarial Assumptions | 31.12.2011 (%) | 31.12.2010 (%) | Increase/ Decrease (%) |
|--|---|-------------------|---------------------------|
| Annual salary growth | 1.50 | 2.50 | -40 |
| Annual inflation rate | 2.50 | 2.50 | 0 |
| Annual BBG contribution ceiling (including cost of living index) | 3.50 | 3.63 | -4 |
| Discount rate | 5.10 | 5.25 | -3 |
| 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:

| | 31.12.2011 (KEUR) | 31.12.2010 (KEUR) | Increase/ Decrease (%) |
|---|----------------------|----------------------|---------------------------|
| Cash value of the performance-related obligation | 3,312.2 | 3,826.5 | -13 |
| Deduction for the fair value of plan assets | 2,624.8 | 2,611.8 | 0 |
| Surplus plan assets not shown as an asset | 0.0 | 0.0 | - |
| Other amounts shown in the balance sheet (lump sum tax) | 143.7 | 253.9 | -43 |
| Total | 0.0 | 0.0 | - |

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:

| | 31.12.2011 (KEUR) | 31.12.2010 (KEUR) | Increase/ Decrease (%) |
|---|----------------------|----------------------|---------------------------|
| Opening balance | 3,826.5 | 3,519.1 | 9 |
| Current service cost | 217.2 | 338.9 | -36 |
| Interest expense | 187.3 | 182.7 | 3 |
| Contributions by plan participants | 0.0 | 0.0 | - |
| Actuarial gains/losses from the liability | -611.6 | -134.3 | > 100 |

| | 31.12.2011 (KEUR) | 31.12.2010 (KEUR) | Increase/ Decrease (%) |
|--|----------------------|----------------------|---------------------------|
| Increases/decreases from currency translations | 0.0 | 0.0 | – |
| Benefits paid | –307.3 | –79.8 | > 100 |
| Past service cost | 0.0 | 0.0 | – |
| Effects of curtailments | 0.0 | 0.0 | – |
| Effects of settlements | 0.0 | 0.0 | – |
| Closing balance | 3,312.2 | 3,826.5 | –13 |

In addition, the defined benefit obligation as at the reporting date is to be separated into amounts from defined benefit plans, which are not financed via a fund, and amounts from defined benefit plans that are wholly or partly financed by a fund. The latter applies to NORD/LB Luxembourg's defined benefit obligation. Adjustments to the development of the plan debts based on experience and the plan assets amount to KEUR 96.5 (previous year KEUR 280.0) and KEUR 12.8 (previous year KEUR –2.2) respectively according to the insurance company.

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

| | 31.12.2011 (KEUR) | 31.12.2010 (KEUR) | Increase/ Decrease (%) |
|--|----------------------|----------------------|---------------------------|
| Opening balance | 2,611.8 | 2,464.6 | 6 |
| Expected return on plan assets | 103.2 | 88.5 | 17 |
| Actuarial gains/losses on plan assets | –191.9 | –80.3 | > 100 |
| Increases/decreases from currency translations | 0.0 | 0.0 | – |
| Employer contributions | 409.0 | 218.8 | 87 |
| Contributions by plan participants | 0.0 | 0.0 | – |
| Benefits paid | –307.3 | –79.8 | > 100 |
| Effects of settlements | 0.0 | 0.0 | – |
| Closing balance | 2,624.8 | 2,611.8 | 0 |

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

| | 31.12.2011 (%) | 31.12.2010 (%) | Increase/ Decrease (%) |
|--------------------------------------|-------------------|-------------------|---------------------------|
| Equity instruments | 4 | 4 | -8 |
| Equity instruments of another entity | 81 | 88 | -8 |
| Real estate | 3 | 4 | -26 |
| Other assets | 12 | 4 | > 100 |

The fair value of the plan assets include equity instruments in the sum of KEUR 108 (previous year KEUR 117), equity instruments of another entity in the sum of KEUR 2,126 (previous year KEUR 2,292) and other assets in the sum of KEUR 390 (previous year KEUR 203). 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 226 will be paid into the plan assets of the defined benefit obligations during the next reporting period (previous year KEUR 356).

Pension costs are made up as follows:

| | 31.12.2011 (KEUR) | 31.12.2010 (KEUR) | Increase/ Decrease (%) |
|---|----------------------|----------------------|---------------------------|
| Current service cost | 217.2 | 338.9 | -36 |
| Interest expense | 187.3 | 182.7 | 3 |
| Expected return on plan assets | -103.2 | -88.5 | 17 |
| Past service cost | 0.0 | 0.0 | - |
| Effects of plan changes | 0.0 | 0.0 | - |
| Expected return on reimbursement rights | -419.6 | -54.0 | > 100 |
| Total | -118.3 | 379.1 | > 100 |

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

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

Other provisions changed during the year under report as follows:

| EUR million | Provisions in Lending Business | Provisions for Impending Losses | Provisions for Uncertain Liabilities | | Provisions for Insurance Business | Total |
|---|--------------------------------------|---------------------------------------|---|-------|---|-------|
| | | | from personnel field | other | | |
| Opening balance | 8.5 | 0.0 | 1.3 | 3.4 | 0.0 | 13.1 |
| Increases/decreases from currency translations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Utilisation | 0.0 | 0.0 | 0.2 | 0.2 | 0.0 | 0.5 |
| Reductions | 2.0 | 0.0 | 0.4 | 0.0 | 0.0 | 2.4 |
| Allocations | 1.2 | 0.0 | 0.5 | 0.0 | 0.0 | 1.7 |
| Closing balance | 7.7 | 0.0 | 1.2 | 3.1 | 0.0 | 12.0 |

(42) Income Tax Liabilities

Income tax liabilities are broken down as follows:

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|--------------------------------|-----------------------------|-----------------------------|---------------------------|
| Current income tax liabilities | 2.3 | 1.4 | 66 |
| Passive deferred taxes | 5.3 | 5.2 | 2 |
| Total | 7.6 | 6.6 | 15 |

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 the reporting 2008. This means that many of the temporary differences no longer apply (see table below). The passive deferred taxes result primarily from the sale of the bank's own office building in 2008.

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

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|--|-----------------------------|-----------------------------|---------------------------|
| Assets | | | |
| Financial instruments 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 | – |
| Liabilities | | | |
| Financial liabilities at fair value through profit or loss | 0.0 | 0.0 | – |
| Fair values from hedge accounting | 0.0 | 0.0 | – |
| Provisions | 0.0 | 0.0 | – |
| Other liabilities | 5.3 | 5.2 | 2 |
| Total | 5.3 | 5.2 | 2 |

(43) Other Liabilities

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Liabilities from outstanding invoices | 6.7 | 18.0 | -63 |
| Liabilities from short term remuneration of workers | 4.0 | 3.3 | 24 |
| Accruals and deferred income | 4.5 | 4.6 | -1 |
| Liabilities from taxes and social security contributions not yet deducted | 8.1 | 7.7 | 6 |
| Other liabilities | 0.3 | 6.1 | -95 |
| Total | 23.6 | 39.6 | -40 |

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 fulfil the conditions of Circular 06/273 as amended in relation to offsetting as regulatory supplementary capital. Offsetting takes place depending on the remaining term.

The expenses for subordinated liabilities amounted to KEUR 568 in the year under report (previous year KEUR 618).

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

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|--------------------------|-----------------------------|-----------------------------|---------------------------|
| Subordinated liabilities | 96.7 | 93.6 | 3 |
| Total | 96.7 | 93.6 | 3 |

| Type of Transaction | Nominal Amount (in USD million) | Interest Accrual (in USD million) | Rate at 31.12.11 | Balance Sheet Value (EUR million) | Term in Years | Interest Rates (%) | Maturity |
|---------------------|------------------------------------|--------------------------------------|---------------------|--------------------------------------|------------------|-----------------------|------------|
| Subordinated loans | 60.0 | 0.1 | 1.2939 | 46.4 | 15 | 0.605 | 08.06.2016 |
| Subordinated loans | 65.0 | 0.0 | 1.2939 | 50.2 | 15 | 1.01925 | 31.12.2017 |
| Total | | | | 96.7 | | | |

The subordinated capital is liable to variable interest rates.

Other Disclosures

(45) Notes to the Overall Profit and Loss Account

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

| KEUR | Amount before Taxes 2011 | Income Tax Effect 2011 | Amount after Taxes 2011 | Amount before Taxes 2010 | Income Tax Effect 2010 | Amount after Taxes 2010 |
|---|--------------------------------|------------------------------|-------------------------------|--------------------------------|------------------------------|-------------------------------|
| Increase/decrease from available for sale (AfS) financial instruments | -92,185 | 26,549 | -65,635 | 1,374 | -310 | 1,064 |
| Actuarial gains / losses for defined benefit provisions for pensions | 530 | -153 | 377 | 20 | -5 | 15 |
| Profit/loss recognised directly in equity | -91,655 | 26,397 | -65,258 | 1,395 | -315 | 1,079 |
| of which due to shareholders of NORD/LUX | -91,655 | 26,397 | -65,258 | 1,395 | -315 | 1,079 |
| of which not attributable to controlling shares | 0 | 0 | 0 | 0 | 0 | 0 |

(46) Notes to the Statement of Changes in Equity

The company's subscribed capital amounts to EUR 205 million as at 31 December 2011 (previous year EUR 205 million). It is divided into 820,000 registered shares without nominal value (previous year 820,000 registered shares). The subscribed capital is fully paid up. There were no changes over the course of the year under report.

The individual components of equity and their development in the years 2010 and 2011 can be seen from the statement of changes in equity.

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

The revenue reserves also include, in particular, the legal reserve in accordance with Article 72 of the Law of 10 August 1915, as amended. At least 5 % of the profit for the year must be allocated to the legal reserve until it is equivalent

to 10 % of the subscribed capital. The bank's legal reserve amounts to EUR 20.5 million or 10 % of subscribed capital and is therefore adequately funded.

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

The cumulative actuarial profits according to IAS 19.93A and recognised in equity amount to EUR 0.3 million (previous year EUR -0.2 million) before taking into account deferred taxes and minority interests. Additions in the year under report amounted to EUR 0.5 million.

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

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

| Year | Property Tax NORD/LB Luxembourg | Wealth Tax NORD/LB CFB | Total | Locked in Reserves (= Five Times the Offset Property Tax) | Locked in Until |
|--------------|------------------------------------|---------------------------|-------------|---|-----------------|
| 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* | 31.12.2014 |
| 2010 | – | – | – | – | 31.12.2015 |
| 2011 | 3.4 | 0.3 | 3.7 | 18.2 | 31.12.2016 |
| Summe | 18.7 | 0.9 | 19.6 | | |

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

(47) Notes to the Cash Flow Statement

The cash flow statement shows changes in cash and cash equivalents for the year under report due to payment flows from operating activities, investment activities and financing activities. To improve transparency, the layout of the cash flow statement has been adapted since the previous year.

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 2011:

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

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 |
| Total | 6,601.4 | 3,588.4 | 2,013.7 | 4,038.0 | 1,736.1 | 17,977.6 |

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

For more information about the liquidity risk, please refer to the above risk report in the "Liquidity Risk" section. This contains more detailed information about liquidity management, the control and measurement of the liquidity risks, reporting and the development in 2011 and the outlook.

(49) Book Values According to Valuation Categories

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---|-----------------------------|-----------------------------|---------------------------|
| Aktiva | | | |
| Financial assets designated at fair value through profit or loss | 648.1 | 458.2 | 41 |
| Financial assets held for trading | 603.1 | 372.7 | 62 |
| Financial assets designated at fair value through profit or loss | 45.0 | 85.5 | -47 |
| Available for sale assets | 5,602.7 | 6,222.6 | -10 |
| Loans and receivables | 9,001.3 | 10,273.5 | -12 |
| Total | 15,252.2 | 16,954.3 | -10 |
| Liabilities | | | |
| Financial liabilities at fair value through profit or loss | -607.5 | -463.0 | 31 |
| Financial liabilities held for trading | -607.5 | -463.0 | 31 |
| Financial liabilities designated at fair value through profit or loss | 0.0 | 0.0 | - |
| Other liabilities | -14,128.5 | -15,881.0 | -11 |
| Total | -14,736.0 | -16,344.0 | -10 |

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

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|---|-----------------|------------------|---------------------------|
| Financial instruments at fair value through profit or loss | -54,216.4 | -45,061.6 | 20 |
| Financial instruments held for trading | -54,698.2 | -47,118.3 | 16 |
| Financial instruments designated at fair value through profit or loss | 481.8 | 2,056.8 | -77 |
| Available for sale assets | 120,460.1 | 120,543.0 | 0 |
| Loans and receivables | 238,695.6 | 266,877.8 | -11 |
| Other liabilities | -214,810.2 | -211,320.1 | 2 |
| Total | 90,129.1 | 131,039.1 | -31 |

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

| | 2011 (KEUR) | 2010 (KEUR) | Increase/ Decrease (%) |
|---|------------------|------------------|---------------------------|
| Available for Sale Assets | | | |
| Result from valuation adjustments of AfS financial assets | -18,469.8 | 0.0 | - |
| Result from direct write-down of uncollectible receivables/ Receipts on written down receivables | 0.0 | 0.0 | - |
| Total | -18,469.8 | 0.0 | - |
| Loans and Receivables | | | |
| Result from valuation adjustments of LaR financial assets | 17,588.9 | -30,151.9 | > 100 |
| Result from portfolio based valuation adjustments of LaR financial assets | -205.7 | 11,482.8 | > 100 |
| Result from the formation/reversal of provisions in lending sector | 817.9 | -6,079.6 | > 100 |
| Result from direct write-down of uncollectible receivables/ Receipts on written down receivables | 0.0 | 0.0 | - |
| Total | 18,201.0 | -24,748.7 | > 100 |

(52) Fair Value Hierarchy

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

| 31.12.2011 EUR million | Level 1 (Mark-to- Market) | Level 2 (Mark-to- Matrix) | Level 3 (Mark-to- Model) | Total |
|--|---------------------------------|---------------------------------|--------------------------------|----------------|
| Trading assets | 130.7 | 429.0 | 0.0 | 559.7 |
| Financial assets designated at fair value | 0.0 | 45.0 | 0.0 | 45.0 |
| Positive fair values from hedge accounting derivatives | 0.0 | 43.4 | 0.0 | 43.4 |
| Financial assets (measured at fair value) | 5,069.1 | 17.3 | 516.3 | 5,602.7 |
| Assets | 5,199.8 | 534.8 | 516.3 | 6,250.9 |
| Trading liabilities | 0.0 | 347.6 | 0.0 | 347.6 |
| Financial liabilities designated at fair value | 0.0 | 0.0 | 0.0 | 0.0 |
| Negative fair values from hedge accounting derivatives | 0.0 | 260.0 | 0.0 | 260.0 |
| Liabilities | 0.0 | 607.5 | 0.0 | 607.5 |

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 Level 3 securities under this stress scenario in relation to the rating classes amounts to EUR 3.9 million (previous year EUR 6.7 million).

The transfers within the fair value hierarchy are as follows:

| 01.01. – 31.12.2011 EUR million | From Level 1 to Level 2 | From Level 1 to Level 3 | From Level 2 to Level 1 | From Level 2 to Level 3 | From Level 3 to Level 1 | From Level 3 to Level 2 |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Trading assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial assets designated at fair value | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Positive fair values from hedge accounting derivatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial assets (measured at fair value) | 0.0 | 83.2 | 15.3 | 23.1 | 452.4 | 17.3 |
| Assets | 0.0 | 83.2 | 15.3 | 23.1 | 452.4 | 17.3 |
| 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 |
| Liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

A total of five securities changed from Level 1 to Level 3, caused by a distorted or inactive market. One security changed from the matrix evaluation (Level 2) to market evaluation (Level 1) and two securities to the model evaluation (Level 3). The most significant change came from the transfer of 26 securities from Level 3 to Level 1. There was an active market again for these securities as at the reporting date. For one security, the matrix evaluation (Level 2) was reapplied on the reporting date in contrast to the model evaluation (Level 3) in the previous year.

With respect to the total inventory of securities, the level transfers never rose above 8%.

There were no financial liabilities in Level 3 of the fair value hierarchy in either in the year under report or in the previous year; the development of the financial assets in Level 3 of the fair value hierarchy is as follows:

| EUR million | Trading Assets | Financial Assets Designated at Fair Value | Positive Fair Values from Hedge Accounting Derivatives | Financial Assets (Measured at Fair Value) | Total Assets |
|---|----------------|---|--|---|--------------|
| Opening balance as at 01.01.2010 | 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 |
| Closing balance at 31.12.2010 | 0.0 | 0.0 | 0.0 | 979.7 | 979.7 |
| Opening balance as at 01.01.2011 | 0.0 | 0.0 | 0.0 | 979.7 | 979.7 |
| Profit/loss effect | 0.0 | 0.0 | 0.0 | 2.6 | 2.6 |
| Equity effect | 0.0 | 0.0 | 0.0 | -67.0 | -67.0 |
| 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 | -37.7 | -37.7 |
| Moved from Level 1 and 2 | 0.0 | 0.0 | 0.0 | 106.3 | 106.3 |
| Moved to Level 1 and 2 | 0.0 | 0.0 | 0.0 | -469.7 | -469.7 |
| Currency translation | 0.0 | 0.0 | 0.0 | 2.0 | 2.0 |
| Closing balance at 31.12.2011 | 0.0 | 0.0 | 0.0 | 516.3 | 516.3 |

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

(53) Fair Value of Financial Instruments

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

| EUR million | Fair Value 31.12.2011 | Book Value 31.12.2011 | Difference 31.12.2011 | Fair Value 31.12.2010 | Book Value 31.12.2010 | Difference 31.12.2010 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Assets | 9,185.8 | 8,898.2 | 287.6 | 10,467.8 | 10,255.9 | 211.9 |
| Cash reserve | 138.9 | 138.9 | 0.0 | 96.0 | 96.0 | 0.0 |
| Loans and advances to banks | 4,341.0 | 4,324.6 | 16.4 | 5,696.6 | 5,689.3 | 7.3 |
| Loans and advances to customers | 4,089.1 | 3,853.8 | 235.3 | 4,212.8 | 4,032.3 | 180.5 |
| Financial assets | 643.0 | 607.1 | 35.9 | 647.8 | 623.6 | 24.1 |
| Risk provisions | -26.2 | -26.2 | 0.0 | -185.3 | -185.3 | 0.0 |
| Loans and advances after risk provisions | 9,046.9 | 8,759.2 | 287.6 | 10,371.8 | 10,159.9 | 211.9 |
| Liabilities | 14,389.2 | 14,128.5 | 260.7 | 16,070.0 | 15,881.0 | 189.0 |
| Liabilities to banks | 9,684.2 | 9,443.1 | 241.1 | 10,256.2 | 10,087.0 | 169.2 |
| Liabilities to customers | 2,380.2 | 2,379.7 | 0.5 | 3,311.7 | 3,311.4 | 0.3 |
| Securitised liabilities | 2,218.2 | 2,209.0 | 9.1 | 2,397.6 | 2,389.0 | 8.6 |
| Subordinated capital | 106.6 | 96.7 | 9.9 | 104.5 | 93.6 | 11.0 |

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

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

(54) Derivative Financial Instruments

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

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

The composition of the derivative portfolio is as follows:

| EUR million | Nominal Values 31.12.2011 | Nominal Values 31.12.2010 | Market Values Positive 31.12.2011 | Market Values Positive 31.12.2010 | Market Values Negative 31.12.2011 | Market Values Negative 31.12.2010 |
|---|------------------------------|------------------------------|---|---|---|---|
| Interest rate risks | 8,659.4 | 12,748.2 | 223.8 | 105.9 | 470.1 | 251.2 |
| Interest rate swaps | 8,639.4 | 12,728.2 | 223.8 | 105.8 | 470.1 | 251.1 |
| 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 | 20.0 | 0.0 | 0.1 | 0.0 | 0.1 |
| Stock exchange contracts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other forward interest rate transactions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Currency risks | 5,291.3 | 6,601.1 | 248.7 | 266.7 | 137.4 | 211.7 |
| Forward exchange contracts | 24.2 | 40.0 | 0.6 | 1.1 | 0.6 | 1.4 |
| Currency swaps/ Interest rate-currency swaps | 5,267.1 | 6,561.0 | 248.0 | 265.6 | 136.8 | 210.4 |
| Currency options | | | | | | |
| Purchases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sales | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock exchange contracts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other currency transactions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Share and other price risks | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Forward share transactions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Share swaps | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Share options | | | | | | |
| Purchases | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sales | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock exchange contracts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other forward transactions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Credit derivatives | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Secured party | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Guarantor | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 13,950.7 | 19,349.3 | 472.5 | 372.6 | 607.5 | 463.0 |

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

| Nominal Value (EUR million) | Interest Rate Risks | | Currency Risks | | Share and Other Price Risks | | Credit Derivatives | |
|--------------------------------|---------------------|-----------------|----------------|----------------|--------------------------------|----------------|-----------------------|----------------|
| | 31.12. 2011 | 31.12. 2010 | 31.12. 2011 | 31.12. 2010 | 31.12. 2011 | 31.12. 2010 | 31.12. 2011 | 31.12. 2010 |
| Term to maturity | | | | | | | | |
| up to 3 months | 696.9 | 3,602.4 | 3,766.7 | 4,783.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| over 3 months and up to 1 year | 1,281.3 | 2,244.7 | 593.3 | 1,103.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| over 1 year and up to 5 years | 3,360.9 | 3,704.1 | 803.8 | 714.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| over 5 years | 3,320.3 | 3,197.1 | 127.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 8,659.4 | 12,748.2 | 5,291.3 | 6,601.1 | 0.0 | 0.0 | 0.0 | 0.0 |

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

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

| EUR million | Nominal Values | Nominal Values | Market Values | Market Values | Market Values | Market Values |
|--|-------------------|-------------------|------------------------|------------------------|------------------------|------------------------|
| | 31.12.2011 | 31.12.2010 | Positive 31.12.2011 | Positive 31.12.2010 | Negative 31.12.2011 | Negative 31.12.2010 |
| Banks in OECD countries | 13,614.9 | 19,028.4 | 461.1 | 370.4 | 606.8 | 455.2 |
| Banks outside OECD countries | 143.7 | 124.2 | 0.3 | 0.0 | 0.4 | 5.7 |
| Public sector entities in OECD countries | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other counterparties (incl. exchange contracts) | 192.1 | 196.7 | 11.1 | 2.3 | 0.3 | 2.0 |
| Total | 13,950.7 | 19,349.3 | 472.5 | 372.7 | 607.5 | 463.0 |

(55) Information Relating to Selected Countries

The following table shows the reported values of the transactions in relation to selected countries. The information regarding the country also includes regional governments, local governments and firms with government links.

At 31 December 2011:

| 31.12.2011 EUR million | Financial Instruments Held for Trading | Financial Instruments Designated at Fair Value through Profit or Loss | Available for Sale Assets | Loans and Receivables |
|--|---|--|------------------------------|--------------------------|
| Portugal | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 62.5 | 19.8 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 43.2 |
| Total | 0.0 | 0.0 | 62.5 | 63.0 |
| Ireland | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 72.1 | 0.0 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 0.0 | 0.0 | 72.1 | 0.0 |
| Italy | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 382.0 | 27.5 |
| Corporates/Other | 0.0 | 0.0 | 25.7 | 2.9 |
| Total | 0.0 | 0.0 | 407.7 | 30.4 |
| Greece | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 9.7 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 19.3 | 25.0 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 0.0 | 0.0 | 29.0 | 25.0 |
| Spain | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 535.9 | 76.5 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 25.1 |
| Total | 0.0 | 0.0 | 535.9 | 101.6 |

At 31 December 2010:

| 31.12.2011 EUR million | Financial Instruments Held for Trading | Financial Instruments Designated at Fair Value through Profit or Loss | Available for Sale Assets | Loans and Receivables |
|--|---|--|------------------------------|--------------------------|
| Portugal | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 63.5 | 39.8 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 47.5 |
| Total | 0.0 | 0.0 | 63.5 | 87.3 |
| Ireland | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 121.9 | 0.0 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 0.0 | 0.0 | 121.9 | 0.0 |
| Italy | | | | |
| Sovereign Exposure | 0.0 | 24.6 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 7.0 | 0.0 | 472.7 | 51.1 |
| Corporates/Other | 0.0 | 0.0 | 26.7 | 0.0 |
| Total | 7.0 | 24.6 | 499.4 | 51.1 |
| Greece | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 26.2 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 29.5 | 50.0 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 0.0 | 0.0 | 55.7 | 50.0 |
| Spain | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 684.4 | 101.4 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 59.0 |
| Total | 0.0 | 0.0 | 684.4 | 160.4 |

No credit derivatives are included in the above figures.

As well as the abovementioned reported transactions, there are off-balance sheet liabilities from guarantees to Hungary (EUR 150.0 million), Italy (EUR 102.9 million), Ireland (EUR 81.5 million) and Spain (EUR 7.0 million).

For the financial instruments in the category Available for Sale with costs of acquisition in the total sum of EUR 1,179.4

million (EUR 1,440.9 million), the cumulative valuation result in the equity amounts to a total of EUR –68.9 million (EUR –31.5 million) in relation to the named selected countries. In addition, depreciation in the sum of EUR 18.5 million (EUR 0.0 million) was recognised in the profit and loss statement for the period. Of this amount, costs of acquisition in the sum of EUR 31.2 million (EUR 31.2 million) and a depreciation amount affecting profit or loss in the sum of EUR 18.5 million (EUR 0.0 million) are attributable to Greek

government bonds; the fair value of this security allocated to Level 1 of the fair value hierarchy amounts to EUR 9.7 million (EUR 26.2 million).

As regards the current discussions regarding a debt haircut for Greece, there continues to be uncertainty about the amount. From negotiations so far, a level of 50-70% seems likely. The bank has already taken this into account and depreciated the bond to the central Greek Government to a rate of 34%.

For the receivables in the category Loans and Receivables from the named selected countries, there are individual loan loss provisions in the sum of EUR 0.0 million (EUR 0.0 million) and portfolio loss provisions in the sum of EUR 0.5

million (EUR 1.4 million). The fair value of these receivables in the category Loans and Receivables amounts to a total of EUR 219.1 million (EUR 347.4 million).

The interest rates for the abovementioned transactions are between 1.05% and 7.50%. The individual terms of the transactions range from 2012-2025, 40% of the receivables becoming due in the next 12 months and 75% in the next 36 months.

The following tables show the application of the fair value hierarchy of the financial assets and liabilities shown at fair value affecting profit/loss and not affecting profit/loss for selected countries in 2010 and 2011:

At 31 December 2011:

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

At 31 December 2010:

| 31.12.2010 EUR million | Level 1 | Level 2 | Level 3 | Total |
|--|--------------|-------------|--------------|--------------|
| Portugal | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 63.5 | 63.5 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 0.0 | 0.0 | 63.5 | 63.5 |
| Ireland | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 14.8 | 9.7 | 97.4 | 121.9 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 14.8 | 9.7 | 97.4 | 121.9 |
| Italy | | | | |
| Sovereign Exposure | 24.6 | 0.0 | 0.0 | 24.6 |
| Financial institutions/insurance companies | 316.1 | 18.7 | 144.8 | 479.7 |
| Corporates/Other | 26.7 | 0.0 | 0.0 | 26.7 |
| Total | 367.3 | 18.7 | 144.8 | 530.9 |
| Greece | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 26.2 | 26.2 |
| Financial institutions/insurance companies | 0.0 | 0.0 | 29.5 | 29.5 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 0.0 | 0.0 | 55.7 | 55.7 |
| Spain | | | | |
| Sovereign Exposure | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial institutions/insurance companies | 333.0 | 0.0 | 351.4 | 684.4 |
| Corporates/Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 333.0 | 0.0 | 351.4 | 684.4 |

(56) Underlying Transactions in Effective Hedging Relationships

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

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

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

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) | Increase/ Decrease (%) |
|---------------------------------|-----------------------------|-----------------------------|---------------------------|
| Assets | | | |
| Loans and advances to banks | 140.0 | 149.5 | -6 |
| Loans and advances to customers | 283.3 | 408.6 | -31 |
| Financial assets | 3,102.8 | 2,414.3 | 29 |
| Total | 3,526.1 | 2,972.4 | 19 |
| Liabilities | | | |
| Liabilities to banks | 0.0 | 0.0 | - |
| Liabilities to customers | 0.0 | 0.0 | - |
| Securitised liabilities | 545.5 | 535.8 | 2 |
| Subordinated capital | 0.0 | 0.0 | - |
| Total | 545.5 | 535.8 | 2 |

(57) NORD/LB Luxembourg as Assignor

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

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) |
|--|-----------------------------|-----------------------------|
| Loans and advances to banks | 223.6 | 279.1 |
| Loans and advances to customers | 0.0 | 0.0 |
| Financial instruments at fair value through profit or loss | 0.0 | 0.0 |
| Financial assets | 4,811.8 | 4,650.7 |
| Total | 5,035.4 | 4,929.8 |

The furnishing of security in order to borrow funds mostly took the form of genuine repurchase agreements (repos) with a maximum remaining term of 7 months. Expenses and income from the pledged securities continue to be due to the bank.

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

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

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) |
|---------------------------------------|-----------------------------|-----------------------------|
| Financial assets assigned to the bank | 1,547.8 | 2,017.1 |
| Deposits by banks | 203.3 | 200.5 |
| Total | 1,751.1 | 2,217.6 |

(58) Securities Repurchase Agreements and Securities Lending

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) |
|---|-----------------------------|-----------------------------|
| Genuine repurchase agreements as a repurchase buyer (reverse repos) | 1,551.3 | 2,021.3 |
| Loans and advances to banks | 1,551.3 | 2,021.3 |
| Loans and advances to customers | 0.0 | 0.0 |
| Genuine repurchase agreements as a repurchase seller (repos) | 4,807.4 | 4,677.5 |
| Liabilities to banks | 4,664.4 | 4,191.6 |
| Liabilities to customers | 143.0 | 485.9 |

| | 31.12.2011 (EUR million) | 31.12.2010 (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 |

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) |
|--|-----------------------------|-----------------------------|
| Securities sold under repurchase agreements | 4,804.8 | 4,672.8 |
| Securities sold under repurchase agreements at fair value through profit or loss | 0.0 | 0.0 |
| Securities sold under repurchase agreements from financial assets | 4,804.8 | 4,672.8 |
| Securities bought under repurchase agreements | 1,547.8 | 2,017.1 |

Other Notes

(59) Regulatory Information

The risk-weighted asset values and the regulatory equity are based on the regulations of the Solvency Regulation and on the basis of the IFRS.

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) |
|----------------------------|-----------------------------|-----------------------------|
| Risk assets | 3,225.6 | 3,600.3 |
| Weighted operational risks | 212.1 | 198.8 |
| Market risk positions | 95.5 | 36.5 |
| Floor | 71.4 | 230.0 |
| Total | 3,604.6 | 4,065.6 |

Risk-weighted Asset Values

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

The IRB approach used by the bank led to a lower equity cost in 2010 and 2011 than the previous regulation. 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 2011, this results in an equity requirement in the sum of EUR 17.0 million (previous year EUR 15.9 million).

Regulatory Equity

| | 31.12.2011 (EUR Mio.) | 31.12.2010 (EUR Mio.) |
|--|--------------------------|--------------------------|
| Contributed capital | 205.0 | 205.0 |
| Other reserves | 454.9 | 455.9 |
| Remaining components | -6.6 | -5.2 |
| Core capital | 653.3 | 655.7 |
| Asset deposits of silent shareholders | 0.0 | 0.0 |
| Subordinated debt securities (part that can be offset) | 87.3 | 93.5 |
| Supplementary capital | 87.3 | 93.5 |
| Liabile equity | 740.6 | 749.3 |
| Equity capital | 740.6 | 749.3 |

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

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

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

Target capital ratios are defined for the regulatory capital factors, in which the numerator constitutes the respective capital factor and the denominator the risk weighted asset values in accordance with the rules of the solvency regulations. As well as this, there are regulatory minimum capital ratios, which are to be complied with permanently.

It is anticipated that these minimum capital ratios will rise in stages between 2013 and 2019 due to changing regulatory provisions ("Basel III"). Special requirements will result for equity management from complying with these rising minimum capital ratios in the next few years.

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

Minimum Capital Ratios

The bank complied with the regulatory minimum capital ratios at all times during 2010 and 2011. At the respective year-ends the bank had the following ratios:

| | 31.12.2011 | 31.12.2010 |
|---------------------|------------|------------|
| Overall coefficient | 20.55 % | 18.43 % |
| Core capital ratio | 18.12 % | 16.13 % |

The overall coefficient is 20.55 % (previous year 18.43 %) when taking account of the floor. Without the floor, the coefficient improves to 20.96 % (previous year 19.53 %).

Large Borrowers Requirements

In 2011, the bank complied with the applicable regulatory requirements for equity and liquidity at all times. Likewise, the bank accommodated the regulations on large borrow-

ing limits in the year under report. On application of the bank, the regulatory body CSSF released the bank from compliance with the large risk limit for companies in the NORD/LB Group in accordance with Section XVI, point 24 of Circular 06/273. On the reporting date, accounts and guarantees receivable from group companies exist in the sum of EUR 6,789.5 million (previous year EUR 7,979.5 million).

(60) Foreign Currency Volumes

As at 31 December 2011, there were the following assets and liabilities in foreign currencies:

| EUR million | USD | JPY | CHF | Other | Total |
|---|----------------|--------------|--------------|--------------|----------------|
| Assets | | | | | |
| Cash reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances to banks | 747.9 | 29.5 | 113.2 | 8.5 | 899.1 |
| Loans and advances to customers | 1,073.4 | 163.7 | 342.8 | 93.9 | 1,673.7 |
| Risk provisions | 0.0 | 0.0 | -8.5 | 0.0 | -8.5 |
| Financial assets at fair value through profit or loss | 194.5 | 597.2 | 50.5 | 73.9 | 916.0 |
| Positive fair values from hedge accounting | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial assets | 41.4 | 0.0 | 0.0 | 80.8 | 122.2 |
| Other assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 2,057.1 | 790.3 | 498.0 | 257.1 | 3,602.5 |

| EUR million | USD | JPY | CHF | Other | Total |
|--|----------------|--------------|--------------|--------------|----------------|
| Liabilities | | | | | |
| Liabilities to banks | 3,645.3 | 0.0 | 912.0 | 216.7 | 4,774.1 |
| Liabilities to customers | 659.7 | 0.0 | 30.3 | 10.5 | 700.5 |
| Securitised liabilities | 435.7 | 382.5 | 0.0 | 0.0 | 818.2 |
| Financial liabilities at fair value through profit or loss | 172.2 | 267.3 | 54.8 | 74.1 | 568.3 |
| Negative fair values from hedge accounting | 30.5 | 0.7 | 1.1 | 0.3 | 32.6 |
| Other liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Subordinated capital | 96.7 | 0.0 | 0.0 | 0.0 | 96.7 |
| Total | 5,040.1 | 650.4 | 998.2 | 301.6 | 6,990.3 |

(61) Contingent Liabilities and Other Obligations

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) |
|---|-----------------------------|-----------------------------|
| Contingent liabilities | 962.6 | 828.1 |
| Contingent liabilities under rediscounted bills of exchange | 0.0 | 0.0 |
| Liabilities from guarantees and other indemnity agreements | 962.6 | 828.1 |
| Irrevocable credit commitments | 1,258.3 | 1,268.5 |
| Total | 2,220.8 | 2,096.6 |

Liabilities from guarantees and other indemnity agreements include credit guarantees, trade-related guarantees and contingent liabilities from other guarantees and other indemnity agreements.

Disclosures on the estimation of financial effects, the uncertainty with regard to the amount or timing of asset outflows and the possibility of adjustment payments are not made for reasons of practicality.

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

Letter of Comfort:

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

(62) Subordinated Assets

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) |
|--|-----------------------------|-----------------------------|
| Loans and advances to banks | 30.9 | 38.0 |
| Loans and advances to customers | 0 | 0 |
| Financial instruments at fair value through profit or loss | 0 | 0 |
| Financial assets | 0 | 0 |
| Total | 30.9 | 38.0 |

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

The subordinated loans and advances to banks relate to a subsidiary at EUR 30.9 million (previous year EUR 38.0 million).

(63) Trust Activities

The trust activities can be broken down as follows:

| | 31.12.2011 (EUR million) | 31.12.2010 (EUR million) |
|--|-----------------------------|-----------------------------|
| Trust assets | 13.0 | 12.4 |
| Loans and advances to banks | 0.0 | 0.0 |
| Loans and advances to customers | 13.0 | 12.4 |
| 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 |
| Trust liabilities | 13.0 | 12.4 |
| Liabilities to banks | 13.0 | 12.4 |
| Liabilities to customers | 0.0 | 0.0 |
| Other trust liabilities | 0.0 | 0.0 |

(64) Events After the Balance Sheet Date

There were no significant events between the balance sheet date of 31 December 2011 and the preparation of these financial statements on 20 February 2012 by the Board of Directors.

(65) Auditor's Fees

| | 2011 (in KEUR) | 2010 (in KEUR) |
|-----------------------------|-------------------|-------------------|
| Auditor's fees for: | | |
| Auditing | 391 | 403 |
| Other confirmation services | 155 | 382 |
| Tax consultancy | 102 | 0 |
| Other services | 12 | 11 |

No fees were paid to the auditors other than those shown in the table. The amounts include statutory VAT.

(66) Deposit Guarantee

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

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

Related Parties

(67) Number of Employees

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

| | Male 2011 | Male 2010 | Female 2011 | Female 2010 | Total 2011 | Total 2010 |
|--------------------|--------------|--------------|----------------|----------------|---------------|---------------|
| NORD/LB Luxembourg | 113.4 | 104.2 | 53.8 | 43.4 | 167.2 | 147.6 |

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

| Group | 2011 | 2010 |
|--------------|--------------|--------------|
| Board | 3.0 | 2.5 |
| Senior staff | 15.3 | 14.8 |
| Employees | 148.9 | 130.2 |
| Total | 167.2 | 147.6 |

(68) Related Party Disclosures

All consolidated subsidiaries qualify as related parties. As well as this, NORD/LB (parent company of NORD/LB Luxembourg) and entities pursuant to IAS 24.9 (b) are deemed to be related parties.

Natural persons who are regarded as related parties in accordance with IAS 24 are members of the Board of Directors and the Supervisory Board of NORD/LB Luxembourg, the members of the Board of Directors of NORD/LB as the group's parent company and their close family members.

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

The scope of transactions with related companies and persons in 2011 and 2010 can be seen from the following lists. Changes in the group of related companies and persons lead to adjustments of the previous year's figures where necessary:

At 31 December 2011:

| KEUR | Shareholders | Subsidiaries | Persons in Key Functions | Other related parties |
|---|------------------|------------------|--------------------------|-----------------------|
| Outstanding loans and advances | | | | |
| to banks | 494,265 | 2,347,103 | 0 | 207,400 |
| to customers | 0 | 0 | 5 | 0 |
| Trading derivatives on assets side | 38,209 | 146,190 | | |
| Other assets | 0 | 711,932 | 0 | 24,930 |
| Total assets | 532,475 | 3,205,225 | 5 | 232,330 |
| Outstanding liabilities | | | | |
| to banks | 3,686,195 | 421,252 | 0 | 0 |
| to customers | 0 | 29,593 | 0 | 0 |
| Trading derivatives on liabilities side | 62,233 | 260,856 | | |
| Subordinated capital | 96,653 | 0 | 0 | 0 |
| Other liabilities | 1,400 | 0 | 1,235 | 0 |
| Total equity and liabilities | 3,846,481 | 711,700 | 1,235 | 0 |
| Guarantees/sureties granted | 7,000 | 1,113,696 | 0 | 0 |
| Interest expense | 105,871 | 65,848 | 0 | 2,838 |
| Interest income | 20,280 | 102,555 | 0 | 6,897 |
| Commission expense | 34,154 | 0 | 0 | 0 |
| Commission income | 0 | 1,745 | 0 | 355 |
| Other income and expense | 18,926 | -26,304 | -3,632 | 0 |
| Total contributions to income | -100,819 | 12,148 | -3,632 | 4,414 |

Other expenses and income include dividend payouts of subsidiaries in the sum of KEUR 0 (previous year KEUR 5,500).

Services rendered within the scope of service agreements regarding personnel, use of buildings and other material costs were billed to Skandifinanz AG in the total sum of KEUR 84 (previous year KEUR 468) and to NORD/LB Covered Finance Bank S.A. in the total sum of KEUR 1,808 (previous year KEUR 1,768).

The avalisation of individual counterparties in the portfolio of NORD/LB CFB, which had already started in 2010, was continued by the bank in the year under report. The associated receivables show hidden liabilities at the subsidiary in the sum of EUR 145 million as at 31.12.2011.

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 | 1,483,716 |
| to customers | 0 | 0 | 20 | 0 |
| Trading derivatives on assets side | 298 | 32,380 | | |
| Other assets | 0 | 706,993 | 0 | 24,976 |
| Total assets | 330,025 | 3,156,969 | 20 | 1,508,693 |
| Outstanding liabilities | | | | |
| to banks | 3,785,272 | 284,956 | 0 | 301,306 |
| to customers | 0 | 0 | 0 | 0 |
| Trading derivatives on liabilities side | 37,669 | 105,283 | | |
| Subordinated capital | 93,581 | 0 | 0 | 0 |
| Other liabilities | 16,832 | 0 | 1,282 | 0 |
| Total equity and liabilities | 3,933,354 | 390,239 | 1,282 | 301,306 |
| Guarantees / sureties granted | 7,000 | 570,298 | 0 | 0 |
| Interest expense | 122,783 | 44,676 | 0 | 2,365 |
| Interest income | 26,970 | 80,989 | 0 | 10,115 |
| Commission expense | 48,699 | 40 | 0 | 0 |
| Commission income | 0 | 1,396 | 0 | 0 |
| Other income and expense | -1,795 | -42,478 | -2,834 | -1,720 |
| Total contributions to income | -146,308 | -4,810 | -2,834 | 6,030 |

All payments and loans to executive bodies in accordance with the provisions relating to trade are set out in Note (68) Remuneration of and loans to executive bodies.

(69) 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 Norddeutsche Landesbank Girozentrale, Hanover (Chairman)
- Christoph Schulz, Deputy Chairman of the Board of Norddeutsche Landesbank Girozentrale, Hanover
- Ulrike Brouzi, Member of the Board of Norddeutsche Landesbank Girozentrale, Hanover (since 1 January 2012)
- Dr. Johannes-Jörg Riegler (since 1 January 2011), Member of the Board of Norddeutsche Landesbank Girozentrale, Hanover
- Walter Kleine, Chairman of the Board of Sparkasse Hannover, Hanover

Members of the Board of Directors

The following people were Members of the bank's Board of Directors in the year under report:

- Harry Rosenbaum, Luxembourg (Chairman)
- Christian Veit, Luxembourg (Deputy Chairman)
- Thorsten Schmidt, Irrel

Positions

As at 31 December 2011 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 AG, Zürich, Member of the Administrative Board
- NORD/LB Asset Management Holding GmbH, Hanover, Member of the Supervisory Board
- Jutzi AG, Oberburg, Member of the Administrative Board

Christian Veit

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

Thorsten Schmidt

- NORD/LB G-MTN S.A., Luxembourg, Chairman of the Administrative Board (since 17 March 2011)

(70) Remuneration of and Loans to Executive Bodies

| | 2011 (in KEUR) | 2010 (in KEUR) |
|---|-------------------|-------------------|
| Payments to active executive body members | 3,632 | 2,834 |
| extended management * | 3,578 | 2,759 |
| Board of Directors | 54 | 75 |
| Pension obligations | 1,235 | 1,282 |
| extended management * | 1,235 | 1,282 |
| Board of Directors | 0 | 0 |
| Advances, loans and liabilities | 5 | 20 |
| extended management * | 5 | 20 |
| Board of Directors | 0 | 0 |

*Board of Directors and senior staff



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, 20 February 2012
Norddeutsche Landesbank Luxembourg S.A.

Harry Rosenbaum

Christian Veit

Thorsten Schmidt



Report of the Auditors

To the shareholders 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 Board of Directors of Norddeutsche Landesbank Luxembourg S.A. on 3 May 2011, we have audited the attached annual financial statements of Norddeutsche Landesbank Luxembourg S.A., which comprise the balance sheet as at 31 December 2011, the income statement, the statement of changes in equity and the cash flow statement for the period 1 January 2011 to 31 December 2011 as well as a summary of important accounting methods and other explanatory information.

Responsibility of the Board of Directors for the Annual Financial Statements

The Board of Directors is responsible for the preparation and proper representation of the financial statements in accordance with the International Financial Reporting Standards as they are to be applied in the European Union, and for the internal controls, which it considers necessary to enable the preparation of the financial statements, which are free from incorrect information, irrespective of whether due to fraud or error.

Responsibility of the Auditor

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. These standards require that we comply with professional rules of conduct and that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. Selection of the audit procedures is the responsibility of the auditor, as is the assessment of the risk that the financial statements contain material misstatements due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the preparation and proper representation of the financial statements in order to define audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control system.

An audit also comprises evaluating the appropriateness of the accounting policies and methods used and the justifiability of the estimated values calculated by the Board of Directors in the accounts, as well as the overall presentation of the financial statements.

We are of the opinion that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements, in accordance with the International Financial Reporting Standards as they are to be applied in the European Union, give a true picture of the assets and financial situation of Norddeutsche Landesbank Luxembourg S.A. at 31 December 2011 and of the earnings and cash flows for the period 1 January 2011 to 31 December 2011.

Report on Other Legal and Regulatory Requirements

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

KPMG Luxembourg S.à r.l.
Cabinet de révision agréé

T. Feld

Luxembourg, 20 February 2012



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 a total of five times in the year under report 2011.

The financial statements of NORD/LB Luxembourg for the year under report 2010 were audited by KPMG Luxembourg S.à r.l., Luxembourg, and provided with an unqualified auditor's certificate. In addition, the auditor attended the meeting to discuss the financial statements held by the Supervisory Board on 9 March 2012 and reported on the results of the audit.

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 9 March 2012, the Supervisory Board approved the management report and the financial statements as at 31.12.2011, 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 2011 and profit carried forward after allocation to the voluntary reserves in the sum of EUR 15.0 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 2011.

Luxembourg
March 2012

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

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S.W.I.F.T.

NOLALULL

Supervision

Commission de Surveillance du Secteur Financier

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Trade and Companies Register

B 10405