

Norddeutsche Landesbank Luxembourg S.A.



Consolidated Financial Statements  
in accordance with IFRS  
to 31.12.2012

**NORD/LB**  
Luxembourg

## Summary of Key Data

Performance	31.12.2012 (EUR Million)	31.12.2011 (EUR Million)	Increase/Decrease (EUR Million) (%)	
Loans and Advances to Banks	1,693.9	2,960.2	-1,266.3	-43
Loans and Advances to Customers	5,115.0	4,642.7	472.3	10
Risk Provisions	-36.5	-29.9	-6.6	22
Financial Assets	9,332.0	9,842.3	-510.3	-5
Other Assets	889.7	1,172.5	-282.8	-24
<b>Balance Sheet Total – Assets</b>	<b>16,994.0</b>	<b>18,587.7</b>	<b>-1,593.7</b>	<b>-9</b>
Liabilities to Banks	9,749.6	9,491.4	258.2	3
Liabilities to Customers	2,283.3	2,909.3	-625.9	-22
Securitised Liabilities	2,810.8	4,162.1	-1,351.3	-32
Other Liabilities	1,473.5	1,432.0	41.5	3
Reported Equity	676.8	592.9	83.9	14
<b>Balance Sheet Total – Liabilities</b>	<b>16,994.0</b>	<b>18,587.7</b>	<b>-1,593.7</b>	<b>-9</b>
Profit/Loss Performance	2012 (KEUR)	2011 (KEUR)	Increase/Decrease (KEUR) (%)	
Net Interest Income	110,327	116,608	-6,282	-5
Net Commission Income	-1,484	-15,760	14,277	-91
Profit/Loss from Financial Assets	-16,820	-1,424	-15,396	> 100
Other Profit/Loss	-2,551	-262	-2,288	> 100
<b>Earnings before Costs</b>	<b>89,472</b>	<b>99,161</b>	<b>-9,689</b>	<b>-10</b>
Administrative Expenses	-49,634	-42,660	-6,974	16
Profit/Loss from Changes in Valuation and Risk Provision	20,206	15,227	4,979	33
Taxes	-13,760	-17,934	4,175	-23
<b>Earnings after Taxes</b>	<b>46,285</b>	<b>53,794</b>	<b>-7,509</b>	<b>-14</b>
Key Economic Data	2012	2011	Increase/Decrease	
Cost-Income-Ratio in % *)	55.5 %	43.0 %	12.5 %	29 %
RoRaC in % **)	16.6 %	21.3 %	-4.7 %	-22 %

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

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

Regulatory Figures	31.12.2012 (EUR Million)	31.12.2011 (EUR Million)	Increase/Decrease (EUR Million) (%)	
Risk-weighted Asset Values	4,520.2	4,200.1	320.1	8
Core Capital	673.7	665.9	7.8	1
Equity Capital	740.4	753.2	-12.8	-2
Core Capital Ratio	14.9 %	15.9 %	-0.9 %	-6
Overall Coefficient	16.4 %	17.9 %	-1.6 %	-9
Changes in Employee Numbers	2012	2011	Increase/Decrease (%)	
Number of Employees	185	179	6	3



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to 31.12.2012

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

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

## Consolidated Financial Statements 2012



NORD/LB Luxembourg

## Members of the Supervisory Board

**Dr. Gunter Dunkel**

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

**Christoph Schulz**

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

**Ulrike Brouzi**

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

**Dr. Johannes-Jörg Riegler**

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

**Walter Kleine**

Chairman of the Board of Directors  
Sparkasse Hannover

## Board of Directors

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

Harry Rosenbaum

**Member of the Board of Directors**

Thorsten Schmidt

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

Christian Veit

## Organisation (Effective 28 February 2013)

**Financial Markets**

Thomas Keith

**Business Development**

Olaf-Alexander Priess

**Credit Management**

Maik Mittelberg

**Private Banking**

Markus Linnert

**Finance**

Peter Heumüller

**Credit Risk Management**

Jörg Janisch

**ORG/IT**

Frank Seeberger

Romain Wantz

**Operation Services**

Rita Kranz

**Administration**

David Gunson

**Human Resources**

Christian Ehrismann

**Internal Audit**

Frank Steingrube

**Legal/Compliance**

Dr. Ursula Hohenadel

**Security**

Jürgen Werner



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



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



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

# Consolidated Financial Statements 2012



NORD/LB Luxembourg

## The Group

Norddeutsche Landesbank Luxembourg S.A., Luxembourg (hereinafter “NORD/LB Luxembourg”, or “the bank” or “the Group” in short) is the parent company of a group, which includes NORD/LB Covered Finance Bank S.A., Luxembourg, (hereinafter: NORD/LB CFB) and Skandifinanz AG, Zurich, Switzerland, (hereinafter: Skandifinanz). NORD/LB Luxembourg holds 100% of the shares of each of the two companies.

NORD/LB Luxembourg has issued a letter of comfort for NORD/LB CFB (see Note 63).

NORD/LB Luxembourg itself is a wholly-owned subsidiary of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (referred to hereinafter as NORD/LB), and its consolidated financial statements are included in the consolidated financial statement of NORD/LB. The consolidated financial statements of NORD/LB can be viewed on the Internet at [www.nordlb.de](http://www.nordlb.de).

The range of activities of NORD/LB Luxembourg lies in the business sectors of Financial Markets, Corporate Banking and Private Banking. The corporate purpose of NORD/LB Covered Finance Bank S.A. is to conduct any transactions which are permissible for a covered finance bank according to the laws of the Grand Duchy of Luxembourg.

The business activities of Skandifinanz AG had already been totally reduced or transferred to the parent company in the year reported 2011.

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

# International Economic Development

## Global Economic Setting

The global economy became increasingly bleak in 2012. The effects of the slower dynamic could be detected in almost every large economy. World trade also lost momentum in the same period. The renewed deepening of the debt crisis in the Eurozone between April and July further increased the burden on the world economy. Business and consumer confidence fell against this background especially in the euro area. The effects of the consolidation measures and structural reforms triggered a serious adjustment recession in Southern Europe. The common currency area therefore also slid into a downturn, which lasted until the end of the year.

In the USA the economy appeared to be relatively stable, despite falls in the most important confidence indicators that could also be detected here in the meantime. Whilst unemployment is still proving to be really persistent and the unemployment rate is only falling at a very low speed, there are clear trends for improvement on the US American real estate market. Private residential building has been supporting growth again for several quarters, for example. Moreover, the indicators for the development of the property market are suggesting a continuation of the recovery phase, as are the numbers of planning approvals and building projects commenced. On the whole, however, the economic recovery in 2012 remained significantly behind the momentum of earlier expansion phases at 2%.

The global economic slowdown did not even spare the emerging markets last year. At the beginning of 2012 growth started to slow down in China. Despite the improving state of the economy again during the rest of the year, the growth rate for 2012 was way below the level of 10%. The growth dynamics in the Southeast Asian tiger states, which are heavily influenced by the Chinese economy, also slowed down. Global economic growth slowed accordingly and against this background will only just be above 3% in 2012.

## Economic Development in Germany

While the economy in Germany performed significantly better than in the rest of the Eurozone last year, the momentum

did gradually also weaken here over the course of the year. Real gross domestic product (GDP) only increased by 0.7% in 2012 over the previous year. In 2011 economic growth was still at a healthy 3%. Following a really robust start to the year, growth in Germany weakened continuously over the course of 2012. It can be derived from the provisional figures from the German Federal Statistical Office that the German economy shrank in the fourth quarter compared to the previous quarter for the first time in a year and by about 0.3%. That is in line with the picture painted by the hard economic indicators available by the reporting month of November. Industrial production in particular was significantly below the average value of the third quarter during the months of October and November.

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

Exports reached a new record level and foreign trade contributed 1.1% to the real growth of the gross domestic product – despite the strong decline in demand from the Eurozone. Continuing high order volumes for German export goods from countries outside Europe had a compensatory effect here. However, not least due to the debt crisis and the recession in many countries in the Eurozone, companies acted a lot more cautiously than in the previous year, which was reflected in a marked reluctance to invest. So despite the extremely low interest rate, 4.4% less was invested in equipment than in the previous year. There was even a slight fall of 1.1% in construction investments overall, despite the sustained boom in private residential building. Nevertheless, the signs of an imminent economic recovery were increasing by the end of the year and the outlook for the German economy therefore looked brighter again, with order receipts in industry having stabilised by

the end of the year and the business expectations of companies having improved significantly. This may well be a result of the renewed improved global economic outlook of recent times as well as the clear stabilisation of the financial markets. Several factors have contributed to this development. In particular the European Central Bank (ECB) has removed the basis for extreme crisis scenarios for the time being with its announcement of a new programme for buying for government bonds ("Outright Monetary Transactions", OMTs). In addition, the rescue infrastructure improved with the commencement of the work of the European Stability Mechanism (ESM), which the German Federal Constitutional Court had cleared the way for with its ruling on the fiscal compact and the ESM.

### ... in Euroland

Even if the stress in the financial and capital markets has lessened significantly recently, the improvement of the rescue infrastructure alone will not overcome the crisis that has now lasted three years. The ongoing adjustments in the public and private sectors greatly dampen overall demand in the crisis states. Real gross domestic product in the Eurozone has not grown since the third quarter of 2011.

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

As was to be expected, particularly the austerity measures and temporarily more stringent refinancing conditions in the crisis states had a negative impact. On top of this came a temporary and extremely high uncertainty regarding the progress of the debt crisis. The slump in mood indicators turned out to be equally strong. Both consumer and industrial confidence fell over the course of these developments to their respective lowest levels since the crisis year of 2009. The indicators available by the reporting month of



November also point to a further fall in GDP in the final quarter, which may also turn out to be greater than that of the previous quarter. Therefore the Eurozone finished as a zero growth zone – at least on the level of the total aggregate.

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

Private consumption suffered mainly due to the high and ever growing unemployment. In November almost 18.9 million people in the Eurozone were unemployed. This is equivalent to a seasonally-adjusted unemployment rate of 11.8%. Because a stabilisation or even a reversal of the trend is still not in sight, consumer confidence is persisting at a very low level. Investments also suffered under the weak economic conditions of many member states. However, net exports developed positively. Whilst this can be ascribed to a fall in imports caused by the recession, exports also increased notably in parallel, which reflects a gradual improvement in competitiveness.

### ... in the USA

Following growth of 2.4% in 2010 and 1.8% in 2011, the USA may well report economic growth of slightly more than 2% over the whole of 2012. The world's biggest economy therefore stands out positively from many other regions of the world, particularly Europe and Japan, and in this era following the real estate and financial market crisis, it is continuing the trend of a moderate, albeit less dynamic recovery.

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

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

As at the beginning of 2012 the euro was also listed near the USD 1.30 mark at the end of the year. Whilst in the first

quarter the euro increased to USD 1.35, there was a fall to only just above USD 1.20 in the second quarter in the wake of uncertainty in the context of the European government debt crisis. Weaker economic figures from the USA also played a role here, as they brought about a greater risk aversion among investors who sought refuge in the US dollar. The common currency climbed in the second half of the year up to the level of USD 1.30, driven by a receding risk aversion of investors and a correspondingly positive stock market performance. The upward trend of the euro continued after the beginning of the New Year.

### Financial Markets and Movements in Interest Rates

The debt crisis remained the dominant theme in the Eurozone in 2012. The focus was still mainly on Greece. In March the haircut was carried out among private creditors of Greek government bonds (PSI). Whilst it was initially possible to reduce Greece's debt burden – including through the activation of Collective Action Clauses (CACs) which were introduced subsequently – the accompanying credit package from the European Financial Stability Facility (EFSF) and a renewed poorer economic development than forecast by the IMF and European capital lenders hardly left any significant net effect in the debt ratio. In addition, the country's consolidation course floundered because of the long election campaign resulting from the repeated parliamentary elections in the spring. Because of the new financing shortfalls, Greece had to commit to new savings in order to enjoy the benefits of a further package of measures. As well as interest rate reductions, deferment of repayments and loan period extensions, this included a debt buy-back programme whereby a good EUR 20 billion net of the debt mountain could be cleared by the end of the year. It was thus possible to keep the IMF on board with the financiers for the time being.

Furthermore, in the middle of the year Spain assured itself of the willingness of their European partners to support them with regard to the stricken national banking sector. Moreover, the conditions associated with taking up aid were loosened under pressure from Spain and Italy at the summit at the end of June. Furthermore, in order to facilitate direct bank recapitalisation, negotiations began regarding a unified European system of banking supervision. Therefore in 2012 European politics remained faithful to the basic pattern of "muddling through" in the way it tackles crises. Nevertheless, the first consolidation successes and structural improvements did appear in individual countries,

and are visible both with reference to the development of primary balances and the improvement of the trade and current account balances. Moreover, governance within the Eurozone was strengthened with the implementation of the fiscal compact and the start of the permanent rescue mechanism, the ESM. Before this, expedited motions against the ESM by the German Federal Constitutional Court had been quashed with the exception of smaller substantiations of the set of agreements.

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

At the end of July ECB President Mario Draghi had already indicated what materialised in September as the new purchase programme for European government bonds by the ECB Governing Council. According to this the ECB is prepared to intervene in the markets for government bonds to an unrestricted extent under strict conditions if there is a need in terms of monetary policy. According to statements by Mario Draghi, with these Outright Monetary Transactions (OMTs), the ECB had an effective set of instruments “to avoid destructive scenarios with potentially severe challenges for price stability in the euro area”. He also emphasised to his critics: “We act strictly within our mandate to maintain price stability over the medium term; we act independently in determining monetary policy; and the euro is irreversible.” The most prominent critic of this policy, the president of the Bundesbank, Jens Weidmann, also sits on the ECB Governing Council. His reservations regarding an uncontrollable commingling of monetary policy and public sector financing are certainly to be taken seriously. Initially, simply the announcement by the ECB stopped the flight from Southern European government bonds and led to a noticeable stabilisation of the markets. Fresh massive dis-

tortions, which cannot be ruled out, could prove to be the litmus test for the willingness and capability of the ECB to act and for the extent of possible interventions by the markets. However, a determined reaction by the ECB is anticipated in this case.

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

The yields of government bonds from the crisis states have fallen significantly since the end of July. The ECB has continued its expansive monetary policy. In July it lowered the main refinancing operations rate to the historic low of 0.75 %. The interest rates for the deposit facility and the marginal lending facility were also lowered in parallel by 25 base points. As a result, the money market rates continued to fall, the three-month Euribor was quoted significantly below the tender rate because of the sustained full allotment policy and fell below the 0.2 % mark for the first time at the end of October. With the rejection of a further reduction in interest rates for the near future at the beginning of 2013, the decline in the money market rates came to a stop or even started a slight counter movement.

### Covered Bond Markets and Lettres de Gage Publiques

On the capital market 2012 was characterised by a very uneven development with respect to new issue activities and spreads, which was also reflected clearly in the covered bond markets. Instrumental in the development were again the European national debt crisis and the actions of the European Central Bank triggered by it and changes in capital market activities by the banks driven by regulations.

In spite of a generally favourable spread development and a stabilisation of the markets from the summer onwards, the volume of new issues of covered bonds in the benchmark size has fallen significantly in 2012 in comparison to previous years, which was essentially due to a lower funding requirement of the banks. In terms of structure in the EUR benchmark area, a slight abandonment of large-volume jumbo issues and growing activity in foreign currency markets such as USD and GBP could be observed. There was a broadening of the basis of covered bond issuers due to a high level of new issue activities by Australian banks, which along with the French issuers, were the most active measured by new issue volumes in 2012, thus underpinning the position of covered bonds as a long-term high quality capital market product. The supportive measures of the European Central Bank, especially the OMT programme, led to a sustained stabilisation and opening up of the covered bond markets, so that there was an initial revival of the primary markets for Italian, Irish and Spanish issuers. During this positive development Belgian covered bonds were able to be issued for the first time based on a newly created law. Furthermore, the covered bond market was expanded to include an additional covered bond class with the issue of an aircraft Pfandbrief from Germany for the first time.

The new issue business of the bank in *Lettres de Gage Publiques* concentrated mainly on the mid to long-term maturity sector. Thus *Lettres de Gage Publiques* were launched as private placements in EMTN and registered Pfandbriefe in USD and EUR in 2012.

The constant exchange of information with investors and the expansion of the Investor Relations activities are central points of the bank's communications strategy, which is why investors' requests for one-on-one meetings are happily accommodated. General information is made available on a regular and timely basis on the website [www.nordlbcfb.lu](http://www.nordlbcfb.lu). As well as this the bank makes the current issue prices and yields available to the public on the information systems of Reuters and Bloomberg ("NCFB") in real time.

## Forecasts and other Statements on Anticipated Developments

### Global Economic Outlook

The prospects for global growth have brightened again recently. Industrial production seems to have bottomed out at the end of 2012. The development of the early indicators and renewed increased momentum in China suggest an im-

minent overcoming of the global economic downturn. At the same time, however, the risks of the financial and debt crisis still exist in many industrial nations. In particular, the progress of the structural adjustments in the Eurozone will be watched intensely by the capital markets.

Solid GDP growth of a good 2% is expected in the USA in 2013. This is, however, based on the assumption that the politicians in Washington will find a final compromise for the fiscal cliff so that only some of the tax increases and cuts in expenditure of USD 150 to 200 billion will come into force. In this case a moderate negative signal will emanate from the national budget in the first quarter and slightly dampen the growth in GDP. However, in the following quarters there may well be a return to higher growth rates. This would also result in a continued improvement in the employment market.

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

The outlook for the German economy is divided. Following the sensitive economic gloom in the winter half of the year, an imminent recovery could begin. The signs that the weakness in the winter half of the year has bottomed out are increasing. For example, in October and November order receipts in the processing industry stabilised to the level of the previous quarter. Whilst it is too early to announce

a change in the trend, the developments in order books may well have already had a positive influence on the mood indicators. Business expectations of the companies surveyed recently by the ifo Institute surprisingly brightened significantly, which also corresponds to the pleasing ZEW economic forecasts. To this extent a weak phase, but not a recession, is expected for the winter half of the year.

Moreover, exports will benefit from the renewed momentum in the world economy. However, new investment in equipment may well only start up belatedly due to capacity utilisation being significantly below the long-term average. On the other hand, in the case of residential building investments, the favourable boom in the economy will continue due to low interest rates and the flight into real assets. Public and private consumer spending will also continue to remain important growth pillars in 2013 as they are benefiting from a triad of relatively robust employment market conditions, falling inflationary pressure and a further upward movement in real available income. This outlined development is, however, subject to new burdens from the debt crises on both sides of the Atlantic being avoided. Overall moderate GDP growth of 0.8% over the previous year is anticipated for 2013.

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

Inflationary pressure will remain low both in the Eurozone and in Germany in the coming year. Over the course of the year the inflation rate of consumer prices in Germany and the Eurozone will return to below the level of 2.0% Y/Y. The consolidation of the state finances will suffer a slight setback in 2013. After a balanced net lending/borrowing (Maastricht) was achieved at aggregate level in 2012, the temporary cooling of the economy and some income reductions relating to social insurance will have a negative



effect on the public purse. This may only lead to a slight rise in the deficit ratio, however. The extraordinarily low interest rates will still provide support.

### Financial Market Development and Interest Rate Forecast

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

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

## Development of Business Sectors

### Organisational Changes

NORD/LB CFB was integrated still further into the structures, procedures and control mechanisms of the parent bank NORD/LB Luxembourg in the first half of 2012. The objective was to harmonise corporate policy and standardise the control of both banks and also to make potential cost savings. Back office, organisational and administrative functions have been carried out until now by the parent company, NORD/LB Luxembourg, or the parent company of the Group, NORD/LB, on the basis of agency agreements and now since 1 April the market functions are also being performed through agency agreements by the corresponding offices at NORD/LB Luxembourg. The strong integration into the Group was further emphasised as of 1 April with the synchronisation of personnel on the supervisory board and board of directors (responsibilities for "Financial Markets and Loans" and "Finance, Risk, Operations" lie simultaneously with the same directors through a union of personnel) of NORD/LB CFB and NORD/LB Luxembourg. NORD/LB CFB continues as a legally independent subsidiary which is fully integrated into the organisational structure and control of NORD/LB Luxembourg. Resulting structural changes are described in the following details of the business sectors. Resulting structural changes are described in the following details of the business sectors.

### Financial Markets

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

The internal trade-related service functions continue to be undertaken by "ALM/Treasury". In 2012 this line-up was supplemented by Cover Pool Management, which is responsible

for the new issue business of Luxembourg covered bonds ("Pfandbriefe" or "Lettres de Gage") via NORD/LB CFB. Lettres de Gage represent an additional covered refinancing source for the NORD/LB Group.

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

### ALM/Treasury

ALM/Treasury is a service provider for the Group and offers solutions for all matters regarding supply of liquidity and interest rate and currency management. The sector is responsible for the management of the balance sheet, purchases and sells securities for the purpose of managing liquidity and interest rate risks and generates an additional contribution to the results within the framework of risk limits set by the Board of Directors through an active management of client flows. 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 activities of the NORD/LB Group and is involved in committees and coordination processes across the whole 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, the ECP programme, open market transactions and internal group funding for long-term maturity brackets over 24 months all serve this purpose.

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

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

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

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

The direction of impact of the business with so-called "Lettres de Gage" is aimed at the use of the regulatory advantages of the Luxembourg Pfandbrief (covered bond) Act. These are brought to bear in particular with the municipal undertakings, savings banks and institutional investors customer groups. The covered bond business is being further strengthened from Luxembourg as a complementary component of the funding of NORD/LB. An expansion of the investor base is taking place beyond this business sector.

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

### Corporate Sales

Corporate Sales works in close cooperation with NORD/LB.

Corporate Sales is a product specialist for interest rate and currency management and offers evaluation of potential and the processing of proposals for individual solutions for corporate clients. As well as the acquisition of new customers, the use of cross-selling potentials within existing customer relationships in the corporate customer sector is a focus of NORD/LB. Products from both the Group and NORD/LB Luxembourg are offered.

### Fixed Income/Structured Products Sales

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

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

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

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

### Performance

Despite the sustained unstable markets caused by the European debt crisis and the consistent low interest rate phase, ALM/Treasury was able to deliver a significant contribution to the results. Maturity transformation and efficient management of the securities portfolios were the basis for this. The refinancing of the business activities and the liquidity supply of the bank were guaranteed at all times.

By joining together the capital and money market business of NORD/LB CFB with the business of NORD/LB Luxembourg, the sub-group can manage its sources of refinancing even more effectively. The business with Lettres de Gage was dormant to a large extent, but 2012 was used to optimise the cover pool further. Special attention was paid to rating requirements in the process.

In sales, Corporate Sales was able to further develop the structures for the constructive cooperation with NORD/LB. However, due to the sustained low interest rates, the potential for new business was restricted and a sideways movement is to be reported. The new Fixed Income/Structured Product Sales division was also successfully established. In coordination with the Markets division of NORD/LB, the Sales Team placed the first mandates of the bank with customers and also arranged transactions between customers. Cooperation was mainly undertaken with NORD/LB Hanover and its foreign branches in the process.

### Private Banking

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

At NORD/LB Luxembourg, customer relationships are always based on close, fair cooperation and with 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 timeframe), there is also the option of using various asset management concepts.

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

In addition to the above, the bank is also active as an approved insurance broker in Luxembourg. In this context, Private Banking arranges insurance contracts in which the investment and risk mentality of the customers are accommodated with 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 design, launch and management of public funds both for the bank's own Private Banking clientele, the clientele of other Private Banking units within the Group and for external parties if appropriate. In January 2012, another fund was floated, following on from the first one, which was successfully launched in 2009, for which the bank acts as initiator and fund manager simultaneously. The activities of the bank are limited to fund management and to the role of initiator; the custodian bank and consolidated fund administration activities are outsourced to service providers. The Group-wide marketing of the fund is achieved by including representatives from NORD/LB and Bremer Landesbank in the launch of the fund via an investment committee, which can make recommendations, and a Group-wide steering committee for Private Banking for products sold jointly.

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

## Lending

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

As a classic business segment, the lending business represents an important pillar of income for the bank. The

aspiration here is to be recognised as an experienced and efficient quality service provider especially with standard products but also in structured transactions.

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

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

## Allied Lending Business

The allied lending business is the heart of the lending business of NORD/LB Luxembourg. The most important cooperation partners are the sectors Corporate Clients and Structured Finance of NORD/LB plus the Deutsche Hypothekbank, where the real estate portfolio is being discontinued over time due to a change of strategy in the Group.

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

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

## Lending Business with near-municipal Customers (primarily via NORD/LB CFB)

The focus is on the lending business with entities close to municipal undertakings in Germany.

The sub-group NORD/LB Luxembourg is the Centre of Competence for this business within the NORD/LB Group and actively defines customer relations and the respective transactions. At the same time there is close cooperation with

the respective corporate account managers in the Group. The aim is to use the loans thus created to issue covered bonds in accordance with Luxembourg law. The refinancing of these loans is thus done on favourable terms and enables competitive conditions for this customer sector. The business with municipal undertakings is to be pushed further.

### Allied Business with Savings Banks

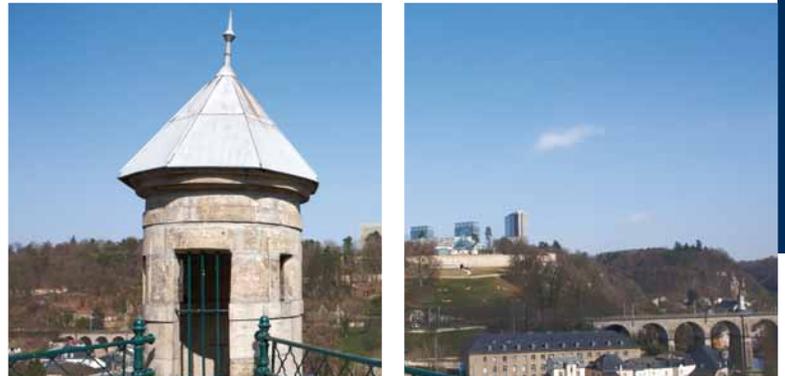
The allied business with savings banks is a classic niche product. The range comprises loans granted in foreign currencies to savings bank customers. In the context of the loan transactions arranged and guaranteed by the savings bank, loans are available to customers in the short-term sector starting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

### Performance

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

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

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



### Skandifinanz

The business activities of Skandifinanz AG had already been totally reduced or transferred to the parent company in 2011.

### Outlook

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

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

Based on the Business Process Reengineering milestones achieved in 2012, significantly lower administrative costs are already expected for 2013.

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

In the lending sector the bank is expecting a moderate growth in the allied lending business. The new processes put in place in 2012 in loans processing and the accompanying agreed allocation criteria will support performance.

In particular the corporate customer business, in which evolved cooperation with efficient processes is pursued, is a central business sector at NORD/LB and which has growth potential. With its expertise the bank supports growth in this strategic business sector of the Group. The business with entities close to municipal undertakings will also remain in the focus of the bank. Refinancing via Lettre de Gage will facilitate competitive conditions in the highly competitive market in this customer group. It is anticipated that the savings bank allied business will move sideways while interest rates remain low. The intention is to review business processes in 2013 and optimise them further.

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

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

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

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

## Earnings

The financial statements of the Group to 31 December 2012 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as implemented by the EU. The Group was yet again able to achieve a satisfactory operational result in the year under report irrespective of

the prevailing rather difficult market environment. The operating result before changes in valuation, risk provision and taxes fell in comparison to the previous year by EUR 2.8 million to EUR 53.7 million and was therefore 5 % below the figure for the previous year.

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

The components of the profit and loss account for the years under report 2012 and 2011 performed as follows:

	2012 (KEUR)	2011 (KEUR)	Increase/Decrease*) (KEUR)
Net interest income	110,327	116,608	-6,282
Risk provision in lending business	-4,280	18,559	-22,839
Commission expenses/net income	-1,484	-15,760	14,277
Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting	24,487	-3,331	27,818
Other operating profit/loss	-2,551	-262	-2,288
Administrative expenses	-49,634	-42,660	-6,974
Profit/loss from financial assets	-16,820	-1,424	-15,396
<b>Group profit/loss before income taxes</b>	<b>60,044</b>	<b>71,728</b>	<b>-11,684</b>
Income taxes	-13,760	-17,934	4,175
<b>Group profit/loss for the year</b>	<b>46,285</b>	<b>53,794</b>	<b>-7,509</b>

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

Net interest income fell in comparison to the previous year by EUR 6.3 million to EUR 110.3 million, which is mainly due to bonds in the portfolio reaching maturity and to new business being very slow at NORD/LB CFB.

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

Compared to the previous year, net commission income improved by EUR 14.3 million to EUR -1.5 million. In particular the fall in expenses from the lending and guarantees business was significant in this result.

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 significant rise in profit/loss results from the reversal of internal group micro fair value hedge relationships. The opposing measurement effect of the hedged underlying transactions in the profit and loss account is eliminated in the process, so that volatile effects occur.

The other operating result is slightly negative, caused in particular by the internal group accounting for services and depreciation.

The administrative expenses rose in comparison to the previous year by EUR 7.0 million, primarily due to higher costs in connection with the strategic IT project. In addition personnel expenditure rose as a result of the increase in personnel.

The negative result from financial investments results mainly from the reduction of individual risk positions and the expansion of portfolio-based value adjustments.

Before taxes the bank reports a profit in the sum of EUR 60.0 million for 2012, after taxes the net profit for the year is EUR 46.3 million.

The individual items making up the result are as follows:

## Net Interest Income

	2012 (KEUR)	2011 (KEUR)	Increase/Decrease*) (KEUR)
Interest income	707,895	809,947	-102,052
Interest expense	-597,568	-693,339	95,771
<b>Net interest income</b>	<b>110,327</b>	<b>116,608</b>	<b>-6,282</b>

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

Both interest income and interest expense fell in the year under report in comparison to the previous year. This is attributable on the one hand to changes in the balance sheet structure between the reporting dates and on the other by changes in the market interest rate. In addition the new business with municipal and near-municipal undertakings at NORD/LB CFB was slow and the competitive and price pressure in the financing of these companies are high.

## Risk Provision in Lending Business

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

More information on this can be found in Note (19).

## Net Commission Income

	2012 (KEUR)	2011 (KEUR)	Increase/Decrease*) (KEUR)
Commission income	24,737	22,695	2,042
Commission expense	-26,221	-38,456	12,235
<b>Net commission income</b>	<b>-1,484</b>	<b>-15,760</b>	<b>14,277</b>

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

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

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

	2012 (KEUR)	2011 (KEUR)	Increase/Decrease*) (KEUR)
Trading profit/loss	22,085	5,468	16,617
Profit/loss from initial recording as financial instruments stated at fair value through profit or loss	315	-1,227	1,542
Profit/loss from hedge accounting	2,087	-7,572	9,659
<b>Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting</b>	<b>24,487</b>	<b>-3,331</b>	<b>27,818</b>

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

The trading profit/loss mainly comprises 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. The clear rise in earnings results from the reversal of internal group micro fair value hedging relationships. At the same time the opposing measurement effect of the hedged underlying transactions in the profit and loss account are eliminated. The profit/loss from hedging transactions is switched over to the trading result so that the corresponding effects are primarily visible there.

## Other Operating Profit/Loss

	2012 (KEUR)	2011 (KEUR)	Increase/Decrease*) (KEUR)
Other operating income	4,429	18,132	-13,703
Other operating expenses	-6,980	-18,394	11,415
<b>Other operating profit/loss</b>	<b>-2,551</b>	<b>-262</b>	<b>-2,288</b>

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

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

Other operating expenses include depreciation to "value in use" of an IT project (KEUR 2,505, previous year KEUR 10,049) and the expenses for accounting for services with NORD/LB (KEUR 3,275, previous year KEUR 3,748).

## Administrative Expenses

	2012 (KEUR)	2011 (KEUR)	Increase/Decrease*) (KEUR)
Wages and salaries	21,668	19,029	-2,639
Other staff expenses	3,275	2,832	-443
<b>Staff expenses</b>	<b>24,943</b>	<b>21,862</b>	<b>-3,081</b>
<b>Other administrative expenses</b>	<b>21,707</b>	<b>18,899</b>	<b>-2,808</b>
Depreciation and value adjustments	2,985	1,900	-1,085
<b>Administrative expenses</b>	<b>49,634</b>	<b>42,660</b>	<b>-6,974</b>

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

Administrative expenses including depreciation show a rise of a total of EUR 7.0 million to EUR 49.6 million. The expansion of the personnel in connection with the continued restructuring of the business model led to an increase in personnel expenditure. In comparison to the previous year the other administrative expenses increased by EUR 2.8 million. This is primarily the result of increased costs for operating equipment, business equipment and IT.

## Profit/Loss from Financial Assets

	2012 (KEUR)	2011 (KEUR)	Increase/Decrease*) (KEUR)
Profit/loss from financial assets of the category LaR incl. portfolio-based loan loss provisions	-19,242	-9,909	-9,334
Profit/loss from financial assets classified as AfS (without participating interests)	-3,422	-13,498	10,075
Profit/loss from repurchase of own bonds	5,845	21,982	-16,137
Profit/loss from joint ventures and associated companies	0	0	0
Profit/loss from other participating interests	0	0	0
<b>Profit/loss from financial assets</b>	<b>-16,820</b>	<b>-1,424</b>	<b>-15,396</b>

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

Profit/loss from financial assets in the financial year resulted from the disposal of financial instruments to reduce selected risk positions, the repurchase of the bank's own issues and the significant expansion of portfolio-based value adjustments. The negative previous year's result on the other hand was caused by an impairment on a security from the Greek central government (EUR -18.5 million) and positive effects from repurchases of the bank's own issues.

## Income Taxes

	2012 (KEUR)	2011 (KEUR)	Increase/Decrease*) (KEUR)
Current taxes	8,968	824	-8,145
Deferred taxes	4,791	17,111	12,319
<b>Income taxes</b>	<b>13,760</b>	<b>17,934</b>	<b>4,175</b>

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

NORD/LB Luxembourg and NORD/LB CFB form a tax group in accordance with article 164bis of the Luxembourg income tax law.

## Appropriation of Earnings

The profit/loss of these consolidated financial statements, which are subject to commercial law, is not a benchmark for a dividend payment to the shareholders.

Please refer to the individual financial statements of NORD/LB Luxembourg, which are subject to commercial law, and are published at [www.nordlb.lu](http://www.nordlb.lu), for more information on dividend payments. The dividend policy of NORD/LB Luxembourg as resolved by the shareholders meeting is detailed below for information only:

	2012	2011	2010	2009
Dividends (EUR)	15,000,000.00	40,000,000.00	40,000,000.00	0.00
Number of shares	820,000	820,000	820,000	820,000
Dividends per share (EUR)	18.30	48.78	48.78	0.00

## Schedule of Assets and Financial Data

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/Decrease (EUR million)
Loans and advances to banks	1,693.9	2,960.2	-1,266.3
Loans and advances to customers	5,115.0	4,642.7	472.3
Risk provisions	-36.5	-29.9	-6.6
Financial assets at fair value through profit or loss	264.0	486.1	-222.1
Financial assets	9,332.0	9,842.3	-510.3
Other assets	625.7	686.4	-60.7
<b>Total assets</b>	<b>16,994.0</b>	<b>18,587.7</b>	<b>-1,593.7</b>
Liabilities to banks	9,749.6	9,491.4	258.2
Liabilities to customers	2,283.3	2,909.3	-625.9
Securitised liabilities	2,810.8	4,162.1	-1,351.3
Financial liabilities at fair value through profit or loss	116.7	156.4	-39.7
Provisions	10.6	15.9	-5.3
Other liabilities	1,346.2	1,259.7	86.5
Reported equity	676.8	592.9	83.9
<b>Total equity and liabilities</b>	<b>16,994.0</b>	<b>18,587.7</b>	<b>-1,593.7</b>

In the financial year just ended the business structure was further revised. This is shown in particular in the balance sheet total, which has fallen in comparison to the previous year by EUR 1.6 billion to EUR 17.0 billion. The fall on the assets side had an effect primarily on the inter-bank business in the structure of the balance sheet. Loans and advances to banks fell by EUR 1.3 billion. On the other hand it was possible to increase loans and advances to customers as planned by EUR 0.5 billion. The fall in financial assets is largely due to non-callable positions. On the liabilities side significant falls were recorded primarily in the securitised liabilities (EUR -1.4 billion) and the liabilities to customers (EUR -0.6 billion).

The financial assets stated at fair value through profit or loss include trading assets at EUR 0.3 billion (previous year EUR 0.4 billion) as at the reporting date of 31 December 2012.

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 consist solely of trading liabilities of EUR 0.1 billion (previous year EUR 0.2 billion).

The bank's reported equity on 31 December 2012 was EUR 676.8 million (previous year EUR 592.9 million).

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

## Risk Report

The risk report of the NORD/LB Luxembourg Group to 31 December 2012 was drawn up on the basis of IFRS 7. The Group does not enter into any noteworthy risks from complex structured derivatives.

All market and back office activities of NORD/LB CFB were integrated into NORD/LB Luxembourg in the first half-year as part of the realignment of the NORD/LB Luxembourg Group. The CSSF as competent regulatory authority in Luxembourg agreed to and confirmed this integration in particular with regard to the following points:

- The performance of business activities by the market units of NORD/LB Luxembourg is primarily carried out by the former staff of NORD/LB CFB, who have been provided with the relevant working contracts by NORD/LB Luxembourg.
- Beyond this integration of personnel NORD/LB CFB was also integrated into the organisation of NORD/LB Luxembourg and as a result also incorporated into the risk management and monitoring systems of NORD/LB Luxembourg. As the controlling company of the group, NORD/LB Luxembourg is responsible for implementing the relevant mechanisms for risk management in the individual companies of the Group.
- Reporting on capital adequacy (ICAAP reporting in accordance with CSSF circular 07/301 and its addenda circulars) can be submitted to the regulatory authorities in one single document as of reporting period 2012.

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

## 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 the NORD/LB Luxembourg Group.

From a business point of view, the Group defines risk as being potential direct or indirect financial losses due to unexpected negative deviations between the actual and the 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.

In order to identify risks the NORD/LB Luxembourg Group has implemented a multi-level process to derive an overall risk profile, which defines the risk types relevant for the Group and to make the further distinction between significant and insignificant risks. Of primary importance in this connection are all relevant risk types which could significantly impair the capital adequacy, earnings position, liquidity position or the achievement of strategic goals of the NORD/LB Luxembourg Group.

The overall risk profile results from the business activities, which are defined in the 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, market price risk, liquidity risk and operational risk. In addition, the following risks are deemed to be relevant: business and strategic risk, participation risk, reputational risk, syndication risk, model risk and real estate risk. Appropriate precautions were taken for all identified risks.

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

Changed requirements in risk management emerge from the fourth amendment to MaRisk, which was published in December 2012 and came into force on 1 January 2013. An

analysis of the new requirements shows that the NORD/LB Luxembourg Group already fulfils a large number of them. The need for action that emerges beyond this has already been identified. Implementation will take place over the course of 2013, whereby content that is relevant to the whole group will be processed in close coordination with the corresponding specialist departments at NORD/LB.

## Risk Management – Strategies

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

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

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

The specification of the maximum allocation of risk capital to the significant risk types is also carried out within the scope of the risk strategy. The large part of the cover volume is allocated to credit risks and reflects the focus of the NORD/LB Luxembourg Group, which lies in 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, the NORD/LB Luxembourg Group has a large number of other instruments on an operational level, which guarantee sufficient transparency regarding the risk situation and the required limitation and portfolio diversification which can be monitored and controlled. These instruments are described in detail in the risk handbook of the NORD/LB

Group and the documents based thereon and the written fixed regulations of the NORD/LB Luxembourg Group.

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

## Risk Management – Structure and Organisation

As the superior bank in the NORD/LB Luxembourg Group, NORD/LB Luxembourg is obliged to establish a risk management system at Group level. The responsibility for risk management is borne by the Board of Directors of NORD/LB Luxembourg, which also defines the risk strategy for the Group. As part of the realignment of the NORD/LB Luxembourg Group the role of the board of directors within NORD/LB CFB is being exercised by the Market and Back Office Board of NORD/LB Luxembourg by way of a union of personnel. In addition to this, the role of the supervisory board in both companies is performed by the same elected representatives.

Following approval by the board of directors the risk strategy is passed on to the supervisory board and discussed with it. Responsibility for the development and monitoring of the risk strategy lies with the Chief Risk Officer (CRO) of NORD/LB Luxembourg. 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 Group that are standardised for the NORD/LB Group. Any adjustments that might be necessary comprise regulatory requirements, organisational measures, improvement of procedures of risk quantification and the ongoing updating of relevant parameters.

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

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

The following departments at NORD/LB Luxembourg are involved in the risk management process:

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

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

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

NORD/LB Luxembourg's compliance function is responsible for identifying and assessing the compliance risks within the NORD/LB Luxembourg Group. It is responsible for ensuring that the requirements in relation to the Internal Capital Adequacy Assessment Process (ICAAP), in particular those arising from circular CSSF 07/301 and its addenda circulars, are complied with in full conformity. The Group'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 NPPs is for all potential risks for the NORD/LB Luxembourg Group to be identified, analysed and evaluated prior to the business being taken up. 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 the NORD/LB Luxembourg Group.

### Risk Management – Risk-bearing Capacity Model

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

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

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

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

The RBC model consists of the three perspectives of going concern, gone concern and regulatory, in each of which the significant risks (risk potential) are compared with the defined risk capital.

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

The second and third perspectives each take account of a higher confidence level of 99.9% on the risk potential side. For the Gone Concern perspective, economically calculated risk potentials are used, and for the regulations, the risk potentials are calculated according to regulatory provisions. The capital side is based both on the Gone Concern and in the Regulatory on equity and near-equity components, which are to be taken into account according to regulatory rules on capital stock. In the Gone Concern there is an adjustment of the risk capital in relation to various aspects (e.g. by taking into account hidden liabilities). When the capital needed to cover risks in the Gone Concern is used up, a continuation of the NORD/LB Luxembourg Group under otherwise unchanged assumptions would no longer be possible in principle.

The Gone Concern approach represents a subsidiary condition within the RBC model, the Regulatory one, which is a strict subsidiary condition. The derivation of strategic limits from the consideration of the risk-bearing capacity is carried out taking into account the risk capital allocation undertaken in the risk strategy from the Going Concern case.

When determining the risk-bearing capacity, risk concentrations are also taken into account, both within a risk category and across risk categories. Concentrations within a risk category mainly relate to credit risks as the most important risk category of the NORD/LB Luxembourg Group. 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 drawn upon as selection guidelines initially. Amongst others, this includes selecting sectors, segments, regions and customers that have a decisive influence on the risk situation of the Group. These risk concentrations are regularly determined, reported and monitored with targeted stress tests in the context of risk-bearing capacity.

The relevant scenarios are ascertained at NORD/LB Group level and 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.

In accordance with the requirements of both MaRisk (AT 4.3.3) and of circular CSSF 11/506 of 11 March 2011 the Group must carry out so-called inverse stress tests. 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 there would be insufficient equity or liquidity. Inverse stress tests complement the other stress tests in that unfavourable event or combinations of unfavourable events which could lead to such a situation are imputed. Stress tests are carried out on an annual basis using standard methods across the Group.

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

## Risk Management – Development in 2012

For the NORD/LB Luxembourg Group the level of utilisation in the going concern scenario was considerably below the maximum utilisation of 80 % over the whole year. Their risk-bearing capacity was therefore always met. Likewise the specifications of the risk strategy in terms of the allocation of the risk capital to the individual risk types were complied with in the year under report.

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

In EUR million	Risk-bearing Capacity 31.12.2012		Risk-bearing Capacity 31.12.2011 <sup>1)</sup>	
<b>Risk capital</b>	<b>288</b>	<b>100%</b>	<b>320</b>	<b>100%</b>
Credit risks	51	18%	45	14%
Participation risks	0	0%	0	0%
Market price risks	15	5%	20	6%
Liquidity risks	10	3%	9	3%
Operational risks	2	1%	3	1%
<b>Total risk potential</b>	<b>78</b>		<b>76</b>	
<b>Utilisation</b>		<b>27%</b>		<b>24%</b>

<sup>1)</sup> The previous year's figures were recalculated to take account of changes in methods

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

## Risk Management – Outlook

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

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

## Credit Risk

Credit risk is a component of counterparty risk and is subdivided into classic credit risk and counterparty risk in trad-

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

- The default risk in trading describes the risk of a loss occurring because of the default or decline in creditworthiness of a borrower. It is equivalent to the classic credit risk and relates to money market transactions.
- The replacement risk describes the risk of the contracting partner defaulting in a pending transaction with positive present value and this transaction with a loss must be replaced.
- The settlement risk is broken down into the advance delivery risk and the final settlement risk. The advance delivery risk describes the risk of there being no compensation by the contracting partner following the bank's own performance when a transaction is settled or of the compensation not being paid upon netting of the payments. The processing risk describes the risk of it not being possible to settle transactions mutually at or after the contractually agreed time of fulfilment.
- The issuer risk describes the risk of a loss being incurred as a result of the default or decline in creditworthiness of an issuer or a reference debtor.

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

## Credit Risk – Management

### Strategy

For the NORD/LB Luxembourg Group the lending business and the management of credit risks represent a core competence, which must be further developed and expanded constantly. It goes without saying that the Group must position itself in relation to customers as a reliable Eurobank with a focus on the lending business.

In new lending business the focus is unequivocally on transactions with customers of very good to good creditworthiness. The Group concentrates on business with good counterparties in the capital market business too. The Group's objective is to produce competitive profitability and ensure efficiency and flexibility in terms of the active management of credit risk positions in order to minimise unexpected losses.

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

### Structure and Organisation

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

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

## Credit Risk – Control and Monitoring

Early identification and recognition of critical situations form the basis for the effective management of credit risks. For this reason, a number of processes, systems and instructions are in place for portfolios and for individual bor-

rowers, 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 Group'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 each bank's specific characteristics.

In order to assess the credit risk of individual borrowers a rating or credit rating category is determined by NORD/LB for each borrower within the scope of the initial or annual creditworthiness assessment, and also related to events, and provided to the NORD/LB Luxembourg Group.

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

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

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

For this purpose, Financial Reporting drafts a monthly counterparty risk report at individual bank and group levels as well as a quarterly detailed counterparty risk report as part of the management information system for the Board of Directors and for members of the counterparty risk committee, in order to make existing risks or risk concentrations transparent at an early stage and, if required, introduce necessary measures. The counterparty risk report of the NORD/LB Luxembourg Group is also sent to the supervisory board. The counterparty risk reports are discussed at the meetings of the supervisory board.

The counterparty risk reports contain a detailed and comprehensive presentation and analysis of the counterparty risk at NORD/LB Luxembourg Group and individual bank levels according to various aspects. The counterparty risk report also features a stress test. The exposure considered comprises the whole of the assets, including contingent liabilities and commitments as well as derivatives and repo transactions. The counterparty risk reports are based on the data from the regulatory reporting process. All of the above processes are performed on the basis of the IRB basic approach.

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

### Credit Risks – Assessment

Credit 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 and is subject to an annual review and validation.

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

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

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

### Credit Risk – Development in 2012

The maximum credit default risk amount for reported and off-balance sheet financial instruments is EUR 18.2 billion on the reporting date and has fallen by 11.7% in 2012.

Risk-bearing Financial Instruments in EUR million	Maximum Default Risk Amount	Maximum Default Risk Amount
	31.12.2012	31.12.2011
Loans and advances to banks	1,694	2,960
Loans and advances to customers	5,115	4,643
Financial assets stated at fair value through profit or loss	264	486
Positive fair values from hedge accounting derivatives	433	392
Financial assets	9,346	9,842
Sub-total	16,852	18,323
Non-utilised loan commitments	301	1,070
Guarantees for third-party invoices	1,082	1,258
<b>Total</b>	<b>18,236</b>	<b>20,652</b>

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

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

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

### Analysis of Credit Exposure

The credit exposure as at 31 December 2012 is EUR 21.2 billion (previous year EUR 23.1 billion). The decline in the exposure results mainly from the reduction of the repo business and declining Credit Investment Portfolio.

The NORD/LB Luxembourg Group uses the standard IFD rating scale, which the banks, savings banks and associations have agreed upon who have joined up in the Initiative Finanzstandort Deutschland (IFD – Initiative of the Financial Centre Germany) in order to classify the credit exposure according to rating categories. This has been designed to improve the comparability of the various rating levels of the individual financial institutions. The Group's standard 18-tier DSGV rating master scale of rating categories can be transferred directly into the IFD categories.

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

Rating Structure <sup>1) 2)</sup> in EUR million	Loans <sup>3)</sup>	Securities <sup>4)</sup> 31.12.2012	Derivatives <sup>5)</sup>	Other <sup>6)</sup>	Total	
					31.12.2012	31.12.2011
very good to good	9,299	8,017	505	0	17,821	19,730
good/satisfactory	1,050	403	4	0	1,457	1,385
still good/ adequate	717	255	5	0	976	1,080
increased risk	472	99	0	0	571	418
high risk	123	0	0	0	123	139
very high risk	83	0	0	0	83	82
Default (=NPL)	182	0	3	0	185	224
<b>Total</b>	<b>11,926</b>	<b>8,774</b>	<b>516</b>	<b>0</b>	<b>21,216</b>	<b>23,058</b>

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 45 % and the revocable ones at 25 %, as in the internal reporting

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

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

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

The majority of total exposure (84.0 %) is in the “very good to good” rating category. The proportion of this rating, the best rating category, in the total exposure continues to be

very high due to the large volume of business conducted with financing institutions and public administrative offices.

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

Sectors <sup>1) 2)</sup> in EUR million	Loans <sup>3)</sup>	Securities <sup>4)</sup>	Derivatives <sup>5)</sup> 31.12.2012	Other <sup>6)</sup>	Total	
					31.12.2012	31.12.2011
Financial institutes/insurers	6,857	5,457	497	0	12,811	15,147
Service industry/other	1,922	3,121	4	0	5,048	4,548
of which real estate and residential	425	0	0	0	425	499
of which public administration	540	3,114	0	0	3,655	3,259
Transport/news broadcasting	496	122	0	0	618	595
of which shipping	14	0	0	0	14	14
of which air transport	30	0	0	0	30	0
Processing industry	1,419	0	3	0	1,421	1,227
Energy, water supply, mining	904	73	7	0	985	1,065
Trade, maintenance, repair	285	0	5	0	290	253
Agriculture, forestry and fishing	4	0	0	0	4	1
Construction industry	40	0	0	0	40	52
Other	0	0	0	0	0	169
<b>Total</b>	<b>11,926</b>	<b>8,774</b>	<b>516</b>	<b>0</b>	<b>21,216</b>	<b>23,058</b>

1) Classification same as internal reporting according to economic criteria

2) to 6) See previous table on rating structure

The table shows that the business with financial institutions / insurers with good creditworthiness with an overall proportion of 60.4% continues to make up a significant share of the overall exposure. Including public administration the proportion of the overall exposure amounts to 77.6%.

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

Regions <sup>1) 2)</sup> in EUR million	Loans <sup>3)</sup>	Securities <sup>4)</sup>	Derivatives <sup>5)</sup>	Other <sup>6)</sup>	Total	
					31.12.2012	31.12.2011
Euro states	9,404	6,251	326	0	15,981	15,714
of which Germany	8,292	2,561	294	0	11,147	8,720
Other Europe	1,277	784	109	0	2,170	3,315
North America	1,146	1,486	81	0	2,712	2,835
Latin America	8	60	0	0	68	100
Middle East / Africa	9	0	0	0	9	21
Asia	82	193	0	0	276	558
Other	0	0	0	0	0	514
<b>Total</b>	<b>11,926</b>	<b>8,774</b>	<b>516</b>	<b>0</b>	<b>21,216</b>	<b>23,058</b>

1) Classification same as internal reporting according to economic criteria

2) to 6) See previous table on rating structure

The Group 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 (75.3 %) 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 within the Group for acute borrower's default risks in the event of the presence of objective indications. Loan loss provision requirements are based on a cash equivalent consideration of anticipated interest and redemption payments as well as on earnings from the realisation of collateral.

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

The risk provision of the Group is EUR 67.8 million on the reporting date and as well as portfolio-based loan loss provisions in the sum of EUR 33.1 million, contains individual loan loss provisions in the sum of EUR 30.9 million. EUR 14.5 million of this is attributable to two borrowers from the service industry. For two borrowers from the pro-

cessing industry sector there are individual loan loss provisions in the sum of EUR 12.5 million and provisions of EUR 3.5 million. The remaining individual loan loss provisions in the sum of EUR 3.9 million are spread over three borrowers from various sectors. In addition, provisions of EUR 0.3 million for off-balance sheet risks were established.

### Credit Risk – Outlook

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

### Participation Risk

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

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

## Participation Risk – Management

### Strategy

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

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

### Structure and Organisation

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

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

## Participation Risk – Control and Monitoring

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

## Participation Risk – Development in 2012 and Outlook

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

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

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

## Market Price Risk

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

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

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

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

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

## Market Price Risk – Management

### Strategy

The activities associated with market price risks at the NORD/LB Luxembourg Group 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 Group and is orientated primarily to the needs of the customers and the support of the overall bank management. The NORD/LB Luxembourg Group does not operate any opportunistic positioning beyond this.

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

### Structure and Organisation

All divisions that manage market price risk-bearing positions and bear gains and losses arising from market changes are included in the process of controlling market price risks. Monitoring of the risks is carried out by the Risk Controlling division of NORD/LB Luxembourg.

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

## Market Price Risk – Control and Monitoring

A consistent value-at-risk procedure is used within the NORD/LB Group for the management and monitoring of market price risks of NORD/LB Luxembourg and NORD/LB CFB. 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 in-

direct correlation effects between the risk factors 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 of interest rate, currency, credit spread, and volatility risks, various stress scenarios were defined, which approximately reflect the highest changes of the respective risk factors, which were observed in the last five to ten years over a period of ten trading days.

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

In order to refine internal control in the NORD/LB Luxembourg Group, a credit spread value-at-risk method was implemented 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 250 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 of the assets are derived from the gone concern scenario of the risk-bearing capacity.

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

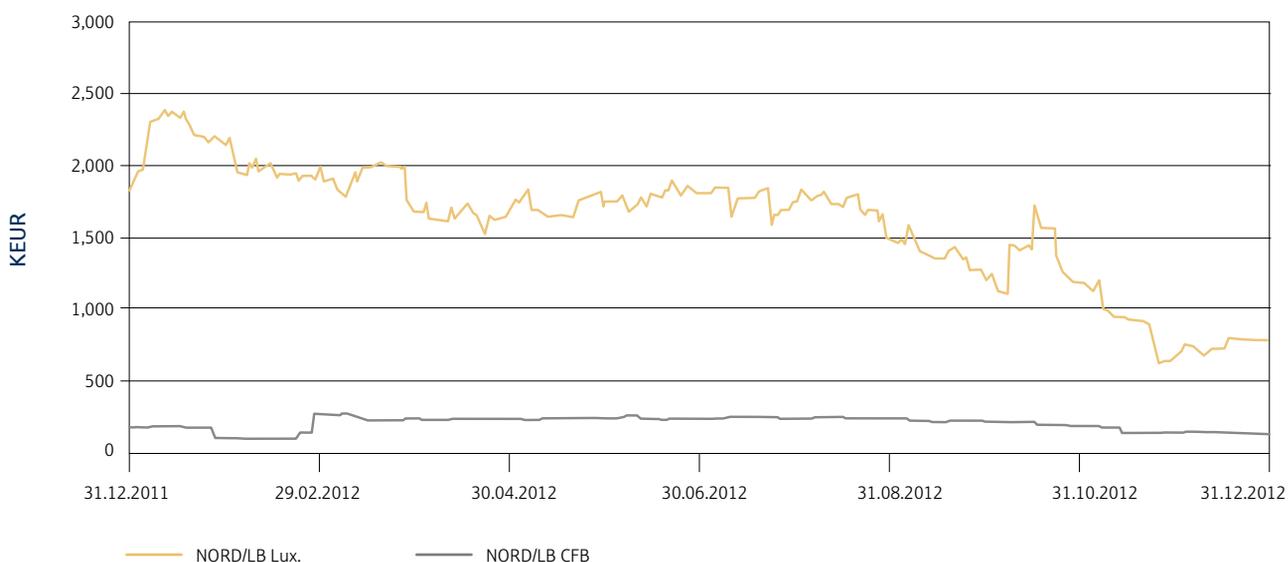
## Market Price Risk – Reporting

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

## Market Price Risk – Development in 2012

The graph below shows the development of the market price risks at NORD/LB Luxembourg and NORD/LB CFB over the course of 2012 on the basis of a value-at-risk confidence level of 95 % and holding time of one day:

### Value-at-Risk (95 %, 1 Day)



On 31 December 2012 the value-at-risk limit of NORD/LB Luxembourg is EUR 6.1 million. The value-at-risk, which is calculated on a daily basis, was EUR 0.8 million on 31 December 2012 and has fallen by EUR 1.0 million in comparison to the previous year because of the model. The utilisation of the market price risk limit (value-at-risk limit) at NORD/LB Luxembourg was 23.2 % on average through the year (previous year 19.1 %); the maximum utilisation was 34.2 % (29.3 %) and the minimum utilisation was 9.0 % (11.4 %). As per 31 December 2012 interest rate risks were measured in the sum of EUR 0.7 million, foreign currency risks in the sum of EUR 0.2 million and credit spread risks in the liquidity reserve and trading book in the sum of EUR 0.7 million.

On 31 December 2012 the value-at-risk limit of NORD/LB CFB is EUR 0.35 million. The value-at-risk, which is calculated on a daily basis, was EUR 0.1 million on 31 December 2012 (previous year EUR 0.2 million). The average utilisation of

the value-at-risk limit at NORD/LB CFB in 2012 was 43.2 % (previous year 21.3 %), the maximum utilisation was 57.2 % and the minimum utilisation was 21.8 %. In line with its strategy the bank consciously did not build up any significant positions in interest rate or foreign currency risks in 2012 and in addition did not enter into any credit spread risks in the liquidity reserve. The proportion of interest rate and foreign currency risks in the overall risk of the bank amounts to EUR 0.1 million each on 31 December 2012. Since there are no positions in the liquidity reserve on the reporting date the proportion of credit spread risks in the liquidity reserve is zero.

The security positions in connection with the interest rate and liquidity control of the ALM/Treasury division and Cover Pool Management lead to an emphasis on the market price risks from credit spreads in the NORD/LB Luxembourg Group.

On 31 December 2012 the interest sensitivities (NORD/LB Luxembourg and NORD/LB CFB aggregated) are as follows:

Sensitivities (Interest)																	as per 31.12.2012	
Present value of a basis point (PVBP) per portfolio and currency																	(KEUR)	
Currencies	AUD	CAD	CHF	CZK	DKK	EUR	GBP	HKD	HUF	JPY	NOK	NZD	PLN	SEK	TRY	USD	ZAR	Total
Bank total	+0	+0	-6	-0	+0	-175	+2	+0	+0	-1	+0	+0	+0	+0	+0	-12	+0	-192

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

With respect to interest rate risks in the investment book the effects of a standardised interest rate shock of +200 and -200 base points respectively is analysed on a monthly basis in addition. The result continues to be far below the regulatory threshold, which provides for a maximum proportion of 20% of authorised equity capital.

The credit spread risk via the Group's standardised scenario analysis (holding period ten days) in the NORD/LB Luxembourg Group is limited to EUR 120 million. The utilisation was an average of 63.0% in 2012, the maximum utilisation was 75.0% and the minimum utilisation was 51.3%. As at 31 December 2012 the credit spread risk via the standard group scenario analysis was EUR 62.3 million (previous year EUR 88.9 million).

The credit spread value-at-risk used in the NORD/LB Luxembourg group for the purpose of internal control (95%, holding time 250 days) of the investment assets is limited to EUR 130.0 million. The utilisation was an average of 62.2% in 2012, the maximum utilisation was 78.7% and the minimum utilisation was 28.3%. As at 31 December 2012, the credit spread value-at-risk for the investment assets was EUR 84.4 million (previous year EUR 153.3 million). The significant risk reduction in comparison to the previous year is largely caused by the model.

## Market Price Risk – Outlook

We are anticipating a stable level of market price risks for 2013. 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. In addition, we are not expecting any significant growth in the credit spread risks from new business, since no new transactions are to

be conducted against the background of optimising the risk potentials from investment assets in the credit investment book and investments nearing maturity are primarily being replaced by covered bonds.

## Liquidity Risk

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

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

### Classic Liquidity Risk

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

### Refinancing Risk

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

### Market Liquidity Risk

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

## Liquidity Risk – Management

### Strategy

The liquidity risk strategy of the NORD/LB Luxembourg Group is orientated towards the recommendations published by the EBA on efficient liquidity risk management, the requirements derived from them on the part of the Luxembourg regulatory authorities and the Central Bank, as well as the requirements according to MaRisk.

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

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

The Group's liquidity control is performed by NORD/LB Luxembourg as the coordinator of the uncovered liquidity. In the covered finance sector this is complemented by NORD/LB CFB in its role as a specialist bank. Each institution thus makes its own contribution to the diversification of the financing basis of the NORD/LB Luxembourg Group.

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) and in the Contingency Funding Plan (NORD/LB Luxembourg Group).

### Structure and Organisation

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

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

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



## Liquidity Risk – Control and Monitoring

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

For this purpose, all liquidity payment flows of the Group 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 Group 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 Group's liquidity situation.

#### **Market Wide Credit Event:**

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

Within the scope of the classic liquidity risk, the daily business is managed with reference to the dynamic scenario. For this purpose "Distance-to-Illiquidity" is determined as a factor which must not be fallen short of. Compliance with this key figure is to be reported daily, both to the board of directors of NORD/LB Luxembourg 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 Group level, the Group has defined the following limits:

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

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

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

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

A distinction must be made between two drivers here:

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

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

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

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

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

### **Liquidity Risk – Reporting**

The liquidity risk situation in the classic liquidity risk is determined daily in the context of the close control of the NORD/LB Luxembourg Group and in the refinancing risk daily for NORD/LB Luxembourg and weekly for NORD/LB CFB and the respective trading boards are informed of it accordingly. 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 by the Risk Controlling division of NORD/LB Luxembourg on the basis of the refinancing liquidity risk for the quarterly asset liability committee meetings at bank and Group level.

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

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

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

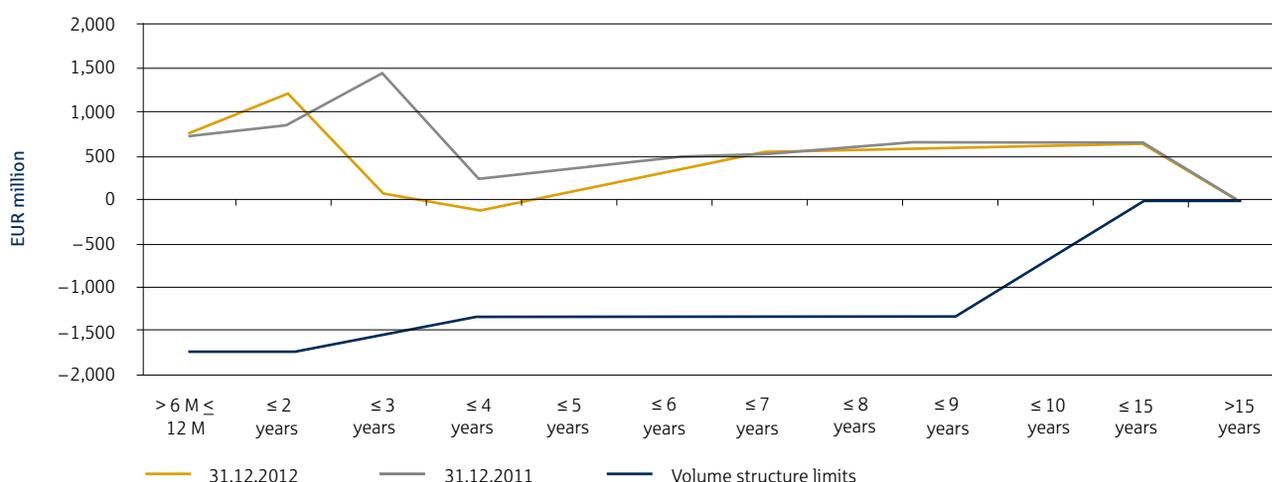
### Liquidity Risk – Development in 2012

The financial market continues to find itself in a tense mood over the course of 2012. The liquidity resources of

the NORD/LB Luxembourg Group were guaranteed at all times. The Group continues to have a balanced funding mix. Due to the business strategy and the local characteristics of the Luxembourg banking centre, there are concentrations with regard to refinancing via banks. As well as this, the cover of the refinancing requirement in the sector “over two years” is carried out predominantly via NORD/LB (uncovered funding).

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

### Cumulative Schedule of Liquidity Flows NORD/LB Luxembourg Group as per 31.12.2012



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

### Liquidity Risk – Outlook

By managing its liquidity risk to an extent beyond that required by regulatory provisions, the Group 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 Group is primarily active on liquid markets and maintains a portfolio of high quality securities.

Through careful observation of the markets and active liquidity control, it was ensured that the Group was equipped

with adequate liquidity at all times during the year under report. For 2013, we are not expecting any further substantial increase in the liquidity risks due to active liquidity control.

The methods of risk assessment and the reporting processes are being improved. In particular, new concepts and processes for the control of liquidity and liquidity risks with respect to the depiction of the irrevocable loan commitments and the stronger consideration of the covered refinancing opportunities by separating the liquidity progress review into covered and uncovered sections are being developed.

## Operational Risk

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

### Operational Risk – Management

#### Strategy

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

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

#### Structure and Organisation

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

methods. The Internal Audit division is in charge of independently auditing the correct implementation and execution of methods and procedures.

### Operational Risk – Control and Monitoring

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

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

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

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

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

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

## Operational Risk – Assessment

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

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

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

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

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

An allocation procedure, which combines the size indicators with risk-sensitive elements, is used to distribute

the results of the model across the NORD/LB Luxembourg Group.

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

## Operational Risk – Reporting

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

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

## Operational Risk – Development in 2012

NORD/LB began to dovetail topics relating to operational risks (such as compliance, fraud prevention, IT risk management, emergency planning, ICS and risk controlling) in the year under report (integrated OpRisk management). Against this background the first step was to develop a risk matrix, which is aimed at standardising the risk evaluation used across the Group. It will serve as the forerunner for comparable data collections and standard risk reporting, which is scheduled in the second phase.

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

As per 31 December 2012 the risk potential for the operational risk according to the internal model (confidence level 95%, holding time one year) was EUR 2.3 million in the NORD/LB Luxembourg Group.

## Operational Risk – Outlook

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

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

## Other Risks

Apart from the credit, market price, liquidity and operational risks already illustrated, there are no risks identified as significant. The relevant risks of the Group, which were identified as insignificant, are however integrated into a risk buffer in the management of risk bearing capacity.

## Summary and Outlook

The NORD/LB Luxembourg Group has taken reasonable account of all known risks by employing precautionary measures. The appropriate tools have been implemented in order to identify risks promptly.

The core element of the risk strategy is the risk-bearing capacity model (RBC model). The willingness to take risk is determined on the basis of the risk strategy and risk-bearing capacity; developments are regularly monitored using the RBC model. In the RBC model, the available risk capital is compared with summarised credit, market price, liquidity and operational risks on a quarterly basis. The utilisation rates calculated within the scope of the RBC model during the period under report demonstrate that the risk-bearing capacity was guaranteed at all times. According to the estimation of the Group, there are no risks threatening its existence.

In 2012, the NORD/LB Luxembourg Group fulfilled the regulatory provisions on equity and liquidity at all times. Likewise, the Group complied with the regulations on large credit limits in accordance with Luxembourg and German laws 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. The improvements for particular types of risk which were specifically targeted in 2013 have been covered in the relevant sections.

## Personnel Report

### Number of Employees

The Group further expanded its personnel. As per the reporting date of 31 December 2012 the total number of personnel (consisting only of those employees with open-ended employment contracts) breaks down as follows:

Reporting Date	31.12.2012	31.12.2011	Absolute Change	Increase/Decrease (%)
NORD/LB Luxembourg	185	170	15	9
Skandifinanz	0	0	0	–
NORD/LB CFB	0	9	–9	–100
<b>Total number of employees</b>	<b>185</b>	<b>179</b>	<b>6</b>	<b>3</b>

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

The 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.

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

### Definition and Objectives

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

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

Risks to financial reporting can arise through errors in business processes. In addition fraudulent conduct can lead to a misrepresentation of information. Therefore the bank

must ensure that the risks in relation to erroneous presentation, assessment or reporting of information in financial reports are minimised.

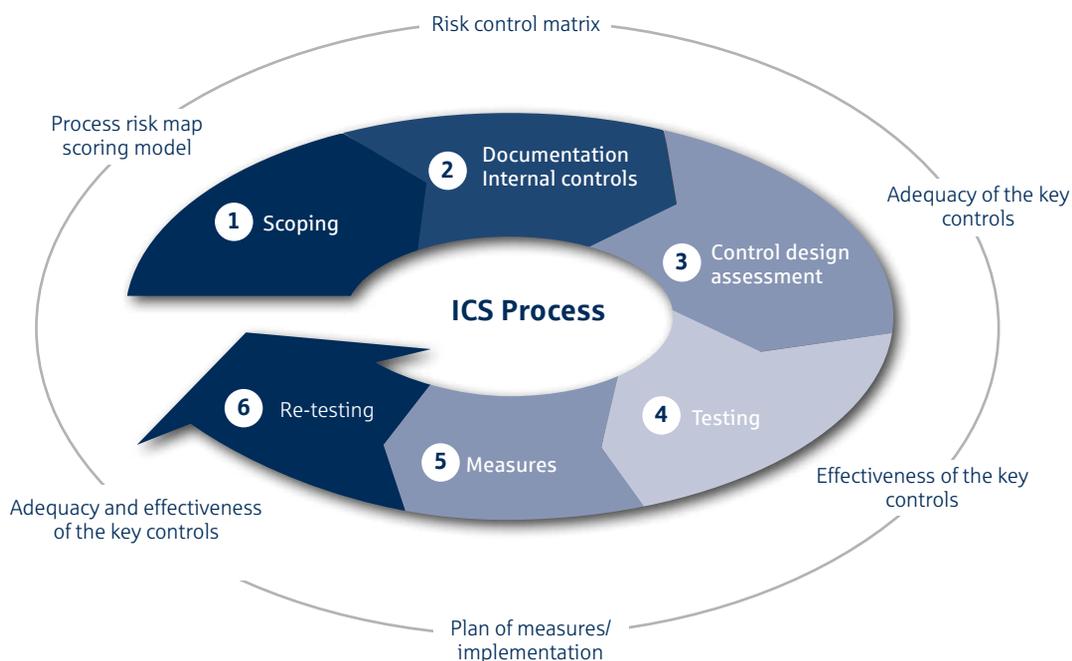
The bank’s ICS is designed to ensure adequate reliability in relation to compliance with applicable legal requirements, regularity and sound financial management of the business activities and the completeness and accuracy of the financial reports.

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

### Summary of the Internal Control System (ICS)

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

#### ICS Control Loop



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

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

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

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

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

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

### **Compliance Function**

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

### **Internal Auditing**

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

## Supplementary Report

There were no significant events between the balance sheet reporting date 31 December 2012 and the preparation of this statement on 22 March 2013 by the Board of Directors.

## Future-related Statements

This report contains future-related statements. They can be recognised through terms such as “expect”, “intend”, “plan”, “seek”, “estimate” and relate to current plans and estimates. The statements contain uncertainties, since a large number of factors that have an effect on the business lie outside the Group’s sphere of influence. 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. The Group accepts no responsibility and neither does it intend to update the future-related statements or to correct them if developments are other than expected.

The Board of Directors  
22 March 2013

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

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

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

# Consolidated Financial Statements 2012



NORD/LB Luxembourg

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

The following notes to the consolidated financial statements are an integral part of the consolidated financial statements.

## Consolidated Profit and Loss Account

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

	Notes	2012 (KEUR)	2011 (KEUR)
<b>Net interest income and current income</b>	<b>18</b>	<b>110,327</b>	<b>116,608</b>
Net interest income and current income		707,895	809,947
Interest expense		597,568	693,339
<b>Risk provision in lending business</b>	<b>19</b>	<b>-4,280</b>	<b>18,559</b>
<b>Net commission income</b>	<b>20</b>	<b>-1,484</b>	<b>-15,760</b>
Commission income		24,737	22,695
Commission expense		26,221	38,456
<b>Profit/loss from financial instruments at fair value through profit or loss</b>	<b>21</b>	<b>22,400</b>	<b>4,241</b>
Trading profit/loss		22,085	5,468
Profit/loss from the fair value option		315	-1,227
<b>Profit/loss from hedge accounting</b>	<b>22</b>	<b>2,087</b>	<b>-7,572</b>
<b>Profit/loss from financial assets</b>	<b>23</b>	<b>-16,820</b>	<b>-1,424</b>
<b>Administrative expenses</b>	<b>24</b>	<b>49,634</b>	<b>42,660</b>
Staff expenses		24,943	21,862
Other administrative expenses		21,707	18,899
Depreciation of property, plant and equipment		2,022	1,399
Depreciation on intangible assets		963	501
<b>Other operating profit/loss</b>	<b>25</b>	<b>-2,551</b>	<b>-262</b>
<b>Earnings before taxes (EBT)</b>		<b>60,044</b>	<b>71,728</b>
<b>Income taxes</b>	<b>26</b>	<b>13,760</b>	<b>17,934</b>
<b>Consolidated net income for the year</b>		<b>46,285</b>	<b>53,794</b>
of which due to the shareholders		46,285	53,794
of which not attributable to controlling shares		0	0

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

## Consolidated Overall Profit and Loss Account

The total income of the banking group for 2012 (2011) comprises the income and expenses recorded in the profit and loss account and directly in the equity.

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

	2012 (KEUR)	2011 (KEUR)
<b>Consolidated net income for the year</b>	<b>46,285</b>	<b>53,794</b>
Increase/decrease from available for sale (AFS) financial instruments	109,910	-123,460
of which unrealised profit/losses	109,236	-119,409
of which reclassifications on the grounds of profit/loss realisation	674	-4,051
Actuarial gains/losses for defined benefit provisions for pensions	-1,638	510
Deferred taxes	-30,852	35,390
Translation differences of foreign business units	187	819
<b>Profit/loss recorded directly in group equity</b>	<b>77,607</b>	<b>-86,741</b>
<b>Total income for the year</b>	<b>123,892</b>	<b>-32,947</b>
of which attributable to shareholders	123,892	-32,947
of which attributable to non-controlling shares	0	0

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

## Consolidated Balance Sheet

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

Assets	Notes	31.12.2012 (EUR million)	31.12.2011 (EUR million)
Cash reserve	27	75.1	138.9
Loans and advances to banks	28	1,693.9	2,960.2
Loans and advances to customers	29	5,115.0	4,642.7
Risk provisions	30	-36.5	-29.9
Financial assets at fair value through profit or loss	31	264.0	486.1
Derivatives – fair values from hedge accounting	32	433.4	392.1
Financial assets	33	9,332.0	9,842.3
Property, plant and equipment	34	72.2	77.0
Intangible assets	35	11.6	6.6
Current income tax assets	36	5.1	14.6
Deferred income tax assets	36	23.0	54.1
Other assets	37	5.3	3.2
<b>Total assets</b>		<b>16,994.0</b>	<b>18,587.7</b>

Liabilities	Notes	31.12.2012 (EUR million)	31.12.2011 (EUR million)
Liabilities to banks	38	9,749.6	9,491.4
Liabilities to customers	39	2,283.3	2,909.3
Securitised liabilities	40	2,810.8	4,162.1
Financial liabilities at fair value through profit or loss	41	116.7	156.4
Derivatives – fair values from hedge accounting	42	1,206.7	1,128.6
Provisions	43	10.6	15.9
Current income tax liabilities	44	5.2	2.3
Deferred tax liabilities	44	9.9	5.3
Other liabilities	45	29.6	26.8
Subordinated capital	46	94.8	96.7
<b>Equity</b>	<b>48</b>	<b>676.8</b>	<b>592.9</b>
Issued capital		205.0	205.0
Capital reserves		0.0	0.0
Revenue reserves		519.8	514.7
Revaluation reserve		-54.8	-133.4
Currency translation reserve		6.8	6.6
<b>Equity attributable to shareholders</b>		<b>676.8</b>	<b>592.9</b>
Shares without controlling influence		0.0	0.0
Total equity		<b>676.8</b>	<b>592.9</b>
<b>Total equity and liabilities</b>		<b>16,994.0</b>	<b>18,587.7</b>

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

## Consolidated Cash Flow Statement

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

	2012 (EUR million)	2011 (EUR million)
<b>Group profit/loss before taxes</b>	<b>60.0</b>	<b>71.7</b>
Adjustment for non-cash items		
Depreciation, value adjustments and write-ups of property, plant and equipment, write-downs, value adjustments and write-ups of financial assets	23.2	21.9
Increase/decrease in provisions	-1.5	-4.3
Gains/losses from the disposal of property, plant and equipment and financial assets	0.9	-16.7
Increase/decrease in other non-cash items	-2.5	4.4
Profit/loss from interest	-110.3	-116.6
Other adjustments (balance)	-0.4	-68.1
<b>Sub-total</b>	<b>-30.5</b>	<b>-107.6</b>
Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks and customers	782.3	1,485.2
Other assets and liabilities from operational business activities	220.4	162.6
Liabilities to banks and customers	-762.0	-1,540.6
Securitised liabilities	-1,343.3	-300.6
Interest received	732.3	828.7
Dividends received	0.1	0.0
Interest paid	-620.0	-719.2
Income taxes paid	3.5	11.4
<b>Cash flow from operating activities</b>	<b>-1,017.3</b>	<b>-179.9</b>
Cash receipts from the disposal of		
Financial assets	2,142.5	1,926.0
Property, plant and equipment and intangible assets	0.5	1.1
Cash payments for the acquisition of		
Financial assets	-1,539.2	-1,636.4
Property, plant and equipment and intangible assets	-9.6	-29.8
Changes in funds from other investment activities (balance)	0.0	0.0
<b>Cash flow from investment activity</b>	<b>594.3</b>	<b>260.9</b>

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

	2012 (EUR million)	2011 (EUR million)
Cash receipts from equity contributions	0.0	0.0
Increase/decrease in funds from other capital	400.0	0.0
Interest expense on subordinated capital	-0.8	-0.6
Dividends paid	-40.0	-40.0
<b>Cash flow from financing activities</b>	<b>359.3</b>	<b>-40.6</b>
<b>Cash and cash equivalents at end of the previous year</b>	<b>138.9</b>	<b>98.5</b>
Cash flow from operating activities	-1,017.3	-179.9
Cash flow from investment activity	594.3	260.9
Cash flow from financing activities	359.3	-40.6
<b>Cash flow total</b>	<b>-63.8</b>	<b>40.4</b>
Effects of exchange rate differences and valuation changes and changes in the basis of consolidation	0.0	0.0
<b>Cash and cash equivalents at the end of the year under report</b>	<b>75.1</b>	<b>138.9</b>

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

## Consolidated Statement of Changes in Equity

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

EUR million	Issued Capital	Capital Reserves	Revenue Reserves	Revalua- tion Reserve	Currency translation Reserve	Equity before Shares without Control- ling Influence	Shares without Control- ling Influence	Equity
<b>Equity on 01.01.2011</b>	<b>205.0</b>	<b>0.0</b>	<b>500.5</b>	<b>-45.4</b>	<b>5.8</b>	<b>665.9</b>	<b>0.0</b>	<b>665.9</b>
Distribution	0.0	0.0	-40.0	0.0	0.0	-40.0	0.0	-40.0
Consolidated net income for the year	0.0	0.0	53.8	0.0	0.0	53.8	0.0	53.8
Increase/Decrease from AfS financial instruments	0.0	0.0	0.0	-87.9	0.0	-87.9	0.0	-87.9
Changes in group of consolidated companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease from capital receipts and payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency translation	0.0	0.0	0.0	0.0	0.8	0.8	0.0	0.8
Consolidation effects and other capital changes	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.4
<b>Equity on 31.12.2011</b>	<b>205.0</b>	<b>0.0</b>	<b>514.7</b>	<b>-133.4</b>	<b>6.6</b>	<b>592.9</b>	<b>0.0</b>	<b>592.9</b>
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	46.3	0.0	0.0	46.3	0.0	46.3
Increase/Decrease from AfS financial instruments	0.0	0.0	0.0	78.6	0.0	78.6	0.0	78.6
Changes in group of consolidated companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase/decrease from capital receipts and payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency translation	0.0	0.0	0.0	0.0	0.2	0.2	0.0	0.2
Consolidation effects and other capital changes	0.0	0.0	-1.2	0.0	0.0	-1.2	0.0	-1.2
<b>Equity on 31.12.2012</b>	<b>205.0</b>	<b>0.0</b>	<b>519.8</b>	<b>-54.8</b>	<b>6.8</b>	<b>676.8</b>	<b>0.0</b>	<b>676.8</b>

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

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# Consolidated Financial Statements 2012



NORD/LB Luxembourg

## Accounting Policies

### (1) Principles for Preparing the Consolidated Financial Statements

The consolidated financial statements of Norddeutsche Landesbank Luxembourg S.A. (NORD/LB Luxembourg) for the year ended 31 December 2012 were prepared in agreement 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 to 31 December 2012 take into account the national provisions of the law of 17 June 1992 on the financial statements of banks under Luxembourg law (issued March 2009). The financial statements for the year ended 31 December 2012 comprise the consolidated profit and loss account, consolidated overall profit and loss account, consolidated balance sheet, consolidated capital flow statement, consolidated statement of changes in equity and the consolidated 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 too.

The essential methods are shown below:

#### a) Fair Value of Financial Instruments

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

Further information can be found in Notes (7), (8) and (54).

#### b) Pension Payments

The expenditure from performance-related plans and the cash value from pension obligations are determined with reference to actuarial calculations. These are based on various wage, salary and pension development, mortality rate and the discount rate assumptions. Due to the long term nature of the underlying assumptions and the complex calculation methods changes in the assumptions can entail not inconsiderable effects.

There is more information in Note (12) and Note (43).

### c) Taxes

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

There is more information about taxes in Note (14).

### (3) Adopted and New IFRS

The Group only applies those IFRS that are endorsed by the EU.

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

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

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

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

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

#### • IAS 19 (rev. 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, which was issued in November 2009, was published in October 2010. The first of three phases includes regulations on the categorisation and valuation of financial assets and financial obligations. For the categorisation of financial assets in accordance with IFRS 9 there are only two options now, the valuation at net book

value or the valuation at fair value. In future, categorisation will be aligned to the business model of the reporting entity and the contractually agreed payment flows of the assets. The requirements for embedded derivatives and reclassification have also been amended. The rules relating to financial obligations are largely unchanged from IAS 39. The essential difference to the current rule relates to the application of the fair value option. In principle the credit rating related changes in valuation will be shown in other comprehensive income (OCI) in future, the remaining part of the change in value will continue to be recorded in the profit and loss account.

A draft amendment to the categorisation and valuation rules of IFRS 9 was published in November 2012, which contains in particular the proposal for a third valuation model to be introduced for financial assets in the form of debt instruments, which provides for a valuation of these instruments at fair value with a record of the changes in value in other comprehensive income. Publications from the IASB regarding the other phases covering the subjects of Impairment and Hedge Accounting are expected in the first quarter of 2013. Assuming endorsement by the EU, IFRS 9 will be applicable to financial years commencing on or after 1 January 2015, according to the amendments to IFRS 9 and IFRS 7 issued in December 2011 – timing of the obligatory effective date of IFRS 9 and information regarding the transition.

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. Accordingly, control exists if the potential parent companies hold the power of decision over the potential subsidiaries by reason of voting rights or other rights, it participates in positive or negative variable returns from the potential subsidiary and can influence these returns through its power of decision. The standard replaces the provisions of the current IAS 27 in this respect as well as SIC-12 and, following endorsement by the EU, comes into effect for financial years beginning on or after 1 January 2014 at the latest.

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

#### • IFRS 11 – Joint Arrangements

IAS 31 – Interests in Joint Ventures will be replaced by IFRS 11, published in May 2011, and is to be applied from 1 January 2013. 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, profit and loss account and cash flow. It will be mandatory to apply IFRS 12 for the first time to financial years beginning on or after 1 January 2013.

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

#### • IFRS 13 – Fair Value Measurement

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

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

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

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

The amendments to IAS 1, published by the IASB in June 2011 within the scope of the Financial Statement Presentation project, foresees sub-dividing the items of the other comprehensive income (OCI) depending on whether 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.

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

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

In connection with the publication of the Amendments to IAS 32 – Financial Instruments: Presentation, the disclosure requirements of IFRS 7 in relation to offsetting were extended in order to allow readers of financial statements to estimate the effects of balancing arrangements,

including the rights to balance financial assets and financial liabilities, on the financial position of an entity. The amendments are to be applied retrospectively for interim periods and financial years that begin on or after 1 January 2013.

Extended disclosure requirements result from these amendments, which are to be made for the first time in annual financial statements ending for years ending 31 December 2013. The new disclosures will facilitate an improved assessment of potential effects from existing agreements on balancing. Comparative disclosures are to be made.

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

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

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

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

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

#### (4) Principles of Consolidation

The consolidated financial statements of NORD/LB Luxembourg, which were prepared in accordance with standard group accounting and valuation methods, include the financial statements of the parent company (NORD/LB Luxembourg) and the companies it controls including the single purposes companies (subsidiaries). Control exists as

soon as a group company has the option of determining the financial and business policies of a company and to draw benefit from its activities.

The capital consolidation is done using the purchase method. At the same time, all assets and liabilities of subsidiaries at the time of gaining the controlling influence are shown at fair value taking into account deferred taxes. The differences in the amounts of assets within the scope of the initial consolidation are shown under intangible assets. The goodwill is reviewed at least once a year for its value and if necessary depreciated. The differences on the liabilities within the scope of the initial consolidation are calculated with the provisions (Badwill). The shares of equity of subsidiaries not due to the parent company are shown in the group equity as minority shares in subsidiaries. There is neither positive goodwill nor minority shares in subsidiaries within the group.

Internal group receivables and liabilities and internal group expenses and incomes are eliminated within the scope of the consolidation of debts and expenditure and income. Interim results within the group are taken out of the calculations within the scope of interim result elimination.

The results of subsidiaries that have left or joined over the course of the year are recorded in the consolidated profit and loss account according to the actual time of acquisition or actual departure date.

A final consolidation is done at the time when no controlling or significant control exists any longer and no joint management.

## (5) Basis of Consolidation

As well as NORD/LB Luxembourg, the parent company, the consolidated financial statements also include two subsidiaries (previous year two) in which NORD/LB Luxembourg directly or indirectly holds more than 50 percent of the voting rights or can otherwise exert a controlling influence.

### These Subsidiaries are:

- Skandifinanz AG, Zürich, 100% of the voting rights
- NORD/LB Covered Finance Bank S.A., Luxembourg, 100% of the voting rights

The annual financial statements included in the group financial statements were prepared on the reporting date of



31 December. The financial statements of all companies are initially compiled according to their country's legal provisions and then brought over to IFRS according to group standard accounting and valuation methods.

## (6) Currency Translation

Each group company calculates its financial statements in its functional currency (balance sheet currency). The consolidation of the financial statements is done in the reporting currency (EURO). The methods applied to currency translation are described below.

### Translation into the Functional Currency

When monetary assets and liabilities or non-monetary items at fair value are denominated in foreign currencies, they must be translated at the ECB reference rate on 31 December 2012. Non-monetary items that are valued at cost are translated at the historical rates. Expenses and income in foreign currencies are translated at market rates on value dates. Exchange rate differences on monetary items are reflected in principle in the profit and loss account; non-monetary items are taken as through profit or loss or as not affecting profit or loss according to the way in which profits or losses relating to such items are recorded.

### Translation into the Reporting Currency

In the case of the foreign subsidiaries and foreign branches to be consolidated, whose functional currency is not the euro, assets and liabilities are translated using the ECB reference rates on 31 December 2012; equity, with the exception of revaluation reserves (at reporting date rate), and of the annual profit to be carried forward, is translated on the basis of historical exchange rates. Income and expenses are translated at periodical average rates into the group currencies. Translation differences resulting from this are shown as a separate item in the group equity. On disposal,

the translation differences accrued to that date are included in the disposal result.

## (7) Financial Instruments

A financial instrument is defined as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group's financial instruments are recorded accordingly in the balance sheet. 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 Group becomes a party to the contractual provisions of the financial instrument. The trade date and settlement date generally diverge with regard to the regular way purchase or sale of financial assets. An entity is entitled to choose whether to use trade date accounting or settlement date accounting for these regular way purchases or sales. All financial assets must be recognised on the balance sheet using settlement date accounting.

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

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

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

proceeds. Differences between the new acquisition cost and the redemption amount are spread over the remaining life of the debt instrument using the effective interest method.

### b) Classification and Measurement

Financial assets and liabilities are initially measured at fair value. In the case of financial instruments of the categories "Loans and Receivables (LaR), Held to Maturity (HtM), Available for Sale (AfS) and Other Liabilities (OL)" transaction costs are included in the costs of acquisition where 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. In the case of financial instruments of the category "Financial Assets or Financial Liabilities at Fair Value through Profit or Loss (aFV)" the transaction costs are recorded 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 (8) 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. In the consolidated financial statements the category "Held to Maturity" does not apply presently.

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

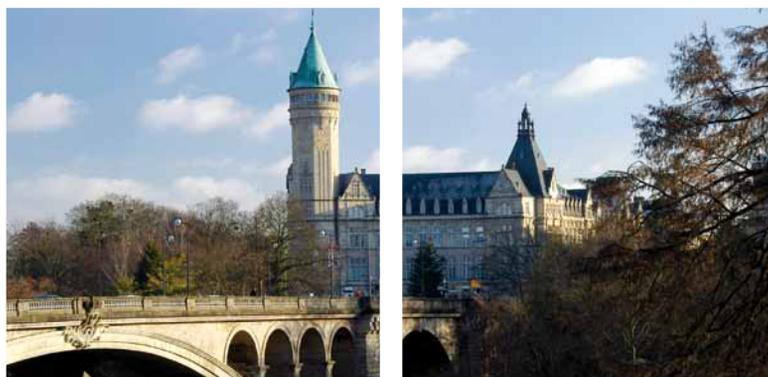
This category is divided into two sub-categories:

a) Held for Trading (HfT)

This sub-category comprises financial instruments (trading assets and liabilities) that were acquired with the intention of achieving profits from short-term purchases and sales and contain all derivatives where not shown as hedging instruments in hedge accounting. 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 trade book derivatives, where no amortisation of upfront payments using the effective interest rate is undertaken and bank book derivatives, where there is amortisation using the effective interest rate in the profit/loss from interest.

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

All financial instruments can be allocated to these sub-categories known as fair value option if they fulfil certain conditions. 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 (31) Financial assets at fair value through profit or loss and Note (41) Financial liabilities at fair value through profit or loss. Financial instruments, for which the fair value option is used, are shown in the relevant balance sheet items and designated at fair value through profit or loss in the context of the subsequent valuation. Premiums and discounts are amortised using the effective interest rate. The Group uses this category solely for balance sheet positions hedged with derivative products outside of 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 can include, in particular, bonds and debt securities as well as shares and participating interests. Subsequent measurement is at fair value; if the fair value cannot be determined reliably, measurement is at cost. The profit/loss from the fair value measurement is shown as not affecting profit or loss in a separate equity item (revaluation reserve). Upon the disposal of financial assets, the measured profit/loss included in the balance sheet under revaluation reserve is removed and included in the profit and loss account.

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

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

- **Other Liabilities (OL)**

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

### c) 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. Subsequent to 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 Group since the reported year 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.

In order to determine the fair value, the Group initially uses quotations of market makers (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 counter-

party. Spreads are determined on the basis of comparable financial instruments (for example, taking into account the respective market segment and the creditworthiness of the issuer).

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

In the case of financial instruments for which there is no active market on 31 December 2012 and which can no longer be measured on the basis of market prices, 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 did not use any Level 3 prices for the security portfolio for the year ending 31 December 2012.

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

Further information on the fair value hierarchy and the fair values of financial instruments can be found in Notes (54) to (56).

#### d) Structured Products

Structured products are made up of two components – one or more embedded derivative financial instruments (embedded derivatives e.g. swaps, futures, caps) and a host contract (e.g. financial instruments, leasing agreements). Both components are the object of a single contract for the structured product, i.e. these products form a legal unit 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. Such market value risks are subject especially to the issue and lending business of the group and the liquidity management security stocks, if they are interest bearing securities. Fair value hedges are used for individual transactions. Interest rate and currency swaps are predominantly used to hedge these risks.

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

Hedging relationships may only be reported in accordance with the rules of hedge accounting if the restrictive conditions laid down by IAS 39 are fulfilled. The requirements of hedge accounting, particularly proving hedge effectiveness, must be met on all balance sheet dates and for all hedging relationships. The Critical Term Matching method is used for the prospective performance of effectiveness tests. For retrospective effectiveness tests a modified dollar Offset method is used, which takes into account the problem arising of the small figures in the case of the 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 (32) or Note (42) Fair values from hedge accounting). The valuation changes are recognised through profit or loss (Note (22) 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 2012.

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

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

We refer to the scope and volume of securities repurchase agreements under Note (60) Securities repurchase agreements.

## (8) Risk Provisions

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

Checking of intrinsic value is done for all significant receivables at individual business level. Risk provision in the

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

For risks that have occurred but have not yet been identified by the institutions, loss provisions 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. In addition the bank adjusts the measurement parameters to the parameters observed on the market in the case of problematic portfolios and bases these scenarios on a probability of occurrence.

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

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

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

## (9) 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.

## (10) 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 respect to the scope of leased items, taking into account IAS 8.8, the bank has refrained from reporting it on the balance sheet for materiality reasons.

### Operating Leases

With an operating lease, the lessee recognises the lease payments made as an expense under other administrative expenses. The initial direct costs (for example expert fees) are recognised immediately as affecting profit or loss.

## (11) Intangible Assets

Intangible assets purchased by the Group are recognised at cost, and self-created intangible assets at the conversion cost, 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 unlimited useful life in the Group.

## (12) Provisions for Pensions and Similar Obligations

The Group'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 relevant institute 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 Group's occupational pension scheme is based on a pension scheme in which employees build up entitlement to pension rights and benefits are determined in line with factors such as anticipated wage and salary increases, age, length of service and pension forecasts (Defined Benefit Plan). The accounting requirements

set out under IAS 19 for defined benefit plans are applied to this pension scheme.

The components of pension provisions 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 Group 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 actuarial gains or losses that are not yet posted 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.

### (13) Other Provisions

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

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

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

A Grand Duchy regulation on the taxation of IFRS financial statements that is relevant to both NORD/LB Luxembourg and NORD/LB CFB was published as a draft bill. This provides for the measurement differences arising from financial instruments shown in the profit and loss account to be included in the tax basis. In addition, this regulation guarantees that taxpayers will have the right to choose whether they pay taxes on earnings from first-time adoption in the first year of IFRS accounting or spread these items over two to five years.

NORD/LB Luxembourg has obtained binding information from the Luxembourg tax authorities on tax questions relating to the IFRS balance sheet preparation and first-time adoption and will apply the tax measures described above.

In the process, the income from the initial application was not spread pro rata but taken into account integrally for taxation in the reporting year 2008.

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

In doing so, NORD/LB Luxembourg S.A. functions as the parent company.

## (15) 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 (46).

# 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**

Mainly income from loans to savings bank customers (guaranteed by the allied savings banks) is recorded here.

### **Private Banking**

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

### **Financial Markets**

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

### **Lending Business**

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

### **Shareholdings/Other**

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

## Segmentation by Region

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

## (16) Segmentation of the NORD/LB Luxembourg Group by Business Segments

EUR million	Segments							Total
	Affiliated Savings Banks	Private Banking	Financial Markets	Structured Finance	Lending Business	Other	Transition	
<b>Net interest income</b>	2.1	2.5	46.5	0.0	56.8	3.1	-0.8	110.3
ditto previous year	2.0	3.0	45.1	0.8	61.6	3.2	0.9	116.6
<b>Risk provision in lending business</b>	0.0	0.0	0.1	0.0	-6.0	-12.2	13.9	-4.3
ditto previous year	0.0	0.0	-6.1	-2.6	14.6	0.0	12.7	18.6
<b>Net interest income after loan loss provisions</b>	2.1	2.5	46.6	0.0	50.8	-9.1	13.1	106.0
ditto previous year	2.0	3.0	39.0	-1.8	76.2	3.2	13.6	135.2
<b>Net commission income</b>	-1.4	7.1	-1.0	0.0	-6.2	0.0	0.0	-1.5
ditto previous year	-0.7	8.3	-2.9	0.1	-21.0	0.5	0.0	-15.8
<b>Profit/loss from financial instruments at fair value through profit or loss</b>	0.0	0.0	7.3	0.0	0.1	0.0	15.0	22.4
ditto previous year	0.0	0.0	-4.4	0.0	0.0	0.0	8.6	4.2
<b>Profit/loss from hedge accounting</b>	0.0	0.0	1.4	0.0	0.0	1.3	-0.6	2.1
ditto previous year	0.0	0.0	-3.3	0.0	0.0	-4.0	-0.3	-7.6
<b>Profit/loss from financial assets</b>	0.0	0.0	-5.4	0.0	0.0	0.0	-11.4	-16.8
ditto previous year	0.0	0.0	7.6	0.6	0.0	0.0	-9.6	-1.4
<b>Administrative expenses</b>	0.1	9.5	9.1	0.0	6.2	21.0	3.8	49.6
ditto previous year	0.2	8.3	11.8	1.8	5.6	13.2	1.8	42.7
<b>Other income/expenses</b>	0.0	0.0	-1.3	-0.2	-1.5	-3.3	3.8	-2.6
ditto previous year	0.0	0.0	-2.7	-2.1	-0.9	3.7	1.7	-0.3
<b>Operating profit/loss before taxes</b>	0.5	0.1	38.4	-0.1	37.0	-32.0	16.1	60.0
ditto previous year	1.1	3.0	21.4	-5.0	48.7	-9.8	12.2	71.7
<b>Segment assets</b>	209.0	97.0	17,851.2	29.4	4,632.1	553.2	-6,377.8	16,994.0
ditto previous year	236.2	89.6	17,365.1	29.9	4,307.4	495.9	-3,936.4	18,587.7
<b>Segment liabilities (incl. equity)</b>	0.0	66.6	22,437.9	29.4	0.0	837.9	-6,377.8	16,994.0
ditto previous year	0.0	166.8	21,574.7	29.9	0.0	752.7	-3,936.4	18,587.7

EUR million	Segments							Total
	Affiliated Savings Banks	Private Banking	Financial Markets	Structured Finance	Lending Business	Other	Transition	
<b>Risk assets (yearly averages)</b>	<b>260.2</b>	<b>139.4</b>	<b>1,852.8</b>	<b>1.4</b>	<b>1,415.8</b>	<b>474.2</b>	<b>376.2</b>	<b>4,520.0</b>
ditto previous year (on the basis of yearly averages)	44.0	109.8	2,001.1	1.4	1,671.4	514.5	-142.1	4,200.1
<b>Equity lockup (on the basis of yearly averages)</b>	<b>13.0</b>	<b>7.0</b>	<b>92.6</b>	<b>0.1</b>	<b>70.8</b>	<b>23.7</b>	<b>0.0</b>	<b>207.2</b>
ditto previous year (on the basis of yearly averages)	2.2	5.5	100.1	0.1	83.6	25.7	0.0	217.1
<b>CiR</b>	<b>17.0 %</b>	<b>99.2 %</b>	<b>23.5 %</b>	<b>0.0 %</b>	<b>12.6 %</b>	<b>-9,660.1 %</b>	<b>0.0 %</b>	<b>55.5 %</b>
ditto previous year	12.0 %	73.7 %	25.1 %	-299.83 %	14.1 %	177.6 %	-	43.0 %
<b>RoRaC/RoE*</b>	<b>8.4 %</b>	<b>1.5 %</b>	<b>69.8 %</b>	<b>-54.7 %</b>	<b>78.0 %</b>	<b>-169.0 %</b>	<b>0.0 %</b>	<b>16.6 %</b>
ditto previous year	50.7 %	50.8 %	19.0	-1,651.3 %	35.9 %	-36.8 %	-	21.3 %

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

#### Further segment information:

EUR million	Affiliated Savings Banks	Private Banking	Financial Markets	Structured Finance	Lending Business	Other	Transition	Total
<b>Property, plant and equipment, net</b>	<b>0.3</b>	<b>12.3</b>	<b>25.1</b>	<b>0.0</b>	<b>6.0</b>	<b>28.4</b>	<b>0.0</b>	<b>72.2</b>
ditto previous year	0.3	13.1	27.1	0.0	6.4	30.1	0.0	77.0
<b>Depreciation of property, plant and equipment, current year</b>	<b>0.0</b>	<b>0.3</b>	<b>0.7</b>	<b>0.0</b>	<b>0.2</b>	<b>0.8</b>	<b>0.0</b>	<b>2.0</b>
ditto previous year	0.0	0.2	0.5	0.0	0.1	0.5	0.0	1.4
<b>Intangible assets, net</b>	<b>0.0</b>	<b>2.0</b>	<b>4.0</b>	<b>0.0</b>	<b>1.0</b>	<b>4.6</b>	<b>0.0</b>	<b>11.6</b>
ditto previous year	0.0	1.1	2.3	0.0	0.6	2.6	0.0	6.6
<b>Depreciation of intangible assets, current year</b>	<b>0.0</b>	<b>0.2</b>	<b>0.3</b>	<b>0.0</b>	<b>0.1</b>	<b>0.4</b>	<b>0.0</b>	<b>1.0</b>
ditto previous year	0.0	0.1	0.2	0.0	0.0	0.2	0.0	0.5
<b>Value adjustments on financial assets, current year</b>	<b>0.0</b>	<b>0.0</b>	<b>2.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.1</b>
ditto previous year	0.0	0.0	28.4	0.0	0.0	0.0	0.0	28.4

## (17) Segmentation of the NORD/LB Luxembourg Group by Geographical Characteristics

EUR million	Segments								Total
	Germany	Luxembourg	Switzerland	Rest of Europe	USA	Rest of America	Other Countries	Transition	
<b>Operating profit/loss before taxes</b>	15.7	14.2	0.1	10.0	2.8	0.4	0.7	16.0	60.0
ditto previous year	21.9	14.5	-4.8	19.9	4.5	0.8	2.6	12.2	71.7
<b>Segment assets</b>	7,031.7	1,017.8	68.1	5,720.6	2,274.8	496.8	442.9	-58.6	16,994.0
ditto previous year	6,950.1	4,467.3	109.1	7,335.9	2,341.3	546.4	774.0	-3,936.4	18,587.7
<b>Segment liabilities (incl. equity)</b>	9,622.1	11,313.4	809.3	1,357.8	9.6	40.6	219.0	-6,377.8	16,994.0
ditto previous year	7,163.7	11,207.1	1,705.2	2,179.6	79.0	88.3	101.1	-3,936.4	18,587.7
<b>Risk assets (annual average values)</b>	1,346.3	1,314.3	12.4	985.1	345.4	67.2	73.1	376.2	4,520.0
ditto previous year (annual average values)	1,407.7	915.4	18.3	1,379.8	379.8	80.3	160.8	-142.1	4,200.1
<b>Equity locked in (Basis annual average values)</b>	67.3	65.7	0.6	49.3	17.3	3.4	3.7	0.0	207.2
ditto previous year (Basis annual average values)	70.4	45.8	0.9	69.0	19.0	4.0	8.0	0.0	217.1
<b>Further segment information</b>									
<b>Property, plant and equipment, net</b>	0.0	72.2	0.0	0.0	0.0	0.0	0.0	0.0	72.2
ditto previous year	0.0	77.0	0.0	0.0	0.0	0.0	0.0	0.0	77.0
<b>Intangible assets, net</b>	0.0	11.6	0.0	0.0	0.0	0.0	0.0	0.0	11.6
ditto previous year	0.0	6.6	0.0	0.0	0.0	0.0	0.0	0.0	6.6

## Notes to the Consolidated Profit and Loss Account

### (18) Interest Income and Current Income

The items Interest income and Income expense include amortisation of premiums and discounts at effective interest

rates as well as income and expense from interest and dividend income.

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

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
<b>Interest income</b>	<b>707,895</b>	<b>809,947</b>	<b>-13</b>
Interest income from lending and money market transactions	188,960	229,884	-18
Interest income from fixed income and book entry securities	248,423	282,708	-12
<b>Current income</b>	<b>50</b>	<b>203</b>	<b>-75</b>
from shares and other variable yield securities	50	203	-75
from participating interests	0	0	-
Interest income from hedge derivatives	269,397	296,388	-9
Expected return on plan assets	115	106	9
Other interest income and similar income	950	657	44
<b>Interest expense</b>	<b>-597,568</b>	<b>-693,339</b>	<b>-14</b>
Interest expense from lending and money market transactions	-142,753	-192,437	-26
Interest expense from securitised liabilities	-78,522	-98,661	-20
Interest expense from subordinated capital	-752	-568	32
Interest expense from hedge derivatives	-375,292	-400,852	-6
Interest expense for provisions and liabilities	-118	-193	-39
Other interest expense and similar expense	-131	-629	-79
<b>Total</b>	<b>110,327</b>	<b>116,608</b>	<b>-5</b>

Both interest income and interest expense fell significantly in the year under report. This is attributable on the one hand to changes in the balance sheet structure between the reporting dates and on the other by changes in the market interest rate. Interest in the sum of KEUR 0 (previous year KEUR 175) has not been received on value-adjust-

ed securities, on value-adjusted loans KEUR 109 (previous year KEUR 505).

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

## (19) Loan Loss Provisions

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
<b>Income from loan loss provisions</b>	<b>13,289</b>	<b>22,410</b>	<b>-41</b>
Reduction in provisions for claims	1,572	20,410	-92
Reductions in portfolio-based provisions for receivables	7,892	0	100
Reversal of provisions in lending business	3,826	2,000	91
Additions to receivables written off	0	0	-
<b>Loan loss provision expense</b>	<b>17,570</b>	<b>3,852</b>	<b>&gt; 100</b>
Allocations to provisions for claims	17,544	2,096	> 100
Allocation to portfolio-based provisions for claims	26	266	-90
Allocation to provisions for lending business	0	1,182	-100
Direct write-offs of claims	0	308	-100
<b>Total</b>	<b>-4,280</b>	<b>18,559</b>	<b>&gt; 100</b>

The reversal of provisions for claims results essentially from unwinding.

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

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

In the context of the portfolio-based provisions for claims there is a shift to the portfolio-based provisions for claims on financial assets. For more information see Note (23) Profit/loss from financial assets.

## (20) Net Commission Income

The Group reports commission expense and commission income in its profit/loss.

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

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 arise primarily as a result of brokerage with NORD/LB. Transaction-related commissions are predominantly due to payments and securities transactions carried out by the Group.

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
<b>Commission income</b>	<b>24,737</b>	<b>22,695</b>	<b>9</b>
from security and custody transactions	3,683	4,719	-22
from the arrangement business	2,135	2,030	5
from lending and guarantee transactions	16,870	13,807	22
Other commission income	2,049	2,139	-4
<b>Commission expense</b>	<b>26,221</b>	<b>38,456</b>	<b>-32</b>
from the arrangement business	16,489	28,674	-42
from lending and guarantee transactions	8,352	7,655	9
Other commission expense	1,380	2,127	-35
<b>Total</b>	<b>-1,484</b>	<b>-15,760</b>	<b>-91</b>

Commission income relates in particular to arrangement activities (EUR 2.1 million; previous year EUR 2.0 million), the security and custodian business (EUR 3.7 million; previous year EUR 4.7 million) and the lending and guarantee business (EUR 16.9 million; previous year EUR 13.8 million).

Commission expense relates in particular to the arrangement business (EUR 16.5 million; previous year EUR 28.7 million) and the loans and guarantee business (EUR 8.4 million;

previous year EUR 7.7 million). The decline results on the one hand from a reduction in the guaranteed business and on the other from changed accounting terms within the Group.

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

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

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
<b>Trading profit/loss</b>	<b>22,085</b>	<b>5,468</b>	<b>&gt; 100</b>
Realised profit/loss	-157	-1,599	-90
from debt securities and other fixed interest securities	8,232	0	100
from shares and other variable yield securities	-24	0	-100
from derivatives	-8,366	-1,599	> 100
from other trading transactions	0	0	-
Measurement gains/losses	18,931	5,793	> 100
from debt securities and other fixed interest securities	899	4,249	-79
from shares and other variable yield securities	0	0	-
from derivatives	18,032	1,544	> 100
from other trading transactions	0	0	-
Foreign exchange profit/loss	701	-530	> 100
Other profit/loss	2,611	1,804	45
<b>Profit/loss from the fair value option</b>	<b>315</b>	<b>-1,227</b>	<b>&gt; 100</b>
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	-263	-1,227	-79
debt securities and other fixed interest rate securities	-263	-1,227	-79
from shares and other variable yield securities	0	0	-
other business	0	0	-
Other profit/loss	577	0	100
<b>Total</b>	<b>22,400</b>	<b>4,241</b>	<b>&gt; 100</b>

Trading profit/loss includes the measurement gains/losses from trading activities (defined as unrealised expense and income from fair value measurement) as well as the realised profit/loss (defined as the difference between disposal proceeds and carrying amount at the last reporting date). Interest profit/loss from trading activities in the sum of EUR 2.6 million (previous year EUR 1.8 million) is reported under other profit/loss.

The trading result, which in comparison to the previous year is clearly positive, was influenced essentially by the reversal of group hedges and associated adjustments.

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

## (22) Profit/Loss from Hedge Accounting

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

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
<b>Profit/loss from micro fair value hedges</b>	<b>2,087</b>	<b>-7,572</b>	<b>&gt; 100</b>
from hedged underlying transactions	12,400	304,901	-96
from derivatives used as hedging instruments	-10,314	-312,474	-97
<b>Profit/loss from portfolio fair value hedge transactions</b>	<b>0</b>	<b>0</b>	<b>-</b>
from hedged underlying transactions	0	0	-
from derivatives used as hedging instruments	0	0	-
<b>Total</b>	<b>2,087</b>	<b>-7,572</b>	<b>&gt; 100</b>

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

## (23) Profit/Loss from Financial Assets

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

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
<b>Profit/loss from financial assets of the category LaR incl. portfolio-based loan loss provisions</b>	<b>-19,242</b>	<b>-9,909</b>	<b>94</b>
<b>Profit/loss from financial assets classified as AfS (no joint ownership)</b>	<b>2,422</b>	<b>8,484</b>	<b>-71</b>
Profit/loss from disposal	2,422	26,954	-91
of debt securities and other fixed interest securities	-3,422	4,972	> 100
of repurchases of own bonds	5,845	21,982	-73
of shares and other variable yield securities	0	0	-
of other financial assets	0	0	-
Profit/loss from value adjustments for	0	-18,470	-100
debt securities and other fixed interest securities	0	-18,470	-100
variable yield securities	0	0	-
<b>Total</b>	<b>-16,820</b>	<b>-1,424</b>	<b>&gt; 100</b>

The profit/loss from financial assets in the category LaR results mainly from the establishment of portfolio-based value adjustments.

The profit/loss from financial assets in the category AfS is characterised in the financial year by the targeted reduction in risk positions. The previous year's profit/loss was marked primarily by the value adjustment of a bond issued by the Republic of Greece and the repurchase of own issues.

## (24) Administrative Expenses

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

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
<b>Staff expenses</b>	<b>24,943</b>	<b>21,862</b>	<b>14</b>
Wages and salaries	21,668	19,029	14
Social security contributions	1,553	1,747	-11
Expenses for pension provision	1,464	1,020	44
Other staff expenses	258	66	> 100
<b>Other administrative expenses</b>	<b>21,707</b>	<b>18,899</b>	<b>15</b>
Expense for operating and office equipment and IT	14,394	9,831	46
Legal, audit, survey and professional fees	3,625	4,123	-12
Other administrative expenses	3,687	4,945	-25
<b>Depreciation and impairments</b>	<b>2,985</b>	<b>1,900</b>	<b>57</b>
Depreciation	2,985	1,900	57
Property, plant and equipment	2,022	1,399	45
Intangible assets	963	501	92
<b>Total</b>	<b>49,634</b>	<b>42,660</b>	<b>16</b>

The cost of computer systems has risen in the year under report.

Staff expenses include contributions to employees' old age pensions in accordance with a contribution-related plan (Defined Contribution Plan), which have to be shown as current expenditure according to IAS 19, in the sum of KEUR 500 and in accordance with a performance-related plan (Defined Benefit Plan) in the sum of KEUR 1.306. Expenses in connection with defined benefit obligations are shown in Note (41).

There were also additional personnel appointments and increased expenditure in connection with the introduction of the new standard bank software in the year under report.

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

The rise in depreciation of intangible assets results from the commissioning of the new banking software in the financial year 2012.

## (25) Other Operating Profit/Loss

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
<b>Other operating income</b>	<b>4,429</b>	<b>18,132</b>	<b>-76</b>
From the reversal of provisions	30	0	100
Other income	4,399	18,132	-76
<b>Other operating expenses</b>	<b>6,980</b>	<b>18,394</b>	<b>-62</b>
From the allocation of provisions	0	2,159	-100
Other expenses	6,980	16,235	-57
<b>Total</b>	<b>-2,551</b>	<b>-262</b>	<b>&gt; 100</b>

Other operating income results primarily from the liquidation of prepaid expenses and reversal of accruals from previous years. The other operating expense mainly includes depreciation to "value in use" of an IT project (KEUR 2,505, previous year KEUR 10,049) and the expenses for accounting of services with NORD/LB (KEUR 3,275 previous year KEUR 3,748).

## (26) Income Taxes

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
Current income taxes	8,968	824	> 100
Deferred taxes	4,791	17,111	-72
<b>Total</b>	<b>13,760</b>	<b>17,934</b>	<b>-23</b>

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

	2012 (KEUR)	2011 (KEUR)
<b>IFRS earnings before taxes (EBT)</b>	<b>60,044</b>	<b>71,728</b>
Expected income tax expense	-17,293	-20,658
<b>Effects of reconciliation:</b>		
Effects of different tax rates	0	0
Taxes from previous years recognised in the year under report	-2	1,492
Effects of tax rate changes	76	0
Non-allowable income taxes	0	0
Non-deductible operating expenses	-42	249
Effects of tax-free income	3,680	2,193
Effects of permanent effects affecting the balance sheet	0	0
Other effects	4,613	15,901
<b>Income tax expense shown</b>	<b>-8,968</b>	<b>-824</b>

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

## Notes to the Consolidated Balance Sheet

### (27) Cash Reserve

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

In order to comply with the minimum reserve regulations, EUR 61.0 million was deposited with the Luxembourg central bank (previous year EUR 137.7 million).

### (28) Loans and Advances to Banks

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Receivables from money market transactions</b>	<b>1,171.6</b>	<b>2,155.4</b>	<b>-46</b>
Luxembourg banks	0.0	0.0	-100
Foreign banks	1,171.6	2,155.4	-46
<b>Other receivables</b>	<b>522.2</b>	<b>804.8</b>	<b>-35</b>
Luxembourg banks	27.5	5.4	> 100
due on demand	27.5	5.4	> 100
deferred	0.0	0.0	-
Foreign banks	494.8	799.4	-38
due on demand	64.8	31.6	> 100
deferred	429.9	767.8	-44
<b>Total</b>	<b>1,693.9</b>	<b>2,960.2</b>	<b>-43</b>

Of the total amount EUR 1,666.4 million (previous year EUR 2,954.8 million) relates to loans and advances to foreign banks. EUR 405.6 million (previous year EUR 481.7 million) of loans and advances to banks are not due for over twelve months.

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

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Receivables from money market transactions</b>	<b>0.0</b>	<b>0.0</b>	<b>–</b>
Luxembourg customers	0.0	0.0	–
Foreign customers	0.0	0.0	–
<b>Other receivables</b>	<b>5,115.0</b>	<b>4,642.7</b>	<b>10</b>
Luxembourg customers	157.2	107.3	47
due on demand	95.0	41.8	> 100
deferred	62.3	65.5	–5
Foreign customers	4,957.8	4,535.4	9
due on demand	6.3	9.6	–35
deferred	4,951.5	4,525.8	9
<b>Total</b>	<b>5,115.0</b>	<b>4,642.7</b>	<b>10</b>

The total amount is attributable primarily to loans and advances to foreign customers. Of the receivables from customers EUR 3,272.4 million (previous year EUR 2,974.8 million) is only due after more than twelve months.

**(30) Risk Provisions**

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Individual value adjustments for receivables</b>	<b>–30.9</b>	<b>–16.4</b>	<b>88</b>
Foreign banks	0.0	0.0	–
Luxembourg customers	0.0	0.0	–
Foreign customers	–30.9	–16.4	88
<b>Portfolio-based provisions for receivables</b>	<b>–5.7</b>	<b>–13.5</b>	<b>–58</b>
<b>Total</b>	<b>–36.5</b>	<b>–29.9</b>	<b>22</b>

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

EUR million	Specific Value Adjustments	Portfolio-based Provisions	Provisions in Lending Business	Total
<b>01.01.2011</b>	<b>175.3</b>	<b>15.9</b>	<b>8.6</b>	<b>199.8</b>
Allocations	2.1	0.3	1.2	3.6
Reductions	20.4	0.0	2.0	22.4
Utilisation	141.6	0.0	0.0	141.6
Effects from currency translation, unwinding and other changes	1.0	-0.9	0.0	0.1
Transfers	0.0	-1.8	0.0	-1.8
<b>31.12.2011</b>	<b>16.4</b>	<b>13.5</b>	<b>7.7</b>	<b>37.8</b>
Allocations	17.5	0.0	0.0	17.6
Reductions	1.6	7.9	3.8	13.3
Utilisation	0.8	0.0	0.0	0.8
Effects from currency translation, unwinding and other changes	-0.7	0.0	0.0	-0.7
Transfers	0.0	0.0	0.0	0.0
<b>31.12.2012</b>	<b>30.9</b>	<b>5.7</b>	<b>3.8</b>	<b>40.5</b>

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

The changes in the area of portfolio value adjustments and the provisions in the lending business are due mainly to an adjustment of the method within the NORD/LB Luxembourg Group.

The volume of loans in default on the reporting date amounts to EUR 1.5 million (previous year EUR 1.9 million). Of this amount EUR 1.2 million is attributable to loan re-

demptions and EUR 0.3 million to outstanding interest payments. The two underlying commitments have been in default since 2008 and 2010 respectively.

### (31) 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, as well as derivatives that are not used in hedge accounting.

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Trading assets</b>	<b>264.0</b>	<b>441.0</b>	<b>-40</b>
<b>Debt securities and other fixed interest securities</b>	<b>41.5</b>	<b>130.7</b>	<b>-68</b>
Money market securities	0.0	0.0	-
from public issuers	0.0	0.0	-
from other issuers	0.0	0.0	-
Bonds and debt securities	41.5	130.7	-68
from public issuers	0.0	0.0	-
from other issuers	41.5	130.7	-68
<b>Shares and other variable yield securities</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>
Shares	0.0	0.0	-
Investment shares	0.0	0.0	-
<b>Positive fair values from derivatives in connection with:</b>	<b>222.5</b>	<b>310.3</b>	<b>-28</b>
Interest rate risks	79.4	57.8	37
Currency risks	143.1	252.6	-43
Share and other price risks	0.0	0.0	-
Trading portfolio claims	0.0	0.0	-
<b>Financial assets designated at fair value</b>	<b>0.0</b>	<b>45.0</b>	<b>-100</b>
<b>Loans and advances to banks and customers</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>
<b>Debt securities and other fixed interest securities</b>	<b>0.0</b>	<b>45.0</b>	<b>-100</b>
<b>Shares and other variable yield securities</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>
<b>Total</b>	<b>264.0</b>	<b>486.1</b>	<b>-46</b>

Of the total amount, EUR 202.0 million (previous year EUR 377.7 million) is only due in more than twelve months.

### (32) Fair Values from Hedge Accounting

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

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
Positive fair values from allocated micro fair value hedge derivatives	433.4	392.1	11
Fair values from derivatives in portfolio fair value hedge accounting	0.0	0.0	-
<b>Total</b>	<b>433.4</b>	<b>392.1</b>	<b>11</b>

The Group operates micro fair value hedge accounting to cover interest rate risks. Hedge derivatives with a fair value of EUR 432.5 million will become due at the earliest after twelve months (previous year EUR 128.6 million).

### (33) 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 (AfS) and are not for trading.

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Financial assets in the LaR category</b>	<b>3,274.0</b>	<b>3,621.0</b>	<b>-10</b>
<b>Bonds and debt securities</b>	<b>3,301.4</b>	<b>3,632.5</b>	<b>-9</b>
of public issuers	1,941.9	2,031.7	-4
of other issuers	1,359.5	1,600.7	-15
Portfolio value adjustments on LaR financial assets	-27.4	-11.5	> 100
<b>Financial assets classified as AfS</b>	<b>6,058.1</b>	<b>6,221.3</b>	<b>-3</b>
<b>Debt securities and other fixed interest securities</b>	<b>6,048.2</b>	<b>6,202.2</b>	<b>-2</b>
Money market securities	150.1	45.2	> 100
from public issuers	100.0	0.0	-
from other issuers	50.1	45.2	> 100
Bonds and debt securities	5,898.1	6,157.1	-4
from public issuers	1,540.4	1,178.3	31
from other issuers	4,357.7	4,978.8	-12
<b>Shares and other variable yield securities</b>	<b>9.8</b>	<b>19.0</b>	<b>-48</b>
Shares	0.0	0.0	-
Investment shares	9.8	19.0	-49
Profit participation certificates	0.1	0.0	-
Shares in companies	0.0	0.0	0
<b>Total</b>	<b>9,332.0</b>	<b>9,842.3</b>	<b>-5</b>

The volume of financial assets, which were issued by the central governments of certain Euro countries (Portugal, Italy, Ireland, Greece and Spain) amounts to a nominal EUR 103.1 million (previous year EUR 127.9 million). This concerns three bonds from the Republic of Italy with terms up to 2018 and 2033 respectively and a debtor warrant from the Republic of Greece with a term until 2043. The book value of these financial assets on the reporting date is KEUR 55.

Of the financial assets, EUR 8,372.0 million (previous year EUR 8,045.9 million) will only become due after more than twelve months.

The Group made use of the options under IAS 39.50E and reclassified 19 securities designated as AfS (bonds and debt securities) as LaR in 2008. This involved the reclassification of bonds and debt securities, where there was clearly no longer any short-term sale or trading intention on the reallocation date but rather the intention was that they should be kept in

the portfolio for the foreseeable future. In accordance with the amended IAS 39, the reclassification took place with effect from 1 July 2008 or the purchase date in the third quarter of 2008 at the fair value determined on the respective effective date. The book value on the reclassification day was reduced pro rata by relevant maturities. The book value also fluctuated because of changes in the hedge fair values. In the years 2009 to 2012, no further reclassifications were undertaken.

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

EUR million	31.12.2012			31.12.2011			31.12.2010		
	Book Value on Transfer Date	Book Value	Fair Value	Book Value on Transfer Date	Book Value	Fair Value	Book Value on Transfer Date	Book Value	Fair Value
Reclassified financial assets	645.6	644.5	510.3	645.6	698.4	569.7	645.6	660.3	627.9

EUR million	31.12.2009			31.12.2008			01.07.2008		
	Book Value on Transfer Date	Book Value	Fair Value	Book Value on Transfer Date	Book Value	Fair Value	Book Value on Transfer Date	Book Value	Fair Value
Reclassified financial assets	645.6	731.4	712.1	645.6	746.7	719.5	544.4	544.4	544.4

The reclassification was done at book value with anticipated achievable future cash flows of EUR 1,038.5 million. The results not affecting profit/loss recorded in the equity from the reclassified securities amounted to EUR –13.2 million at the time of the reclassification. The pro rata reduction of this item is in accordance with IAS 39.54 in relation to net interest income. The effective interest rate for each security was determined for this purpose. These are in a margin of 2.53 % – 6.46 %.

KEUR	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	01.07.2008
Unrealised profit/loss before taxes at time of conversion						–13,194
Pro rata reductions in accordance with IAS 39.54	433	610	703	676	316	

In the year under report 2012, the pro rata reduction amounted to KEUR 433 (previous year KEUR 610) charged to the tax profit/loss. Without reclassification, the following additional effects in equity would have occurred (cumulative to the reporting date in each case):

EUR million	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	01.07.2008
Unrealised profit/loss before taxes	–135.2	–128.7	–32.4	–19.3	–27.1	–13.2
Deferred taxes	39.5	37.1	9.3	5.5	8.0	3.9
<b>Net effect in equity from reclassified financial assets available for sale</b>	<b>–95.7</b>	<b>–91.6</b>	<b>–23.1</b>	<b>–13.8</b>	<b>–19.1</b>	<b>–9.3</b>

**(34) Property, Plant and Equipment**

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
Land and buildings	65.0	68.9	-6
Operating and office equipment	7.1	8.1	-12
Investments under construction	0.0	0.0	-
Other property, plant and equipment	0.0	0.0	-
<b>Total</b>	<b>72.2</b>	<b>77.0</b>	<b>-6</b>

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

EUR million	Land and Buildings	BGA	Investments under Construction	Other Proper- ty, Plant and Equipment	Total
<b>Acquisition and manufacturing costs at 01.01.2011</b>	<b>23.4</b>	<b>12.1</b>	<b>37.0</b>	<b>0.0</b>	<b>72.5</b>
Accruals	0.2	2.1	15.6	0.0	17.9
Disposals	0.0	1.1	0.0	0.0	1.1
Transfers	46.1	6.2	-52.6	0.0	-0.2
Changes from currency translations	0.0	0.0	0.0	0.0	0.0
<b>Total 31.12.2011</b>	<b>69.7</b>	<b>19.4</b>	<b>0.0</b>	<b>0.0</b>	<b>89.1</b>
<b>Cumulative depreciation at 01.01.2011</b>	<b>0.4</b>	<b>11.4</b>	<b>0.0</b>	<b>0.0</b>	<b>11.8</b>
Scheduled depreciation	0.5	0.9	0.0	0.0	1.4
Impairments (write-downs)	0.0	0.0	0.0	0.0	0.0
Transfers	0.0	-0.2	0.0	0.0	-0.2
Disposals	0.0	1.0	0.0	0.0	1.0
Changes from currency translations	0.0	0.2	0.0	0.0	0.2
<b>Total 31.12.2011</b>	<b>0.9</b>	<b>11.2</b>	<b>0.0</b>	<b>0.0</b>	<b>12.1</b>
<b>Closing balance at 31.12.2011</b>	<b>68.9</b>	<b>8.1</b>	<b>0.0</b>	<b>0.0</b>	<b>77.0</b>

EUR million	Land and Buildings	BGA	Investments under Construction	Other Property, Plant and Equipment	Total
Acquisition and manufacturing costs at 01.01.2012	69.7	19.4	0.0	0.0	89.1
Accruals	0.2	0.2	0.0	0.0	0.4
Disposals	3.4	6.3	0.0	0.0	9.7
Transfers	0.0	0.1	0.0	0.0	0.1
Changes from currency translations	0.0	0.0	0.0	0.0	0.0
<b>Total 31.12.2012</b>	<b>66.5</b>	<b>13.4</b>	<b>0.0</b>	<b>0.0</b>	<b>79.9</b>
Cumulative depreciation at 01.01.2012	0.9	11.2	0.0	0.0	12.1
Scheduled depreciation	0.6	1.3	0.0	0.0	1.9
Impairments (write-downs)	0.0	0.0	0.0	0.0	0.0
Transfers	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	6.3	0.0	0.0	6.3
Changes from currency translations	0.0	0.0	0.0	0.0	0.0
<b>Total 31.12.2012</b>	<b>1.5</b>	<b>6.2</b>	<b>0.0</b>	<b>0.0</b>	<b>7.7</b>
<b>Closing balance at 31.12.2012</b>	<b>65.0</b>	<b>7.2</b>	<b>0.0</b>	<b>0.0</b>	<b>72.2</b>

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 (24).

### (35) Intangible Assets

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

Fully depreciated software continues to be used in the Group.

Intangible assets developed as follows:

EUR million	Software		Intangible Assets under Development	Other	Total
	Acquired for Consideration	Self- produced			
Acquisition and manufacturing costs at 01.01.2011	16.6	0.0	4.9	0.0	21.5
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
<b>Total 31.12.2011</b>	<b>17.4</b>	<b>0.0</b>	<b>16.1</b>	<b>0.0</b>	<b>33.4</b>
Cumulative depreciation at 01.01.2011	16.3	0.0	0.0	0.0	16.3
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
Disposals	0.0	0.0	0.0	0.0	0.0
<b>Total 31.12.2011</b>	<b>16.8</b>	<b>0.0</b>	<b>10.0</b>	<b>0.0</b>	<b>26.8</b>
Closing balance at 31.12.2010	0.6	0.0	6.0	0.0	6.6
Acquisition and manufacturing costs at 01.01.2012	17.4	0.0	16.1	0.0	33.4
Accruals	1.2	0.0	6.9	0.0	8.1
Disposals	0.0	0.0	0.0	0.0	0.0
Transfers	11.0	0.0	-11.0	0.0	0.0
<b>Total 31.12.2012</b>	<b>29.6</b>	<b>0.0</b>	<b>12.0</b>	<b>0.0</b>	<b>41.6</b>
Cumulative depreciation at 01.01.2012	16.8	0.0	10.0	0.0	26.8
Scheduled depreciation	0.6	0.0	0.0	0.0	0.6
Impairments (write-downs)	0.0	0.0	0.0	0.0	2.5
Disposals	0.4	0.0	0.0	0.0	0.0
<b>Total 31.12.2012</b>	<b>19.9</b>	<b>0.0</b>	<b>10.0</b>	<b>0.0</b>	<b>30.0</b>
Closing balance at 31.12.2012	9.7	0.0	1.9	0.0	11.6

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

See Note (24) and (25) for more details.

## (36) Income Tax Assets

Income tax assets are broken down as follows:

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
Current income tax assets	5.1	14.6	-65
Active deferred taxes	23.0	54.1	-57
<b>Total</b>	<b>28.0</b>	<b>68.6</b>	<b>-59</b>

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

The fiscal requirements have been applied to the IFRS financial statements for NORD/LB Luxembourg and NORD/LB CFB since the reported year 2008. This means that many of the temporary differences no longer apply. Deferred taxes on the assets side relate to financial assets categorised as AfS and result from taking into account losses carried forward in the profit/loss affecting taxes. For further information see Note (26).

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

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Assets</b>			
Risk provisions	0.0	0.0	-
Financial assets	22.6	54.1	-58
Property, plant and equipment	0.0	0.0	-
Other assets	0.0	0.0	-
<b>Liabilities</b>			
Financial liabilities at fair value through profit or loss	0.0	0.0	-
Fair values from hedge accounting	0.0	0.0	-
Provisions	0.4	0.0	-
Other liabilities	0.0	0.0	-
Tax losses carried forward	0.0	0.0	-
<b>Total</b>	<b>23.0</b>	<b>54.1</b>	<b>-57</b>

**(37) Other Assets**

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
Tax reimbursement rights from other taxes	2.7	0.2	> 100
Other assets	0.4	1.8	-78
Other assets including accruals and deferred income	2.2	1.1	93
<b>Total</b>	<b>5.3</b>	<b>3.2</b>	<b>68</b>

**(38) Liabilities to Banks**

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Deposits from other banks</b>	<b>2,472.8</b>	<b>2,764.3</b>	<b>-11</b>
Luxembourg banks	401.7	0.0	100
Foreign banks	2,071.1	2,764.3	-25
<b>Liabilities arising from money market transactions</b>	<b>7,259.5</b>	<b>6,726.6</b>	<b>8</b>
Luxembourg banks	871.6	2,271.3	-62
Foreign banks	6,387.9	4,455.4	43
<b>Other liabilities</b>	<b>17.2</b>	<b>0.4</b>	<b>&gt; 100</b>
Luxembourg banks	5.9	0.0	100
due on demand	5.9	0.0	100
deferred	0.0	0.0	-
Foreign banks	11.3	0.4	> 100
due on demand	11.3	0.4	> 100
deferred	0.0	0.0	-
<b>Total</b>	<b>9,749.6</b>	<b>9,491.4</b>	<b>3</b>

Of the total amount, EUR 2,452.5 million (previous year EUR 1,884.6 million) is attributable to liabilities which will only become due after more than twelve months.

**(39) Liabilities to Customers**

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Savings deposits</b>	<b>0.0</b>	<b>0.0</b>	<b>–</b>
<b>Liabilities arising from money market transactions</b>	<b>1,322.4</b>	<b>2,271.7</b>	<b>–42</b>
Luxembourg customers	145.4	679.3	–79
Foreign customers	1,177.0	1,592.3	–26
<b>Other liabilities</b>	<b>961.0</b>	<b>637.6</b>	<b>51</b>
Luxembourg customers	37.8	16.1	> 100
due on demand	37.8	16.1	> 100
deferred	0.0	0.0	–
Foreign customers	923.2	621.5	49
due on demand	166.4	52.1	> 100
deferred	756.9	569.4	33
<b>Total</b>	<b>2,283.3</b>	<b>2,909.3</b>	<b>–22</b>

Of the total amount of liabilities to customers EUR 761.0 million will only become due after the coming twelve months (previous year EUR 559.1 million).

**(40) Securitised Liabilities**

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
Issued debt securities	2,810.8	3,745.8	–25
Money market securities	0.0	416.4	–100
Other securitised liabilities	0.0	0.0	–
<b>Total</b>	<b>2,810.8</b>	<b>4,162.1</b>	<b>–32</b>

Of the total amount EUR 2,472.6 million (previous year EUR 3,019.8 million) is attributable to liabilities, which will only become due after more than twelve months. The issued bonds are listed on the Luxembourg or Swiss stock exchanges.

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

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

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

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

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Trading liabilities</b>	<b>116.7</b>	<b>156.4</b>	<b>-25</b>
Negative fair values from derivatives in connection with:	116.7	156.4	-25
Interest rate risks	98.4	97.6	1
Currency risks	18.3	58.7	-69
Share and other price risks	0.0	0.0	-
Credit derivatives	0.0	0.0	-
Short sale delivery obligations	0.0	0.0	-
<b>Financial liabilities designated at fair value</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>
Liabilities to banks and customers	0.0	0.0	-
Securitised liabilities	0.0	0.0	-
<b>Total</b>	<b>116.7</b>	<b>156.4</b>	<b>-25</b>

EUR 100.7 million of the total amount of financial liabilities at fair value through profit or loss will only become due after a year (previous year EUR 120.6 million).

## (42) Fair Values from Hedge Accounting

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

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
Fair values from allocated micro fair value hedge derivatives	1,206.7	1,128.6	7
Fair values in terms of portfolio fair value hedge accounting	0.0	0.0	-
<b>Total</b>	<b>1,206.7</b>	<b>1,128.6</b>	<b>7</b>

The Group operates micro fair value hedge accounting for interest rate and currency hedging. Hedge derivatives with a negative fair value of EUR 1,182.5 million will only become due after twelve months at the earliest (previous year EUR 1,110.3 million).

## (43) Provisions

Provisions are broken down as follows:

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Provisions for pensions and similar obligations</b>	<b>2.0</b>	<b>0.9</b>	<b>&gt; 100</b>
Other provisions	8.6	15.0	-43
Provisions in lending business	3.8	7.7	-50
Restructuring provisions	0.0	0.0	-
Provisions for threatened losses	0.0	0.0	-
Provisions for uncertain liabilities	4.8	7.3	-35
Insurance business provisions	0.0	0.0	-
<b>Total</b>	<b>10.6</b>	<b>15.9</b>	<b>-33</b>

The other provisions include amounts in the sum of EUR 1.7 million, which it is anticipated will become due in the coming reporting year (previous year EUR 1.2 million). These are primarily provisions for staff costs in both years under report. The remaining provisions in the sum of EUR 6.9 million (previous year EUR 13.5 million) mainly relate to provisions for recourse risks and provisions in the lending business.

### Provisions for Pensions and Similar Obligations

The calculation is based on the following actuarial assumptions:

Actuarial assumptions	31.12.2012 (%)	31.12.2011 (%)	Increase/ Decrease (%)
Annual salary growth	1.00	1.50	-33
Annual inflation rate	2.50	2.50	0
Annual BBG contribution ceiling (including cost of living index)	3.45	3.50	-1
Discount rate	3.60	5.10	-29
Mortality table	Statistical values published in the Grand Ducal regulation of 15 January 2001, which governs the minimum funding of occupational pensions.		
Expected return on plan assets	3.25	3.25	0
Turnover rate	2.00	3.00 and 0.0	-33

Provisions for pensions and similar obligations are as follows:

	31.12.2012 (KEUR)	31.12.2011 (KEUR)	Increase/ Decrease (%)
Cash value of the performance-related obligation	5,378.2	3,465.5	55
Deduction for the fair value of plan assets	3,756.8	2,725.0	38
Surplus plan assets not shown as an asset	0.0	0.0	–
Deduction for the past service cost	338.9	154.8	> 100
Other assets to be shown in the balance sheet (flat rate tax)	0.0	0.0	–
<b>Total</b>	<b>1,960.2</b>	<b>895.3</b>	<b>&gt; 100</b>

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

	31.12.2012 (KEUR)	31.12.2011 (KEUR)	Increase/ Decrease (%)
<b>Opening balance</b>	<b>3,312.2</b>	<b>3,937.0</b>	<b>– 16</b>
Current service cost	343.3	239.6	43
Interest expense	118.0	192.9	– 39
Contributions by plan participants	0.0	0.0	–
Actuarial gains/losses from the liability	1,672.9	– 596.8	> 100
Increases/decreases from currency translations	0.0	0.0	–
Benefits paid	– 68.3	– 307.3	– 78
Past service cost	0.0	0.0	–
Effects of curtailments	0.0	0.0	–
Effects of settlements	0.0	0.0	–
<b>Closing balance</b>	<b>5,378.2</b>	<b>3,465.4</b>	<b>55</b>

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. Within the scope of the integration of the personnel from NORD/LB CFB into NORD/LB Luxembourg the claims and obligations from the pension plans were also transferred to the parent company.

According to the insurance firm, experience adjustments on plan liabilities and plan assets amount to KEUR 1,131.7 (previous year KEUR 101.5) and KEUR – 191.6 (previous year KEUR 13.8) respectively.

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

	31.12.2012 (KEUR)	31.12.2011 (KEUR)	Increase/ Decrease (%)
<b>Opening balance</b>	<b>2,624.8</b>	<b>2,688.8</b>	<b>-2</b>
Expected return on plan assets	115.4	106.4	9
Actuarial gains/losses on plan assets	191.6	-192.9	> 100
Increases/decreases from currency translations	0.0	0.0	-
Employer contributions	893.3	430.1	> 100
Contributions by plan participants	0.0	0.0	-
Benefits paid	-68.3	-307.3	-78
Effects of settlements	0.0	0.0	-
<b>Closing balance</b>	<b>3,756.8</b>	<b>2,725.1</b>	<b>38</b>

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

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

The fair value of the plan assets includes equity instruments in the sum of KEUR 154 (previous year KEUR 108), equity instruments of another entity in the sum of KEUR 3,177 (previous year KEUR 2,126) and other assets in the sum of KEUR 426 (previous year KEUR 390). The overall expected yield of 3.25 % 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 357 will be paid into the plan assets of the defined benefit obligations during the next reporting period (previous year KEUR 226).

Pension costs are made up as follows:

	31.12.2012 (KEUR)	31.12.2011 (KEUR)	Increase/ Decrease (%)
Current service cost	343.3	239.6	43
Interest expense	118.0	192.9	-39
Expected return on plan assets	-115.4	-106.4	9
Past service cost	0.0	0.0	-
Effects of plan changes	0.0	0.0	-
Expected return on reimbursement rights	1,481.3	-403.8	> 100
<b>Total</b>	<b>1,827.2</b>	<b>-77.7</b>	<b>&gt; 100</b>

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

	31.12.2012 (KEUR)	31.12.2011 (KEUR)	31.12.2010 (KEUR)	31.12.2009 (KEUR)	31.12.2008 (KEUR)
Pension obligation (DBO)	5,378.2	3,465.4	3,937.0	3,594.6	3,451.0
Plan assets	-3,756.8	-2,725.0	-2,688.8	-2,520.5	-2,591.3
Shortfall	1,621.3	740.4	1,248.2	1,074.1	859.7
Actuarial profit/losses	1,481.3	392.1	42.4	-130.7	90.7
Experience adjustments to:					
Pension obligation (DBO)	1,131.7	102.0	286.9	386.8	249.0
Plan assets	-191.6	13.8	-2.2	-16.6	-75.4

Other provisions changed during the year under report as follows:

EUR million	Provisions in Lending Business	Restructuring Provisions	Provisions for Impending Losses	Provisions for Uncertain Liabilities		Provisions for Insurance Business	Total
				from personnel field	other		
<b>Opening balance</b>	<b>7.7</b>	<b>0.0</b>	<b>0.0</b>	<b>1.4</b>	<b>5.9</b>	<b>0.0</b>	<b>15.0</b>
Increases/decreases from currency translations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Utilisation	0.0	0.0	0.0	0.7	1.4	0.0	2.1
Reductions	15.9	0.0	0.0	0.0	1.3	0.0	17.3
Allocations	12.1	0.0	0.0	0.9	0.0	0.0	13.0
<b>Closing balance</b>	<b>3.8</b>	<b>0.0</b>	<b>0.0</b>	<b>1.7</b>	<b>3.1</b>	<b>0.0</b>	<b>8.6</b>

#### (44) Income Tax Liabilities

Income tax liabilities are broken down as follows:

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
Current income tax liabilities	5.2	2.3	> 100
Passive deferred taxes	9.9	5.3	86
<b>Total</b>	<b>15.2</b>	<b>7.7</b>	<b>98</b>

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

The tax provisions have been applied to the IFRS financial statements since the reporting 2008. This means that many of the temporary differences no longer apply (see table below). The deferred taxes on the liabilities side result mainly from the sale of the building owned by the bank in 2008.

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

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Assets</b>	0.0	0.0	–
<b>Liabilities</b>	9.9	5.3	86
Other liabilities	9.9	5.3	86
<b>Total</b>	9.9	5.3	86

#### (45) Other Liabilities

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
Liabilities from outstanding invoices	10.4	9.2	13
Liabilities from short term remuneration of workers	4.9	4.0	21
Accruals and deferred income	3.4	4.6	–27
Liabilities from taxes and social security contributions not yet deducted	9.0	8.7	4
Other liabilities	2.0	0.3	> 100
<b>Total</b>	29.6	26.8	11

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

## (46) Subordinated Capital

Subordinated liabilities are only repaid after the claims of all senior lenders have been settled. They 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 subordinate liabilities amounted to KEUR 752 (previous year KEUR 568) in the year under report.

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

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
Subordinated liabilities	94.8	96.7	-2
Profit participation capital	0.0	0.0	-
Contributions from silent partners	0.0	0.0	-
<b>Total</b>	<b>94.8</b>	<b>96.7</b>	<b>-2</b>

Type of Transaction	Nominal Amount (in USD million)	Interest Accrual (in USD million)	Rate at 31.12.2011	Balance Sheet Value (EUR million)	Term in Years	Interest Rates (%)	Maturity
Subordinated loans	60.0 USD	0.0 USD	1.3194	45.5	15	0	08.06.16
Subordinated loans	65.0 USD	0.0 USD	1.3194	49.3	15	0	31.12.17
<b>Total</b>	<b>125.0 USD</b>	<b>0.0 USD</b>		<b>94.8</b>			

## Other Disclosures

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

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

KEUR	Amount before Taxes 2012	Income Tax Effect 2012	Amount after Taxes 2012	Amount before Taxes 2011	Income Tax Effect 2011	Amount after Taxes 2011
Increase/decrease from available for sale (AfS) financial instruments	109,910	-31,329	78,581	-123,460	35,537	-87,923
Actuarial gains/losses for defined benefit provisions for pensions	-1,638	477	-1,161	510	-147	363
Translation differences of foreign business units	187	0	187	819	0	819
<b>Profit/loss recognised directly in equity</b>	<b>108,459</b>	<b>-30,852</b>	<b>77,607</b>	<b>-122,131</b>	<b>35,390</b>	<b>-86,741</b>
of which due to the shareholders	108,459	-30,852	77,607	-122,131	35,390	-86,741
of which not attributable to controlling shares	0	0	0	0	0	0

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

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

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

The revenue reserves comprise the amounts accumulated in previous reporting years and allocations to reserves and profit/loss carried forward from the profit for the year. The negative differences (badwill) determined as part of the first-time consolidation are deducted from the revenue reserves.

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

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

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

Year	Property Tax NORD/LB Luxembourg	Wealth Tax NORD/LB CFB	Total	Locked in Reserves (= Five Times the Offset Property Tax)	Locked in Until
2008	4.1	0.2	4.3	21.5	31.12.2013
2009	3.6	0.2	3.8	11.3*	31.12.2014
2010	–	–	–	–	31.12.2015
2011	3.4	0.3	3.7	18.2*	31.12.2016
2012	2.3	0.3	2.6	13.0	31.12.2017
<b>Total</b>	<b>13.4</b>	<b>1.0</b>	<b>14.4</b>		

\* Property tax rebate limited by amount of corporation tax 2009 pursuant to Section 8a VStG.

## (49) Notes to the Cash Flow Statement

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

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

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

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

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

Cash flow from financing activities comprises payment flows from capital adjustments, interest payments on subordinated capital and dividend payments to the shareholders of the Group.

Please refer to the notes in the risk report section of the management report with regard to the Group's control of the liquidity risk.

## Notes to Financial Instruments

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

At 31 December 2012:

EUR million	< 1 Month	1 Month < 3 Months	3 Months < 1 Year	1 Year < 5 Years	> 5 Years	Total
Liabilities to banks	2,437.1	4,689.2	170.8	1,481.1	971.4	9,749.6
Liabilities to customers	1,222.1	183.3	117.1	52.1	708.8	2,283.3
Securitised liabilities	0.0	0.0	338.2	2,056.2	416.4	2,810.8
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	94.8	0.0	94.8
Irrevocable credit commitments	14.1	48.7	253.3	644.4	121.9	1,082.4
Financial guarantees	0.0	30.3	26.5	25.1	219.3	301.3
<b>Total</b>	<b>3,673.2</b>	<b>4,951.4</b>	<b>905.9</b>	<b>4,353.8</b>	<b>2,437.8</b>	<b>16,322.2</b>

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	3,491.0	1,253.9	907.1	2,754.9	1,084.4	9,491.4
Liabilities to customers	1,683.2	301.6	37.2	365.4	522.0	2,909.3
Securitised liabilities	205.5	224.5	2,280.6	712.3	739.2	4,162.1
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	46.4	0.0	50.2	96.7
Irrevocable credit commitments	84.9	44.7	343.3	573.0	24.1	1,070.0
Financial guarantees	1.3	23.6	33.0	351.7	848.7	1,258.3
<b>Total</b>	<b>5,465.9</b>	<b>1,848.3</b>	<b>3,647.6</b>	<b>4,757.4</b>	<b>3,268.6</b>	<b>18,987.7</b>

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 "Liquidity Risk" section in the above risk report. This contains more detailed information about liquidity management, the control and measurement of the liquidity risks, reporting and the development in 2012 and the outlook.

## (51) Book Values According to Valuation Categories

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Assets</b>			
Financial assets designated at fair value through profit or loss	697.4	878.2	-21
Financial assets held for trading	697.4	833.1	-16
Financial assets designated at fair value through profit or loss	0.0	45.0	-100
Available for Sale Assets	6,058.1	6,221.3	-3
Loans and Receivables	10,120.3	11,331.6	-11
<b>Total</b>	<b>16,875.8</b>	<b>18,431.1</b>	<b>-8</b>
<b>Liabilities</b>			
Financial liabilities at fair value through profit or loss	1,323.3	1,285.0	3
Financial liabilities held for trading	1,323.3	1,285.0	3
Financial liabilities designated at fair value through profit or loss	0.0	0.0	-
Other liabilities	14,938.5	16,659.4	-10
<b>Total</b>	<b>16,261.8</b>	<b>17,944.4</b>	<b>-9</b>

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

## (52) Net Results According to Valuation Categories

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
Financial instruments at fair value through profit or loss	-86,478.9	-97,938.3	-12
Financial instruments held for trading	-86,793.6	-98,420.1	-12
Financial instruments designated at fair value through profit or loss	314.7	481.8	-35
Available for sale assets	124,461.3	142,555.1	-13
Loans and receivables	289,109.9	367,295.7	-21
Other liabilities	-222,276.2	-292,487.6	-24
<b>Total</b>	<b>104,816.2</b>	<b>119,424.9</b>	<b>-12</b>

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

### (53) Impairment/Reversal of Impairment According to Valuation Categories

	2012 (KEUR)	2011 (KEUR)	Increase/ Decrease (%)
<b>Available for Sale Assets</b>			
Result from valuation adjustments of AfS financial assets	0.0	-18,469.8	-100
Result from direct write-down of uncollectible receivables/ Receipts on written down receivables	0.0	0.0	-
<b>Total</b>	<b>0.0</b>	<b>-18,469.8</b>	<b>-100</b>
<b>Loans and Receivables</b>			
Result from valuation adjustments of LaR financial assets	-15,972.4	18,314.1	> 100
Result from portfolio based valuation adjustments of LaR financial assets	-8,090.5	-9,935.7	> 100
Result from the formation/reversal of provisions in lending sector	3,825.8	817.9	> 100
Result from direct write-down of uncollectible receivables/ Receipts on written down receivables	0.0	-307.6	-100
<b>Total</b>	<b>-20,237.20</b>	<b>8,888.7</b>	<b>&gt; 100</b>

### (54) Fair Value Hierarchy

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

31.12.2012 EUR million	Level 1 (Mark-to- Market)	Level 2 (Mark-to- Matrix)	Level 3 (Mark-to- Model)	Total
Trading assets	41.5	222.5	0.0	264.0
Financial assets designated at fair value	0.0	0.0	0.0	0.0
Positive fair values hedge accounting derivatives	0.0	433.4	0.0	433.4
Financial assets (measured at fair value)	5,658.1	400.0	0.0	6,058.1
<b>Assets</b>	<b>5,699.6</b>	<b>1,055.9</b>	<b>0.0</b>	<b>6,755.5</b>
Trading liabilities	0.0	116.7	0.0	116.7
Financial liabilities designated at fair value	0.0	0.0	0.0	0.0
Negative fair values from hedge accounting derivatives	0.0	1,206.7	0.0	1,206.7
<b>Liabilities</b>	<b>0.0</b>	<b>1,323.3</b>	<b>0.0</b>	<b>1,323.3</b>

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

The transfers within the fair value hierarchy are as follows:

01.01. – 31.12.2012 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 hedge accounting derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets (measured at fair value)	23.3	0.0	51.8	0.0	334.5	80.9
<b>Assets</b>	<b>23.3</b>	<b>0.0</b>	<b>51.8</b>	<b>0.0</b>	<b>334.5</b>	<b>80.9</b>
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities designated at fair value	0.0	0.0	0.0	0.0	0.0	0.0
Negative fair values from hedge accounting derivatives	0.0	0.0	0.0	0.0	0.0	0.0
<b>Liabilities</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

The level transfer from Level 2 into Level 1 was a security for which there was a market price on the reporting date. One security changed from a market valuation (Level 1) to a matrix valuation (Level 2). In total 21 securities changed from the model valuation (Level 3) to the market valuation (Level 1), since an active market was available again. For four securities, the matrix valuation (Level 2) was reapplied on the reporting date in contrast to the model valuation (Level 3) in the previous year. With respect to the total inventory of securities, the level transfers never rose above 6%.

There were no financial liabilities in Level 3 of the fair value hierarchy either in the year under report or in the previous year.

The bank does not have any Level 3 assets in the categories HfT or dFV. The changes in financial assets in Level 3 of the fair value hierarchy were as follows:

EUR million	Financial Assets (Measured at Fair Value)	Total Assets
<b>Opening balance at 01.01.2011</b>	<b>995.4</b>	<b>995.4</b>
Profit/loss effect	2.7	2.7
Equity effect	-67.4	-67.4
Purchases	0.0	0.0
Sales	0.0	0.0
Amortisations	-37.7	-37.7
Moved from Level 1 and 2	106.3	106.3
Moved to Level 1 and 2	-469.7	-469.7
Currency translation	2.0	2.0
<b>Closing balance at 31.12.2011</b>	<b>531.6</b>	<b>531.6</b>
<b>Opening balance at 01.01.2012</b>	<b>531.6</b>	<b>531.6</b>
Profit/loss effect	-0.1	-0.1
Equity effect	-19.7	-19.7
Purchases	0.0	0.0
Sales	0.0	0.0
Amortisations	-96.5	-96.5
Moved from Level 1 and 2	0.0	0.0
Moved to Level 1 and 2	-415.3	-415.3
Currency translation	0.0	0.0
<b>Closing balance at 31.12.2012</b>	<b>0.0</b>	<b>0.0</b>

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.

## (55) Fair Value of Financial Instruments

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

EUR million	Fair Value 31.12.2012	Book Value 31.12.2012	Difference 31.12.2012	Fair Value 31.12.2011	Book Value 31.12.2011	Difference 31.12.2011
<b>Assets</b>	<b>9,905.5</b>	<b>10,121.4</b>	<b>-215.9</b>	<b>11,177.1</b>	<b>11,332.9</b>	<b>-155.8</b>
Cash reserve	75.1	75.1	0.0	138.9	138.9	0.0
Loans and advances to banks	1,698.4	1,693.9	4.5	2,961.9	2,960.2	1.7
Loans and advances to customers	5,365.9	5,115.0	250.9	4,866.0	4,642.7	223.4
Financial assets	2,802.6	3,274.0	-471.3	3,240.2	3,621.0	-380.8
Risk provisions	-36.5	-36.5	0.0	-29.9	-29.9	0.0
<b>Loans and advances after risk provisions</b>	<b>9,830.3</b>	<b>10,046.3</b>	<b>-215.9</b>	<b>11,038.2</b>	<b>11,193.9</b>	<b>-155.8</b>
<b>Liabilities</b>	<b>15,247.8</b>	<b>14,938.5</b>	<b>309.3</b>	<b>16,896.7</b>	<b>16,659.4</b>	<b>237.3</b>
Liabilities to banks	10,032.9	9,749.6	283.3	9,692.1	9,491.4	200.7
Liabilities to customers	2,285.9	2,283.3	2.5	2,908.0	2,909.3	-1.3
Securitised liabilities	2,834.3	2,810.8	23.5	4,190.0	4,162.1	27.9
Subordinated capital	94.8	94.8	0.0	106.6	96.7	9.9

Fair values were 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.

The rise in hidden liabilities (after risk provisions) in the financial assets to a total of EUR 443.9 million is mainly due to a level migration of securities of the LaR category from Level 3 to Level 2. On 31 December 2011 the proportion of Level 3 Assets in the whole portfolio was 30.16%; on 31 December 2012 it was only 2.00%.

## (56) Derivative Financial Instruments

The Group uses derivative financial instruments for hedging purposes as part of asset/liability management. In addition, it undertakes derivative financial transactions.

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

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

The composition of the derivative portfolio is as follows:

EUR million	Nominal Values 31.12.2012	Nominal Values 31.12.2011	Market Values Positive 31.12.2012	Market Values Positive 31.12.2011	Market Values Negative 31.12.2012	Market Values Negative 31.12.2011
<b>Interest rate risks</b>	<b>10,002.1</b>	<b>11,535.4</b>	<b>366.1</b>	<b>304.3</b>	<b>1,158.5</b>	<b>1,055.6</b>
Interest rate swaps	9,889.6	11,515.2	366.1	304.1	1,158.5	1,055.5
Caps, floors	20.0	20.0	0.0	0.0	0.0	0.0
Stock exchange contracts	92.5	0.0	0.0	0.0	0.0	0.0
Other forward interest rate transactions	0.0	0.2	0.0	0.2	0.0	0.0
<b>Currency risks</b>	<b>4,248.1</b>	<b>6,822.1</b>	<b>289.8</b>	<b>398.2</b>	<b>164.8</b>	<b>229.4</b>
Forward exchange contracts	1,877.2	24.2	5.7	0.6	15.0	0.6
Currency swaps/ Interest rate-currency swaps	2,370.9	6,797.9	284.1	397.6	149.8	228.8
<b>Share and other price risks</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Credit derivatives</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>	<b>14,250.2</b>	<b>18,357.5</b>	<b>655.9</b>	<b>702.5</b>	<b>1,323.3</b>	<b>1,285.0</b>

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

Nominal Value (EUR million)	Interest Rate Risks		Currency Risks		Share and Other Price Risks		Credit Derivatives	
	31.12. 2012	31.12. 2011	31.12. 2012	31.12. 2011	31.12. 2012	31.12. 2011	31.12. 2012	31.12. 2011
<b>Term to maturity</b>								
Up to 3 months	276.7	481.5	1,818.6	2,947.2	0.0	0.0	0.0	0.0
More than 3 months to 1 year	384.5	2,077.4	413.5	1,622.7	0.0	0.0	0.0	0.0
More than 1 year to 5 years	5,368.3	4,893.4	989.1	1,197.0	0.0	0.0	0.0	0.0
More than 5 years	3,972.6	4,083.1	1,026.9	1,055.2	0.0	0.0	0.0	0.0
<b>Total</b>	<b>10,002.1</b>	<b>11,535.4</b>	<b>4,248.1</b>	<b>6,822.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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

EUR million	Nominal Values	Nominal Values	Market Values Positive	Market Values Positive	Market Values Negative	Market Values Negative
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Banks in OECD countries	13,872.3	18,021.5	643.0	690.9	1,321.8	1,284.2
Banks outside OECD countries	100.2	143.8	0.0	0.3	1.3	0.4
Public sector entities in OECD countries	0.0	0.0	0.0	0.0	0.0	0.0
Other counterparties (incl. exchange contracts)	277.7	192.2	12.9	11.2	0.2	0.4
<b>Total</b>	<b>14,250.2</b>	<b>18,357.5</b>	<b>655.9</b>	<b>702.5</b>	<b>1,323.3</b>	<b>1,285.0</b>

## (57) Information Relating to Selected Countries

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

At 31 December 2012:

31.12.2012 EUR million	Available for Sale Assets	Loans and Receivables
<b>Portugal</b>		
Sovereign exposure	0.0	0.0
Financial institutions/insurance companies	67.9	0.0
Corporates/other	0.0	39.0
<b>Total</b>	<b>67.9</b>	<b>39.0</b>
<b>Ireland</b>		
Sovereign exposure	0.0	0.0
Financial institutions/insurance companies	0.0	99.0
Corporates/other	0.0	10.1
<b>Total</b>	<b>0.0</b>	<b>109.1</b>
<b>Italy</b>		
Sovereign exposure	77.8	86.7
Financial institutions/insurance companies	333.5	60.6
Corporates/other	0.0	2.7
<b>Total</b>	<b>411.3</b>	<b>150.0</b>
<b>Greece</b>		
Sovereign exposure	0.1	0.0
Financial institutions/insurance companies	0.0	0.0
Corporates/other	0.0	0.0
<b>Total</b>	<b>0.1</b>	<b>0.0</b>
<b>Hungary</b>		
Sovereign exposure	0.0	124.4
Financial institutions/insurance companies	0.0	25.8
Corporates/other	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>150.3</b>
<b>Spain</b>		
Sovereign exposure	0.0	0.0
Financial institutions/insurance companies	325.1	280.9
Corporates/other	0.0	21.0
<b>Total</b>	<b>325.1</b>	<b>301.9</b>

At 31 December 2011:

31.12.2011 EUR million	Available for Sale Assets	Loans and Receivables
<b>Portugal</b>		
Sovereign exposure	0.0	15.0
Financial institutions/insurance companies	77.9	71.6
Corporates/other	0.0	43.2
<b>Total</b>	<b>77.9</b>	<b>129.8</b>
<b>Ireland</b>		
Sovereign exposure	0.0	0.0
Financial institutions/insurance companies	72.1	105.9
Corporates/other	0.0	0.0
<b>Total</b>	<b>72.1</b>	<b>105.9</b>
<b>Italy</b>		
Sovereign exposure	62.4	88.2
Financial institutions/insurance companies	382.0	85.9
Corporates/other	25.7	2.9
<b>Total</b>	<b>470.1</b>	<b>177.0</b>
<b>Greece</b>		
Sovereign exposure	9.7	0.0
Financial institutions/insurance companies	19.3	25.0
Corporates/other	0.0	0.0
<b>Total</b>	<b>29.0</b>	<b>25.0</b>
<b>Hungary</b>		
Sovereign exposure	0.0	120.3
Financial institutions/insurance companies	0.0	97.0
Corporates/other	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>217.3</b>
<b>Spain</b>		
Sovereign exposure	0.0	0.0
Financial institutions/insurance companies	535.9	298.2
Corporates/other	0.0	25.1
<b>Total</b>	<b>535.9</b>	<b>323.3</b>

No credit derivatives are included in the above figures.

For the financial instruments in the category Available for Sale with costs of acquisition in the total sum of EUR 842.2 million (previous year EUR 1,280.6 million), the cumulative valuation result in the equity amounts to a total of EUR –71.2 million (previous year EUR –99.1 million) in relation to the named selected countries. No depreciation has been recorded in the profit and loss account for the period (previous year EUR 18.5 Mio.). Of this amount, costs of acquisition in the sum of EUR 0.0 million (previous year EUR 31.2 million) and a depreciation amount affecting profit or loss in the sum of EUR 0.0 million (previous year EUR 18.5 million) are attributable to Greek government bonds; the fair value of this security allocated to Level 1 of the fair value hierarchy was EUR 9.7 million on 31.12.2011.

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 (previous year EUR 0.0 million) and portfolio loss provisions in the sum of EUR 6.9 million (previous year EUR 9.8 million). The fair value of these receivables in the category Loans and Receivables amounts to a total of EUR 611.6 million (previous year EUR 843.1 million).

The interest rates for the abovementioned transactions are between 0.205 % and 6.59 %. The individual terms of the transactions range from 2013–2036, 13 % of the receivables becoming due in the next 12 months and 43 % in the next 36 months.

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

At 31 December 2012:

31.12.2012 EUR million	Level 1	Level 2	Level 3	Total
<b>Portugal</b>				
Sovereign exposure	0.0	15.2	0.0	15.2
Financial institutions/insurance companies	52.7	0.0	0.0	52.7
Corporates/other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>52.7</b>	<b>15.2</b>	<b>0.0</b>	<b>67.9</b>
<b>Ireland</b>				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	0.0	0.0	0.0	0.0
Corporates/other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Italy</b>				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	322.1	89.2	0.0	411.3
Corporates/other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>322.1</b>	<b>89.2</b>	<b>0.0</b>	<b>411.3</b>
<b>Greece</b>				
Sovereign exposure	0.1	0.0	0.0	0.1
Financial institutions/insurance companies	0.0	0.0	0.0	0.0
Corporates/other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>

31.12.2012 EUR million	Level 1	Level 2	Level 3	Total
<b>Hungary</b>				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	0.0	0.0	0.0	0.0
Corporates/other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Spain</b>				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	325.1	0.0	0.0	325.1
Corporates/other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>325.1</b>	<b>0.0</b>	<b>0.0</b>	<b>325.1</b>

At 31 December 2011:

31.12.2011 EUR million	Level 1	Level 2	Level 3	Total
<b>Portugal</b>				
Sovereign exposure	0.0	0.0	15.4	15.4
Financial institutions/insurance companies	0.0	0.0	62.5	62.5
Corporates/other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>77.9</b>	<b>77.9</b>
<b>Ireland</b>				
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
<b>Total</b>	<b>31.3</b>	<b>0.0</b>	<b>40.9</b>	<b>72.1</b>
<b>Italy</b>				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	308.2	62.4	73.8	444.4
Corporates/other	25.7	0.0	0.0	25.7
<b>Total</b>	<b>333.9</b>	<b>62.4</b>	<b>73.8</b>	<b>470.1</b>
<b>Greece</b>				
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
<b>Total</b>	<b>9.7</b>	<b>0.0</b>	<b>19.3</b>	<b>29.0</b>

31.12.2011 EUR million	Level 1	Level 2	Level 3	Total
<b>Hungary</b>				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	0.0	0.0	0.0	0.0
Corporates/other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Spain</b>				
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
<b>Total</b>	<b>314.0</b>	<b>0.0</b>	<b>222.0</b>	<b>535.9</b>

## (58) Underlying Transactions in Effective Hedging Relationships

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

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

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

	31.12.2012 (EUR million)	31.12.2011 (EUR million)	Increase/ Decrease (%)
<b>Assets</b>			
Loans and advances to banks	249.7	333.8	-25
Loans and advances to customers	536.4	597.4	-10
Financial assets	6,940.4	6,781.6	2
<b>Total</b>	<b>7,726.5</b>	<b>7,712.8</b>	<b>0</b>
<b>Liabilities</b>			
Liabilities to banks	89.7	66.6	35
Liabilities to customers	746.5	548.7	36
Securitised liabilities	1,697.9	1,980.1	-14
Subordinated capital	0.0	0.0	-
<b>Total</b>	<b>2,534.1</b>	<b>2,595.4</b>	<b>-2</b>

## (59) NORD/LB Luxembourg Group as a Provider of Collateral

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

	31.12.2012 (EUR million)	31.12.2011 (EUR million)
Loans and advances to banks	913.1	781.2
Loans and advances to customers	0.0	0.0
Financial instruments at fair value through profit or loss	0.0	0.0
Financial assets	4,107.0	4,731.7
<b>Total</b>	<b>5,020.1</b>	<b>5,512.9</b>

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

The furnishing of security in the form of deposits at banks took place at standard market interest rates and predominantly covers value changes in derivative transactions. The relevant remaining terms are shown in Note (56).

The following securities were transferred for liabilities to the Group in the sum of the values given:

	31.12.2012 (EUR million)	31.12.2011 (EUR million)
Financial assets transferred to the Group as security	204.3	931.6
Liabilities to banks	545.8	301.5
<b>Total</b>	<b>750.1</b>	<b>1,233.1</b>

## (60) Securities Repurchase Agreements and Securities Lending

	31.12.2012 (EUR million)	31.12.2011 (EUR million)
Genuine repurchase agreements as a repurchase buyer (reverse repos)	204.3	934.8
Loans and advances to banks	204.3	934.8
Loans and advances to customers	0.0	0.0
Genuine repurchase agreements as a repurchase seller (repos)	4,107.0	4,734.3
Liabilities to banks	4,107.0	4,591.3
Liabilities to customers	0.0	143.0

	31.12.2012 (EUR million)	31.12.2011 (EUR million)
Loaned securities	0.0	0.0
Loaned securities at fair value through profit or loss	0.0	0.0
Loaned securities from financial assets	0.0	0.0
Borrowed securities	0.0	0.0
Securities sold under repurchase agreements	4,100.3	4,731.7
Securities sold under repurchase agreements at fair value through profit or loss	0.0	0.0
Securities sold under repurchase agreements from financial assets	4,100.3	4,731.7
Securities bought under repurchase agreements	204.2	931.6

## (61) Transfer and Derecognition of Financial Assets

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

EUR million	31.12.2012		31.12.2011	
	Book Value of the Assets	Book Value of the Associated Liabilities	Book Value of the Assets	Book Value of the Associated Liabilities
Loans and advances to banks	0.00	0.00	0.00	0.00
Loans and advances to customers	0.00	0.00	0.00	0.00
Assets at fair value through profit or loss	0.00	0.00	0.00	0.00
Financial assets not posted at fair value	113.34	114.52	354.06	998.81
Financial assets posted at fair value	3,083.18	2,823.54	4,006.40	3,735.42
Assets for sale not posted at fair value	0.00	0.00	0.00	0.00
Assets for sale posted at fair value	0.00	0.00	0.00	0.00
Other assets not posted at fair value	0.00	0.00	0.00	0.00
Other assets posted at fair value	0.00	0.00	0.00	0.00
<b>Total</b>	<b>3,196.52</b>	<b>2,938.05</b>	<b>4,360.47</b>	<b>4,734.23</b>

The financial assets are genuine repos.

## Other Notes

### (62) Regulatory Information

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

#### Risk-weighted Asset Values

The Group uses internal approaches for risk evaluation.

	31.12.2012 (EUR million)	31.12.2011 (EUR million)
Risk assets	4,159.6	3,843.5
Weighted operational risks	293.0	252.9
Market risk positions	67.6	103.6
<b>Total</b>	<b>4,520.2</b>	<b>4,200.1</b>

The IRB approach used by the Group led to a lower equity cost in 2012 than the previous regulation.

The Group applies the standard method in the determination of the capital requirement for operational risks. As at 31 December 2012, this results in an equity requirement of EUR 23.4 million (previous year EUR 20.2 million).

#### Regulatory Equity

	31.12.2012 (EUR million)	31.12.2011 (EUR million)
Contributed capital	205.0	205.0
Other reserves	480.3	467.5
Remaining components	-11.6	-6.6
<b>Core capital</b>	<b>673.7</b>	<b>665.9</b>
Asset deposits of silent shareholders	0.0	0.0
Subordinated debt securities (part that can be offset)	66.7	87.3
<b>Supplementary capital</b>	<b>66.7</b>	<b>87.3</b>
Items deductible from core (tier 1) and supplementary (tier 2) capital	0.0	0.0
<b>Liable equity</b>	<b>740.4</b>	<b>753.2</b>
Tier three funds	0.0	0.0
<b>Equity capital</b>	<b>740.4</b>	<b>753.2</b>

Revaluation reserves are not taken into account in the regulatory equity. The Group 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 at all times at Group level in 2011 and 2012 with the regulatory minimum capital ratios. At the respective year-ends the Group reported the following ratios:

	31.12.2012	31.12.2011
Overall coefficient	16.4 %	17.9 %
Core capital ratio	14.9 %	15.9 %

#### Large Borrowers Requirements

In 2012, the bank complied with the applicable regulatory requirements for equity and liquidity at all times. Likewise, the bank accommodated the regulations on large borrowing limits in the year under report.

On application of the bank, the regulatory body CSSF released the bank from compliance with the large risk limit for companies in the NORD/LB Group in accordance with Section XVI, point 24 of Circular 06/273. On the reporting date, accounts and guarantees receivable from group companies exist in the sum of EUR 3,580.8 million (previous year EUR 3,711.3 million).

## (63) Foreign Currency Volumes

As at 31 December 2012 there were the following assets and liabilities in foreign currencies:

EUR million	USD	JPY	CHF	Other	Total
<b>Assets</b>					
Cash reserve	0.0	0.0	0.0	0.0	0.0
Loans and advances to banks	82.1	23.1	3.2	8.5	117.0
Loans and advances to customers	1,017.0	125.0	330.4	62.0	1,534.5
Risk provisions	0.0	0.0	-10.3	0.0	-10.3
Financial assets at fair value through profit or loss	-173.6	126.2	38.2	12.2	2.9
Positive fair values from hedge accounting	-420.0	132.4	77.2	272.8	62.5
Financial assets	1,874.7	159.5	126.7	218.8	2,379.8
Other assets	0.0	0.0	0.2	0.0	0.3
<b>Total</b>	<b>2,380.3</b>	<b>566.3</b>	<b>565.7</b>	<b>574.3</b>	<b>4,086.6</b>
<b>Liabilities</b>					
Liabilities to banks	1,687.8	0.0	20.7	269.7	1,978.2
Liabilities to customers	245.3	0.0	1.9	118.1	365.3
Securitised liabilities	727.8	637.0	319.6	337.4	2,021.9
Financial liabilities at fair value through profit or loss	19.1	9.3	5.9	2.8	37.1
Negative fair values from hedge accounting	587.1	219.3	-71.4	229.9	965.0
Other liabilities	0.3	0.0	0.5	0.1	0.9
Subordinated capital	94.8	0.0	0.0	0.0	94.8
<b>Total</b>	<b>3,362.1</b>	<b>865.7</b>	<b>277.2</b>	<b>958.1</b>	<b>5,463.2</b>

## (64) Contingent Liabilities and Other Obligations

	31.12.2012 (EUR million)	31.12.2011 (EUR million)
Contingent liabilities	301.3	1,258.3
Contingent liabilities under rediscounted bills of exchange	–	–
Liabilities from guarantees and other indemnity agreements	301.3	1,258.3
Irrevocable credit commitments	1,082.4	1,070.0
<b>Total</b>	<b>1,383.7</b>	<b>2,328.3</b>

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

Disclosures on the estimation of financial effects, 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. has issued a letter of comfort in favour of NORD/LB Covered Finance Bank S.A. in its financial statements since 31 December 2010.

## (65) Subordinated Assets

	31.12.2012 (EUR million)	31.12.2011 (EUR million)
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.0	0.0
Financial instruments at fair value through profit or loss	0.0	0.0
Financial assets	45.0	45.0
<b>Total</b>	<b>45.0</b>	<b>45.0</b>

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

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

## (66) Trust Activities

There were no trust activities in the financial year or the previous year.

## (67) Events After the Balance Sheet Date

There were no significant events between the balance sheet reporting date 31 December 2012 and the preparation of this statement on 22 March 2013 by the Board of Directors.

## (68) Fee for the Auditor of the Consolidated Financial Statements

	2012 (in KEUR)	2011 (in KEUR)
Fee of the auditor of the consolidated financial statements:		
Auditing	421	475
Other confirmation services	249	135
Tax consultancy	145	107
Other services	10	20

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

## Related Parties

### (69) Number of Employees

The average number of personnel employed by the Group during the period under report can be broken down as follows:

	Male 2012	Male 2011	Female 2012	Female 2011	Total 2012	Total 2011
NORD/LB Luxembourg	128.1	113.4	59.2	53.8	187.3	167.2
NORD/LB CFB	1.3	7.0	0.5	2.0	1.8	9.0
Skandifinanz	0.0	0.0	0.0	0.0	0.0	0.0
<b>Group</b>	<b>129.4</b>	<b>120.4</b>	<b>59.7</b>	<b>55.8</b>	<b>189.1</b>	<b>176.2</b>

## (70) Related Party Disclosures

All consolidated subsidiaries of NORD/LB Luxembourg qualified as related legal entities. 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 2012 and 2011 can be seen in the following lists. Changes in the group of related companies and persons lead to adjustments of the previous year's figures where necessary:

At 31 December 2012:

KEUR	Shareholders	Persons in Key Functions	Other Related Parties
Outstanding loans and advances	94,285	0	204,283
to banks	94,285	0	204,283
to customers	0	8	0
Trading derivatives on assets side	213,911	0	0
Other assets	13,363	0	0
<b>Total assets</b>	<b>321,559</b>	<b>8</b>	<b>204,283</b>
Outstanding liabilities	4,400,098	0	40,546
to banks	4,400,098	0	40,546
to customers	0	0	0
Securitised liabilities	57,164	0	0
Trading derivatives on liabilities side	231,279	0	11,571
Subordinated capital	94,773	0	0
Other liabilities	1,206	2,501	0
<b>Total equity and liabilities</b>	<b>4,784,520</b>	<b>2,501</b>	<b>52,117</b>
<b>Guarantees/sureties granted</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interest expense	153,244	0	2,617
Interest income	68,516	0	1,611
Commission expense	23,412	0	0
Commission income	4	0	352
Other income and expense	46,755	-4,405	-2,117
<b>Total contributions to income</b>	<b>-61,381</b>	<b>-4,405</b>	<b>-2,772</b>

At 31 December 2011:

KEUR	Shareholders	Persons in Key Functions	Other Related Parties
Outstanding loans and advances	494,265	0	207,400
to banks	494,265	0	207,400
to customers	0	10	0
Trading derivatives on assets side	180,973	0	0
Other assets	0	0	24,930
<b>Total assets</b>	<b>675,239</b>	<b>10</b>	<b>232,330</b>
Outstanding liabilities	3,700,001	0	0
to banks	3,700,001	0	0
to customers	0	0	0
Securitised liabilities	144,077	0	0
Trading derivatives on liabilities side	247,440	0	9,231
Subordinated capital	96,653	0	0
Other liabilities	1,860	1,373	0
<b>Total equity and liabilities</b>	<b>4,190,031</b>	<b>1,373</b>	<b>9,231</b>
<b>Guarantees/sureties granted</b>	<b>7,000</b>	<b>0</b>	<b>0</b>
Interest expense	181,214	0	5,386
Interest income	79,821	0	11,242
Commission expense	34,203	0	0
Commission income	0	0	355
Other income and expense	22,714	-4,500	-4,952
<b>Total contributions to income</b>	<b>-112,883</b>	<b>-4,500</b>	<b>1,259</b>

All payments and loans to executive bodies in accordance with the provisions relating to trade are set out in Note (71) Remuneration of and loans to executive bodies.

## (71) Members of Executive Bodies and their Positions

### Members of the Board of Directors

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

### Supervisory Board

- Dr. Gunter Dunkel, Chairman of the Board of Directors of Norddeutsche Landesbank Girozentrale, Hanover (Chairman)
- Dr. Johannes-Jörg Riegler, Deputy Chairman of the Board of Directors of Norddeutsche Landesbank Girozentrale, Hanover
- Ulrike Brouzi, Member of the Board of Directors of Norddeutsche Landesbank Girozentrale, Hanover
- Walter Kleine, Chairman of the Board of Directors of Sparkasse Hannover, Hanover
- Christoph Schulz, Member of the Board of Directors of Norddeutsche Landesbank Girozentrale, Hanover

### Positions

As at 31 December 2012 the following seats were taken up by the members of the board of Norddeutsche Landesbank Luxembourg S.A.:

#### Harry Rosenbaum

- Merido Immobilien AG, Zurich, President of the Administrative Board
- Jutzi AG, Oberburg, Member of the Administrative Board

#### Christian Veit

- NORD/LB Covered Finance Bank S.A., Luxembourg, Chairman of the Board of Directors
- L'Institut de Formation Bancaire (IFBL), Luxembourg, Member of the Administrative Board

#### Thorsten Schmidt

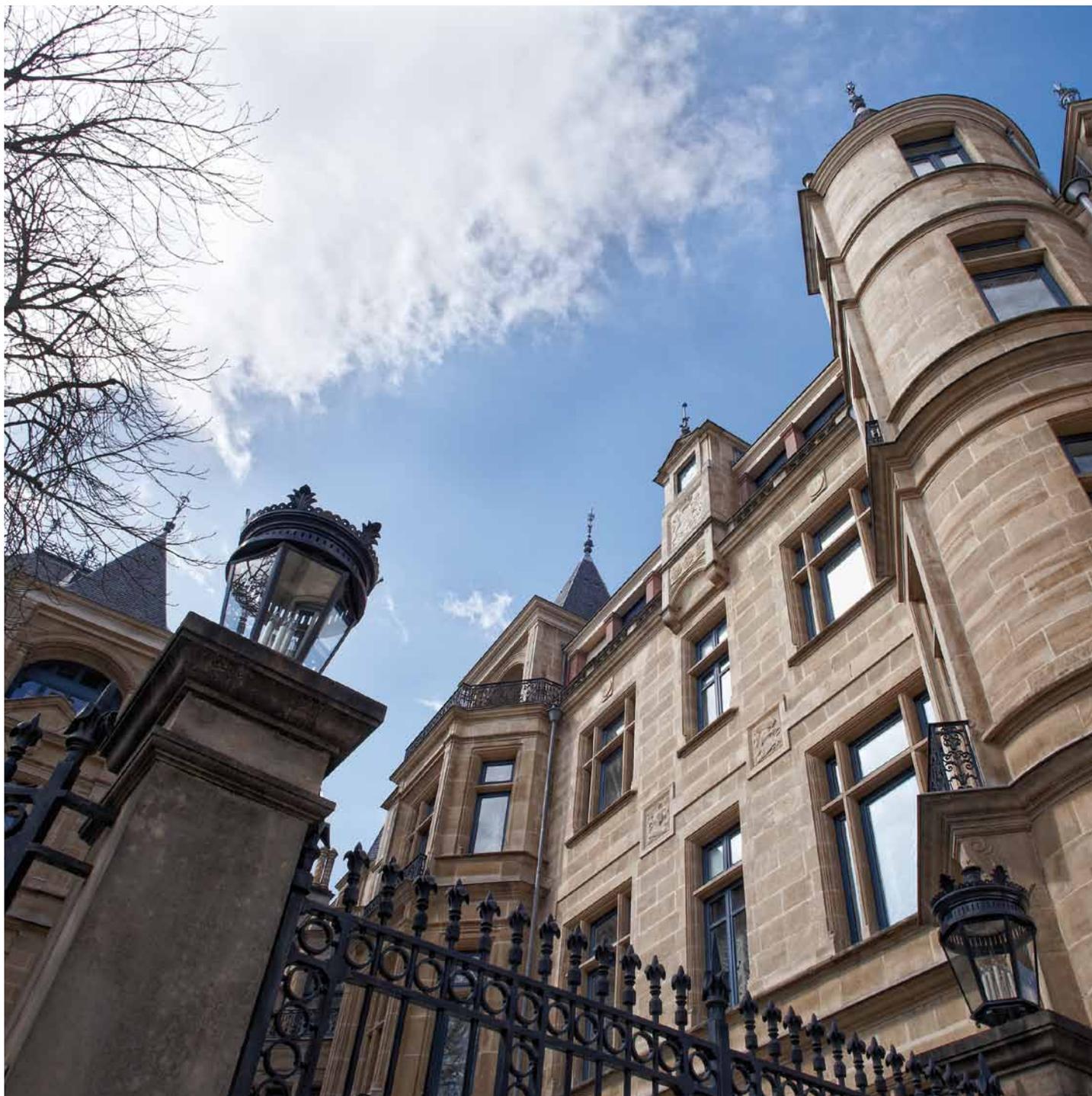
- NORD/LB G-MTN S.A., Luxembourg, Chairman of the Administrative Board
- NORD/LB Covered Finance Bank S.A., Luxembourg, Deputy Chairman of the Board of Directors

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

	2012 (in KEUR)	2011 (in KEUR)
Payments to active executive body members	4,405	4,500
Extended management *	4,317	4,425
Supervisory Board	88	75
Pension obligations	2,501	1,373
Extended management *	2,501	1,373
Supervisory Board	0	0
Advances, loans and liabilities	8	10
Extended management *	8	10
Supervisory Board	0	0

\* Board of Directors and senior staff

# Consolidated Financial Statements 2012



NORD/LB Luxembourg

## Responsibility Statement

We confirm to the best of our knowledge that the annual financial statements, in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, 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 Group.

Luxembourg, 22 March 2013

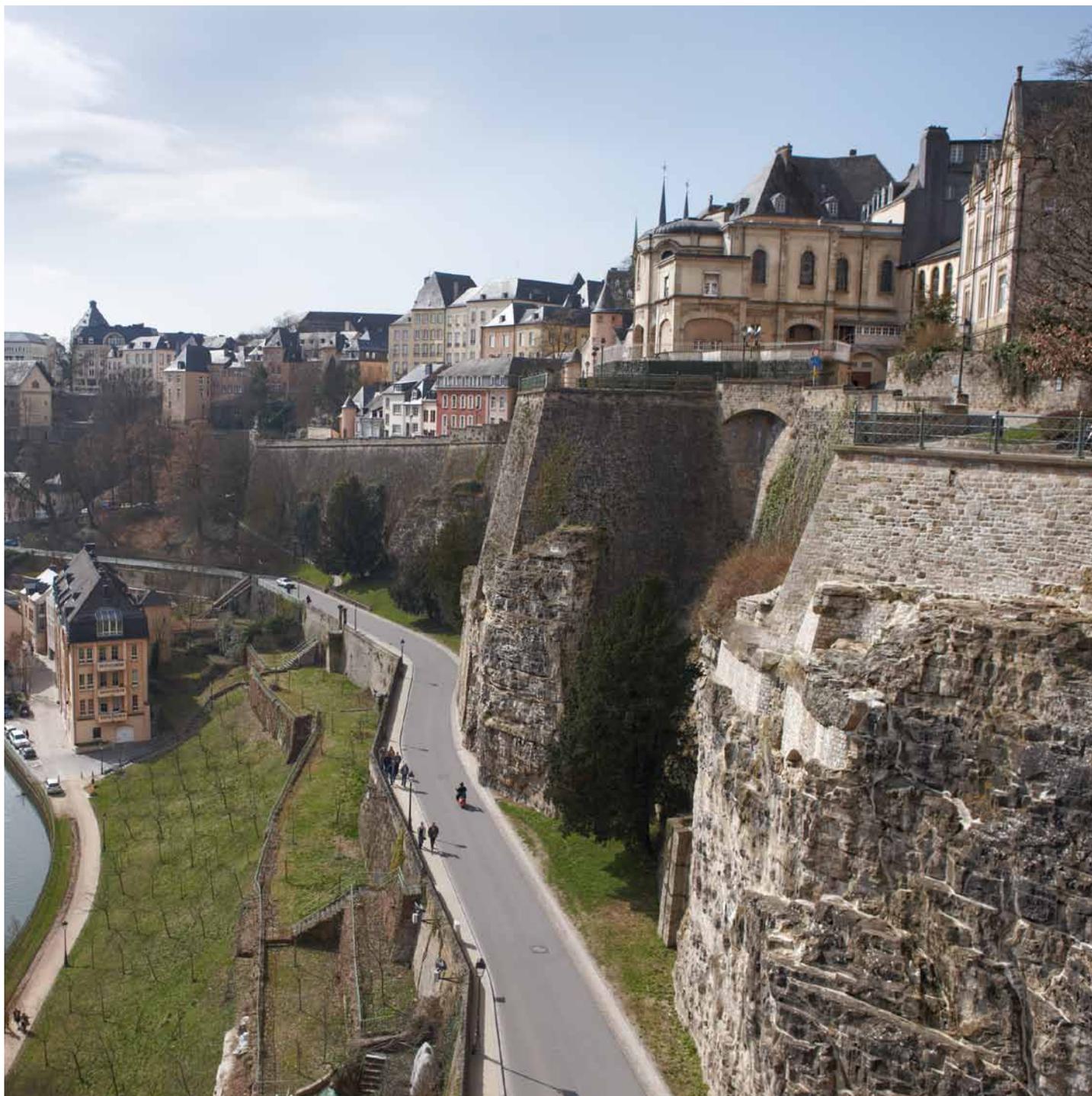
Norddeutsche Landesbank Luxembourg S.A.

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

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

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

## Consolidated Financial Statements 2012



NORD/LB Luxembourg

## Report of the Auditors

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

### Report on the Consolidated Financial Statements

In accordance with the instructions received from the Board of Directors of Norddeutsche Landesbank Luxembourg S.A. on 03 May 2012 we have audited the attached consolidated financial statements of Norddeutsche Landesbank Luxembourg S.A., which comprise the consolidated balance sheet at 31 December 2012, the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the period from 01 January 2012 to 31 December 2012 as well as a summary of important accounting methods and other explanatory information.

#### **Responsibility of the Board of Directors for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation and proper representation of the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and information in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the consolidated financial statements whether due to fraud or error, being included in the consolidated financial statements. In making those risk assessments, the auditor considers the internal control system relevant to the preparation and proper representation of the consolidated 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 consolidated 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 consolidated 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 consolidated assets and financial situation of Norddeutsche Landesbank Luxembourg S.A. at 31 December 2012 and of the consolidated earnings and consolidated cash flows for the period from 01 January 2012 to 31 December 2012.

**Report on other Legal and Regulatory Requirements**

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

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

T. Feld

Luxembourg, 30 March 2013

## Consolidated Financial Statements 2012



NORD/LB Luxembourg

## Report of the Supervisory Board

### Proposal to be put to vote

The Board of Directors of the bank briefed the Supervisory Board in the year under report regularly about the development of the business and the position of the bank. The Supervisory Board met a total of four times in the year under report 2012.

The financial statements and the consolidated financial statements of NORD/LB Luxembourg for the year under report 2012 were audited by KPMG Luxembourg S.à r.l., Luxembourg, and provided with an unqualified auditor's certificate. In addition, the auditor attended the meeting to discuss the financial statements held by the Supervisory Board on 14 March 2013 and reported on the results of the audit.

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

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

In its meeting of 14 March 2013 the Supervisory Board approved the Management Report and the financial statements for the year ended 31 December 2012, which is thereby approved. In March 2013 these consolidated financial statements and the consolidated management report for the year ending 31 December 2012 were approved.

The Supervisory Board thanks the bank's Board of Directors for their faithful cooperation and expresses its appreciation to the Board and to all the bank's employees for the work performed by them in 2012.

Luxembourg,  
April 2013

Dr. Gunter Dunkel  
Chairman of the Supervisory Board