

NORD/LB Covered Finance Bank S.A.



## Annual Report as at 31.12.2013

## Summary of Key Data

Performance	31.12.2013 (EUR Million)	31.12.2012 (EUR Million)	Increase/Decrease (EUR Million)	Increase/Decrease (%)
Loans and Advances to Banks	1,807.4	2,767.1	-959.6	-35
Loans and Advances to Customers	996.1	797.7	198.4	25
Risk Provisions	-0.2	-0.2	0.0	-21
Financial Assets	3,173.1	3,737.3	-564.2	-15
Other Assets	352.5	616.7	-264.1	-43
<b>Balance Sheet Total – Assets</b>	<b>6,329.0</b>	<b>7,918.5</b>	<b>-1,589.6</b>	<b>-20</b>
Liabilities to Banks	2,923.6	3,846.7	-923.1	-24
Liabilities to Customers	692.5	759.3	-66.8	-9
Securitised Liabilities	1,979.9	2,211.0	-231.1	-10
Other Liabilities	656.1	1,033.9	-377.7	-37
Reported Equity	76.8	67.6	9.2	14
<b>Balance Sheet Total – Liabilities</b>	<b>6,329.0</b>	<b>7,918.5</b>	<b>-1,589.6</b>	<b>-20</b>
Lettres de Gage (Covered Bonds)	2,781.0	3,109.0	-328.0	-11
Profit/Loss Performance	2013 (KEUR)	2012 (KEUR)	Increase/Decrease (KEUR)	Increase/Decrease (%)
Net Interest Income	6,422	2,215	4,207	> 100
Net Commission Income	186	78	108	> 100
Profit/Loss from Financial Assets	1,822	-3,935	5,757	< -100
Other Profit/Loss	-5,578	-3,286	-2,292	70
<b>Earnings before Expenses</b>	<b>2,852</b>	<b>-4,928</b>	<b>7,780</b>	<b>&lt; -100</b>
Administrative Expenses	-721	-1,811	1,091	-60
Profit/Loss from Changes in Valuation and Risk Provision	-2,026	7,465	-9,491	< -100
Taxes	-4	-109	105	-96
<b>Earnings After Taxes</b>	<b>101</b>	<b>617</b>	<b>-516</b>	<b>-84</b>
Key Economic Data	2013	2012	Increase/Decrease	
Cost-Income-Ratio in % <sup>†)</sup>	25.3 %	-36.8 %	62.0 %	< -100
RoRaC in % <sup>**)</sup>	0.1 %	1.7 %	-1.6 %	-94

<sup>†)</sup> The Cost-Income-Ratio (CIR) is equal to the quotients from administrative expenses and the earnings before costs.

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

Regulatory Law Key Figures	31.12.2013 (EUR Million)	31.12.2012 (EUR Million)	Increase/Decrease (EUR Million)	Increase/Decrease (%)
Risk-weighted Asset Values	759	903	-144	-16
Core Capital	98	97	1	1
Equity Capital	127	127	-1	-1
Core Capital Ratio	12.9 %	10.8 %	2.1 %	20
Overall Coefficient	16.7 %	14.1 %	2.6 %	18
Change in Number of Employees	2013	2012	Increase/Decrease	(%)
Number of Employees <sup>†)</sup>	0	0	0	0

<sup>†)</sup> see "Position within the Group"



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# Annual Report as at 31.12.2013

NORD/LB Covered Finance Bank S.A.  
7, rue Lou Hemmer  
L-1748 Luxembourg-Findel  
R.C.S. Luxembourg B 116546

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



## Members of the Supervisory Board

**Dr. Gunter Dunkel**

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

**Christoph Schulz**

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

**Thomas Bürkle (as of 1 March 2014)**

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

**Walter Kleine**

Chairman of the Board of Directors  
Sparkasse Hannover

**Dr. Johannes-Jörg Riegler (until 28 February 2014)**

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

## Board of Directors

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

**Deputy Chairman of the Board of Directors**  
Thorsten Schmidt



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



**Deputy Chairman of the Board  
of Directors**  
Thorsten Schmidt



## Position within the Group

NORD/LB Covered Finance Bank S.A. (hereinafter referred to as “NORD/LB CFB” or “the Bank”) is a wholly-owned subsidiary of Norddeutsche Landesbank Luxembourg S.A., Luxembourg, (hereinafter referred to as “NORD/LB Luxembourg”) and is included in the consolidated financial statements of NORD/LB Luxembourg and in the consolidated financial statements of Norddeutsche Landesbank Girozentrale, Hanover, (hereinafter referred to as “NORD/LB”). The consolidated financial statements of NORD/LB Luxembourg can be viewed on the Internet at [www.nordlb.lu](http://www.nordlb.lu) and the consolidated financial statements of NORD/LB at [www.nordlb.de](http://www.nordlb.de).

NORD/LB and NORD/LB Luxembourg each issued a letter of comfort for NORD/LB Covered Finance Bank S.A. in their respective annual reports.

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

In terms of organisation and personnel, NORD/LB CFB is fully integrated since 2012 into the control of NORD/LB Luxembourg (see also “Development of Business Segments”). All market, back office, organisational and administrative functions are performed on the basis of agency agreements by the parent company, NORD/LB Luxembourg, or the Group’s parent company, NORD/LB.

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

# International Economic Development

## Global Economic Environment

In 2013, the world economy only grew moderately. After a weak start to the year, the economic driving forces increasingly gained the upper hand. For example, global industrial production was able to find its way out of the economic trough in mid-year. The Eurozone escaped from the persistent recession in the spring. This was facilitated by the fact that there were no dramatic relapses in the context of the debt crisis in contrast to the previous years. The mood indicators grew in the major currency areas over the course of the year and document increasing optimism again amongst companies and consumers. World trade also gained momentum again in the second half of the year in conjunction with the expansion of production.

In the USA, the economy was put under strain by the emerging headwind caused by the fiscal policy. Nevertheless, the USA was one of the industrial countries with the biggest growth again in 2013 at nearly 2%. The tangible recovery on the property market, where a rise in the prices of houses has meanwhile been recorded again, should be noted here. The sustained low interest rate has also contributed to the situation. Even though a change in the very expansionary monetary policy was not yet implemented in 2013, the mere announcement of a gradual reduction in the monthly additional bond purchases in mid-year was reflected in significantly increasing bond yields. In some emerging markets there were also outflows as a result of the growing fear amongst financial market players that the end to the flooding of the markets with liquidity was imminent.

The Chinese economy was able to hold its ground on a solid growth path in 2013 – the annual growth in GDP was 7.7% and was therefore within the expected range. At the same time, the Chinese government announced significant structural changes, the effects of which should be felt way beyond the end of the year. In the past twelve months, the Chinese central bank (PBOC) in particular has excelled in some initial steps. For example, the monetary authorities have pressed ahead with the internationalisation of the Renminbi (RMB). The RMB continued to increase steadily in value against the US dollar. On the other hand, the PBOC made multiple attempts to dam the floods of liquidity and the surging shadow banking market, which led to signifi-

cantly rising money market rates (SHIBOR) in mid-year and again in December.

## Economic Development in Germany

In 2013, the economy in Germany recovered rapidly from the weak phase in the winter of 2012/2013. Real gross domestic product only increased by a total of 0.4% in 2013 over the previous year, however. The still slightly lower annual growth rate for 2013 is, however, primarily due to the weak start to the year. Following a strong decline in GDP at the end of 2012, economic performance stagnated in the spring. Along with the muted global economic growth, the effects of the bad weather especially played a big role in this. During the rest of the year, the German economy recovered from the downturn; in the spring, growth was additionally fuelled by the catch-up and recovery effects of the extraordinarily hard winter. The situation was also helped by the Eurozone being able to find its way out of the recession in the spring, and the recovery has continued – albeit only at a moderate rate. After the first half of the year was characterised by strong distortions caused by the bad weather, the recovery continued in the second half of the year. In both the third and fourth quarters, there was moderate economic growth of 0.3% and 0.4% respectively as compared to the previous quarters.

The essential pillar of the economy in 2013 was once again private consumption. At an expansion of 0.9% in comparison to the previous year, private consumption contributed half a percentage point to GDP. Real purchasing power profited from the marked fall in the inflation rate to a yearly average of 1.4%, measured by the Harmonised Index of Consumer Prices. Above all, there was another very positive growth in employment. Although the economic weakness was also reflected in a slight rise in the unemployment figures and the unemployment rate increased slightly to 6.9%. However, due to the sustained high level of migration into the German employment market, the number of those in employment increased to nearly 42 million, seasonally adjusted, at the end of the year, thus reaching the highest level since the reunification.

Due the weak growth in exports (0.6%), net exports produced a slightly moderating effect (–0.3 percentage points) in the face of a stronger growth in imports (1.3%) in 2013. There was also an adverse impact from investments once again. Despite a gradual revival in investment activity over the course of the year, gross fixed asset investment shrank

slightly by  $-0.8\%$  in comparison to the previous year. In contrast to the negative growth of  $2.2\%$  in technical equipment, construction investment only recorded a minimal decline totalling  $0.3\%$ . While commercial construction investment fell again in alignment with the general reluctance to invest on the part of companies, residential construction investment rose slightly by  $0.3\%$ . This is, however, the lowest annual growth in the last four years.

The general government accounts were almost balanced according to the Maastricht definition in 2013 – in contrast to the previous year. At EUR 1.7 billion, net lending/net borrowing was only slightly negative; measured by nominal GDP, the ratio is  $-0.1\%$ . Expenditure climbed by  $2.8\%$  in comparison to the previous year and was therefore slightly stronger than income ( $2.5\%$ ). Municipal councils and social insurance generated surpluses again, albeit to a lesser degree than in 2012. In the case of social insurance, the surpluses fell primarily due to the lower contribution rate for pension insurance and the lower federal subsidy. Despite renewed improvements, the federal and state governments reported deficits once again. Whilst around EUR 3.0 billion less debt was taken on than planned in the federal budget, according to the provisional accounts, the deficit still remained clearly in the two-figure range at EUR 22.1 billion. All in all, the German state has now easily met the Maastricht criteria for net lending/net borrowing for the third year in succession. The general government accounts have even almost been balanced for two years. Germany has thus stood out positively from comparable industrial nations, and not just within the Eurozone.

### ... in Euroland

The economic development in the Eurozone hardly produced any surprises in 2013. As expected, the common currency area came out of the recession, which had lasted since the autumn of 2011, in the spring. After a very weak final quarter of 2012, there was just a slight contraction of economic performance by  $-0.2\%$  in the first quarter of 2013 as compared to the previous quarter. This drop in GDP at the beginning of the year was, however, only moderate in view of the slump in production caused by the extreme weather in large swathes of Europe. Inversely, catch-up and recovery effects in several European economies in the spring then led to a counter-movement. Since Italy and Spain persistently remained in recession, at least in the second quarter, however, the real GDP of the whole Eurozone only increased moderately by  $0.3\%$ . At the end of the year, the momentum picked up and the economic recovery had an ever broader base.



In the past year, the necessary adjustments in the public and private sectors once again slowed overall demand in the economy. This also led to a consistently high growth differential within the common currency area. In 2013, real GDP fell overall by  $0.4\%$  in the Eurozone despite the economic turning point in the spring, and in the rest of the euro area outside of Germany, it decreased by as much as  $0.8\%$  in comparison to the previous year. France's economy was only able to expand minimally by  $0.3\%$ , whilst a very marked contraction of economic performance was recorded once again in Italy and Spain for the whole year, by more than  $1\%$  for each country.

### ... in the USA

Following on from a growth rate of  $1.8\%$  in 2011 and  $2.8\%$  in 2012, the USA achieved a growth rate of  $1.9\%$  in GDP in 2013. That said, the largest economy in the world hit a strong headwind in the form of the fiscal burdens taking effect at the beginning of 2013. The USA continues to do better than many other regions of the world and is setting the trend for a moderate recovery, recently even with increasing momentum. The USA continues to be a positive contrast to many other regions of the world and is setting the trend for a moderate recovery, more recently even at an increasing pace.

A significant slowing effect on the economy came from the state. Initially, the uncertainties regarding the ongoing fiscal policy still led to a certain reluctance to consume and invest, whilst the loss of tax breaks and automatic spending cuts were quite specifically discernible in the private sector in the first quarter of 2013. The Washington politicians' lack of willingness to compromise applied a major economic brake at an estimated good one percent, but at the same time, also led to a significant reduction of the budget deficit. When no solution was found in the dispute

over the budget in October, there was a 16-day government shutdown with the temporary closure of public authorities. The agreement that was finally reached ended this phase of extreme uncertainty.

In order to support the economy, the Federal Reserve continued its expansionary monetary policy with a purchasing programme totalling 85 billion USD (Quantitative Easing 3, or “QE3” for short). After the Federal Reserve held out the prospect in May of a curb in QE3 for the rest of the year, the announcement of the reduction anticipated for September did not take place until 18 December and in view of the good US economic data, can be described as appropriate.

As at the beginning of 2013, the euro was also listed slightly above the USD 1.35 mark at the end of the year. Whilst the Euro dived to below USD 1.28 twice in the first seven months, there was a gradual upwards movement in the second half of the year. In the second half of the year, the European common currency climbed up to the level of USD 1.38, driven by a receding risk aversion of investors and a correspondingly positive stock market performance. Conversely, the stronger US data and the start of the reduction of quantitative easing (QE3 Tapering) received relatively less consideration here.

### Financial Markets and Movements in Interest Rates

The development of the financial and debt crisis was important for the Eurozone in 2013 as well. There was a further recovery on the financial markets, which had already begun in the year. There were only a few irritations for a short while following the parliamentary elections in Italy at the beginning of the year. Despite the ensuing political impasse that actually lasted for months, investors soon began to show trust again, especially in Italian government bonds. After Cyprus had already applied to its European partners for aid in mid-2012, the details of the conditions for financial support became known in March. There were also some encouraging signals in 2013 with respect to the debt crisis, however.

Roughly three years after its request for help, Ireland was the first country to leave the safety net of the European partners and the International Monetary Fund (IMF).

The fact that the situation on the financial markets could calm down to such an extent is largely due to the policy of the European Central Bank (ECB) since 2012. In 2013, the policy was no longer characterised as much by urgently

tackling the crisis, but primarily by the only slow economic recovery and the significant drop in inflationary pressure over the course of the year. As expected, the ECB reduced the tender rate over the course of the year and reacted surprisingly quickly in November to the marked reduction in the inflation rate of the previous month, down to 0.7% in comparison to the same month of the previous year, with a further decrease in the interest rate for main refinancing operations, to just 0.25%. However, the monetary watchdogs abstained from a negative interest rate for the deposit facility, at least for the time being, and left the interest rate at 0%; only the rate for the marginal lending facility was reduced by 25 base points at the same time. Moreover, the ECB President, Mario Draghi, announced that the main refinancing operations would continue to be carried out at least until July 2015 as fixed rate tenders with full allotment at a fixed interest rate. There will also be no changes to the longer-term refinancing operations with a term of up to three months, at least until mid-2015.

In 2013, many share indexes reached new record levels. The German stock index, the DAX, reached 9,589 points (based on closing prices) on 30 December and was thus at around 1,800 points above the level it was at the beginning of the year. Over the course of the year, the yields of German federal bonds with ten years to maturity ranged between 1.2% at the beginning of May and the year's high of 2.1% for a brief time in mid-September. As a result, German federal bond yields fell gradually – especially after the surprising postponement of the slight decrease in monthly security purchases by the US central bank that had originally been expected in September. Additional pressure on the yields was triggered by the marked drop in inflation in October and the ECB's rapid reaction to it. Good economic data in December, however, ensured a countermovement, so that the yield of ten year federal bonds was at 2.0% at the end of the year. The swap curve in the Eurozone essentially moved in parallel to the yield structure curve of the German federal bonds; the Bund swap spreads tended to narrow slightly by the end of the year. The rise in the yield of US government bonds with longer terms was even more apparent. From the beginning of May to the end of December, ten year bond yields rose by a good 140 base points from 1.6% to a solid 3.0%. The development of the US swap curve was closely linked to the movements on the market for US government bonds. The spreads of other European government bonds to German federal bonds narrowed even further in 2013. The money market rates remained largely stable in the past year, as expected. The 3-month Euribor has been slightly above 0.2% since mid-January, there was only a slightly sharper increase to almost 0.3% at the end of the year.

The spread between unsecured and secured money market rates, which rose rapidly especially in 2008 and 2011 due to the recognisable liquidity tension on the European interbank market, eased noticeably in the past year. In this environment and benefitting from the once again improved perception of creditworthiness in respect of the banks in the Eurozone, the EUR/USD cross currency basis swap spreads narrowed across all maturity bands. The USD liquidity needed by the banks for refinancing their foreign currency exposure, in addition to funding, was therefore much more easily and less expensively available on the financial markets than at the peaks of the European financial market and government debt crises. Moreover, crucial planning reliability for banks needing USD liquidity came at the end of October from the standing swap agreements concluded between the large central banks, and therefore also the ECB, and the Federal Reserve Bank. For the time being, the banks have been able to fall back on liquidity-providing operations with one week and three months terms. The EUR/USD cross currency basis swap spreads have meanwhile stabilised over the whole curve within a range of between –5 and –10 base points. As a result, the ECB has been able to suspend the liquidity injection for three-month transactions again.

### Covered Bond Markets and Lettres de Gage Publiques

2013 was characterised by a significant decline in the issue volume in Covered Bonds. Although the issue business started out at a very fast pace as usual in the first quarter, the new issue activities slowed down significantly over the course of the year. As a consequence of the strong demand from investors, driven among other things by the need for liquid assets in view of regulatory requirements and the general investment needs on the part of institutional investors, the reduced offering could be absorbed easily; this was expressed in the very low new issue premiums.

The generally positive environment for Covered Bonds was also demonstrated by more covered bond issuers from the periphery states starting up again after a long period of time and being able to place their issues successfully. Therefore, the volume of issues from the periphery states increased considerably in comparison to the previous year while the UK, Australia, France, Switzerland and Norway in particular reported a significant decline. As could be observed in the previous years, the proportion of public covered bonds continued to fall significantly, while mortgage-backed covered bonds came to the fore both in the

new issues business and in the secondary markets. The covered bond issues in foreign currencies, which were in heavy demand in the previous year, including such in USD and GBP, were not able to continue on their road to success; their new issue volumes decreased significantly. The trend towards rating deterioration in covered bond programmes, which could be observed in 2012 and was primarily brought about by the rating pressure on states as a consequence of the “financial crisis”, continued over the course of the year, albeit at a slower pace.

The market for Lettres de Gage did not experience a revival in 2013, despite the amendment to the Luxembourg Pfandbrief (covered bond) Law. Although a new asset class, the “Lettre de Gage Mutuelle”, was introduced within the scope of the adjustment of the legislation, this and the other adjustments (including the revision of the insolvency regulations in the case of insolvency of an issuer, the strengthening of the transparency requirements, geographical expansion of the permissible cover assets) have so far not led to a halt in the trend of declining issue volumes for Luxembourg Pfandbriefe.

Even if the volume of new issues was significantly down in 2013 overall, covered bonds were able to strengthen their status as a long-term, high-quality capital market product. This results primarily from the regulatory advantages of covered bonds under Basel III and Solvency II. The increasing importance of covered bonds as a refinancing instrument in the global market is reflected in the structure and expansion of corresponding legislation. This is also reflected by the larger number of issuers that entered the Pfandbrief market in 2013 for the first time.

## Forecasts and other Statements on Anticipated Developments

### Global Economic Outlook

The outlook for the global economy brightened gradually in 2013, and it has been underpinned by better economic data in the meantime. For example, the momentum of global industrial production has gained considerable speed following the weak phase at the turn of 2012/2013. This is also increasingly reflected in the positive global trading figures. Moreover, the development of most early indicators, not least also in the Eurozone, speaks for stronger growth, so that the global economic slump can be regarded as having been overcome. While risks still remain for the global economy with the gradual change in the monetary policy of

the US central bank and the still high structural adjustment requirements in the Eurozone, they are not as high as in previous years, especially in view of the noticeable calming of the financial markets. This also applies with respect to turbulence that flared up in some emerging markets in mid-2013 and in January 2014. However, notable risks arising from this development for the economic development forecast of the most important currency areas are not to be anticipated in 2014.

For 2014, an acceleration of economic recovery is expected for the USA. Gross domestic product (GDP) may well increase by nearly 3% in comparison to the previous year. On the one hand, the fiscal policy should have fewer restrictive effects. On the other hand, with further improvements on the employment market and recovery of the property market, consumers should demonstrate a significantly increased willingness to consume and spend. According to currently available surveys, companies are very optimistic. The reduction of the monthly bond purchasing amount by the Fed ("tapering") is a certain risk factor, but the US central bank should succeed in reducing the monthly purchases both gradually as well as cautiously.

### Economic Forecast: Germany and the Euro Area

The German economy has launched into a new, strong upswing. Companies and consumers alike are looking very optimistically to the near future. In the processing industries, export expectations have also increased significantly again, which may well herald a return to a higher growth in exports. The German export economy will accordingly be able to profit from the increasing global momentum again. In the wake of the economic recovery, the employment market will continue to be strong. Employment will continue to rise and unemployment figures will fall slightly over the course of the year – despite consistently high migration to the German employment market. Overall a drop in the unemployment rate to 6.7% is anticipated in 2014. Private consumption will grow by a good 1% against this background. As long with the positive growth in employment, additional wage increases and only moderate inflationary pressure will be contributors to this. Since the inflation rate in Germany may well be significantly below 2% averaged over the year, considerable increases in real income are to be expected. Moreover, domestic demand will be determined by investments that will increase in momentum again, especially investments in equipment. Altogether, the Bank is anticipating a growth in the GDP in Germany of

2% for 2014, as compared to the previous year. Therefore Germany, as the economic locomotive of the Eurozone, will gather pace again.

The outlook for economic development in the Eurozone is currently better than ever since 2011. After two years of shrinking economic performance, GDP in the common currency area will increase by a good 1% in the current year. The most important mood indicators improved further at the beginning of 2014 and are now clearly in the growth range. Whilst the high growth differentials still remain in the current year within the common currency area, more and more countries in Southern Europe are leaving the recession behind and are at least steering towards a moderate economic recovery. The momentum will initially not be sufficient for a noteworthy reduction in the high unemployment rates in many member states. The debt crisis remains the biggest economic risk for the Eurozone, despite the calming of the financial markets that has now lasted for more than a year. In addition to some successes that have already been achieved, for example in the reduction of the current account deficits, the reduction of the financial deficit and government debt ratio remain the challenging tasks for many countries. The deficit ratio of the Eurozone will fall significantly below the 3% of GDP level again in 2014 thanks to the consolidation efforts.

The inflation rate in the Eurozone will be lower than in Germany in 2014. This is definitively desirable as part of the structural adjustments within the common economic area. Nevertheless, the annual rate has been below 1.0% since October 2013 and has thus moved far away from the nearly 2.0% mid-term inflation target of the European Central Bank (ECB). In order to prevent fears of deflation from even emerging, the ECB is also prepared to make its monetary policy even more expansive than to date. Because the leeway in the base rates has been almost totally exhausted, unconventional measures in particular would again appear on the agenda in such a case. This also applies with respect to turbulence that flared up in some emerging markets in mid-2013 and in January 2014. However, notable risks arising from this development for the economic development forecast of the most important currency areas are not to be anticipated in 2014. Following on from very low inflation in the first half of the year, the consumer price inflation rate in the Eurozone should also rise above the 1% level again over the course of the year, as compared to 2012. Because of the very weak monetary dynamic, however, inflation will remain slow for the medium term.

## Financial Market Development and Interest Rate Forecast

US monetary policy will initially be determined by the gradual reduction in the additional bond purchases in the current year. Since there is not likely to be an initial interest rate increase in 2014 either, despite the strong economic conditions, monetary policy will remain very expansionary for the whole year. A first increase in interest rates by the Fed will not be considered until 2015 at the earliest. Therefore, the potential for an increase in the yields of ten-year US treasuries also remains limited, even if the Bank is expecting a gradual rise to over 3% during the economic revival. The euro will drop slightly against the US dollar in 2014 due to the clear growth differential between the USA and the Eurozone. The euro is therefore expected to be at around 1.27 USD at the end of 2014.

The EUR/USD cross currency basis swap spreads have meanwhile stabilised over the whole curve within a range of between –5 and –10 base points. As a result, the ECB has been able to suspend the liquidity injection for three-month transactions again. We are anticipating a smooth, sideways spread trend in the area of –10 base points for the rest of this year. The effects of a return to a more static exchange rate of the US dollar against the euro that we are expecting and the stabilising impact of a better perception of creditworthiness in respect of the European banks will largely compensate for the spread development. The prerequisite for this, however, is that there is no further liquidity tension on the banking market.

The topic of the debt crisis in the Eurozone has taken a back seat in the financial markets. In principle, an ongoing positive prevailing mood is expected. The tapering by the US central bank could, however, certainly lead to a further alienation of capital from some emerging countries. For German government bonds, the Bank is expecting a gradual increase in yields over the course of the year once the very low inflation at the beginning of the year gradually loses its slowing effect. Due to the currently only moderate economic recovery, weak monetary dynamics and very low inflation, the monetary policy of the ECB will remain expansionary until well into 2015. Credit growth, which is weak in many countries of the Eurozone, could once again lead to a use of “non-standard” measures. The ECB would take firm action against an unwarranted increase in money market interest rates in any case. A change of course to a more restrictive monetary policy in 2014 is not yet on the agenda for the other big central banks (Bank of England, Swiss National Bank) either.

## Development of Business Segments

### Organisational

NORD/LB CFB is a legally independent subsidiary of Norddeutsche Landesbank Luxembourg S.A. It is fully integrated into the organisational structure and control of NORD/LB Luxembourg. All market, back office, organisational and administrative functions are performed on the basis of agency agreements by the parent company, NORD/LB Luxembourg, or the Group's parent company, NORD/LB.

### Financial Markets

At NORD/LB CFB, Financial Markets is represented by Cover Pool Management (integrated into the Financial Markets organisational unit of NORD/LB Luxembourg). The team is responsible for the issue of Lettres de Gage Publiques ("LdG") and management of the cover pool. The issue of Pfandbriefe according to Luxembourg law serves to expand the investor basis within the Group and supplements the funding of the NORD/LB Group with mid- to long-term covered funds for refinancing.

A conservative approach is used for controlling interest rate change and exchange rate risks. Interest rate and interest rate currency swaps at the micro-hedge level serve as hedging instruments. Liquidity risks are defined and limited within the scope of a group-wide liquidity policy.

There was no requirement for additional refinancing in recent months, and thus NORD/LB CFB did not make any new issues. Through the further consolidation of processes, additional benefits were derived from the organisational integration of the Pfandbrief business at NORD/LB Luxembourg, which was completed in 2012 and ensured that the Bank is well-positioned for the future.

The financial year was used to further optimise the cover pool. As at the 31 December 2013 reporting date, municipal undertakings and public lending banks, such as savings banks and banks offering subsidies to business (economic development banks or "Förderbank") once again made up by far the largest share in the cover pool of the Bank. At 29.1% nominal and 35.4% cash value, the excess cover was significantly above the statutory minimum of 2% in both cases.

NORD/LB CFB has a cover pool of high quality to secure the issued lettres de gage publiques. The breakdown of the cover pool according to credit rating categories, geographical distribution and the specifications according to Section 28 of the German covered bond law ("Pfandbriefgesetz") is made transparent by regular publication on the [www.nordlbcfb.lu](http://www.nordlbcfb.lu) website.

On the basis of this cover pool, NORD/LB CFB has received first-rate assessments from two rating agencies. The rating agency FITCH Ratings confirmed the AAA rating of the Bank's Pfandbriefe (with a stable outlook) on 20 February 2013 in its rating update. In addition, the Bank's long-term IDR of "A" (stable outlook) and the short-term IDR of "F1" were also affirmed by FITCH Ratings on 30 July 2013.

Rating agency Standard & Poors (S&P) assigned NORD/LB CFB the unsecured rating BBB+ based on the identical unsolicited rating for NORD/LB Girozentrale. The S&P approach for lettres de gage from Luxembourg allows a maximum elevation of 6 notches above the uncovered rating. Since NORD/LB Covered Finance Bank S.A.'s cover pool shows a balanced ALM profile and a high quality, the maximum elevation continues to be applied. Nevertheless, the adjustment of the unsolicited unsecured rating of NORD/LB Girozentrale utilising the approach described above led to a technical downgrade of the lettres de gage publiques, from AAA to AA+, in 2012. This rating was confirmed on 10 October 2013 and on 5 November 2013, with the outlook lowered to "negative" on 10 October. The negative outlook is the consequence the unsolicited rating outlook for NORD/LB Girozentrale, which was lowered shortly beforehand on 8 October 2013.

### Lending

The focus here is on the lending business with entities close to municipal undertakings in Germany. The Bank utilises the benefits of the Luxembourg covered bond law, which allows it to take accounts receivable from these customer groups (public utilities, water supply providers, airports and seaports, etc.) into the cover pool. As a "bank for municipal undertakings", NORD/LB CFB is the centre of competence within the NORD/LB Group for this business. The range of products comprises customised financing in the medium to long-term sector as well as financial solutions in the funding sector.

In addition to its direct customer business and with the aim of risk optimisation and diversification, the Bank has

also acquired international municipal lending business and other assets eligible for investment in the cover pool over the last few years. As part of the improvement of the strategic profile and the focus on the customer-driven lending business, international government financing is restricted to the management of the existing portfolio.

The strategic customer business with municipal undertakings is operated in cooperation with the corporate customers division of NORD/LB and it was possible to expand it further in 2013. In addition, there were positive effects on earnings arising from the cooperation with the Structured Finance division and the financing of infrastructure projects.

## Outlook

A further harmonisation of the system landscape of NORD/LB Luxembourg and NORD/LB CFB in 2014 will involve additional process optimisation and have a sustained positive effect on the structure of the operating costs.

Public sector funding requirements will also be at a high level in the coming year. NORD/LB CFB can offer this customer segment attractive conditions on the basis of its covered refinancing option and is accordingly expecting a further expansion of volumes and earnings in the lending business in cooperation with NORD/LB. In addition, the demand from savings banks for funding will also increase with the forthcoming expiration of the portfolio protection ("grandfathering") for bank and guarantor liability. Here, too, NORD/LB CFB will use its regulatory advantage in the coverage of receivables from public banks and savings banks and acquire new business.

## Earnings

NORD/LB CFB's financial statements as at 31 December 2013 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the Interna-

tional Accounting Standards Board (IASB), as implemented by the EU.

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

Items on the income statement changed as follows for the period under report:

	2013 (KEUR)	2012 (KEUR)	Increase/Decrease*) (KEUR)
Net interest income	6,422	2,215	4,207
Loan loss provisions	49	78	-29
Net commission income	186	78	108
Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting	-2,075	7,387	-9,462
Other operating profit/loss	-5,578	-3,286	-2,292
Administrative expenses	-721	-1,811	1,091
Profit/loss from financial assets	1,822	-3,935	5,757
<b>Earnings before income taxes</b>	<b>105</b>	<b>726</b>	<b>-621</b>
Income taxes	-4	-109	105
<b>Net income for the year</b>	<b>101</b>	<b>617</b>	<b>-516</b>

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

Net interest income increased as compared to the previous year by KEUR 4,207 to KEUR 6,422. This is mainly due to the Bank's own repurchased or mature issues, which it was possible to issue at more favourable conditions, and to customer receivables that rose as planned over the course of the realignment. In addition, the switch of commitment fees from net commission to net interest had a positive effect.

As in the previous reporting years, no value adjustments had to be recorded.

Net commission amounts to KEUR 186 (previous year KEUR 78).

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

Other operating profit/loss is below the comparative value. The decrease was mainly determined by the utilisation of additional services by NORD/LB Luxembourg and thus higher expenses when accounting for services.

Administrative expenses fell significantly in comparison with the previous year as a result of the realignment and integration into the control of NORD/LB Luxembourg.

Profit/loss from financial assets is primarily influenced by the reversal of portfolio value adjustments.

Before taxes, the Bank reported earnings of KEUR 105 for 2013; after taxes there remains a net income for the year of KEUR 101.

The individual items comprising the result are as follows:

## Net Interest Income

	2013 (KEUR)	2012 (KEUR)	Increase/Decrease <sup>*)</sup> (KEUR)
Interest income	334,197	381,712	-47,514
Interest expense	-327,775	-379,497	51,722
<b>Net interest income</b>	<b>6,422</b>	<b>2,215</b>	<b>4,207</b>

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

A drop in interest income and interest expenses is recorded in the year under report.

The Bank's own repurchased or mature own issues, which it was possible to re-issue at more favourable conditions, and a positive growth in the customer loan volume as planned led to a significantly positive development in the net interest income in the reporting year. The profit/loss from interest continues to include commitment fees from the lending business.

With regard to the details, please refer to Note (16).

## Loan Loss Provisions

The portfolio-based loan loss provisions on assets were slightly reduced in the year under report as compared to the previous year. There are no individual provisions for losses.

## Net Commission Income

	2013 (KEUR)	2012 (KEUR)	Increase/Decrease <sup>*)</sup> (KEUR)
Commission income	1,833	1,010	823
Commission expense	-1,647	-932	-715
<b>Net commission income</b>	<b>186</b>	<b>78</b>	<b>108</b>

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

Net commission income only includes income and expense from banking. The significant increase in commission income results from flat commission in the lending business. Commission expenses mainly result from margin splitting and custodial fees.

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

	2013 (KEUR)	2012 (KEUR)	Increase/Decrease <sup>*)</sup> (KEUR)
Trading profit/loss	272	6,004	-5,732
Profit/loss from initial recording of financial instruments designated at fair value through profit or loss	0	0	0
Profit/loss from hedge accounting	-2,347	1,383	-3,730
<b>Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting</b>	<b>-2,075</b>	<b>7,387</b>	<b>-9,462</b>

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

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

## Other Operating Profit/Loss

	2013 (KEUR)	2012 (KEUR)	Increase/Decrease <sup>*)</sup> (KEUR)
Other operating income	164	1,422	-1,258
Other operating expenses	-5,742	-4,708	-1,034
<b>Other operating profit/loss</b>	<b>-5,578</b>	<b>-3,286</b>	<b>-2,292</b>

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

The other operating income of the previous year was significantly affected by the reversal of provisions and deferred items. The increase in other operating expense primarily results from the higher figure in accounting for services with NORD/LB Luxembourg as a consequence of the transfer of personnel to NORD/LB Luxembourg.

## Administrative Expenses

	2013 (KEUR)	2012 (KEUR)	Increase/Decrease <sup>*)</sup> (KEUR)
<b>Staff expenses</b>	0	-485	485
Wages and salaries	0	-418	418
Other staff expenses	0	-67	67
<b>Other administrative expenses</b>	-721	-1,310	589
<b>Depreciation and value adjustments</b>	0	-16	16
<b>Administrative expenses</b>	-721	-1,811	1,091

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

Administrative expenses, including depreciation, decreased by a total of KEUR 1,091, down to KEUR 721. In comparison to the previous year, other administrative expenses are lower by KEUR 589. This is partly attributed to lower costs for legal advice, external auditing services and business equipment and furnishings. Within the scope of integration into NORD/LB Luxembourg, some of these activities were also taken over and passed on within the scope of the internal accounting for services. The total reduction in wages and salaries and the other staff expenses results from the outsourcing of staff to NORD/LB Luxembourg concluded in financial year 2012.

## Profit/Loss from Financial Assets

	2013 (KEUR)	2012 (KEUR)	Increase/Decrease <sup>*)</sup> (KEUR)
Profit/loss from financial assets classified as LaR incl. portfolio value adjustments	1,822	-9,780	11,602
Profit/loss from financial assets classified as AfS	0	5,845	-5,845
<b>Profit/loss from financial assets</b>	1,822	-3,935	5,757

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

The profit/loss from financial assets results from repurchases of the Bank's own issues, premature terminations and the reversal of portfolio-based loss provisions on LaR financial assets.

## Income Taxes

	2013 (KEUR)	2012 (KEUR)	Increase/Decrease <sup>*)</sup> (KEUR)
Current taxes	-4	-109	105
Deferred taxes	0	0	0
<b>Income taxes</b>	<b>-4</b>	<b>-109</b>	<b>105</b>

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

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

## Appropriation of Earnings

The earnings for the year under report, including profit carried forward, amount to KEUR 718. The Board of Directors proposes the following appropriation of earnings to the annual general meeting:

	2013 (KEUR)	2012 (KEUR)	Increase/Decrease (KEUR)
Profit/loss in the year under report	101	617	-516
Profit carried forward from previous year	617	0	617
<b>Sub-total</b>	<b>718</b>	<b>617</b>	<b>101</b>
Dividends	0	0	0
Allocation to legal reserve	0	0	0
Allocation to other reserves	0	0	0
Profit carried forward in year under report	718	617	101

	2013	2012	Increase/Decrease
Dividends (EUR)	0.00	0.00	0.00
Number of shares	800,000	800,000	0
Dividends per share (EUR)	0.00	0.00	0.00

## Schedule of Assets and Financial Data

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/Decrease (EUR million)
Loans and advances to banks	1,807.4	2,767.1	-959.6
Loans and advances to customers	996.1	797.7	198.4
Risk provisions	-0.2	-0.2	0.0
Financial assets at fair value through profit or loss	45.8	66.2	-20.4
Financial assets	3,173.1	3,737.3	-564.2
Other assets	306.7	550.5	-243.7
<b>Total assets</b>	<b>6,329.0</b>	<b>7,918.5</b>	<b>-1,589.6</b>
Liabilities to banks	2,923.6	3,846.7	-923.1
Liabilities to customers	692.5	759.3	-66.8
Securitised liabilities	1,979.9	2,211.0	-231.1
Financial liabilities at fair value through profit or loss	41.3	63.3	-22.1
Provisions	0.0	0.0	0.0
Other liabilities	614.9	970.5	-355.7
Reported equity	76.8	67.6	9.2
<b>Total equity and liabilities</b>	<b>6,329.0</b>	<b>7,918.5</b>	<b>-1,589.6</b>

The balance sheet total decreased by EUR 1,589.6 million as compared to 2012, and was thus 20 % below the previous year's level.

Loans and advances to banks fell by EUR 959.6 million. The decrease mainly affected the interbank business and collateral management. Liabilities to banks fell by EUR 923.1 million. This decrease was primarily seen in the REPO volume.

Loans and advances to customers rose by EUR 198.4 million in accordance with the strategic realignment.

The financial assets and securitised debts items fell by EUR 564.2 million and EUR 231.1 million respectively, mainly due to final maturities and valuation changes.

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

The balance sheet equity of the Bank rose to EUR 76.8 million. The increase results from a decrease in the negative revaluation reserve from financial assets in the "available for sale" category.

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

## Risk Report

The risk report for NORD/LB CFB as at 31 December 2013 was prepared on the basis of IFRS 7.

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

All market and back office activities were integrated into NORD/LB Luxembourg in 2012 as part of the realignment of the NORD/LB Luxembourg Group. With the approval of the CSSF as the competent Luxembourg regulatory body, the business activities of the Bank are carried out by the market units of NORD/LB Luxembourg. In addition, the Bank has been fully integrated into the risk management of NORD/LB Luxembourg, which is responsible for implementing the relevant mechanisms for risk management in both companies. The reporting on the capital adequacy (ICAAP reporting pursuant to CSSF circular 07/301 and its addenda circulars) is therefore included in a report for the NORD/LB Luxembourg Group.

## 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-oriented equity allocation is therefore a central component of modern bank management and is of great importance to NORD/LB CFB.

The risk management process implemented at the Bank consists of the following levels: risk identification, risk assessment, risk reporting and risk management and monitoring. It is subject to continuous review and improvement in close cooperation with NORD/LB. Adjustments that may become necessary include organisational measures, revisions in the procedures for quantifying risk, and the continuous updating of relevant parameters.

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

NORD/LB and NORD/LB Luxembourg have each issued a letter of comfort for the Bank. The Bank is included in the risk capital cover requirements of NORD/LB Luxembourg via the consolidated capital adequacy calculation.



In order to identify risks, the Bank is integrated into the multi-stage process (risk inventory) of NORD/LB Luxembourg that is used to derive the overall risk profile, which depicts the types of risk relevant to the NORD/LB Luxembourg Group and differentiates between significant and insignificant risks for the purpose of further differentiation. Of primary importance in this connection are all relevant risk types which could significantly impair the financial status (including capital adequacy), earnings position or liquidity position of the NORD/LB Luxembourg Group.

The overall risk profile results from the business activities, which are defined in the business strategy of the NORD/LB Luxembourg Group for the business segments and thus also for the Cover Pool Management of the Bank. 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 stocktaking, the following risks continue to be deemed significant: credit risk, participation risk, market price risk, liquidity risk and operational risk. In addition, the following risks are deemed to be relevant: business and strategic risk (including allied risks), reputational risk, syndication risk and model risk. Appropriate precautions were taken for all identified risks.

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

Changed requirements in risk management 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 outstanding items were dealt with during the year under report in coordination with NORD/LB. A final implementation deadline for the establishment of an accounting system for liquidity costs in accordance with MaRisk has been set in principle for 31 December 2013. In accordance with the minutes of the MaRisk technical forum on 18 June 2013 (Item 7), a “sense of proportion” is to be anticipated with the regulatory assessment as long as the creation of a concept has been fully completed and the delay in implementation is not due to the failings of the bank. The drafting of the liquidity transfer price system was already finished by 31 December 2013, although the implementation will last until into 2014.

In addition, a gap analysis was conducted with regard to Circular 12/552 (“Central Administration, Internal Governance and Risk Management”). The implementation of the risk pricing system that has to be set up will also take place in 2014, as will the implementation of the liquidity transfer price system. All other necessary measures, in particular the establishment of a risk management function, were successfully implemented internally at the Bank over the course of the year.

### Risk Management – Strategies

The business purpose of NORD/LB CFB is to conduct the business of a covered bond bank (Pfandbriefbank) to the extent permitted under the law of the Grand Duchy of Luxembourg. The Bank’s business policies are deliberately conservative in their orientation. Its main principle is to responsibly handle risks. The risk strategy formulated at the NORD/LB Luxembourg Group level is thus in alignment with the business model, the business strategy and the specifications of the Group risk strategy and is reviewed at least once a year. It consists of the risk policy principles of the NORD/LB Luxembourg Group, the organisation of risk management, the overall risk profile derived from the business segments of the NORD/LB Luxembourg Group and the risk sub-strategies regarding the essential bank-specific risk types.

The core element of the risk strategies is the risk-bearing capacity model (RBC model), on the basis of which the risk appetite is defined and the allocation of the risk capital to the significant risk categories is undertaken. The risk-bearing capacity of NORD/LB CFB has been managed implicitly

via the risk-bearing capacity of the NORD/LB Luxembourg Group since 30 September 2012.

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

The maximum allocation of risk capital to the significant risk types is also specified within the scope of the risk strategy on the basis of the RBC model. The majority of the cover pool is thereby allocated to credit risks and also reflects the focus of NORD/LB CFB on the international lending business with public administrative offices and banks.

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

During the year under report, the risk strategy was reviewed, adjusted and, following approval by the Board of Directors, discussed with and approved by the Supervisory Board.

### Risk Management – Structure and Organisation

The responsibility for risk management in the NORD/LB Luxembourg Group is borne by the Board of Directors of the group’s parent company NORD/LB Luxembourg. As part of the integrated management 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, the supervisory board function will be undertaken by the same elected representatives for both banks.

The Board of Directors at NORD/LB Luxembourg defines the risk strategy for the NORD/LB Luxembourg Group. Following the adoption of the risk strategy by the Board of Directors, it will be discussed with and approved by the Supervisory Board. The risk committee at the Bank bears the responsibility for the development and monitoring of the risk strategy following a relevant resolution of the full board. This includes the monitoring of all significant risks, including risk reporting.

Risk management is subjected to continuous review and improvement. In the process, the NORD/LB Luxembourg Group applies the standard methods of the NORD/LB Group. It is subject to continuous review and improvement in close cooperation with NORD/LB. Adjustments that may become necessary include organisational measures, revisions in the procedures for quantifying risk, and the continuous updating of relevant parameters.

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

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

Market/Back Office	Division
Market	Financial Markets
	Loans
Back Office	Finance
	Credit Risk Management
	Operation Services
	Org/IT
	Compliance
	Legal
	Administration
Auditing	

The responsibility for the implementation of the RBC model, which applies to NORD/LB, the ongoing monitoring of

compliance and the regular review of the risk strategies lies with Risk Controlling (Finance Division).

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

As part of the ongoing further development of group-wide monitoring tools, the internal auditors at NORD/LB and NORD/LB Luxembourg work closely together using a standardised Group audit policy and an evaluation matrix for the audit findings. Cross-institutional competence centres were also set up in this regard, in order to develop complex specialised subjects and conduct audits in the Banks.

The Bank's compliance function is responsible for identifying and assessing the compliance risks within the Bank. It is responsible for ensuring that the requirements pertaining to the Internal Capital Adequacy Assessment Process (ICAAP), in particular those arising from circular CSSF 07/301 and its addenda circulars, are complied with in full conformity at the Bank. The Bank's Compliance Charter describes which tasks and responsibilities were defined.

Along with the compliance function and internal auditing, the risk control function pursuant to CSSF circular 12/552 is an essential component of risk management. Following successful approval by the CSSF, the role of CRO as defined by CSSF circular 12/552 has been undertaken since 1 December 2013 in the NORD/LB Luxembourg Group by the Director of Finance. The CRO reports directly to the risk committee. The main duty of the risk control function is to review compliance with all internal regulations and procedures which fall under their sphere of responsibility, to assess their adequacy with a view to the organisational structures and procedures, the strategies, business activities, risks of the bank and the pertinent statutory and regulatory provisions and give an account of this directly to the Board of Directors and Supervisory Board. The findings of this review are incorporated in a report on the risk control function that must be produced annually.

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

Bank to be identified, analysed and assessed prior to the commencement of the business. Associated with this is the integration of all necessary audit areas and documentation of new business activities, their treatment in the overall operational process, the decisions regarding the commencement of the business and any associated restrictions.

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

### Risk Management – Risk-bearing Capacity Model

The risk-bearing capacity model forms the methodological basis for monitoring adherence to the NORD/LB Luxembourg Group's risk strategy. This monitoring is carried out for the Bank 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 of the Bank are informed promptly of the risk-bearing capacity situation. This model serves to secure risk-oriented corporate management.

The NORD/LB Group employs a scenario-based RBC model, which also fulfils the requirements of the 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 consists of the three perspectives of going concern, gone concern and regulatory, in each of which the significant risks (risk potential) are compared with the defined risk capital.

The going concern case represents the authoritative control loop for the assessment of the risk-bearing capacity and the adequacy of the equity position (ICAAP). The overarching guiding principle of this primary control loop is the independent going concern on the basis of the existing business model, even if all the available cover pool has been drained by risks that have been incurred. In the going concern approach, economically calculated risk potentials are set against risk capital, which is determined in the

course of a consideration of the bottleneck of the free regulatory capital at fixed minimal ratios (total capital and core capital) and adjusted by adding further risk capital effects within the scope of a dynamisation process at a standard confidence level of 95 %.

The second level of assessment is represented by the gone concern approach and constitutes a secondary condition within the RBC model. The gone concern approach takes a higher confidence level of 99.9 % into consideration on the risk potential side and sets the relevant economically calculated risk potentials against a risk capital that is based on the full regulatory capital. The risk capital is again adjusted in relation to various aspects here. If the capital needed to cover the risks is used up, a continuation of the Bank would in principle no longer be possible under otherwise unchanged assumptions.

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

The structure of the RBC model provides for the gone concern approach to act as a stimulus for the going concern approach that is crucial in the assessment of the risk-bearing capacity. Direct management-relevant stimuli come from the going concern approach, however.

When determining the risk-bearing capacity, risk concentrations are also taken into account, both within a risk category and across risk categories. Concentrations within a risk category essentially relate to credit risks as the most important risk category at NORD/LB CFB. These are integrated into the RBC model via the internal credit risk model and flow into the economic risk potentials.

Concentrations across risk categories are taken into account via stress tests. When selecting the stress scenarios, the business and risk focuses of the NORD/LB Group are initially utilised as selection guidelines. Amongst others, this includes selecting sectors, segments, regions and customers that have a decisive influence on the risk situation of the Group. These risk concentrations are regularly determined, reported and monitored with targeted stress tests in the context of risk-bearing capacity.

The relevant scenarios are 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. The specific business and risk focuses of the NORD/LB Luxembourg Group are taken into account via the bank-specific scenarios.

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

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

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

### Risk Management – Development in 2013

Following the integration of personnel from NORD/LB CFB into NORD/LB Luxembourg in the first half of 2012, economic management (ICAAP) in the NORD/LB Luxembourg Group has been permitted to be implemented exclusively

on a consolidated basis since 30 September 2012 with the approval of the CSSF. This also comprises the regular reports on risks and capital to the steering committees, so that only one risk bearing capacity (RBC) report is now prepared at the level of the NORD/LB Luxembourg Group as of 30 September 2012.

The utilisation of the risk capital using the going concern scenario at the NORD/LB Luxembourg Group level was 27 % as at 31 December 2013.

### Risk Management – Outlook

At the end of the first quarter of 2014, the risk-bearing capacity model of the NORD/LB Group will be converted to an IFRS-based logic.

A comprehensive revision of the "stress landscape" of the NORD/LB Group is currently underway. The RBC scenarios are also being integrated into this. The aim is to expand the scenario analyses into a fundamental pillar of the management process within the scope of the new concept. Implementation is scheduled for 2014. The NORD/LB Luxembourg Group is involved in the improvement and is revising the bank-specific stress scenarios within this framework.

In addition, a reorganisation of the Bank's executive bodies is planned in order to increase efficiency through a closer exchange of specialist information.

Another focus of risk management in 2014 will be the implementation of the new requirements of CRR and CRD.

### Credit Risk

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

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

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

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

## Credit Risk – Management

### Strategy

In accordance with statutory provisions, the core business of Pfandbrief banks is primarily to grant loans to certain debtors as well refinancing by issuing Pfandbriefe (covered bonds).

In line with the objective of a Luxembourg Pfandbrief bank, NORD/LB CFB focuses on lending and portfolio management of public assets eligible for the cover pool in Luxembourg. In particular, assets which are not eligible for cover pool in Germany according to German legislation, are the focus.

This complementary strategy to the Pfandbrief business of the German Pfandbrief issuers in the NORD/LB Group has been deliberately selected in order to utilise the resultant diversification effects within the Group. NORD/LB CFB has firmly defined its strategic business sector within the scope of this business model.

### Structure and Organisation

In accordance with the requirements of the Luxembourg bank supervisory authorities, lending business processes

are characterised by a clear organisational separation of the front and back office, right up to the Board level.

The Loan Management (Lending – Market segment) as well as Credit Risk Management (Lending – Back Office), Finance and Financial Markets (Cover Pool Management) divisions of NORD/LB Luxembourg in particular are integrated into this system.

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

## Credit Risk – Control and Monitoring

The management of the lending portfolio focuses on opportunities and risks. With regard to the early detection of crisis situations, structured procedures and processes for the standardised collection of risk-related information and its transformation into counter measures are used within the scope of the risk management process. In the context of credit risk, there are appropriate processes, systems and guidelines on the early identification of risks at both the portfolio and individual borrower levels. Taking into consideration existing risk limits, qualitative early warning indicators are derived on the basis of this standardised infrastructure for the purpose of identifying crisis situations and initiating risk mitigation measures.

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

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

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

creditworthiness of the debtor expressed as a rating and the free funds available to it to operate the debt service.

Risk concentrations and correlations at the portfolio level are mapped as part of the quantification of the credit risk potential in the credit risk model. Moreover, risk concentrations at NORD/LB Group level are limited and monitored via “strategic limiting” for the identification and monitoring of risk concentrations at the country and sector level as well as on the basis of borrower units within the scope of the large exposure management limit model. In addition to this superordinate limiting, there is also limiting of counterparty, country and sector concentrations at the NORD/LB Luxembourg Group level based on the 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.

### Credit Risks – Assessment

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

The unexpected loss for the credit risk is quantified across the NORD/LB Luxembourg 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. It is based on the basic model CreditRisk+. It involves representing systematic sector influences on the distribution of loss using correlated sector variables. The estimate of the probability of default (PD) draws on the internal rating procedure. The loss quotas (loss given default or LGD) are defined on a transaction-specific basis.

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

losses which could emerge from rating migrations are also taken into account.

The methods and procedures for quantifying risk are coordinated among the main companies in the NORD/LB Group in order to ensure a standardised approach within the Group. Risk Controlling at NORD/LB Luxembourg performs the assessment on behalf of NORD/LB CFB.

### Credit Risks – Reporting

As part of the management information system, the Finance division drafts a counterparty risk notification on a monthly basis at the level of the individual bank and the NORD/LB Luxembourg Group and a more detailed quarterly counterparty risk report for the Board of Directors and for the members of the credit risk committee in order to make existing risks or risk concentrations transparent at an early state and if require, initiate any 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 the 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. The NORD/LB Luxembourg Group performs all of the above processes on the basis of the IRB base rate.

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 the NORD/LB Luxembourg Group level.

### Credit Risk – Development in 2013

The maximum credit default risk amount for reported and off-balance sheet financial instruments is EUR 6.5 billion as at the reporting date and dropped by 19.2% in 2013.

Risk-bearing Financial Instruments EUR million	Maximum Default Risk Amount	Maximum Default Risk Amount
	31.12.2013	31.12.2012
Loans and advances to banks	1,807.4	2,767.1
Loans and advances to customers	996.1	797.7
Financial assets stated at fair value through profit or loss	45.8	66.2
Positive fair values from hedge accounting derivatives	297.9	537.8
Financial assets	3,173.1	3,737.3
<b>Sub-total</b>	<b>6,320.3</b>	<b>7,906.2</b>
Non-utilised loan commitments	205.8	167.3
Guarantees for third-party invoices	–	–
<b>Total</b>	<b>6,526.1</b>	<b>8,073.5</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 from different accounting and valuation methods.

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

#### Analysis of Credit Exposure

The credit exposure at NORD/LB CFB as at 31 December 2013 amounts to EUR 6.3 billion (previous year EUR 8.4 billion), as can be seen from the tables below. The significant reduction of the exposure is mainly due to the declining repo and money business in the short-term range with NORD/LB Luxembourg as well as to security maturities.

The NORD/LB CFB 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 rating categories of the 18-tier DSGV rating master scale used as standard in the NORD/LB Luxembourg Group can be transferred directly into the IFD categories.

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

Rating Structure <sup>1)2)</sup> EUR million	Loans <sup>3)</sup>	Securities <sup>4)</sup> 31.12.2013	Derivatives <sup>5)</sup>	Other <sup>6)</sup>	Total	
					31.12.2013	31.12.2012
Very good to good	2,104.0	3,164.4	225.4	0.0	5,493.8	7,432.6
Good/satisfactory	0.0	594.7	0.0	0.0	594.7	683.1
Still good/adequate	30.5	87.9	0.0	0.0	118.4	216.3
Increased risk	0.0	82.2	0.0	0.0	82.2	57.5
High risk	0.0	21.6	0.0	0.0	21.6	0.0
Very high risk	0.0	0.7	0.0	0.0	0.7	53.1
Default (= NPL)	0.0	11.5	0.0	0.0	11.5	0.0
<b>Total</b>	<b>2,134.5</b>	<b>3,962.9</b>	<b>225.4</b>	<b>0.0</b>	<b>6,322.8</b>	<b>8,442.6</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 (86.9 %) 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> EUR million	Loans <sup>3)</sup>	Securities <sup>4)</sup> 31.12.2013	Derivatives <sup>5)</sup>	Other <sup>6)</sup>	Total	
					31.12.2013	31.12.2012
Financial institutes/insurers	1,197.8	1,666.3	255.3	0.0	3,089.4	5,031.2
Service industry/other	168.4	1,859.1	0.2	0.0	2,027.7	2,282.3
of which real estate and residential	140.3	0.0	0.0	0.0	140.3	36.6
of which public administration	17.0	1,789.9	0.2	0.0	1,807.1	2,150.8
Transport/communications and information transmission	148.3	107.1	0.0	0.0	255.4	279.1
of which shipping	0.0	0.0	0.0	0.0	0.0	0.0
of which air transport	26.3	0.0	0.0	0.0	26.3	0.0
Processing industry	30.5	0.0	0.0	0.0	30.5	29.2
Energy, water supply, mining	559.4	330.3	0.0	0.0	889.7	820.8
Trade, maintenance, repair	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture, forestry and fishing	0.0	0.0	0.0	0.0	0.0	0.0
Construction industry	30.0	0.0	0.0	0.0	30.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>2,134.5</b>	<b>3,962.9</b>	<b>255.4</b>	<b>0.0</b>	<b>6,322.8</b>	<b>8,442.6</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 table shows that the business with financial institutions / insurance companies with good credit ratings and with public administrative offices, at an overall proportion of 77.4 %, continues to make up a major share of the overall exposure.

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

Regions <sup>1)2)</sup> EUR million	Loans <sup>3)</sup>	Securities <sup>4)</sup> 31.12.2013	Derivatives <sup>5)</sup>	Other <sup>6)</sup>	Total	
					31.12.2013	31.12.2012
Euro states	1,815.9	2,071.6	214.5	0.0	4,102.1	5,579.7
of which Germany	958.4	539.4	57.1	0.0	1,554.9	1,504.0
Other Europe	250.4	424.1	10.3	0.0	684.8	977.8
North America	37.7	1,346.2	0.6	0.0	1,384.4	1,721.7
Latin America	0.0	0.0	0.0	0.0	0.0	0.0
Middle East/Africa	0.0	0.0	0.0	0.0	0.0	0.0
Asia	30.5	121.0	0.0	0.0	151.5	163.4
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>2,134.5</b>	<b>3,962.9</b>	<b>255.4</b>	<b>0.0</b>	<b>6,322.8</b>	<b>8,442.6</b>

1) Classification same as internal reporting according to economic criteria

2) to 6) See previous table: "Sectors"

At 64.9% the Eurozone is still the most important business area of NORD/LB CFB. The exposure in North America fell significantly due to maturities and sales of securities.

### Non-Performing Loans (NPL)

In accordance with the impairment policy, specific value adjustments are established at the Bank for acute borrower's default risks in the event of the presence of objective indications. Loan loss provision requirements are based on a cash equivalent consideration of anticipated interest and redemption payments as well as on earnings from the realisation of collateral. The Bank has not established any loan loss provisions as at the reporting date.

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 and provisions for loans due to portfolio risks that have already occurred, but were not known on the reporting date.

### Credit Risk – Outlook

In 2014, measures are planned for the further optimisation of the models for quantifying and controlling credit risks. As well as further developing the economic credit risk model (including implementing idiosyncratic migrations and

expanding the sector schematic), the loss data collection for the validation of the LGD and Credit Conversion Factor (CCF) components will also be further expanded.

In order to provide consistency between the presentation of the credit risks in the risk-bearing capacity and counterparty risk reports, the counterparty risk report will be converted into economically determined key risk figures (expected loss, unexpected loss) in 2014.

### Market Price Risk

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

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

tion. The credit spread risk in the trading portfolio and the liquidity reserve is also subsumed under interest rate risk.

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

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

Currency risks (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.

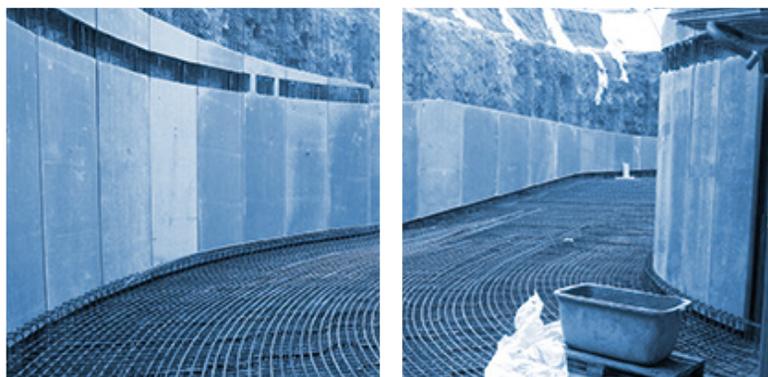
The credit spread risk denotes potential price changes which arise if the credit spread applicable to the respective issuer, borrower or reference debtors and used in terms of the market valuation of the position changes.

## Market Price Risk – Management

### Strategy

Within the scope of managing market price risk, the Bank's activities concentrate on selected markets, customers and product segments. The positioning of NORD/LB CFB in the money, exchange and capital markets is intended to reflect the importance and size of the Bank accordingly and focuses primarily on the business model of the bank as a non-trading bank, which, because it is a Pfandbrief bank, is regulated by Art. 12 of the Law of 5 April 1993 on the financial sector.

The focus of activities in relation to the customer business is on loan products in the loan management – near-municipal undertakings segment. The aim of the hedging strategies of the Bank is to rule out the interest rate and currency risks as far as possible by using appropriate hedges



and thus to generate profits via the interest contribution and the credit spread within the scope of the defined risk limits that apply to the whole bank. The generation of profits from maturity transformation only plays a subordinate role in the Bank's business model. As a non-trading bank, NORD/LB CFB does not take opportunistic or speculative positions.

### Structure and Organisation

The Financial Markets (ALM / Treasury and Cover Pool Management) division at NORD/LB Luxembourg, which manages market price risk bearing positions and bears gains and losses arising from market changes, is included in the process of controlling market price risks.

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

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

Monitoring of the risks is carried out by the Risk Controlling (Finance 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

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

Compliance with the limits is monitored by Risk Controlling of NORD/LB Luxembourg.

## Market Price Risk – Assessment

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

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

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

The prediction quality of the value-at-risk model (VaR and CSVaR) is verified with comprehensive backtesting analyses. This involves the comparison of the daily change in value of the respective portfolios with the value-at-risk of the previous day. A “backtesting” outlier occurs if the negative change in value observed exceeds the value-at-risk.

In the year under report, with regard to the VaR at the overall bank level, the number of outliers in NORD/LB CFB

is in the red for the first time, according to the Basel traffic light approach. Within the scope of the model analysis subsequently conducted by Risk Controlling, an error was detected in the depiction of the bond options in RiskManager (software for determining the VaR), which will be rectified in the first quarter of 2014 by the pertinent software company. In order to guarantee a conservative risk measurement, an add-on amount for the options portfolio is calculated and added to the overall bank VaR. The add-on is adjusted weekly.

Within the scope of the backtesting the CSVaR, the outliers at NORD/LB CFB were in the yellow range in the reporting year, according to the Basel traffic light approach. Therefore, the procedure is currently under special observation by Risk Controlling, the last outlier occurred on 25 October 2013.

In addition to the VaR, the effects of extreme market changes on the risk positions are investigated within the scope of monthly stress test analyses. For each of the market price risk types – interest, currency and volatility risks – various stress scenarios were defined for this purpose, which approximately reflect the average of the highest observed changes for the respective risk factors and are combined into cross-market price risk type scenarios. The risk factors under consideration were selected at the Group level and likewise reflect the major risks for NORD/LB Luxembourg.

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

## Market Price Risks – Reporting

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

As well as the Value-at-Risk analyses, the department heads are informed on a monthly basis regarding the CSSF stress test as well as the effects of additional stress scenarios and the results of the backtesting.

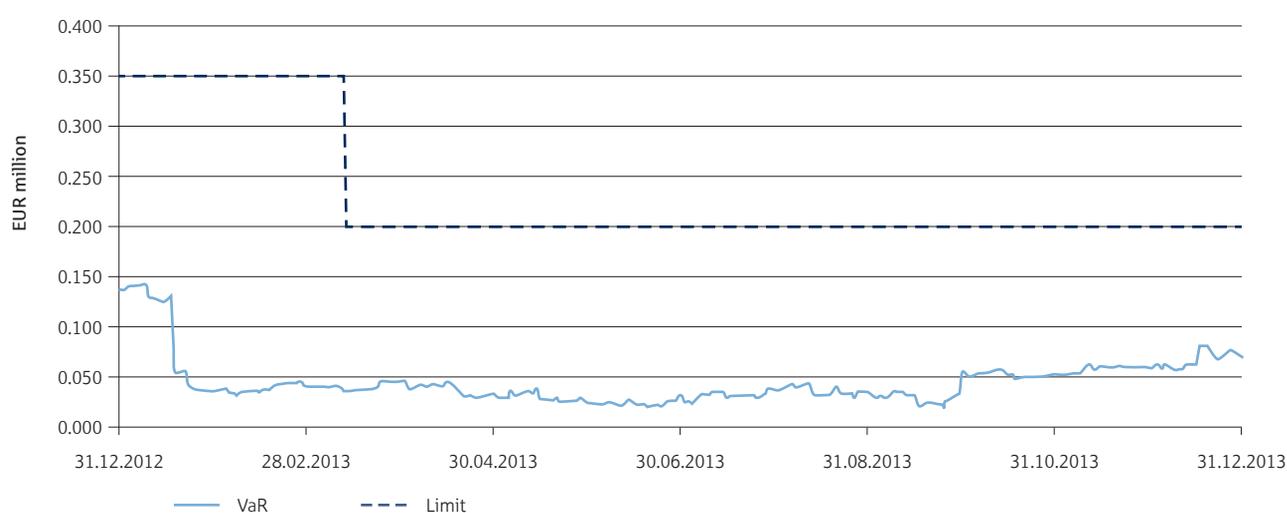
The entire Board of Directors is informed comprehensively on a daily basis with regard to the market price risks and the earnings position. Reporting also takes place in the form of weekly and monthly risk reports. The market price risks also flow into the cross-risk type reports on the risk-bearing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

### Market Price Risks – Development in 2013

The development of the Bank's market price risk was at a moderate level in the year under report relative to the allocated economic capital and the limits derived from it.

The following graph shows the development of the overall bank VaR over the course of the year.

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



The bank's overall value-at-risk limit was reduced on 15 March 2013 to EUR 0.2 million.

The value-at-risk on 31 December 2013 was EUR 0.07 million (previous year EUR 0.1 million). The average utilisation of the value-at-risk limit at NORD/LB CFB in 2013 was 19.6% (previous year 43.2%); the maximum utilisation was 41.0% and the minimum 9.3%. In line with its strategy, the Bank

deliberately did not build up any significant positions in interest rate or foreign currency risks.

The share of interest rate and foreign currency risks in the overall risk of the Bank amounts to EUR 0.06 million and EUR 0.05 million respectively as at 31 December 2013. At the end of the reporting year, the add-on amount for volatility risks is zero.

As at 31 December 2013, the interest sensitivities are as follows:

Sensitivities (Interest)																	31.12.2013	
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
Total bank	+0.0	+0.0	+1.2	+0.0	+0.0	-15.1	-4.1	+0.0	+0.0	+0.0	-0.0	+0.0	+0.0	+0.0	+0.0	+0.8	+0.0	-17.2

With respect to the interest rate risks in the investment book, the effects of a standardised interest rate shock are also analysed on a monthly basis in accordance with the requirements of the CSSF Circular 08/338. The result continues to be far below the regulatory threshold, which provides for a maximum proportion of 20% of authorised equity capital.

For the calculation of the capital required for interest, currency and price risks, the Bank uses the standard procedure according to SolvV. As at 31 December 2013, a capital requirement in the sum of EUR 0.6 million was calculated.

The credit spread risks of the trading book are not included in the VaR for market price risks, since these are based on the going concern perspective of the RBC model. They are therefore measured and limited separately via the credit spread value-at-risk with a confidence level of 95% and a holding time of 250 days. The limit is derived from the gone concern perspective of the RBC model.

The CSVaR limit of the investment book was increased on 1 July 2013 from EUR 90.0 million to EUR 120.0 million. The limit utilisation in 2013 was an average of 81.4%. As at 31 December 2013, the credit spread value at risk for the investment assets was EUR 81.4 million (EUR 76.4 million as at 31 December 2012). These limits were exceeded in the first half of the year. However, because the limit of EUR 130 million was not exceeded at the level of the NORD/LB Luxembourg Group at any time, no measures had to be taken. In the second half of the year, the credit spread risks of the investments dropped again in comparison to their peak at the end of March 2013.

## Market Price Risks – Outlook

The Bank is not expecting any significant increase in the interest rate or foreign currency risks in 2014. An increase in the credit spread risk is also not being striven for. Its development depends primarily on general economic development and the reaction to the financial markets.

## Liquidity Risk

Liquidity risks comprise risks which may result from problems in the liquidity of individual market segments, unexpected events in lending or investment business, or deteriorations in the Bank's own refinancing conditions. In the understanding of the Bank, placement risk is part of the

liquidity risk. It describes the risk that the Bank's own issues cannot be placed on the market or can only be placed only at poor conditions.

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

### Classic Liquidity Risk

Classic liquidity risk is defined as the risk that payment obligations cannot be met at all or not on time. A potential cause can be a general disruption in the liquidity of the money markets affecting individual banks or the whole financial market. In particular, market disruptions can lead to important asset classes being dropped from use as securities. Alternatively, unexpected events in the Bank's own lending, deposit or issue business can also be a cause of liquidity bottlenecks. The assessment focuses on the next twelve months in the NORD/LB Group.

### Refinancing Risk

Refinancing risk refers to potential decreased earnings for the Bank as a result of the change in its own refinancing conditions on the money market or capital market. The most significant cause of this is a change in the estimation of the Bank's credit rating by the other market participants. The focus of this assessment is the entire maturity range. For positions in foreign currencies, the refinancing risk also includes the change from currency-specific mark-ups on the liquidity spreads (cross-currency spreads). In particular, this includes the spread risks from cross-currency swaps.

### Market Liquidity Risk

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

## Liquidity Risk – Management

### Strategy

The liquidity risk strategy of NORD/LB CFB is aligned with 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 pursuant to MaRisk.

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

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

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

The bank's liquidity – alongside its function as a specialised bank in the area of covered finance and the resultant contribution to the diversification of the financing base of the NORD/LB Group – is entirely managed by NORD/LB Luxembourg, which assumes the role of the coordinator of uncovered liquidity within the NORD/LB Luxembourg Group.

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

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. In addition, 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).

### Structure and Organisation

The Financial Markets and Finance divisions of NORD/LB Luxembourg are included in the liquidity management process of the NORD/LB Luxembourg Group.

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

Risk Controlling (Finance division) is responsible for monitoring the liquidity risks. 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.

### Liquidity Risk – Control and Monitoring

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

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

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

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

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

Market liquidity risks are accounted for implicitly by means of distinguishing securities in the liquidity progress review in accordance with their market liquidity. On the basis of a detailed security class concept based on the liquidity grade of the individual security, they are classified into main categories and also into respective sub-categories (e.g. according to central bank eligibility and rating). They are depicted in the liquidity progress review depending on the liquidity class in the maturity range between daily and final due date.

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

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

### Liquidity Risk – Measurement

The liquidity risk is quantified in a risk-bearing capacity concept, resulting from the consideration of the refinancing risk in cash terms. Operational limits for the refinancing risk in cash terms as well as maturity and currency dependent volume structure limits are derived from this.

The current liquidity flows form the basis for the calculation of the dynamic and static stress scenarios for modelling the classic liquidity risk. These are stressed to the extent that they reflect a crisis situation. Therefore, e.g., the assumption would be that the Group's ability to dispose of positions has become limited and there is an increase in the number of borrowers drawing on loans. The stress scenarios can be used to show the effects of unexpected events on the liquidity situation of the NORD/LB Luxembourg Group. This offers the opportunity to plan for the future and be well prepared for emergencies.

The aforementioned analyses take into account the central importance of the market liquidity of all securities in

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

### Liquidity Risk – Reporting

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

The responsible departments are informed of the classic liquidity risk as well as the refinancing risk of the NORD/LB Luxembourg Group. Furthermore, weekly and monthly risk reports are prepared for the Board of Directors. Information is also provided within the scope of a quarterly report on the risk-bearing capacity.

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

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

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

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

In the case of the liquidity buffers, the first class assets, a distinction is made between Level 1 assets and Level 2 assets, which are given a certain weighting factor depending

on their classification. In addition, outgoing payment flows are also modelled under stress conditions (e.g. partial withdrawal of deposits, unscheduled drawdown of unused credit lines, loss of uncovered refinancing).

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

### Liquidity Risk – Development in 2013

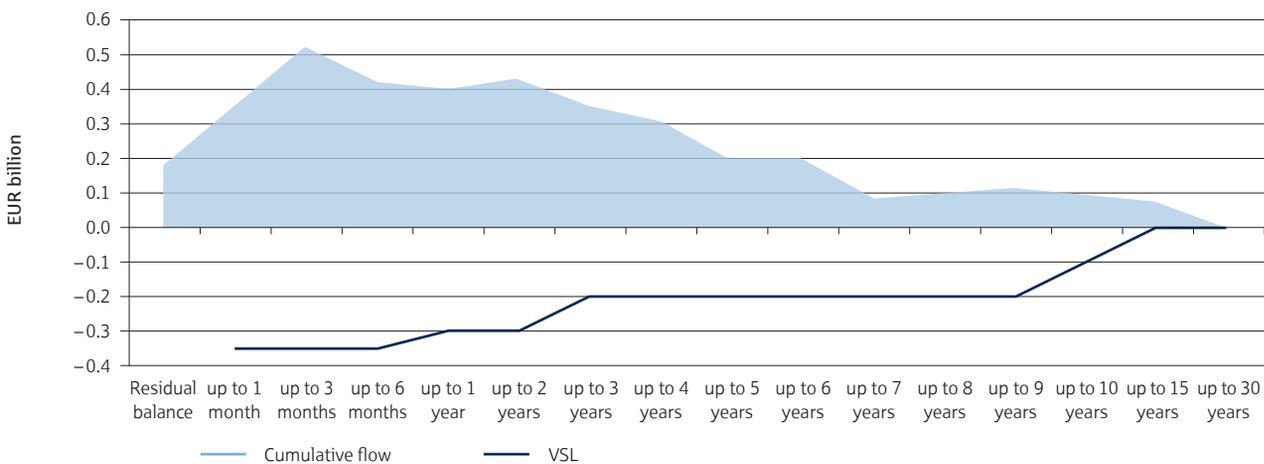
Over the course of 2013, the financial market continued to find itself in a tense mood. The liquidity resources of the Bank were secured at all times and show a liquidity surplus as at 31 December 2013, as on the comparative reporting date, across all maturity bands.

The Bank continues to specialise in the business with municipal undertaking lending as well as its covered refinancing.

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

### Liquidity Refinancing Risk at NORD/LB CFB

#### Cumulative Schedule of Liquidity Flows



The regulatory requirements were complied with at all times in 2013.

### Liquidity Risk – Outlook

By managing its liquidity risk to an extent beyond that required by regulatory provisions, the Bank ensures that it is always in a position to fulfil its payment obligations on time.

For 2014, 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 are being developed for managing and control-

ling 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. In particular, the standardisation of the procedure for the market price risk and the profit and loss account in cash terms is being striven for. The aim is to standardise the risk measurement procedure for the market price risk and the liquidity risk so that the profit and loss account can be compared to a consistent risk amount. This subject – like other developments in this area – is being dealt with jointly in the NORD/LB Group, where compliance with regulatory requirements is a strict auxiliary condition.

## Operational Risk

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

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

- Legal risk denotes the risk that loss or damage may occur due to the lack of or incomplete consideration of the legal framework prescribed by statutory regulations and the administration of justice. Risks arising from changes in legislation constitutes the risk of a loss due to new legislation or regulations, a disadvantageous change in existing legislation or regulations or their interpretation or application by the courts. The legal risk only exists in the Bank's external relations.
- Compliance risk denotes judicial, official or disciplinary measures which result from improper conduct, procedures, processes, etc. (resulting from non-compliance with laws, regulations, codes of conduct and standards) in the internal relations within the Bank.
- Outsourcing risk denotes a risk resulting from the outsourcing of activities and processes.
- Dilution risk denotes the risk, with respect to the holding and realisability of a purchased receivable, that the debtor is not obliged to pay the whole amount of the purchased receivable.
- Fraud risk denotes the risk arising from other criminal actions in respect of the Bank, which lead to an avoidable loss of assets or damage to the Bank's reputation.

### Operational Risk – Management

#### Strategy

NORD/LB Luxembourg pursues the objective of an efficient and sustainable management of operational risks, i.e. avoidance or transfer, wherever it is economically feasible.

Countermeasures are taken as required if the costs of protection do not exceed the direct costs of the risk that may be incurred or if the Bank's reputation could be significantly affected. Compliance with the pertinent legal requirements must be guaranteed at all times.

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

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

#### Structure and Organisation

All levels of the hierarchy and departments are involved in the management of operational risks. The Board stipulates the basic method for handling operational risks, taking into consideration the risk situation for the Bank as a whole. Within the defined framework conditions, the responsibility for controlling operational risks is decentralised and is borne by the individual divisions.

Risk Controlling, to which the Bank's OpRisk officer also belongs, is responsible for the central monitoring of operational risks and for independent reporting. The decision-making authority with respect to methodology for improving the group-wide instruments for controlling operational risks lies with the Finance and Risk Controlling department of NORD/LB. Risk Controlling at NORD/LB Luxembourg is involved in improving the methods via the regular group-level method boards as well through an ongoing exchange of information with the experts at NORD/LB. It is accountable for the responsible implementation of the central methods and assumes a coordinating function in the implementation of decentralised methods within the NORD/LB Luxembourg Group.

The strategic and conceptual tasks of security, emergency and crisis management are bundled together in NORD/LB Luxembourg's ORG/IT Security organisational unit. The NORD/LB Luxembourg Compliance organisational unit is organised independently of the business departments. It ensures that the Bank has adequate principles and procedures integrated into its processes to meet the requirements of securities trading legislation and so that money laundering, financing of terrorism or other criminal actions can be prevented. The Internal Audit division is in charge of independently auditing the correct implementation and execution of methods and procedures.

### Operational Risk – Control and Monitoring

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

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

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

The ICS organisational and procedural structure comprises a control loop, which is a recurrent cycle. The superordinate aim is the bank-wide assessment of the ICS on the basis of the consideration of the adequacy and effectiveness of the implemented controls. The control loop is supported by a structure that has been optimised for this purpose. This comprises roles with specific ICS concerns, whose tasks,

competencies and responsibilities are defined and separated from each other. Regular reports to the Board of Directors form a component of this control loop.

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

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

Safety concepts and contingency concepts have been established for the purpose of protecting persons and tangible assets; among other things, they regulate the use of buildings, the procurement of replacement operating and office equipment, and the supply of energy. The top priority is maintaining the health of employees. To this end, extensive preventative measures are taken, e.g. to prepare for pandemics.

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

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

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

In the IT division, instructions on procedures, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Safety concepts and contingency plans supplement the pre-emptive measures in order to prevent loss or damage resulting from the failure, tampering or manipulation of systems and information. The concepts are tested and updated regularly. In order to prevent the risk of the failure of the internal computer centre at the Bank's headquarters, there is a second, physically separate computer centre.

The legal department has to be consulted with regard to hedging legal risks, for example if legal steps are to be initiated and when contracts are concluded. In order to ensure that the requirements of new banking supervisory legislation are implemented correctly, the Compliance organisational unit produces a cross-departmental report and informs the specialist departments concerned about the necessary actions to be derived from the new regulations.

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

The Bank is sufficiently insured. The legal department is to be consulted with regard to securing legal risks, for example if legal steps are to be initiated and when contracts are concluded. Natural disasters and terrorist attacks are defined as force majeure. These risks are handled with contingency planning and a disaster recovery centre.

## Operational Risk – Assessment

The NORD/LB Group stores all losses arising from operational risks in a loss event database with a de minimus limit of EUR 1,000. The NORD/LB Luxembourg Group participates in this collection of loss events. The data for the loss event database provides the starting point for analyses to support risk management and forms an essential building block for the statistical and mathematical risk model developed by NORD/LB.

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

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

Risk indicators are used in the NORD/LB Group in order to detect potential risks early and to tackle them with counter measures. The indicators are selected with a focus on the risks and are reviewed regularly to ensure they are up-to-date. Through a continuous and comparative analysis of loss events, risk indicators and scenarios, the causes of risks are likewise to be identified and risk concentrations avoided. The risk indicators method was also introduced at NORD/LB Luxembourg. The structure of the indicator system focuses on that of the NORD/LB Group, taking into consideration the bank-specific characteristics.

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

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

The methods and procedures introduced at NORD/LB Luxembourg fulfil the regulatory requirements regarding the use of the standard approach for operational risks. Amounts qualifying for recognition in terms of operational risk were determined using this approach in the year under report.

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

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

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

### Operational Risk – Development in 2013

In 2013, the NORD/LB Group continued on its path to integrated OpRisk management. The primary objective was to revise the existing reporting channels and formats and link them closer together as well as to further expand the standard risk management system in the NORD/LB Group. As part of this, the committee for operational risks was transferred to the OpRisk Roundtable in the NORD/LB Luxembourg Group.

The valuation matrix introduced in the previous year was rolled out in the reporting year to all parts of the NORD/LB Group and thus also to the NORD/LB Luxembourg Group. Its purpose is the standard measurement and valuation of all types of operational risk.

As per 31 December 2013, the risk potential for the operational risk according to the internal model (confidence level 95 %, holding period one year) was EUR 2.4 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 2014. In this connection, the development of an integrated OpRisk report for the NORD/LB Luxembourg Group is being planned.

### Other Risks

Apart from the credit, participation, market price, liquidity and operational risks already presented, there are no other risks identified as significant. The relevant risks of the NORD/LB Luxembourg Group, which were not identified as major, include the business and strategic risk (including allied risks), reputational risk, syndication risk, real estate risk and model risk.

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

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

The reputational risk denotes the risk that the NORD/LB Luxembourg Group may incur a loss of confidence amongst customers, business partners, employees, providers or the public.

The syndication risk denotes the risk that no syndicate or consortium partners may be available for the planned consortium transaction and the risks would therefore remain at the NORD/LB Luxembourg Group.

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

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

In order to monitor the other risks, an expert roundtable on the "Management of Other Risks" meets quarterly prior to the OpRisk roundtable. Within this framework, the current status is discussed with the respective experts for the individual risk types and reported on. The findings of this roundtable are then presented to the OpRisk roundtable for informational purposes.

Within the Bank, the respective specialist departments are directly responsible for keeping risks as low as possible or for not letting them occur in the first place. The Bank's Compliance Charter describes which tasks and responsibilities were defined.

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

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

## Summary and Outlook

The Bank has accounted for all known risks by employing precautionary measures. The appropriate tools have been implemented in order to identify risks at an early stage.

The utilisation calculated in the RBC model shows that the risks were covered at all times in the period under report. According to the estimation of the Bank, there are no risks that jeopardize its existence.

In 2013, NORD/LB CFB constantly fulfilled the applicable regulatory provisions on equity and liquidity. Likewise, the Group has complied with the regulations on large credit limits in accordance with Luxembourg and German law in the current reporting year.

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 2014 have been covered in the relevant sections.

# Personnel Report

## Number of Employees

The Bank already fully integrated its employees into NORD/LB Luxembourg on 1 January and 1 April 2012 respectively.

## NORD/LB Cooperation

All market, back office, organisational and administrative functions are performed on the basis of agency agreements by the parent company, NORD/LB Luxembourg, or the Group's parent company, NORD/LB.

The strong integration and inclusion in the NORD/LB Luxembourg Group was even further underscored with the synchronisation of personnel in the Supervisory Board and the Board of Directors of the Bank and NORD/LB Luxembourg with effect from 1 April 2012.

The staff of NORD/LB Luxembourg and NORD/LB deserve the thanks and recognition of the Board of Directors and Supervisory Board for their active commitment and excellent cooperation.

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

## Definition and Objectives

The aim of the internal control system and risk management with respect to financial reporting is for the annual financial statements of NORD/LB CFB 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 presen-

tation, assessment or reporting of information in financial reports are minimised.

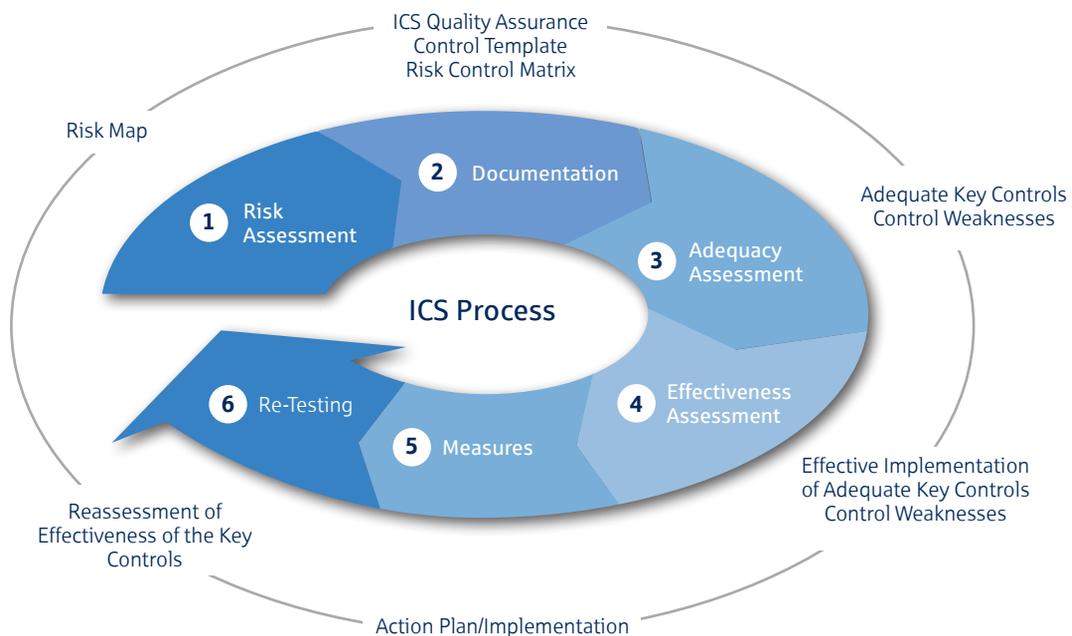
The Bank’s ICS is designed to ensure adequate reliability in relation to compliance with applicable legal requirements, regularity and sound financial management of the business activities and the completeness and accuracy of the financial reports.

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

## Summary of the Internal Control System (ICS)

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

### ICS Process



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 are then tested with respect to their adequacy and effectiveness.

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

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

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

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

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

### **Risk Control Function**

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

### **Compliance Function**

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

### **Internal Auditing**

The NORD/LB Luxembourg Group has internal auditors whose aims, functions, duties and position within the organisation of the Bank are defined by the Board of Directors in an auditing charter. The internal auditors report to the Board of Directors on an ongoing basis about each audit they have conducted and their findings. The implementation of the necessary measures to rectify any identified deficiencies are followed up by the internal auditors.

# Sustainability Report

Sustainability is managed at NORD/LB Luxembourg Group level and is also binding for the Bank. Therefore the facts and figures presented below always relate to the Group and not to the Bank.

## Our Conviction

The success of our company can only be sustained in a stable natural environment and only in a society with balanced economic and social relations. This understanding shapes the strategic focus of NORD/LB Luxembourg and the organisation of our business model. At the same time, this approach is an important contribution, helping us to organise our daily actions in alignment with the requirements of our interest groups. A management system that also focuses on requirements that go beyond what is legally required therefore contributes to our sustainability – in the interests of our company success and with a sense of responsibility towards our customers and employees, the environment and society.

We have therefore decided to systematically incorporate sustainability into our corporate and business activities and to establish sustainability management at NORD/LB Luxembourg.

## Sustainability as a Strategic Factor

In our sustainability strategy, we have documented the basic focus of our activities, the main focuses in the individual spheres of activity and the specific objectives which we are striving to achieve by 2020. In a sustainability programme which is being continuously improved, we disclose the measures we are using to achieve these focuses and objectives. In the future, we will be informing our interest groups regularly on our websites about the results of our sustainability activities.

## Governance

Responsible corporate management: for us this also means acting with integrity in order to secure our stakeholders' confidence in NORD/LB Luxembourg on a sustained basis. This goes beyond the statutory requirements. For example, we issue our own guidelines as voluntary commitments, which extend our corporate actions to additional ecological, social and ethical aspects.

## Customers

As a service provider, we want to actively support our customers as they look to the future. We support them in utilising opportunities arising from sustainable development and global change and reducing possible risks. This also assures customer satisfaction and thus customer loyalty to NORD/LB Luxembourg in the sense of lasting partnerships.

## Staff

Our employees are our future. We therefore create the conditions in which they can develop their potential – for their own benefit and to the advantage of customers and the Bank. These include offers for professional and personal development and for a balance of work and family life, just as much as providing a healthy, anti-discriminatory work environment where people enjoy working.

## Environment

Active corporate environmental protection is an integral part of our actions and the corporate responsibility we practice. Through this, we reduce our corporate environmental impact, reduce our energy and resource costs, and thus put less of a burden on our corporate balance sheet as well as on the environment. In financial year 2011 we therefore designed our new building to be energy efficient in accordance with the current standards.

## Society

NORD/LB Luxembourg is actively committed to the sustainability of its corporate environment and to improving the living conditions of people within its sphere of influence. This includes the training and education of bank employees just as much as supporting community organisations and initiatives. For example, the bank donated to the SOS-Kinderdorf, Lebenshilfe and Solistes Européens organisations, among others, in the current financial year.

We will be continually reporting on the development of these and future focuses and objectives in our financial statements as well as on our website.

## Supplementary Report

There were no significant events between the balance sheet reporting date on 31 December 2013 and the preparation of this statement on 28 February 2014 by the Board of Directors.

## Future-related Statements

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

Luxembourg, 28 February 2014  
NORD/LB Covered Finance Bank S.A.

Christian Veit  
Chairman of the Board of Directors  
NORD/LB Covered Finance Bank S.A.

Thorsten Schmidt  
Deputy Chairman of the Board of Directors  
NORD/LB Covered Finance Bank S.A.



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

## Income Statement

NORD/LB Covered Finance Bank S.A. for the year under report from 1 January to 31 December 2013:

	Notes	2013 (KEUR)	2012 (KEUR)
<b>Net interest income</b>	<b>16</b>	<b>6,422</b>	<b>2,215</b>
Interest income		334,197	381,712
Interest expense		-327,775	-379,497
<b>Loan loss provisions</b>	<b>17</b>	<b>49</b>	<b>78</b>
<b>Net commission income</b>	<b>18</b>	<b>186</b>	<b>78</b>
Commission income		1,833	1,010
Commission expense		-1,647	-932
<b>Profit/loss from financial instruments at fair value through profit or loss</b>	<b>19</b>	<b>272</b>	<b>6,004</b>
Trading profit/loss		272	6,004
Profit/loss from the fair value option		0	0
<b>Profit/loss from hedge accounting</b>	<b>20</b>	<b>-2,347</b>	<b>1,383</b>
<b>Profit/loss from financial assets</b>	<b>21</b>	<b>1,822</b>	<b>-3,935</b>
<b>Administrative expenses</b>	<b>22</b>	<b>-721</b>	<b>-1,811</b>
Staff expenses		0	-485
Other administrative expenses		-721	-1,310
Depreciation of property, plant and equipment		0	-15
Depreciation on intangible assets		0	0
<b>Other operating profit/loss</b>	<b>23</b>	<b>-5,578</b>	<b>-3,286</b>
<b>Earnings before taxes (EBT)</b>		<b>105</b>	<b>726</b>
<b>Income taxes</b>	<b>24</b>	<b>-4</b>	<b>-109</b>
<b>Net income for the year</b>		<b>101</b>	<b>617</b>
of which: due to shareholders		101	617
of which: not attributable to controlling shares		0	0

The following Notes constitute an integral part of the annual financial statements.

## Overall Profit and Loss Account

The total income of NORD/LB CFB for 2013 comprises the revenues and expenses recognised in the profit and loss account and directly in the equity. The overall profit and loss account was restructured on the basis of the amendment to IAS 1; see Note (3) Applied and New IFRS. The previous year's values were adjusted accordingly.

NORD/LB Covered Finance Bank S.A. for the year under report from 1 January to 31 December 2013:

	2013 (KEUR)	2012 (KEUR)
<b>Net income for the year</b>	<b>101</b>	<b>617</b>
<b>Other profit/loss</b>	<b>9,058</b>	<b>9,403</b>
<b>Other profit/loss, which will not be reclassified to the P&amp;L account in subsequent years</b>	<b>0</b>	<b>27</b>
Revaluation of net liability from performance-related pension plans	0	39
Deferred taxes	0	-11
<b>Other profit/loss, which will not be reclassified to the P&amp;L account in subsequent periods</b>	<b>9,058</b>	<b>9,376</b>
Changes from AfS financial instruments	12,797	12,917
Unrealised gains/losses	12,797	12,917
Reclassifications due to realisation of profit/loss	0	0
Deferred taxes	-3,739	-3,541
<b>Total profit/loss for the year</b>	<b>9,159</b>	<b>10,020</b>
of which due to the shareholders	9,159	10,020
of which not attributable to controlling shares	0	0

The following Notes constitute an integral part of the annual financial statements.

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

## Balance Sheet

NORD/LB Covered Finance Bank S.A. for the reporting date on 31 December 2013:

Assets	Notes	31.12.2013 (EUR million)	31.12.2012 (EUR million)
Cash reserve	25	0.0	0.0
Loans and advances to banks	26	1,807.4	2,767.1
Loans and advances to customers	27	996.1	797.7
Risk provisions	28	-0.2	-0.2
Financial assets at fair value through profit or loss	29	45.8	66.2
Derivatives – fair values from hedge accounting	30	297.9	537.8
Financial assets	31	3,173.1	3,737.3
Property, plant and equipment	32	0.0	0.0
Intangible assets	33	0.0	0.0
Deferred income tax claims	34	8.7	12.5
Other assets	35	0.1	0.2
<b>Total assets</b>		<b>6,329.0</b>	<b>7,918.5</b>
Liabilities	Notes	31.12.2013 (EUR million)	31.12.2012 (EUR million)
Liabilities to banks	36	2,923.6	3,846.7
of which lettres de gage		108.6	139.1
Liabilities to customers	37	692.5	759.3
of which lettres de gage		692.4	759.2
Securitised liabilities	38	1,979.9	2,211.0
of which lettres de gage		1,979.9	2,211.0
Financial liabilities at fair value through profit or loss	39	41.3	63.3
Derivatives – fair values from hedge accounting	40	579.9	934.2
Provisions	41	0.0	0.0
Income tax liabilities	42	0.0	0.0
Other liabilities	43	5.9	6.0
Subordinated capital	44	29.0	30.3
Equity			
Issued capital		80.0	80.0
Capital reserves		1.7	1.7
Revenue reserves		16.2	16.1
Revaluation reserve		-21.1	-30.2
Currency translation reserve		0.0	0.0
<b>Total equity</b>	<b>46</b>	<b>76.8</b>	<b>67.6</b>
Equity attributable to shareholders		76.8	67.6
Equity allocated to shares without a controlling influence		0.0	0.0
<b>Total equity and liabilities</b>		<b>6,329.0</b>	<b>7,918.5</b>

The following Notes constitute an integral part of the annual financial statements.

## Cash Flow Statement

NORD/LB Covered Finance Bank S.A. for the year under report from 1 January to 31 December 2013:

	2013 (EUR million)	2012 (EUR million)
<b>Profit for the year before taxes</b>	<b>0.1</b>	<b>0.7</b>
Adjustment for non-cash items		
Depreciation, value adjustments and write-ups of property, plant and equipment, write-value adjustments and write-ups of financial assets	-2.4	2.0
Increase/decrease in provisions	0.0	-0.1
Gains/losses from the disposal of property, plant and equipment and financial assets	0.5	1.9
Increase/decrease in other non-cash items	-1.3	-0.6
Profit/loss from interest	-6.4	-2.2
Other adjustments	0.0	1.7
<b>Sub-total</b>	<b>-9.5</b>	<b>3.4</b>
Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks and customers	755.3	-1.364.2
Other assets and liabilities from operational business activities	232.7	-45.2
Liabilities to banks and customers	-988.8	1.258.6
Securitised liabilities	-231.8	-363.2
Interest and dividends received	301.6	379.1
Interest paid	-284.4	-385.8
Income taxes paid	0.0	0.0
<b>Cash flow from operating activities</b>	<b>-224.9</b>	<b>-517.2</b>
Cash receipts from the disposal of		
Financial assets	262.1	518.7
Property, plant and equipment and intangible assets	0.0	0.5
Cash payments for the acquisition of		
Financial assets	-35.4	0.0
Property, plant and equipment and intangible assets	0.0	0.0
Increase/decrease in funds from other investment activity	0.0	0.0
<b>Cash flow from investment activity</b>	<b>226.7</b>	<b>519.1</b>

The following Notes constitute an integral part of the annual financial statements.

	2013 (EUR million)	2012 (EUR million)
Cash receipts from equity contributions	0.0	0.0
Increase/decrease in funds from other capital	0.0	0.0
Interest expense on subordinated capital	-1.9	-1.9
Dividends paid	0.0	0.0
<b>Cash flow from financing activities</b>	<b>-1.9</b>	<b>-1.9</b>
<b>Cash and cash equivalents at end of the previous year</b>	<b>0.0</b>	<b>0.0</b>
Cash flow from operating activities	-224.9	-517.2
Cash flow from investment activity	226.7	519.1
Cash flow from financing activities	-1.9	-1.9
<b>Cash flow total</b>	<b>0.0</b>	<b>0.0</b>
Effects of exchange rate differences	0.0	0.0
<b>Cash and cash equivalents at end of reporting year</b>	<b>0.0</b>	<b>0.0</b>

The following Notes constitute an integral part of the annual financial statements.

## Statement of Changes in Equity

NORD/LB Covered Finance Bank S.A. for the year under report from 1 January to 31 December 2013:

EUR million	Issued Capital	Capital Reserves	Revenue Reserves	Revaluation Reserve	Currency Translation Reserve	Equity before Shares with Controlling Influence	Shares without Controlling Influence	Equity
<b>Equity on 01.01.2012</b>	<b>80.0</b>	<b>1.7</b>	<b>15.4</b>	<b>-39.6</b>	<b>0.0</b>	<b>57.6</b>	<b>0.0</b>	<b>57.6</b>
Net income for the year	0.0	0.0	0.6	0.0	0.0	0.6	0.0	0.6
Increase/decrease from Afs financial instruments	0.0	0.0	0.0	12.9	0.0	12.9	0.0	12.9
Deferred taxes	0.0	0.0	0.0	-3.5	0.0	-3.5	0.0	-3.5
<b>Total profit/loss for the period</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>	<b>9.4</b>	<b>0.0</b>	<b>10.0</b>	<b>0.0</b>	<b>10.0</b>
Distribution	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
<b>Equity on 31.12.2012</b>	<b>80.0</b>	<b>1.7</b>	<b>16.1</b>	<b>-30.2</b>	<b>0.0</b>	<b>67.6</b>	<b>0.0</b>	<b>67.6</b>
Net income for the year	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.1
Increase/decrease from Afs financial instruments	0.0	0.0	0.0	12.8	0.0	12.8	0.0	12.8
Deferred taxes	0.0	0.0	0.0	-3.7	0.0	-3.7	0.0	-3.7
<b>Total profit/loss for the period</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>9.1</b>	<b>0.0</b>	<b>9.2</b>	<b>0.0</b>	<b>9.2</b>
Distribution	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
<b>Equity on 31.12.2013</b>	<b>80.0</b>	<b>1.7</b>	<b>16.2</b>	<b>-21.1</b>	<b>0.0</b>	<b>76.8</b>	<b>0.0</b>	<b>76.8</b>

	In 2013, relating to the 2012 reporting year	In 2012, relating to the 2011 reporting year
Dividends (EUR)	0.00	0.00
Number of shares	800,000	800,000
Dividends per share (EUR)	0.00	0.00

The following Notes constitute an integral part of the annual financial statements.



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## Accounting Policies

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

The financial statements of NORD/LB Covered Finance Bank S.A. (NORD/LB/CFB) as at 31 December 2013 were prepared in compliance with the International Financial Reporting Standards (IFRS) issued by 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 NORD/LB CFB financial statements as at 31 December 2012 were adopted at the general meeting held on 30 March 2013 and formed the basis for the determination and appropriation of profit for the 2012 financial year.

The financial statements as at 31 December 2013 take into account the national provisions of the law of 17 June 1992 on the annual accounts of credit institutions established under Luxembourg law (version dated March 2009). The financial statements comprise the income statement, the overall profit and loss account, the balance sheet, the cash flow statement, the statement of changes in equity and the notes. The segment reporting is included in the notes. Risk reporting in accordance with IFRS 7 is essentially carried out in the separate report on the risks and rewards of future development (risk report) as part of the management report.

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

The reporting and functional currency used in the financial statements is the euro. Unless stated otherwise, all amounts are shown in millions of euros (EUR million) rounded to one decimal place. The statement of percentage variances relates to unrounded figures.

### (2) Discretionary Decisions, Estimates and Assumptions

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

The essential methods are shown below:

#### a) Fair Value of Financial Instruments

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

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

#### b) Pension Payments

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

The Bank fully outsourced the staff to NORD/LB Luxembourg in financial year 2012. As part of this outsourcing process, NORD/LB CFB also fully transferred all of the pension claims and obligations to NORD/LB Luxembourg.

### (3) Adopted and New IFRS

All IFRS, interpretations and their amendments have been applied in these financial statements where they have been recognised by the EU within the scope of its endorsement process and are pertinent to NORD/LB CFB in the reporting year 2013.

In the period under report, the following changes to standards to be applied for the first time as of 01 January 2013 were taken into account:

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

In June 2011, the IASB published the amended IAS 19 – Employee Benefits. Actuarial gains and losses are accordingly to be shown directly in Other Comprehensive Income (OCI) i.e. the previously valid right to opt to apply the corridor method was abolished. In addition, the interest on the plan assets may no longer be estimated on the basis of underlying assets, instead interest is to be recorded in the amount of the discounting interest rate. In addition, expanded notes have to be published.

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

- **IFRS 13 – Fair Value Measurement**

In IFRS 13 – Fair Value Measurement, published in May 2011 and to be applied prospectively, 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 introduced within the framework of the new standard relate among other things to the definition of fair value, the introduction of amended approaches, particularly in the context of defining the relevant markets (principal or most advantageous market), the level allocation, as well as the reporting of a day-one profit/loss and the application of a bid/ask spread when valuing assets and liabilities.

There are no major effects on the measurement of assets and liabilities for NORD/LB CFB resulting from the

introduction of IFRS 13. In connection with the expanded disclosure requirements of the standard, a description of the process of the fair value measurement has been included in the Notes. Furthermore, there is a more detailed presentation relating to the risks for the level disclosure for financial instruments, which are measured at fair value on the balance sheet as well, since, for the first time, a presentation of the level disclosure for financial instruments whose fair value is only calculated for disclosure purposes.

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

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

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

- **Amendments to IAS 12 – Deferred Taxes: Recovery of Underlying Assets**

The amendments to IAS 12 – Deferred Taxes: Recovery of Underlying Assets, clarify that the valuation of deferred taxes for property held as a financial investment, which are valued using the model of the fair value in IAS 40, shall be undertaken on the basis of the rebuttable presumption of the realisation of the book value by sale.

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

- **Amendments to IFRS 7 – Disclosure: Offsetting 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 December 2011 in order to allow readers of financial statements to better estimate the potential effects of existing offsetting agreements, including the rights to offset financial instruments and their effects on the financial position of an entity.

For NORD/LB CFB, the amendments are to be applied retrospectively for financial years that begin on or after 1 January 2013.

The amendments result in additional disclosure requirements that have to be complied with in the financial statement of NORD/LB CFB for the first time on 31 December 2013.

- **Improvements of the IFRS (2009 – 2011 cycle) within the Scope of the Annual Improvement Process of the IASB**

The changes within the scope of the annual improvement project for the 2009 – 2011 cycle published in May 2012 comprise clarifications in relation to IFRS 1 First-time Adoption of the International Financial Reporting Standards, IAS 1 Presentation of the Financial Statements, IAS 16 Property, Plant and Equipment, IAS 32 Financial Instruments: Presentation, and IAS 34 Interim Financial Reporting.

There are no major effects on the annual financial statements of NORD/LB CFB resulting from the annual improvements of the IFRS (2009 – 2011 cycle).

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 2013 for NORD/LB CFB:

- **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 according to IFRS 9, only two options were initially provided for: measurement at amortised cost or valuation at fair value through profit or loss. In November 2012 a proposal to amend the categorisation and measurement rules in IFRS 9 was published, which contained in particular the proposal to introduce a third measurement model for financial assets in the form of debt instruments. This provides for a measurement of instruments at fair value with a recognition of the changes in valuation having no effect on profit or loss in Other Comprehensive Income (OCI).

In the future, categorisation will be aligned to the business model of the reporting entity and the contractually agreed-on payment flows of the assets. The requirements for embedded derivatives and reclassification



have also been amended. The rules relating to financial obligations are largely unchanged from IAS 39. The essential difference to the current rule relates to the application of the fair value option. In principle, the credit rating induced changes in the valuation of financial liabilities will be shown in Other Comprehensive Income (OCI) in the future, the remaining portion of the change in value will continue to be reported in the profit and loss account.

In the first half of 2013, the second phase of IFRS 9 on the subject of impairment was published. Along with financial instruments, loan and credit commitments and financial guarantees are also included in the scope of the second phase, among others. The new impairment model provides for a departure from the concept of incurred losses towards the concept of expected loss. According to the new impairment model, financial instruments, loan and credit commitments and financial guarantees will be sub-divided into three stages depending on the change in their credit quality as compared to the time of acquisition. The calculation of the anticipated loan defaults is based on the classification of a financial instrument, a loan/credit commitment or a financial guarantee into the corresponding stages. In Stage 1, the anticipated loan defaults in the sum of the expected loss with an observation period of one year are calculated. In Stages 2 and 3, the anticipated loan defaults over the entire remaining term to maturity are calculated (lifetime expected loss).

With regard to phase 3 on hedge accounting, the IASB has resolved an additional division of the subject into the sub-areas of General Hedge Accounting (Phase 3a) and Macro Hedge Accounting (Phase 3b). In the fourth quarter of 2013, a Standard on General Hedge Accounting was published. The publication of a proposal on macro hedge accounting is now not expected before 2018. Until then, the regulations of IAS 39 on portfolio fair value

hedge accounting for interest rate risks remain in place and will not be transferred into IFRS 9. The Standard on General Hedge Accounting pursues the objective of reflecting corporate risk management in the balance sheet depiction of hedge accounting in closed portfolios more strongly than was the previous case. In this connection, the role of qualitative implementation criteria was strengthened in comparison to the quantitative implementation criteria, in contrast to the provisions of IAS 39. In addition, the scope of underlying and hedge transactions which come into question for hedge accounting has been considerably extended, and additional designation options were created. With regard to the effectiveness of hedge accounting, the focus will no longer be on a rigid percentage-based effectiveness threshold in the future.

In the fourth quarter of 2013, the IASB resolved to revoke the former initial application date of 1 January 2015 and to set a new date when a conclusion of the discussions is foreseeable, in particular relating to the phases of categorisation and measurement and impairment.

In relation to IFRS 9, considerable influences on accounting, valuation and reporting are expected for future financial statements. Quantification of the potential effects on NORD/LB CFB can only take place after the final regulations on all phases of IFRS 9 are adopted 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 company holds the present power of decision over the relevant activities of the potential subsidiary; it participates in positive or negative variable returns from the potential subsidiary or holds rights to them and has the possibility of influencing the amount of its own 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.

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

- **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

01 January 2014. 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 eliminated, i.e. consolidation is now only permissible on the basis of the equity method, similar to IAS 28. On the other hand, the new category "joint operations" has been included, which provides for the reporting of assets and liabilities attributable to the group.

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

- **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 01 January 2014.

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

- **Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidelines (Amendments to IFRS 10, IFRS 11 and IFRS 12)**

In June 2012, the IASB published amendments which lead to a substantiation and clarification of the transition guidelines in IFRS 10 – Consolidated Financial Statements. In addition, relief is granted in that the adjusted comparative figures will be restricted to the directly preceding comparative period in the initial application and the obligation to disclose comparative information from non-consolidated special purpose vehicles will be omitted for the initial application of IFRS 12. The amendments come into force due to the adoption into European law for reporting periods starting on or after 01 January 2014.

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

- **Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities**

With the publication of the amendments to IAS 32 – Presentation of Financial Instruments – in December 2011, the IASB clearly defined its requirements for the offsetting of financial instruments. The changes essentially substantiate the implementation guidelines and

are intended to remedy the existing inconsistencies in the implementation of the offsetting criteria. In particular, the importance of the “present legal entitlement to offsetting” and the conditions for systems with gross settlement as the equivalent of net settlement are explained. It will be mandatory to apply the amendments retrospectively for financial years which begin on or after 01 January 2014.

No effects are expected for NORD/LB CFB on the grounds of the amendments to IAS 32.

- **Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting**

In June 2013, the IASB published an amendment to IAS 39. The amendment introduces an exception to the termination of hedge accounting. This applies if a novation in the context of a settlement of the hedge instrument via a central counterparty is undertaken due to regulatory requirements. It will be mandatory to apply the amendments retrospectively for financial years which begin on or after 01 January 2014.

No effects on the existing business in hedge accounting are expected at NORD/LB CFB, even in the case of the obligatory application of the clearing obligation introduced by the European Market Infrastructure Regulation (EMIR). A final statement can only be made after the obligatory application of the EMIR has been undertaken.

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

- IAS 27 (amended 2011) – Separate Financial Statements
- IAS 28 (amended 2011) – Investments in Associates and Joint Ventures
- Amendments to IAS 19 – Deferred Taxes: Employee Contributions
- Amendments to IAS 36 – Impairment of Assets – Disclosure of Recoverable Amount of Non-financial Assets
- Improvements of the IFRS (2010 – 2012 cycle) within the scope of the annual improvement process of the IASB
- Improvements of the IFRS (2011 – 2013 cycle) within the scope of the annual improvement process of the IASB

It will be mandatory to apply the amendments for financial years which begin on or after 01 January 2014.

No major effects on NORD/LB CFB’s financial statements are expected from the changes to IAS 19, IAS 27, IAS 28

and IAS 36 or the annual improvements to the IFRS (Cycle 2010 – 2012 and 2011 – 2013).

The adoption into European law by the EU Commission is still pending with regard to IFRS 9 – Financial Instruments, the amendments to IAS 19 and the annual improvements to the IFRS (2010 – 2012 and 2011 – 2013 cycles).

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

The previous year’s figures in these statements have been corrected on the basis of IAS 8.42 in Note (72) Related Party Disclosures. Part of the internal group business/ profit and loss with NORD/LB Luxembourg were not shown correctly in financial year 2012. Accordingly, a corrective adjustment of the previous year’s figures will therefore be made in the statements for the current financial year. This relates exclusively to sub-positions, which have no effect on the consolidated balance sheet or profit and loss account.

#### (4) Currency Translation

When monetary assets and liabilities or non-monetary items at fair value are denominated in foreign currencies, they must be translated at the ECB reference rate as at 31 December 2013. Non-monetary items that are valued at cost are translated at the historical rates. Expenses and income in foreign currencies are translated at market rates on value dates. Exchange rate differences on monetary items are reflected in principle in the income statement.

#### (5) Financial Instruments

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

##### a) Recognition and Derecognition of Financial Instruments

A financial asset or a financial liability shall be recognised on the balance sheet when the Bank becomes a party to the

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

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

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

A financial liability (or part of a financial liability) is derecognised when it is extinguished, i.e. when the 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 repurchase price is recognised through profit or loss; disposal at a later stage gives rise to a new financial liability, the acquisition cost of which corresponds to the disposal proceeds. Differences between the new acquisition cost and the redemption amount are spread over the remaining life of the debt instrument using the effective interest method.

## b) Classification and Measurement

Financial assets and liabilities are initially measured at fair value. For financial instruments in the loans and receivables (LaR), held-to-maturity (HtM), available-for-sale (AFS) and other liabilities (OL) categories, transaction costs are included in the acquisition cost provided that they are directly attributable. They are accounted for in the context of spreading premiums and discounts using a constant effective rate at the nominal value or redemption amount. For financial instruments in the financial assets or financial liabilities at fair value through profit or loss (aFV) category, transaction costs are recognised immediately through profit or loss.

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

- **Loans and Receivables (LaR)**

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

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

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

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

This category is divided into two sub-categories:

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

This sub-category comprises financial instruments (trading assets and trading liabilities) that were acquired with the intention of making profit from short term buying and selling. It includes all derivatives provided they are not hedging instruments. Trading assets are essentially composed of money market papers, bonds and debt securities, as well as derivatives with positive fair value. Trading liabilities comprise, in particular, derivatives with negative fair value as well as short sale delivery obligations. The subsequent measurement of trading assets and trading liabilities is at fair value through profit or loss. Upfront payments are amortised using the effective interest rate. At the same time, the Bank differentiates between trading book derivatives, where amortisation is not carried out using the effective interest rate, and

banking book derivatives, where amortisation is carried out using the effective interest rate in the profit/loss from interest.

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

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

The Designated at Fair Value through Profit or Loss category is not currently used in the Bank's financial statements.

#### • Available-for-Sale (AFS)

This category includes all non-derivative financial assets that are not allocated to any of the above categories. In particular, this can be bonds and debt securities as well as shares and interests, which are not measured in accordance with IAS 27, IAS 28 or IAS 31. Subsequent measurement is carried out at fair value; if the fair value of financial investments in equity instruments such as certain shares or interests for which no prices listed on active markets are available (as well as derivatives on such, which can only be settled by delivery), cannot be determined in a reliable manner, then they are measured at cost of acquisition. The profit/loss from the fair value measurement is shown 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 drop in fair value below the cost of acquisition is an objective indicator of an impairment.

In the case of creditworthiness-induced impairments, the revaluation reserve is to be adjusted by the impairment amount and the amount taken into account in the profit and loss account, if it is impairment as defined by IAS 39. Reversals of impairment losses relating to debt instruments are recognised in the revaluation reserve through profit or loss for the part of the reversal that corresponds to the impairment and beyond that with no effect on profit or loss. Reversals of impairment losses relating to 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)

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

The book values and net results per measurement category are shown in Note (49) Book Values according to Valuation Categories.

### c) Reclassification

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

### d) Determination of Fair Value

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

The fair value of financial instruments pursuant to IAS 39 in conjunction with IFRS 13 reflects the price at which an asset may be sold or a liability transferred within the scope of a standard transaction between market players on the valuation date, i.e. the fair value is a market-related and not company-specific value. According to IFRS 13, the fair value is the price which is either directly observable or a price calculated using a valuation method and which would be achieved in a normal transaction, i.e. a sale or transfer on the principal market or the most advantageous market on the valuation date. The valuation on the valuation date is always based on a notional potential market transaction. If there is a principal market, the price on this market constitutes the fair value, irrespective of whether this price can be directly observed or is determined on the basis of a valuation method. This also applies if the price is potentially more advantageous in another market.

#### • Financial Instruments which are Disclosed at Fair Value on the Balance Sheet

The three-tier fair value hierarchy with the Level 1 (Mark to Market), Level 2 (Mark to Matrix) and Level 3 (Mark to Model) terminology stipulated in IFRS 13 is used at NORD/LB CFB.

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

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

If no prices quoted on active markets can be drawn on, the fair value is determined using recognised measurement methods or models as well as external pricing services unless the valuation is performed there wholly or partially via spread curves (Level 2). In terms of the valuation of financial instruments, these include measurement models established on the market under normal market conditions (e.g. discounted cashflow methods or the Hull & White model for options), where the calculations are strictly based on input parameters available on the market. Impact factors which a market participant would take into account when fixing the price must be included in the measurement. Wherever possible, the corresponding parameters are taken from the market where the instrument was issued or acquired.

Measurement models are used mainly for OTC derivatives and for securities listed on inactive markets. Various input data are incorporated into the valuation models, such as market prices and other market listings, no-risk interest rate curves, risk premiums, exchange rates and volatilities. If estimates should be necessary in individual cases, using option price models if applicable, a standard market method is always used.

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

In the case of financial instruments for which there is no active market on 31 December 2013 and which can no longer be measured on the basis of market prices, a fair

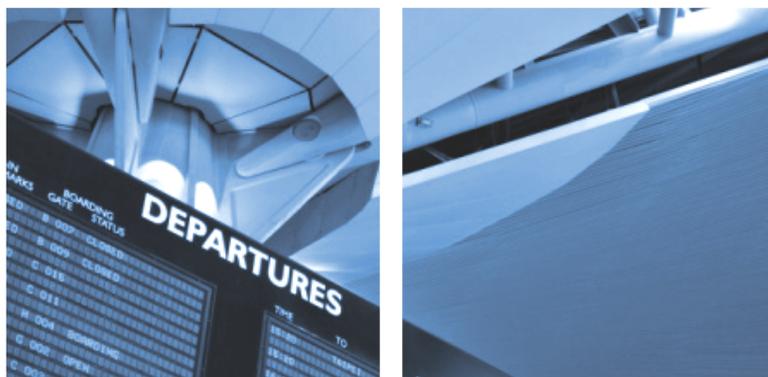
value is determined for measurement purposes using a mark-to-matrix process based on discounted cash flows.

The determination of which financial instrument is to be valued in this manner is done on the basis of individual securities and a distinction between active and inactive markets based on this. A changing estimation of the market is used continually in the valuation. The identification, analysis and assessment of financial instruments on inactive markets are carried out in various areas of NORD/LB CFB, thus guaranteeing an estimate of the inactivity, which is as objective as possible. The measurement model for financial instruments in inactive markets is based on fixed term interest rates, the credit rating of the respective issuers and an appropriate interest calculation for the equity.

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

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

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



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

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

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

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

OTC derivatives, the Bank has essentially switched to the current market standard:

Overnight Index Swap Discounting (OIS discounting). Discounting in terms of the fair value measurement of unhedged derivatives continues to be carried out at a maturity-specific interest rate.

- **Financial Instruments Reported at Fair Value for Disclosure Purposes**

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

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

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

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

Further information on the fair value hierarchy and the fair values of financial instruments can be found in Notes

(52) Fair Value Hierarchy and (53) Fair Value of Financial Instruments.

## e) Structured Products

Structured products are made up of two components – one or more embedded derivative financial instruments (embedded derivatives e.g. swaps, futures, caps) and a host contract (e.g. financial instruments, leasing agreements). Both components are the object of a single contract for the structured product, i.e. these products form a legal entity and cannot be treated separately because of the single contract.

IAS 39 requires an embedded derivative to be separated from its host contract and accounted for as a derivative when the following criteria are cumulatively met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
- A separate derivative with the same terms as the embedded derivative would meet the definition of a derivative.
- The structured product is not recognised at fair value through profit or loss (aFV category).

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

## f) Hedge Accounting

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

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

Interest rate and currency swaps are predominantly used to hedge these risks.

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

Hedging relationships may only be reported in accordance with the rules of hedge accounting if the restrictive conditions laid down by IAS 39 are fulfilled. The requirements of hedge accounting, particularly proving hedge effectiveness, must be met on all balance sheet dates and for all hedging relationships. The Critical Term Matching method is used for the prospective performance of effectiveness tests. For retrospective effectiveness tests, a modified Dollar Offset method is used, which takes into account the problem arising with small figures in the case of slight changes in value of hedging transactions and underlying transactions through an additional tolerance limit.

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

If financial instruments in the AfS category form part of a hedging relationship, the change in fair value is divided into a hedged component and an unhedged component. When hedge accounting is used, the portion of the change in value that relates to hedged risks is recognised through profit or loss under profit/loss from hedge accounting, while the portion that is not attributable to the hedged risk is reported under the revaluation reserve.

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

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

## g) Securities Repurchase Agreements and Securities Lending

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

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

There were no non-genuine securities repurchase agreements outstanding as at 31 December 2013.

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.

Reference is made to Note (59) Balancing of Financial Assets and Liabilities regarding the scope and volume of repurchase transactions.

## (6) Risk Provisions

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

Checking of intrinsic value is done for all significant receivables at individual business level. Risk provision in the lending business covers all discernible credit rating risks by creating individual loan loss provisions. A value adjustment is

required when it is probable, based on observable criteria, that not all interest and repayment obligations or other obligations can be met in good time. Such criteria include 90 days or more of default or delay in interest payments or repayment of the principal amount and the debtor having serious financial difficulties. The size of the 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 Bank, value adjustments are made at portfolio level for groups of financial assets with comparable credit risks. This portfolio-based provision relating to credit rating is made on the basis of historical default probabilities and regulatory loss given defaults. In addition, the portfolio-specific LIP (loss identification period) factor is applied in order to ensure that only incurred losses are taken into consideration. The parameters used are derived from the 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.

## (7) Property, Plant and Equipment

NORD/LB CFB was integrated into the control of NORD/LB Luxembourg in financial year 2012. In this connection, all property, plant and equipment and assets were transferred to NORD/LB Luxembourg.

## (8) Leasing Transactions

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

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

### Finance Lease

There are no finance lease agreements on the reporting date.

### Operating Lease

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.

## (9) Intangible Assets

NORD/LB CFB was integrated into the control of NORD/LB Luxembourg in financial year 2012. All intangible assets were transferred to NORD/LB Luxembourg.

## (10) Provisions for Pensions and Similar Obligations

The Bank fully outsourced the staff to NORD/LB Luxembourg in financial year 2012. As part of this outsourcing process, NORD/LB CFB also fully transferred all of the pension claims and obligations to NORD/LB Luxembourg.

## (11) Other Provisions

In accordance with IAS 37, other provisions are made for contingent liabilities to third parties and anticipated losses from pending transactions if an obligation is probable and its size can be reliably estimated. The amount recognised as a provision should be the best estimate. This estimate is based on the management's assessment, based on experience and, where necessary, on expert 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.

## (12) Income Tax Assets and Liabilities

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

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

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

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

In a letter dated 2 August 2007, the Luxembourg financial authorities approved the establishment of a tax group with effect for corporation and trade tax comprising NORD/LB Luxembourg and NORD/LB CFB starting from financial year 2007. Pursuant to Article 164 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. NORD/LB Luxembourg and NORD/LB CFB have stated their intention to continue

the tax group beyond the end of the required five year period, which ended on 31 December 2012, and to meet the requirements of Art. 164bis L.I.R.

The Bank functions as a member of the tax group here.

NORD/LB Luxembourg has obtained binding information from the Luxembourg tax authorities on tax questions relating to the IFRS balance sheet preparation and first time adoption and will apply the previously described tax measures to the tax group. This is taken into account accordingly in the financial statements of NORD/LB CFB.

## (13) Subordinated Capital

The subordinated capital item comprises unsecured subordinated liabilities.

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

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

# Segment Reporting

## Classification by Business Segment

Segment reporting is carried out in accordance with IFRS 8. It is designed to provide information about the business segments; it is undertaken in compliance with the Bank's business model and on the basis of the internal reporting system. The segments are defined as customer or product groups that are aligned with the NORD/LB Luxembourg Group's organisational structures.

The only distinction made at NORD/LB CFB is between the Financial Markets and Lending Business segments, due to the Bank's specialisation in covered bond activities.

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.

### **Financial Markets**

This primarily includes public sector lending with central governments, regional authorities and their downstream offices in the OECD, as well as to loans and securities guaranteed by these. These are largely offset by the contributions to earnings from the Bank's issuing activities.

### **Credit Management**

This segment primarily shows the lending business transferred by the Group with the attributable contributions to profit/loss.

## Segmentation by Region

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

## (14) Classification by Business Segment

KEUR	Segments		
	Financial Markets	Credit Management	Total
<b>Net interest income</b>	<b>1,028</b>	<b>5,394</b>	<b>6,422</b>
do. previous year	-1,135	3,350	2,215
<b>Loan loss provisions</b>	<b>27</b>	<b>23</b>	<b>49</b>
do. previous year	78	0	78
<b>Net interest income after loan loss provisions</b>	<b>1,055</b>	<b>5,417</b>	<b>6,471</b>
do. previous year	-1,057	3,350	2,293
<b>Net commission income</b>	<b>-595</b>	<b>781</b>	<b>186</b>
do. previous year	-451	530	78
<b>Profit/loss from financial instruments at fair value through profit or loss</b>	<b>272</b>	<b>0</b>	<b>272</b>
do. previous year	6,004	0	6,004
<b>Profit/loss from hedge accounting</b>	<b>-2,347</b>	<b>0</b>	<b>-2,347</b>
do. previous year	1,383	0	1,383
<b>Profit/loss from financial assets</b>	<b>1,822</b>	<b>0</b>	<b>1,822</b>
do. previous year	-3,935	0	-3,935
<b>Profit/loss from equity-accounted investments</b>	<b>0</b>	<b>0</b>	<b>0</b>
do. previous year	0	0	0
<b>Administrative expenses</b>	<b>-468</b>	<b>-252</b>	<b>-721</b>
do. previous year	-1,177	-634	-1,811
<b>Other income/expenses</b>	<b>-3,575</b>	<b>-2,003</b>	<b>-5,578</b>
do. previous year	-1,793	-1,493	-3,286
<b>Earnings before taxes (EBT)</b>	<b>-3,837</b>	<b>3,942</b>	<b>105</b>
do. previous year	-1,027	1,753	726
<b>Taxes</b>	<b>-4</b>	<b>0</b>	<b>-4</b>
do. previous year	-109	0	-109
<b>Earnings after taxes</b>	<b>-3,841</b>	<b>3,942</b>	<b>101</b>
do. previous year	-1,136	1,753	617

EUR million	Segments		
	Financial Markets	Credit Management	Total
<b>Segment assets</b>	<b>5,378.5</b>	<b>950.5</b>	<b>6,329.0</b>
do. previous year	7,311.6	606.9	7,918.5
<b>Segment liabilities (incl. equity)</b>	<b>6,329.0</b>	<b>0.0</b>	<b>6,329.0</b>
do. previous year	7,918.5	0.0	7,918.5
<b>Risk assets</b>	<b>708.3</b>	<b>97.3</b>	<b>805.6</b>
do. previous year (annual average values)	751.0	83.1	834.1
<b>Equity commitment</b>	<b>56.7</b>	<b>7.8</b>	<b>64.5</b>
do. previous year (basis: annual average values)	37.6	4.2	41.7
<b>CIR</b>	<b>-35.5 %</b>	<b>6.0 %</b>	<b>25.3 %</b>
do. previous year	-16.1 %	26.6 %	-36.8 %
<b>RoRaC*</b>	<b>-6.4 %</b>	<b>32.9 %</b>	<b>0.1 %</b>
do. previous year	-2.6 %	42.7 %	1.7 %

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

Additional Segment Information			
EUR million	Financial Markets	Credit Management	Total
<b>Property, plant and equipment, net</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
do. previous year	0.0	0.0	0.0
<b>Depreciation of property, plant and equipment, current year</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
do. previous year	0.0	0.0	0.0
<b>Intangible assets, net</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
do. previous year	0.0	0.0	0.0
<b>Depreciation of intangible assets, current year</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
do. previous year	0.0	0.0	0.0
<b>Value adjustments on financial assets</b>	<b>2.3</b>	<b>0.0</b>	<b>2.3</b>
do. previous year	-2.1	0.0	-2.1

## (15) Segmentation by Geographical Characteristics

EUR million	Segments							Total
	Germany	Luxem- bourg	Switzer- land	Rest of Europe	USA	Rest of America	Other Countries	
<b>Earnings before taxes (EBT)</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>0.0</b>	<b>0.1</b>
do. previous year	0.1	0.2	0.0	0.2	0.1	0.0	0.0	0.7
<b>Segment assets</b>	<b>1,494.9</b>	<b>1,418.0</b>	<b>18.5</b>	<b>1,862.5</b>	<b>1,032.8</b>	<b>313.3</b>	<b>188.9</b>	<b>6,329.0</b>
do. previous year	1,483.2	2,318.8	33.3	2,216.6	1,305.5	360.1	201.0	7,918.5
<b>Segment liabilities (incl. equity)</b>	<b>1,439.3</b>	<b>4,609.8</b>	<b>5.1</b>	<b>256.8</b>	<b>18.0</b>	<b>0.0</b>	<b>0.0</b>	<b>6,329.0</b>
do. previous year	1,740.3	5,721.0	7.9	419.0	0.0	30.3	0.0	7,918.5
<b>Risk assets</b>	<b>190.3</b>	<b>180.5</b>	<b>2.4</b>	<b>237.1</b>	<b>131.5</b>	<b>39.9</b>	<b>24.1</b>	<b>805.6</b>
do. previous year (annual average values)	156.2	244.3	3.5	233.5	137.5	37.9	21.2	834.1
<b>Equity commitment (annual average values)</b>	<b>15.2</b>	<b>14.4</b>	<b>0.2</b>	<b>19.0</b>	<b>10.5</b>	<b>3.2</b>	<b>1.9</b>	<b>64.5</b>
do. (annual average values)	7.8	12.2	0.2	11.7	6.9	1.9	1.1	41.7
<b>Further segment information</b>								
<b>Property, plant and equipment, net</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>0.0</b>	<b>0.0</b>
do. previous year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Intangible assets, net</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>0.0</b>	<b>0.0</b>
do. previous year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

## Notes to the Income Statement

### (16) Net Interest Income

The Interest income and Interest expenses items include amortisation of premiums and discounts at effective interest rates arising from financial instruments as well as interest income and expenses.

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

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
<b>Interest income</b>	<b>334,197</b>	<b>381,712</b>	<b>-12</b>
Interest income from lending and money market transactions	50,967	50,825	0
Interest income from fixed income and book entry securities	113,296	138,590	-18
Current income	0	0	-
Interest income from hedge derivatives	169,935	192,296	-12
Other interest income and similar income	0	0	-
<b>Interest expense</b>	<b>-327,775</b>	<b>-379,497</b>	<b>-14</b>
Interest expense from lending and money market transactions	-50,354	-59,574	-15
Interest expense from securitised liabilities	-37,211	-68,117	-45
Interest expense from subordinated capital	-1,852	-1,929	-4
Interest expense from hedge derivatives	-238,189	-249,877	-5
Interest expense for provisions and liabilities	0	0	-
Other interest expense and similar expense	-169	0	> 100
<b>Total</b>	<b>6,422</b>	<b>2,215</b>	<b>&gt; 100</b>

Both interest income and interest expenses decreased in 2013 as compared to the previous year's values. However, net interest has increased. On the one hand, the Bank's own issues were repurchased or reached maturity and could be replaced with more favourable new issues. On the other hand, commitment fees totalling KEUR 1,247 were shown for the first time in the profit/loss from interest (instead of in the profit/loss from commission as previously). In the previous year, this would have led to a change of KEUR 549.

**(17) Loan Loss Provisions**

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
<b>Income from loan loss provisions</b>	49	78	-37
Reduction in provisions for claims	0	0	-
Reductions in portfolio-based provisions for receivables	49	78	-37
Reversal of provisions in lending business	0	0	-
Additions to receivables written off	0	0	-
<b>Loan loss provision expense</b>	0	0	-
Allocations to provisions for claims	0	0	-
Allocation to portfolio-based provisions for claims	0	0	-
Allocation to provisions for lending business	0	0	-
Direct write-offs of claims	0	0	-
<b>Total</b>	49	78	-37

## (18) Net Commission Income

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

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

Commission income is attributable to commission for loans. Other commission income is transaction-related.

The pro rata commission expenses result primarily from the lending and guarantee business to hedge major risks. The other commission expenses are transaction-related and mainly result from depositary fees.

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
<b>Commission income</b>	<b>1,833</b>	<b>1,010</b>	<b>81</b>
from security and custody transactions	0	0	–
from lending and guarantee transactions	1,833	1,010	81
Other commission income	0	0	–
<b>Commission expense</b>	<b>–1,647</b>	<b>–932</b>	<b>77</b>
from security and custody transactions	–363	–377	–4
from lending and guarantee transactions	–1,250	–542	> 100
Other commission expense	–34	–13	> 100
<b>Total</b>	<b>186</b>	<b>78</b>	<b>&gt; 100</b>

Commission income relates to the lending business (KEUR 1,833; previous year KEUR 1,010) and results from flat fees.

The commission expenses relate in particular to the lending and guarantee business (KEUR 1,250, previous year KEUR 542) and the securities and custodian business (KEUR 363; previous year KEUR 377).

With regard to a change in reporting undertaken in the financial year between net interest and commission, please refer to the comments in Note (16) Net Interest Income.

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

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
<b>Trading profit/loss</b>	<b>272</b>	<b>6,004</b>	<b>-95</b>
Realised profit/loss	0	0	-
Measurement gains/losses	382	6,067	-94
from debt securities and other fixed interest securities	0	0	-
from shares and other variable yield securities	0	0	-
from derivatives	382	6,067	-94
from other receivables held for trading	0	0	-
Foreign exchange profit/loss	-111	-64	74
Other profit/loss	0	0	-
<b>Profit/loss from the fair value option</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>Total</b>	<b>272</b>	<b>6,004</b>	<b>-95</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).

The Bank's trading profit/loss results from a closed derivative position as well as from derivative hedging instruments that do not meet the restrictive requirements of hedge accounting.

## (20) Profit/Loss from Hedge Accounting

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

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
<b>Profit/loss from micro fair value hedge transactions</b>	<b>-2,347</b>	<b>1,383</b>	<b>&lt; -100</b>
from hedged underlying transactions	-107,414	-47,853	> 100
from derivatives used as hedging instruments	105,067	49,236	> 100
<b>Total</b>	<b>-2,347</b>	<b>1,383</b>	<b>&lt; -100</b>

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

## (21) Profit/Loss from Financial Assets

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

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
<b>Profit/loss from financial assets classified as LaR</b>	<b>1,822</b>	<b>-9,780</b>	<b>&lt; -100</b>
from debt securities and other fixed interest securities	-514	-7,719	-93
from establishment of portfolio loss provisions	2,335	-2,061	< -100
<b>Profit/loss from financial assets classified as AfS (no joint ownership)</b>	<b>0</b>	<b>5,845</b>	<b>-100</b>
from debt securities and other fixed interest securities	0	0	-
from own issues repurchased for price management	0	5,845	-100
from shares and other variable yield securities	0	0	-
from other financial assets	0	0	-
Profit/loss from value adjustments for debt securities and other fixed interest securities	0	0	-
<b>Total</b>	<b>1,822</b>	<b>-3,935</b>	<b>&lt; -100</b>

## (22) Administrative Expenses

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

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
<b>Staff expenses</b>	<b>0</b>	<b>-485</b>	<b>-100</b>
Wages and salaries	0	-418	-100
Social security contributions	0	-31	-100
Expenses for pension provision	0	-33	-100
Other staff expenses	0	-2	-100
<b>Other administrative expenses</b>	<b>-721</b>	<b>-1,310</b>	<b>-45</b>
Expense for operating and office equipment and IT	-135	-459	-71
Legal, audit, survey and professional fees	-547	-716	-24
Other administrative expenses	-38	-135	-72
<b>Depreciation and impairments</b>	<b>0</b>	<b>-16</b>	<b>-100</b>
Depreciation of property, plant and equipment	0	-15	-100
Depreciation on intangible assets	0	0	-100
Impairments	0	0	-
<b>Total</b>	<b>-721</b>	<b>-1,811</b>	<b>-60</b>

The Bank's pension provisions were transferred to NORD/LB Luxembourg in financial year 2012.

## (23) Other Operating Profit/Loss

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
<b>Other operating income</b>	<b>164</b>	<b>1,422</b>	<b>-88</b>
from the reversal of provisions	0	30	-100
Other income	164	1,392	-88
<b>Other operating expenses</b>	<b>-5,742</b>	<b>-4,708</b>	<b>22</b>
from the allocation of provisions	0	0	-
from accounting for services	-5,723	-4,266	34
Other expenses	-19	-442	-96
<b>Total</b>	<b>-5,578</b>	<b>-3,286</b>	<b>70</b>

Other operating income in the previous year was largely affected by the reversal of provisions and deferred items. The other operating expenses primarily comprise expenses for services received from NORD/LB (KEUR 728; previous year KEUR 666) and NORD/LB Luxembourg (KEUR 4,995; previous year KEUR 3,600). The increase in the accounting for services item in the year under report results from purchasing services from NORD/LB Luxembourg in connection with the organisational integration completed in the Bank in the previous year.

**(24) Income Taxes**

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
Current income taxes	-4	-109	-96
Deferred taxes	0	0	-
<b>Total</b>	<b>-4</b>	<b>-109</b>	<b>-96</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.

	2013 (KEUR)	2012 (KEUR)
<b>IFRS Earnings before taxes (EBT)</b>	<b>105</b>	<b>726</b>
Expected income tax expense	-31	-209
<b>Effects of reconciliation</b>		
Effects due to different tax rates for taxable items	0	0
Taxes from previous years recognised in the year under report	17	0
Effects of tax rate changes	0	0
Non-allowable income taxes	0	0
Non-deductible operating expenses	-8	-11
Effects of tax-free income	0	0
Effects of permanent effects affecting the balance sheet	0	0
Expected income tax expense	18	111
<b>Effects of reconciliation</b>	<b>-4</b>	<b>-109</b>

The expected income tax expense in the tax reconciliation is calculated from the corporation and trade tax burden applicable in Luxembourg in 2013, in the amount of 29.22 % (previous year 28.80 %).

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

## Notes to the Balance Sheet

### (25) Cash Reserve

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Cash	0.0	0.0	–
Balances with central banks	0.0	0.0	–
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>–</b>

Liabilities with an original term to maturity of more than 2 years mean that the Bank is not required to deposit any minimum reserve at the central bank (previous year EUR 0.0 million).

### (26) Loans and Advances to Banks

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
<b>Receivables from money market transactions</b>	<b>504.7</b>	<b>1,406.2</b>	<b>–64</b>
Luxembourg banks	108.3	778.1	–86
Foreign banks	396.4	628.1	–37
<b>Other receivables</b>	<b>1,302.8</b>	<b>1,360.8</b>	<b>–4</b>
Luxembourg banks	987.0	1,053.9	–6
due on demand	688.1	747.8	–8
deferred	299.0	306.2	–2
Foreign banks	315.7	306.9	3
due on demand	0.0	0.0	–
deferred	315.7	306.9	3
<b>Total</b>	<b>1,807.4</b>	<b>2,767.1</b>	<b>–35</b>

Of the total amount, EUR 712.1 million (previous year EUR 935.0 million) relate to loans and advances to foreign banks. A partial amount of EUR 573.2 million (previous year EUR 583.1 million) of the loans and advances to banks will only become due after more than twelve months.

A share of EUR 399.5 million (previous year EUR 628.1 million) results from cash securities received in accordance with existing framework agreements on derivative transactions.

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

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
<b>Receivables from money market transactions</b>	<b>5.8</b>	<b>0.0</b>	<b>&gt; 100</b>
Luxembourg customers	0.0	0.0	–
Foreign customers	5.8	0.0	> 100
<b>Other receivables</b>	<b>990.3</b>	<b>797.7</b>	<b>24</b>
Luxembourg customers	8.1	0.0	> 100
due on demand	0.0	0.0	–
deferred	8.1	0.0	> 100
Foreign customers	982.2	797.7	23
due on demand	0.0	0.0	–
deferred	982.2	797.7	23
<b>Total</b>	<b>996.1</b>	<b>797.7</b>	<b>25</b>

The total amount is almost exclusively attributed to liabilities to foreign customers. Of the total amount, EUR 889.0 million (previous year EUR 678.3 million) is only due in more than twelve months.

**(28) Risk Provisions**

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
<b>Individual value adjustments for receivables</b>	<b>0.0</b>	<b>0.0</b>	<b>–</b>
Foreign banks	0.0	0.0	–
Luxembourg customers	0.0	0.0	–
Foreign customers	0.0	0.0	–
<b>Portfolio-based provisions for receivables</b>	<b>–0.2</b>	<b>–0.2</b>	<b>–21</b>
<b>Total</b>	<b>–0.2</b>	<b>–0.2</b>	<b>–21</b>

The reported risk provision has changed as follows:

EUR million	Specific Value Adjustments	Portfolio-based Provisions	Provisions in Lending Business	Total
<b>01.01.2012</b>	<b>0.0</b>	<b>0.3</b>	<b>0.0</b>	<b>0.3</b>
Allocations	0.0	0.0	0.0	0.0
Reductions	0.0	-0.1	0.0	-0.1
Utilisation	0.0	0.0	0.0	0.0
<b>31.12.2012</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>0.2</b>
Allocations	0.0	0.0	0.0	0.0
Reductions	0.0	0.0	0.0	0.0
Utilisation	0.0	0.0	0.0	0.0
<b>31.12.2013</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>0.2</b>

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

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

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
<b>Trading assets</b>	<b>45.8</b>	<b>66.2</b>	<b>-31</b>
Debt securities and other fixed interest securities	0.0	0.0	-
Shares and other variable yield securities	0.0	0.0	-
Positive fair values from derivatives in connection with:	45.8	66.2	-31
Interest rate risks	39.8	61.7	-36
Currency risks	6.1	4.5	35
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>0.0</b>	<b>-</b>
Loans and advances to banks and customers	0.0	0.0	-
Debt securities and other fixed interest securities	0.0	0.0	-
Shares and other variable yield securities	0.0	0.0	-
<b>Total</b>	<b>45.8</b>	<b>66.2</b>	<b>-31</b>

Of the total amount, EUR 44.8 million (previous year EUR 66.2 million) is only due in more than twelve months.

### (30) Fair Values from Hedge Accounting

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

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Positive fair values from allocated micro fair value hedge derivatives	297.9	537.8	-45
Fair values from derivatives in portfolio fair value hedge accounting	0.0	0.0	-
<b>Total</b>	<b>297.9</b>	<b>537.8</b>	<b>-45</b>

The Bank utilises micro fair value hedge accounting to hedge interest rate and currency risks. Hedge derivatives with a fair value of EUR 296.0 million will become due at the earliest after twelve months (previous year EUR 536.5 million).

### (31) Financial Assets

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

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
<b>Financial assets in the LaR category</b>	<b>2,787.4</b>	<b>3,297.5</b>	<b>-15</b>
Bonds and debt securities	2,798.6	3,311.1	-15
from public issuers	1,624.9	1,945.9	-16
from other issuers	1,173.7	1,365.1	-14
Portfolio value adjustments on LaR financial assets	-11.2	-13.5	-17
<b>Financial assets classified as AfS</b>	<b>385.7</b>	<b>439.8</b>	<b>-12</b>
Bonds and debt securities	385.7	439.8	-12
from public issuers	149.7	132.4	13
from other issuers	236.0	307.4	-23
<b>Total</b>	<b>3,173.1</b>	<b>3,737.3</b>	<b>-15</b>

The volume of financial assets issued by the central governments of certain euro states (Portugal, Italy, Ireland, Greece and Spain) amounts to a nominal EUR 102.6 million (previous year EUR 103.1 million.) This concerns three debt securities from the Republic of Italy with terms of maturity up to 2018 and 2033 respectively.

Of the financial assets, EUR 2,937.2 million (previous year EUR 3,561.7 million) will only become due after more than twelve months.

The Bank utilised the options under IAS 39.50E and reclassified 18 securities designated as AfS (bonds and debt securities) as LaR in 2008. At the same time, bonds and debt securities that were clearly not intended to be sold or traded in the short-term as at 1 July 2008, and which were intended to be kept in the inventory for the foreseeable future instead, were re-categorised. In accordance with the amended IAS 39, the re-categorisation took place with effect from 1 July 2008 at the fair value calculated on this reporting date. No further re-categorisations were undertaken in the following years.

In conjunction with the re-categorisation, the balance sheet presentation was also changed (reclassification). The table below shows the book values and fair value of the re-categorised assets.

EUR million	31.12.2013			31.12.2012			31.12.2011		
	Book Value on Transfer	Book Value	Fair Value	Book Value on Transfer	Book Value	Fair Value	Book Value on Transfer	Book Value	Fair Value
Reclassified financial assets	645.6	580.6	508.9	645.6	644.5	510.3	645.6	698.4	569.7

EUR million	31.12.2010			31.12.2009			31.12.2008		
	Book Value on Transfer	Book Value	Fair Value	Book Value on Transfer	Book Value	Fair Value	Book Value on Transfer	Book Value	Fair Value
Reclassified financial assets	645.6	660.3	627.9	645.6	731.4	712.1	645.6	746.7	719.5

The reclassification was based on the book value with anticipated achievable cash flows of EUR 1,038.5 million.

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

The pro rata resolution of this item is in accordance with IAS 39.54 in relation to net interest income. The effective interest rates for each security was determined for this purpose. These range from 2.53 % to 6.46 %.

KEUR	31.12.2013	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							–13,193.6
Pro rata reductions in accordance with IAS 39.54	388	433	610	703	676	316	

In the 2013 reporting year, the pro rata reduction amounted to KEUR 388 (previous year KEUR 433) charged to the tax profit/loss.

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

EUR million	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008	01.07.2008
Unrealised profit/loss before taxes	-71.9	-135.2	-128.7	-32.4	-19.3	-27.1	-13.2
Deferred taxes	21.0	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>-50.9</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>

### (32) Property, Plant and Equipment

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Land and buildings	0.0	0.0	-
Operating and office equipment	0.0	0.0	-
Other property, plant and equipment	0.0	0.0	-
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>

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

KEUR	Land and Buildings	Operating and Office Equipment	Other Property, Plant and Equipment	Total
<b>Acquisition and manufacturing costs at 01.01.2012</b>	<b>0</b>	<b>573</b>	<b>0</b>	<b>573</b>
Accruals	0	0	0	0
Disposals	0	-573	0	-573
Transfers	0	0	0	0
<b>Total 31.12.12</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cumulative depreciation at 01.01.2012</b>	<b>0</b>	<b>-101</b>	<b>0</b>	<b>-101</b>
Scheduled depreciation	0	-15	0	-15
Transfers	0	0	0	0
Disposals	0	116	0	116
<b>Total 31.12.2012</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Closing balance at 31.12.2012</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

KEUR	Land and Buildings	Operating and Office Equipment	Other Property, Plant and Equipment	Total
Acquisition and manufacturing costs at 01.01.2013	0	0	0	0
Accruals	0	0	0	0
Disposals	0	0	0	0
Transfers	0	0	0	0
<b>Total 31.12.2013</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cumulative depreciation at 01.01.2013	0	0	0	0
Scheduled depreciation	0	0	0	0
Transfers	0	0	0	0
Disposals	0	0	0	0
<b>Total 31.12.2013</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Closing balance at 31.12.2013	0	0	0	0

### (33) Intangible Assets

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Software	0	0	–
Acquired for consideration	0	0	–
Proprietary	0	0	–
Intangible assets under development	0	0	–
Other	0	0	–
<b>Total</b>	<b>0</b>	<b>0</b>	<b>–</b>

Intangible assets developed as follows:

KEUR	Software		Other		Total
	Acquired for Consideration	Proprietary	Acquired for Consideration	Proprietary	
Acquisition and manufacturing costs at 01.01.2012	360	0	0	0	360
Accruals	0	0	0	0	0
Disposals	-360	0	0	0	-360
Transfers	0	0	0	0	0
<b>Total 31.12.2012</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cumulative depreciation at 01.01.2012	-355	0	0	0	-355
Scheduled depreciation	0	0	0	0	0
Disposals	355	0	0	0	355
<b>Total 31.12.2012</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Closing balance at 31.12.2012	0	0	0	0	0
Acquisition and manufacturing costs at 01.01.2013	0	0	0	0	0
Accruals	0	0	0	0	0
Disposals	0	0	0	0	0
Transfers	0	0	0	0	0
<b>Total 31.12.2013</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Cumulative depreciation at 01.01.2013	0	0	0	0	0
Scheduled depreciation	0	0	0	0	0
Disposals	0	0	0	0	0
<b>Total 31.12.2013</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Closing balance at 31.12.2013	0	0	0	0	0

### (34) Income Tax Assets

Income tax assets are broken down as follows:

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Current income tax assets	0.0	0.0	–
Active deferred taxes	8.7	12.5	–30
<b>Total</b>	<b>8.7</b>	<b>12.5</b>	<b>–30</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 since reporting year 2008. This means that many of the temporary differences no longer apply. The active deferred tax assets relate exclusively to financial assets in the AfS category.

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

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
<b>Assets</b>			
Risk provisions	0.0	0.0	–
Financial assets	8.7	12.5	–30
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	0.0	0.0	–
Other liabilities	0.0	0.0	–
Tax losses carried forward	0.0	0.0	–
<b>Total</b>	<b>8.7</b>	<b>12.5</b>	<b>–30</b>

**(35) Other Assets**

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Tax reimbursement rights from other taxes	0.0	0.0	-55
Other assets	0.1	0.1	-22
Other assets including accruals and deferred income	0.0	0.0	-
<b>Total</b>	<b>0.1</b>	<b>0.2</b>	<b>-26</b>

**(36) Liabilities to Banks**

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
<b>Deposits from other banks</b>	<b>792.4</b>	<b>898.1</b>	<b>-12</b>
Luxembourg banks	579.1	688.2	-16
Foreign banks	213.3	209.9	2
<b>Liabilities arising from money market transactions</b>	<b>1,448.8</b>	<b>2,202.1</b>	<b>-34</b>
Luxembourg banks	1,166.8	1,839.1	-37
Foreign banks	282.1	363.0	-22
<b>Other liabilities</b>	<b>682.4</b>	<b>746.5</b>	<b>-9</b>
Luxembourg banks	682.4	746.5	-9
due on demand	682.4	746.5	-9
deferred	0.0	0.0	-
Foreign banks	0.0	0.0	-
due on demand	0.0	0.0	-
deferred	0.0	0.0	-
<b>Total</b>	<b>2,923.6</b>	<b>3,846.7</b>	<b>-24</b>

Of the total amount, EUR 771.9 million (previous year EUR 785.9 million) is attributable to liabilities which will only become due after more than twelve months.

Liabilities to banks include registered Pfandbriefe (covered bonds) in the sum of EUR 108.6 million (previous year EUR 139.1 million).

### (37) Liabilities to Customers

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Savings deposits	0.0	0.0	–
Liabilities arising from money market transactions	0.0	0.0	–
Luxembourg customers	0.0	0.0	–
Foreign customers	0.0	0.0	–
Other liabilities	692.5	759.3	–9
Luxembourg customers	0.1	0.1	–50
due on demand	0.1	0.1	–50
deferred	0.0	0.0	–
Foreign customers	692.4	759.2	–9
due on demand	0.0	0.0	> 100
deferred	692.4	759.2	–9
<b>Total</b>	<b>692.5</b>	<b>759.3</b>	<b>–9</b>

A remaining term to maturity of more than 12 months is shown by EUR 666.9 million of the total amount (previous year EUR 759.2 million). In both years, this balance sheet item results exclusively from registered Pfandbriefe (covered bonds).

### (38) Securitised Liabilities

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Issued debt securities	1,979.9	2,211.0	–10
Other securitised liabilities	0,0	0,0	–
<b>Total</b>	<b>1,979.9</b>	<b>2,211.0</b>	<b>–10</b>

Of the total amount, EUR 1,854.0 million (previous year EUR 2,162.4 million) is attributable to liabilities which will only become due after more than twelve months. All of the issued debt securities are Pfandbriefe under Luxembourg law (Lettres de Gage).

Of this amount, EUR 1,632.7 million is listed on the Luxembourg exchange (previous year EUR 1,974.4 million). Lettre de Gage with a countervalue of EUR 221.4 million (previous year EUR 236.6 million) are listed on the Swiss exchange.

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

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

The trading liabilities item comprises negative fair values from derivative financial instruments that are not used within the scope of hedge accounting and delivery obligations from the short selling of securities. However, short sales were not undertaken by the Bank. Neither is there any intention to conclude them.

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

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
<b>Trading liabilities</b>	<b>41.3</b>	<b>63.3</b>	<b>-35</b>
Negative fair values from derivatives in connection with:	41.3	63.3	-35
Interest rate risks	41.2	63.3	-35
Currency risks	0.1	0.0	> 100
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>41.3</b>	<b>63.3</b>	<b>-35</b>

A partial amount of EUR 41.2 million of the trading liabilities will only become due after more than 12 months (previous year EUR 63.3 million).

### (40) Fair Values from Hedge Accounting

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

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Negative fair values from allocated micro fair value hedge derivatives	579.9	934.2	-38
<b>Total</b>	<b>579.9</b>	<b>934.2</b>	<b>-38</b>

The Bank utilises micro fair value hedge accounting to hedge interest rate and currency risks. Hedge derivatives with a negative fair value of EUR 571.2 million will become due at the earliest after twelve months (previous year EUR 914.8 million).

## (41) Provisions

Provisions are broken down as follows:

	31.12.2013 (KEUR)	31.12.2012 (KEUR)	Increase/ Decrease (%)
Provisions for pensions and similar obligations	0.0	0.0	–
Other provisions	0.0	0.0	–
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>–</b>

### Provisions for Pensions and Similar Obligations

Within the scope of outsourcing the Bank's personnel to NORD/LB Luxembourg, the claims and obligations from the pension plans were also transferred to the parent company.

## (42) Income Tax Liabilities

Income tax liabilities are broken down as follows:

	31.12.2013 (KEUR)	31.12.2012 (KEUR)	Increase/ Decrease (%)
Current income tax liabilities	0.0	0.0	–
Passive deferred taxes	0.0	0.0	–
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>–</b>

The fiscal provisions have been applied to the IFRS financial statements since reporting year 2008. This means that many of the temporary differences no longer apply. Due to the tax group status, the Bank reports these as liabilities to the parent company and not to the tax authorities.

### (43) Other Liabilities

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Liabilities from outstanding invoices	0.6	0.7	-11
Liabilities from contributions	0.0	0.0	-
Liabilities from short term remuneration of workers	0.0	0.0	-
Accruals and deferred income	0.0	0.0	-
Liabilities from taxes and social security contributions not yet deducted	0.1	0.4	-67
Liabilities on interim accounts	0.0	0.0	-
Insurance-related liabilities	0.0	0.0	-
Other liabilities	5.2	4.9	6
<b>Total</b>	<b>5.9</b>	<b>6.0</b>	<b>-1</b>

The other liabilities result mainly from taxes to be paid to the parent company, NORD/LB Luxembourg, in the amount of EUR 0.1 million (previous year EUR 0.9 million) and the internal accounting for services with NORD/LB Luxembourg in the sum of EUR 5.0 million (previous year EUR 3.6 million).

### (44) Subordinated Capital

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

The expenses for subordinate liabilities amounted to KEUR 1,852 (previous year KEUR 1,930) in the year under report.

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
Subordinated liabilities	29.0	30.3	-4
Profit participation capital	0.0	0.0	-
Contributions from silent partners	0.0	0.0	-
<b>Total</b>	<b>29.0</b>	<b>30.3</b>	<b>-4</b>

The following table shows the subordinated transactions:

Type of Transaction	Nominal Amount (million)	Interest Accrual (million)	Exchange Rate 31.12.2013	Balance Sheet Value (EUR million)	Term in Years	Interest Rates %	Maturity
Subordinated loans	USD 40.0	USD 0.0	1.3791	29.0	15	6.400	27 Dec. 22

## Other Disclosures

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

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

KEUR	Amount before Taxes 2013	Income Tax Effect 2013	Amount after Taxes 2013	Amount before Taxes 2012	Income Tax Effect 2012	Amount after Taxes 2012
Increase/decrease from available for sale (AfS) financial instruments	12,797	-3,739	9,058	12,917	-3,541	9,376
Actuarial gains/losses for defined benefit provisions for pensions	0	0	0	39	-11	27
<b>Profit/loss recognised directly in equity</b>	<b>12,797</b>	<b>-3,739</b>	<b>9,058</b>	<b>12,955</b>	<b>-3,552</b>	<b>9,403</b>
of which due to shareholders of NORD/LB Luxembourg	12,797	-3,739	9,058	12,955	-3,552	9,403
of which not attributable to controlling shares	0	0	0	0	0	0

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

The company's subscribed capital amounts to EUR 80 million as at 31 December 2013 (previous year EUR 80 million). It is divided into 800,000 registered shares without nominal value (previous year 800,000 registered shares). The subscribed capital is fully paid up.

No dividends relating to the 2012 reporting year were paid out to the shareholders (previous year KEUR 0). The individual components of the equity and its development in 2012 and 2013 can be seen in the statement of changes in equity.

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

The revenue reserves mainly include the legal reserve pursuant to Article 72 of the Law of 10 August 1915. Accordingly, at least 5% of the profit for the year must be allocated to the legal reserve until it is equivalent to 10% of the subscribed capital. The Bank's legal reserve amounts to EUR 8.0 million or 10% of subscribed capital and is therefore adequately funded.

The effects of measuring available for sale (AfS) financial instruments are shown under the "Revaluation reserve" item. In previous years, the Bank had utilised the fiscal option of offsetting wealth tax for the year. The parent company earmarked five times the amount of the offset wealth tax of the previous years for the free reserves, taking into account the five-year commitment period.

Year	Wealth Tax NORD/LB CFB (EUR million)	Locked in Until
2009	0.2	31.12.2014
2010	0.0	31.12.2015
2011	0.3	31.12.2016
2012	0.3	31.12.2017
2013	0.1	31.12.2018
<b>Total</b>	<b>0.9</b>	

## (47) Notes to the Cash Flow Statement

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

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

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

As recommended by the IASB, cash flow from operating activities shows payment transactions from loans and advances to banks and customers, trading portfolio securities, liabilities to banks and customers and securitised liabilities. Cash flow from investment activities comprises payment transactions for the investments and securities portfolio under financial assets and cash receipts and payments for property, plant and equipment. Cash flow from financing activities includes payment flows from capital adjustments, interest payments on subordinated capital and dividend payments to the shareholders of NORD/LB CFB.

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

## Notes to Financial Instruments

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

At 31 December 2013:

EUR million	< 1 Month	1 Month < 3 Months	3 Months < 1 Year	1 Year < 5 Years	> 5 Years	Total
Liabilities to banks	2,043.9	0.0	107.9	418.6	353.3	2,923.6
Liabilities to customers	0.1	25.6	0.0	68.8	598.1	692.5
Securitised liabilities	0.0	81.5	44.3	1,514.4	339.7	1,979.9
Financial liabilities at fair value through profit or loss (without derivatives)	0.0	0.0	0.0	0.0	0.0	0.0
Subordinated capital	0.0	0.0	0.0	0.0	29.0	29.0
Irrevocable credit commitments	0.0	0.0	1.0	141.6	63.2	205.8
<b>Total</b>	<b>2,043.9</b>	<b>107.1</b>	<b>153.3</b>	<b>2,143.3</b>	<b>1,383.3</b>	<b>5,830.9</b>

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	2,119.5	889.7	51.6	242.6	543.3	3,846.7
Liabilities to customers	0.1	0.0	0.0	48.1	711.1	759.3
Securitised liabilities	0.0	0.0	48.6	1,626.4	536.0	2,211.0
Financial liabilities at fair value through profit or loss (without derivatives)	0.0	0.0	0.0	0.0	0.0	0.0
Subordinated capital	0.0	0.0	0.0	0.0	30.3	30.3
Irrevocable credit commitments	0.0	10.0	17.0	140.2	0.2	167.3
<b>Total</b>	<b>2,119.6</b>	<b>899.7</b>	<b>117.2</b>	<b>2,057.3</b>	<b>1,820.8</b>	<b>7,014.7</b>

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

More information about the liquidity risk can be found in the "Liquidity Risk" section in the risk report above. This contains more detailed information about liquidity management, the control and measurement of the liquidity risks, reporting as well as the development in 2013 and the outlook.

**(49) Book Values According to Valuation Categories**

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
<b>Assets</b>			
Financial Assets Designated at Fair Value through Profit or Loss	343.7	604.1	-43
Financial assets held for trading	343.7	604.1	-43
Financial assets designated at fair value through profit or loss	0.0	0.0	-
Available for Sale Assets	385.7	439.8	-12
Loans and Receivables	5,590.7	6,862.0	-19
<b>Total</b>	<b>6,320.1</b>	<b>7,905.9</b>	<b>-20</b>
<b>Liabilities</b>			
Financial Liabilities Designated at Fair Value through Profit or Loss	621.2	997.5	-38
Financial liabilities held for trading	621.2	997.5	-38
Financial liabilities designated at fair value through profit or loss	0.0	0.0	-
Other Liabilities	5,625.1	6,847.4	-18
<b>Total</b>	<b>6,246.3</b>	<b>7,844.9</b>	<b>-20</b>

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

**(50) Net Results According to Valuation Categories**

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
Financial Instruments at Fair Value through Profit or Loss	-67,982	-51,577	32
Financial instruments held for trading	-67,982	-51,577	32
Financial instruments designated at fair value through profit or loss	0	0	-
Available for Sale Assets	8,155	19,024	-57
Loans and Receivables	157,929	166,455	-5
Other Liabilities	-89,587	-129,620	-31
<b>Total</b>	<b>8,515</b>	<b>4,283</b>	<b>99</b>

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

## (51) Impairments/Reversal of Impairments According to Valuation Categories

	2013 (KEUR)	2012 (KEUR)	Increase/ Decrease (%)
<b>Available for Sale Assets</b>			
Result from valuation adjustments of AfS financial assets	0.0	0.0	–
Result from direct write-down of uncollectible receivables/ Receipts on written down receivables	0.0	0.0	–
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>–</b>
<b>Loans and Receivables</b>			
Result from valuation adjustments of LaR liabilities and financial assets	0.0	0.0	–
Result from portfolio based valuation adjustments of LaR liabilities and financial assets	2,384.5	–1,982.8	< –100
Result from direct write-down of uncollectible receivables/ Receipts on written down receivables	0.0	0.0	–
<b>Total</b>	<b>2,384.5</b>	<b>–1,982.8</b>	<b>&lt; –100</b>

## (52) Fair Value Hierarchy

The following table shows the application of the fair value hierarchy of the financial assets and liabilities at fair value through profit or loss:

31.12.2013 EUR million	Level 1 (Mark-to- Market)	Level 2 (Mark-to- Matrix)	Level 3 (Mark-to- Model)	Total
Trading assets	0.0	45.8	0.0	45.8
Interest rate risks	0.0	39.8	0.0	39.8
Currency risks	0.0	6.1	0.0	6.1
Financial assets designated at fair value	0.0	0.0	0.0	0.0
Positive fair values from hedge accounting derivatives	0.0	297.9	0.0	297.9
Interest rate risks	0.0	200.9	0.0	200.9
Currency risks	0.0	96.9	0.0	96.9
Financial assets (measured at fair value)	74.5	311.2	0.0	385.7
<b>Assets</b>	<b>74.5</b>	<b>654.9</b>	<b>0.0</b>	<b>729.4</b>

31.12.2013 EUR million	Level 1 (Mark-to- Market)	Level 2 (Mark-to- Matrix)	Level 3 (Mark-to- Model)	Total
Trading liabilities	0.0	41.3	0.0	41.3
Interest rate risks	0.0	41.2	0.0	41.2
Currency risks	0.0	0.1	0.0	0.1
Financial liabilities designated at fair value	0.0	0.0	0.0	0.0
Negative fair values from hedge accounting derivatives	0.0	579.9	0.0	579.9
Interest rate risks	0.0	521.4	0.0	521.4
Currency risks	0.0	58.5	0.0	58.5
<b>Liabilities</b>	<b>0.0</b>	<b>621.2</b>	<b>0.0</b>	<b>621.2</b>

31.12.2012 EUR million	Level 1 (Mark-to- Market)	Level 2 (Mark-to- Matrix)	Level 3 (Mark-to- Model)	Total
Trading assets	0.0	66.2	0.0	66.2
Interest rate risks	0.0	61.7	0.0	61.7
Currency risks	0.0	4.5	0.0	4.5
Financial assets designated at fair value	0.0	0.0	0.0	0.0
Positive fair values from hedge accounting derivatives	0.0	537.8	0.0	537.8
Interest rate risks	0.0	299.8	0.0	299.8
Currency risks	0.0	238.0	0.0	238.0
Financial assets (measured at fair value)	123.7	316.1	0.0	439.8
<b>Assets</b>	<b>123.7</b>	<b>920.1</b>	<b>0.0</b>	<b>1,043.9</b>
Trading liabilities	0.0	63.3	0.0	63.3
Interest rate risks	0.0	63.3	0.0	63.3
Currency risks	0.0	0.0	0.0	0.0
Financial liabilities designated at fair value	0.0	0.0	0.0	0.0
Negative fair values from hedge accounting derivatives	0.0	934.2	0.0	934.2
Interest rate risks	0.0	787.7	0.0	787.7
Currency risks	0.0	146.5	0.0	146.5
<b>Liabilities</b>	<b>0.0</b>	<b>997.5</b>	<b>0.0</b>	<b>997.5</b>

There are no Level 3 bonds in the Bank's portfolio on the balance sheet date.

The transfers within the fair value hierarchy are as follows:

01.01. – 31.12.2013 EUR million	From Level 1 to Level 2	From Level 1 to Level 3	From Level 2 to Level 1	From Level 2 to Level 3	From Level 3 to Level 1	From Level 3 to Level 2
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0
Interest rate risks	0.0	0.0	0.0	0.0	0.0	0.0
Currency risks	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets designated at fair value	0.0	0.0	0.0	0.0	0.0	0.0
Positive fair values from hedge accounting derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Interest rate risks	0.0	0.0	0.0	0.0	0.0	0.0
Currency risks	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets (measured at fair value)	51.0	0.0	53.4	0.0	0.0	0.0
<b>Assets</b>	<b>51.0</b>	<b>0.0</b>	<b>53.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest rate risks	0.0	0.0	0.0	0.0	0.0	0.0
Currency risks	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
Interest rate risks	0.0	0.0	0.0	0.0	0.0	0.0
Currency risks	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>

01.02. – 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
Interest rate risks	0.0	0.0	0.0	0.0	0.0	0.0
Currency risks	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets designated at fair value	0.0	0.0	0.0	0.0	0.0	0.0
Positive fair values from hedge accounting derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Interest rate risks	0.0	0.0	0.0	0.0	0.0	0.0
Currency risks	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	0.0	15.2
<b>Assets</b>	<b>23.3</b>	<b>0.0</b>	<b>51.8</b>	<b>0.0</b>	<b>0.0</b>	<b>15.2</b>
Trading liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Interest rate risks	0.0	0.0	0.0	0.0	0.0	0.0
Currency risks	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
Interest rate risks	0.0	0.0	0.0	0.0	0.0	0.0
Currency risks	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 concerned a security for which there was no market price on the reporting date. One security moved from a market valuation (Level 1) to a matrix valuation (Level 2).

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 development of financial assets in Level 3 of the fair value hierarchy is broken down as follows:

EUR million	Trading Assets	Financial Assets Designated at Fair Value	Positive Fair Values from Hedge Accounting Derivatives	Financial Assets (Measured at Fair Value)	Total Assets
<b>Opening balance as at 01.01.2012</b>	0.0	0.0	0.0	15.4	15.4
Profit/loss effect	0.0	0.0	0.0	0.1	0.1
Equity effect	0.0	0.0	0.0	-0.3	-0.3
Purchases/acquisitions	0.0	0.0	0.0	0.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0
Amortisations/redemptions	0.0	0.0	0.0	0.0	0.0
Moved from Level 1 and 2	0.0	0.0	0.0	0.0	0.0
Moved to Level 1 and 2	0.0	0.0	0.0	-15.2	-15.2
<b>Closing balance at 31.12.2012</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Opening balance at 01.01.2013</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Profit/loss effect	0.0	0.0	0.0	0.0	0.0
Equity effect	0.0	0.0	0.0	0.0	0.0
Purchases/acquisitions	0.0	0.0	0.0	0.0	0.0
Sales	0.0	0.0	0.0	0.0	0.0
Amortisations/redemptions	0.0	0.0	0.0	0.0	0.0
Moved from Level 1 and 2	0.0	0.0	0.0	0.0	0.0
Moved to Level 1 and 2	0.0	0.0	0.0	0.0	0.0
<b>Closing balance at 31.12.2013</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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

31.12.2013 EUR million	Level 1 (Mark-to- Market)	Level 2 (Mark-to- Matrix)	Level 3 (Mark-to- Model)	Total
Cash reserve	0.0	0.0	0.0	0.0
Loans and advances to banks	1,087.6	638.0	105.2	1,830.8
Loans and advances to customers	5.8	166.1	812.6	984.5
Financial assets not posted at fair value	0.0	2,446.1	0.0	2,446.1
<b>Assets</b>	<b>1,093.4</b>	<b>3,250.2</b>	<b>917.8</b>	<b>5,261.4</b>
Liabilities to banks	1,380.8	0.0	1,547.6	2,928.4
Liabilities to customers	0.1	0.0	692.4	692.5
Securitised liabilities	0.0	0.0	2,004.4	2,004.4
Subordinated capital	0.0	0.0	34.1	34.1
<b>Liabilities</b>	<b>1,380.9</b>	<b>0.0</b>	<b>4,278.6</b>	<b>5,659.5</b>

### (53) Fair Value of Financial Instruments

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

EUR million	Fair Value 31.12.2013	Book Value 31.12.2013	Difference 31.12.2013	Fair Value 31.12.2012	Book Value 31.12.2012	Difference 31.12.2012
<b>Assets</b>	<b>5,658.3</b>	<b>5,976.4</b>	<b>-318.1</b>	<b>6,865.1</b>	<b>7,301.8</b>	<b>-436.8</b>
Cash reserve	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances to banks	1,830.8	1,807.4	23.4	2,798.0	2,767.1	30.9
Loans and advances to customers	984.5	996.1	-11.5	797.3	797.7	-0.4
Risk provisions	0.0	-0.2	0.2	0.0	-0.2	0.2
Financial assets	2,843.0	3,173.1	-330.1	3,269.8	3,737.3	-467.5
<b>Loans and advances after risk provisions</b>	<b>5,658.3</b>	<b>5,976.4</b>	<b>-318.1</b>	<b>6,865.1</b>	<b>7,301.8</b>	<b>-436.8</b>
<b>Liabilities</b>	<b>5,659.5</b>	<b>5,625.1</b>	<b>34.3</b>	<b>6,892.4</b>	<b>6,847.4</b>	<b>45.0</b>
Liabilities to banks	2,928.4	2,923.6	4.8	3,854.0	3,846.7	7.2
Liabilities to customers	692.5	692.5	0.0	759.3	759.3	0.0
Securitised liabilities	2,004.4	1,979.9	24.5	2,239.8	2,211.0	28.8
Subordinated capital	34.1	29.0	5.1	39.3	30.3	9.0

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

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

The decline in hidden liabilities (before risk provisions) in the financial assets totalling EUR 341.3 million (previous year EUR 481.0 million) is mainly due to recovery effects. The proportion of Level 3 assets in the overall portfolio was 5.66 % as at 31 December 2012; there were no Level 3 assets in the Bank as at 31 December 2013. The Bank has guarantees on its books which secure commitments containing hidden liabilities in a nominal sum of EUR 783.4 million (previous year 828.4 million). These guarantees cover the respective nominal amount plus pro rata interest. The hidden liabilities in these commitments amount to EUR 137.3 million (previous year EUR 196.9 million). Of this amount, the guarantees received secure EUR 56.7 million (previous year EUR 76.5).

Furthermore, there are letters of comfort from the parent bank and from NORD/LB.

## (54) Derivative Financial Instruments

NORD/LB CFB uses derivative financial instruments for hedging purposes as part of asset/liability management.

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

The composition of the derivative portfolio is as follows:

EUR million	Nominal Values 31.12.2013	Nominal Values 31.12.2012	Positive Market Values 31.12.2013	Positive Market Values 31.12.2012	Negative Market Values 31.12.2013	Negative Market Values 31.12.2012
<b>Interest rate risks</b>	<b>6,477.9</b>	<b>6,980.9</b>	<b>240.6</b>	<b>361.6</b>	<b>562.7</b>	<b>851.0</b>
Interest rate swaps	6,462.5	6,980.9	240.2	361.6	562.7	851.0
Other forward rate agreements	15.4	0.0	0.4	0.0	0.0	0.0
<b>Currency risks</b>	<b>1,796.6</b>	<b>1,695.9</b>	<b>103.1</b>	<b>242.5</b>	<b>58.5</b>	<b>146.5</b>
Forward exchange contracts	181.4	0.0	1.1	0.0	0.0	0.0
Currency swaps/Interest rate-currency swaps	1,615.2	1,695.9	102.0	242.5	58.5	146.5
<b>Total</b>	<b>8,274.5</b>	<b>8,676.8</b>	<b>343.7</b>	<b>604.1</b>	<b>621.2</b>	<b>997.5</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. 2013	31.12. 2012	31.12. 2013	31.12. 2012	31.12. 2013	31.12. 2012	31.12. 2013	31.12. 2012
<b>Term to maturity</b>								
up to 3 months	118.9	18.9	264.4	0.0	0.0	0.0	0.0	0.0
over 3 months and up to 1 year	166.3	296.7	18.1	52.8	0.0	0.0	0.0	0.0
over 1 year and up to 5 years	2,063.2	1,700.7	570.7	621.2	0.0	0.0	0.0	0.0
over 5 years	4,129.4	4,964.7	943.4	1,021.8	0.0	0.0	0.0	0.0
<b>Total</b>	<b>6,477.9</b>	<b>6,980.9</b>	<b>1,796.6</b>	<b>1,695.9</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 following table below breaks down the positive and negative market values for derivative transactions according to the relevant counterparty.

EUR million	Nominal Values		Positive Market Values		Negative Market Values	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Banks in OECD countries	8,224.1	8,676.8	343.3	604.1	615.8	997.5
Banks outside OECD countries	0.0	0.0	0.0	0.0	0.0	0.0
Public sector entities in OECD countries	35.0	0.0	0.0	0.0	5.4	0.0
Other counterparties (including stock exchange contracts)	15.4	0.0	0.4	0.0	0.0	0.0
<b>Total</b>	<b>8,274.5</b>	<b>8,676.8</b>	<b>343.7</b>	<b>604.1</b>	<b>621.2</b>	<b>997.5</b>

## (55) Information Relating to Selected Countries

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

At 31 December 2013:

31.12.2013 EUR million	Financial Instruments Held for Trading	Financial Instruments Designated at Fair Value through Profit or Loss	Available for Sale Assets	Loans and Receivables
<b>Portugal</b>				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0	15.4	0.0
Corporates/Other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>15.4</b>	<b>0.0</b>
<b>Ireland</b>				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0	0.0	81.8
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>81.8</b>
<b>Italy</b>				
Sovereign Exposure	0.0	0.0	80.8	64.3
Financial Institutions/Insurance Companies	0.0	0.0	0.0	48.3
Corporates/Other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>80.8</b>	<b>112.6</b>
<b>Hungary</b>				
Sovereign Exposure	0.0	0.0	0.0	119.6
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>119.6</b>
<b>Spain</b>				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0	0.0	224.7
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>224.7</b>

At 31 December 2012:

31.12.2012 EUR million	Financial Instruments Held for Trading	Financial Instruments Designated at Fair Value through Profit or Loss	Available for Sale Assets	Loans and Receivables
<b>Portugal</b>				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0	15.2	0.0
Corporates/Other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>15.2</b>	<b>0.0</b>
<b>Ireland</b>				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0	0.0	99.0
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>99.0</b>
<b>Italy</b>				
Sovereign Exposure	0.0	0.0	77.8	90.8
Financial Institutions/Insurance Companies	0.0	0.0	0.0	53.7
Corporates/Other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>77.8</b>	<b>144.4</b>
<b>Hungary</b>				
Sovereign Exposure	0.0	0.0	0.0	124.4
Financial Institutions/Insurance Companies	0.0	0.0	0.0	25.8
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>150.2</b>
<b>Spain</b>				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0	0.0	242.0
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>242.0</b>

There are no exposures in Egypt, Greece, Slovenia or Cyprus.

The Bank has not taken out any credit derivatives.

For the financial instruments in the Available for Sale category with acquisition costs in the total sum of EUR 101.2 million (previous year EUR 101.2 million), the cumulative valuation result in the equity totals EUR –21.8 million (EUR –24.4 million) after tax in relation to the abovementioned selected countries. No depreciation was carried out in the year under report.

The receivables in the Loans and Receivables category from the aforementioned selected countries are covered by guarantees from NORD/LB Luxembourg in the sum of EUR 318.6 million (previous year EUR 327.1 million). For Hungary, guarantees were provided by NORD/LB Luxembourg for EUR 100.0 million (previous year EUR 125.0 million), for Ireland EUR 61.0 million (previous year: EUR 74.8 million), for Italy EUR 32.6 million (previous year EUR 33.1 million) and for Spain EUR 125.0 million (previous year EUR 94.1 million). Portfolio loss provisions total EUR 1.0 million (previous year: EUR 0.5 million) The fair value of these receivables in the Loans and Receivables category totals EUR 447.5 million (previous year 485.6 million).

The interest rates for the abovementioned transactions are between 0.53% and 6.59%. The individual terms of the transactions range between 2014 – 2036, with 14% of the receivables becoming due 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 2012 and 2013:

At 31 December 2013:

31.12.2013 EUR million	Level 1	Level 2	Level 3	Total
<b>Portugal</b>				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	15.4	0.0	15.4
Corporates/Other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>15.4</b>	<b>0.0</b>	<b>15.4</b>
<b>Italy</b>				
Sovereign Exposure	0.0	80.8	0.0	80.8
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>80.8</b>	<b>0.0</b>	<b>80.8</b>

At 31 December 2012:

31.12.2012 EUR million	Level 1	Level 2	Level 3	Total
<b>Portugal</b>				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	15.2	0.0	15.2
Corporates/Other	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>15.2</b>	<b>0.0</b>	<b>15.2</b>
<b>Italy</b>				
Sovereign Exposure	0.0	77.8	0.0	77.8
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>77.8</b>	<b>0.0</b>	<b>77.8</b>

## (56) Forbearance

Forborne exposures refer to all receivables where the Bank has attempted to maintain the business operations and debt service of the customer in the past by means of deferment of payment, restructuring or waiver of margins in order to avoid default or impairment.

There were no forbore exposures at NORD/LB CFB as at the reporting date.

## (57) Underlying Transactions in Effective Hedging Relationships

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

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

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

	31.12.2013 (EUR million)	31.12.2012 (EUR million)	Increase/ Decrease (%)
<b>Assets</b>			
Loans and advances to banks	402.2	423.6	-5
Loans and advances to customers	335.8	341.4	-2
Financial assets	2,879.5	3,349.4	-14
<b>Total</b>	<b>3,617.5</b>	<b>4,114.4</b>	<b>-12</b>
<b>Liabilities</b>			
Liabilities to banks	292.8	432.3	-32
Liabilities to customers	692.4	759.2	-9
Securitised liabilities	1,762.3	1,984.1	-11
Subordinated capital	0.0	0.0	-
<b>Total</b>	<b>2,747.6</b>	<b>3,175.6</b>	<b>-13</b>

## (58) NORD/LB CFB as Assignor and Assignee

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

	31.12.2013 (EUR million)	31.12.2012 (EUR million)
Loans and advances to banks	399.5	628.1
Loans and advances to customers	5.8	0.0
Financial instruments measured at fair value through profit or loss	0.0	0.0
Financial assets	0.0	684.1
<b>Total</b>	<b>405.3</b>	<b>1,312.2</b>

The furnishing of financial assets as security for borrowing funds in the previous year took the form of genuine repurchase agreements (repos) with a maximum remaining term of six months.

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

The abovementioned assets were transferred for the following liabilities as security in the amount of the values stated:

	31.12.2013 (EUR million)	31.12.2012 (EUR million)
Liabilities to banks	698.4	684.1
Liabilities to customers	0.0	0.0
<b>Total</b>	<b>698.4</b>	<b>684.1</b>

In the 2013 reporting year as well as in the previous year, no securities were held which may also be sold or passed on without default by the collateral provider.

## (59) Offsetting Financial Assets and Liabilities

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

31.12.2013 EUR million	Gross Amount before Offsetting	Amount Offset	Net Amount after Offsetting	Master Netting Arrangements and Similar without Balancing (Offsetting)			Net Amount
				of which: Financial Instruments	Securities		
					Securities	Cash Collateral	
<b>Assets</b>							
Derivatives	336.7	0.0	336.7	210.7	0.0	124.4	1.6
Lending transactions and repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Liabilities</b>							
Derivatives	616.2	0.0	616.2	210.7	0.0	404.6	1.0
Lending transactions and repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0

31.12.2012 EUR million	Gross Amount before Offsetting	Amount Offset	Net Amount after Offsetting	Master Netting Arrangements and Similar without Balancing (Offsetting)			Net Amount
				of which: Financial Instruments	Securities		
					Securities	Cash Collateral	
<b>Assets</b>							
Derivatives	447.5	0.0	447.5	321.4	0.0	121.7	4.5
Lending transactions and repurchase agreements	196.1	0.0	196.1	196.1	0.0	0.0	0.0
<b>Liabilities</b>							
Derivatives	949.9	0.0	949.9	321.4	0.0	423.7	204.8
Lending transactions and repurchase agreements	684.1	0.0	684.1	196.1	488.0	0.0	0.0

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

	31.12.2013 (EUR million)	31.12.2012 (EUR million)
Genuine repurchase agreements as a repurchase buyer (reverse repos)	0.0	196.1
Loans and advances to banks	0.0	196.1
Loans and advances to customers	0.0	0.0
Genuine repurchase agreements as a repurchase seller (repos)	0.0	684.1
Liabilities to banks	0.0	684.1
Liabilities to customers	0.0	0.0

	31.12.2013 (EUR million)	31.12.2012 (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	0.0	684.1
Securities sold under repurchase agreements at fair value through profit or loss	0.0	0.0
Securities sold under repurchase agreements from financial assets	0.0	684.1
Securities bought under repurchase agreements	0.0	196.1

## (60) Transfer and Derecognition of Financial Assets

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

EUR million	31.12.2013		31.12.2012	
	Book Value of the Assets	Book Value of the Associated Liabilities	Book Value of the Assets	Book Value of the Associated Liabilities
Loans and advances to banks	0.0	0.0	0.0	0.0
Loans and advances to customers	0.0	0.0	0.0	0.0
Assets at fair value through profit or loss	0.0	0.0	0.0	0.0
Financial assets not posted at fair value	0.0	0.0	0.0	0.0
Financial assets posted at fair value	0.0	0.0	673.3	684.1
Assets for sale not posted at fair value	0.0	0.0	0.0	0.0
Assets for sale posted at fair value	0.0	0.0	0.0	0.0
Other assets not posted at fair value	0.0	0.0	0.0	0.0
Other assets posted at fair value	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>673.3</b>	<b>684.1</b>

The transferred financial assets in the previous year were genuine repurchase agreements.

## Other Notes

### (61) 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 2008 reporting year.

#### Risk-weighted Asset Values

The Bank uses internal approaches for risk determination and evaluation.

	31.12.2013 (EUR million)	31.12.2012 (EUR million)
Risk assets	737.1	882.8
Weighted operational risks	13.8	11.8
Market risk positions	7.9	8.2
Floor	0.0	0.0
<b>Total</b>	<b>758.8</b>	<b>902.7</b>

#### Regulatory Equity

	31.12.2013 (EUR million)	31.12.2012 (EUR million)
<b>Core capital</b>	<b>97.8</b>	<b>97.2</b>
Contributed capital	80.0	80.0
Other reserves	17.8	17.2
Remaining components	0.0	0.0
<b>Supplementary capital</b>	<b>29.0</b>	<b>30.3</b>
Mandatory convertible bond (first class supplementary capital )	0.0	0.0
Subordinate debt securities (recognisable portion) (upper tier 2 supplementary capital)	29.0	30.3
<b>Items deductible from core and supplementary capital</b>	<b>0.0</b>	<b>0.0</b>
<b>Liable equity</b>	<b>126.8</b>	<b>127.5</b>
Tier three funds	0.0	0.0
<b>Equity capital</b>	<b>126.8</b>	<b>127.5</b>

Revaluation reserves are not taken into account in the regulatory equity. The Bank exercised a corresponding option.

The objectives of equity management are to ensure an adequate equity base from a quantitative and qualitative standpoint, generate a reasonable return on equity and ensure 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 regula-

tory 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 with the regulatory minimum capital ratios in 2012 and 2013.

At the respective year ends, the Bank had the following ratios:

	31.12.2013	31.12.2012
Overall coefficient	16.71 %	14.12 %
Core capital ratio	12.89 %	10.76 %

#### Large Borrowers Requirements

In 2013, the Bank constantly fulfilled the applicable regulatory provisions on equity and liquidity. Likewise, the Bank accommodated the regulations on large borrowing limits in the year under report.

At the 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, items receivable from group companies exist in the sum of EUR 2,622.9 million (previous year EUR 2,024.4 million).

## (62) Foreign Currency Volumes

On 31 December 2013, 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	125.9	0.0	0.1	0.9	126.8
Loans and advances to customers	0.0	0.0	0.0	27.7	27.7
Risk provisions	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through profit or loss	7.7	0.0	36.7	0.0	44.4
Positive fair values from hedge accounting	-584.5	241.2	67.2	292.5	16.5
Financial assets	1,503.4	160.1	124.8	182.8	1,971.1
Other assets	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>1,052.4</b>	<b>401.3</b>	<b>228.8</b>	<b>503.9</b>	<b>2,186.4</b>
<b>Liabilities</b>					
Liabilities to banks	277.9	0.0	0.0	28.4	306.3
Liabilities to customers	0.0	0.0	0.0	0.0	0.0
Securitised liabilities	299.6	278.0	302.9	294.8	1,175.4
Financial liabilities at fair value through profit or loss	40.8	0.0	0.0	0.0	40.8
Negative fair values from hedge accounting	353.0	128.8	-70.0	184.1	595.9
Other liabilities	0.0	0.0	0.0	0.0	0.0
Subordinated capital	29.0	0.0	0.0	0.0	29.0
<b>Total</b>	<b>1,000.4</b>	<b>406.8</b>	<b>232.9</b>	<b>507.4</b>	<b>2,147.5</b>

### (63) Contingent Liabilities and Other Obligations

	31.12.2013 (EUR million)	31.12.2012 (EUR million)
Contingent liabilities	0.0	0.0
Contingent liabilities under rediscounted bills of exchange	0.0	0.0
Liabilities from guarantees and other indemnity agreements	0.0	0.0
Irrevocable credit commitments	205.8	167.3
<b>Total</b>	<b>205.8</b>	<b>167.3</b>

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.

Irrevocable credit commitments include loans not yet paid out in the sum of EUR 205.8 million (previous year EUR 167.3 million).

### (64) Subordinated Assets

	31.12.2013 (EUR million)	31.12.2012 (EUR million)
Loans and advances to banks	45.0	45.0
Loans and advances to customers	0.0	0.0
Financial instruments at fair value through profit or loss	0.0	0.0
Financial assets	0.0	0.0
<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 portfolio, which have a guarantor liability from Austrian federal states according to former legislation.

### (65) Events after the Balance Sheet Date

There were no significant events between the balance sheet reporting date on 31 December 2013 and the preparation of this statement on 28 February 2014 by the Board of Directors.

## (66) Number of Employees

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

	Male 2013	Male 2012	Female 2013	Female 2012	Total 2013	Total 2012
NORD/LB Covered Finance Bank (excluding Board of Directors)	0.0	1.3	0.0	0.5	0.0	1.8

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

Group	2013	2012
Board	0.0	0.3
Senior staff	0.0	0.5
Employees	0.0	1.3
<b>Total</b>	<b>0.0</b>	<b>2.0</b>

This development is due to the transfer of personnel to NORD/LB Luxembourg in connection with the implementation of the integrated control and management.

## (67) Auditor's Fees

	2013 (KEUR)	2012 (KEUR)
Auditor's fees for:		
Auditing	93	95
Other confirmation services	78	81
Tax consultancy	0	5
Other services	0	5

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

## (68) Deposit Guarantee

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

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

Since the Bank does not accept any deposits from natural persons or small companies limited by shares, there is no obligation in the event of a loss.

## Information on the Cover Pool

### (69) Geographical Distribution

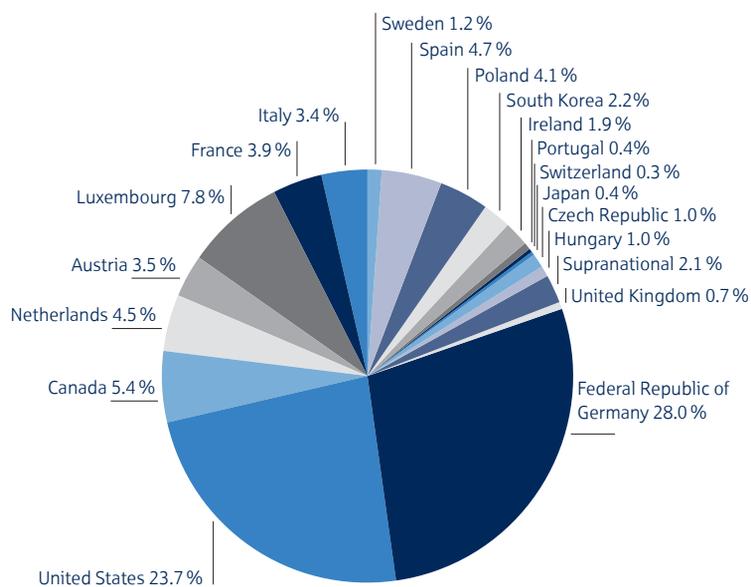
As a rule, Luxembourg covered bond legislation allows the coverage of accounts receivable from countries which belong to the OECD, the European Union and the EEA or countries with (very) good ratings from approved rating agencies.

The Bank does not have any risk positions in Estonia, Latvia, Lithuania, Greece, Iceland, Mexico or Turkey. As a result of the currently particularly difficult situation, the Bank is not planning any new commitments in these countries either.

Nor will the Bank be transacting any business in Eastern Europe, Ireland or the USA until further notice. A continuation of investment in these countries will depend on the future development of the economic situation of the individual economies.

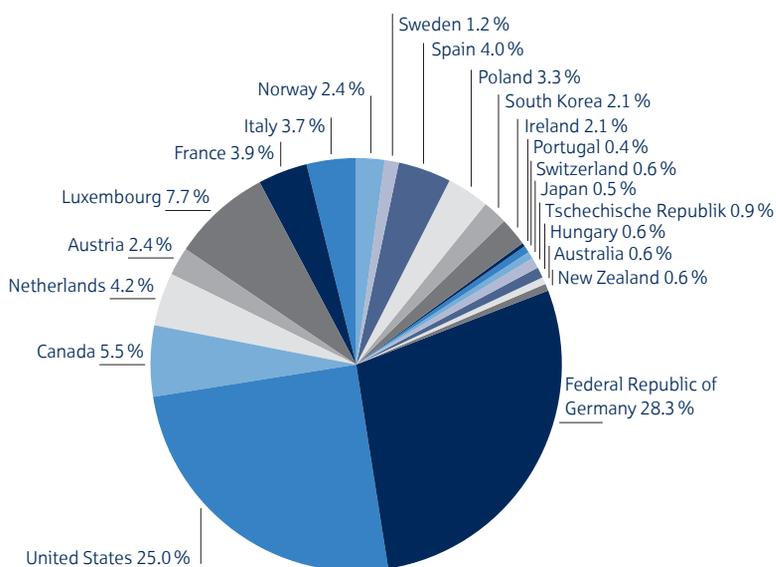
Geographically, the cover pool at NORD/LB CFB is diversified over 20 (previous year 22) different OECD countries and 2 international organisations.

As of the reporting date on 31 December 2013



Region	in %
Europe	68.3
North America	29.2
Asia	2.5
Oceania	0.0

As of the reporting date on 31 December 2012

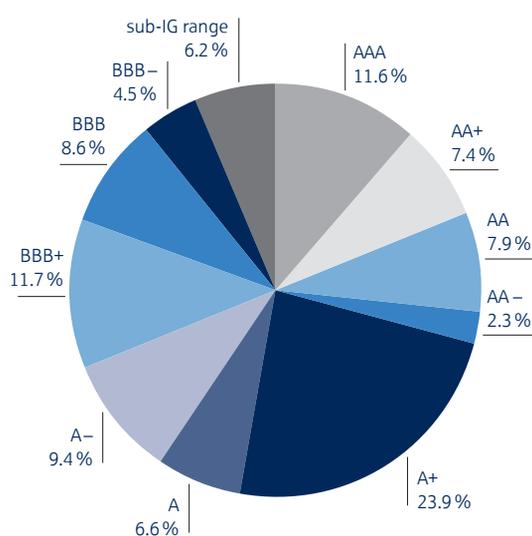


Region	in %
Europe	65.7
North America	30.5
Asia	2.7
Oceania	1.2

## (70) Credit Rating Structure

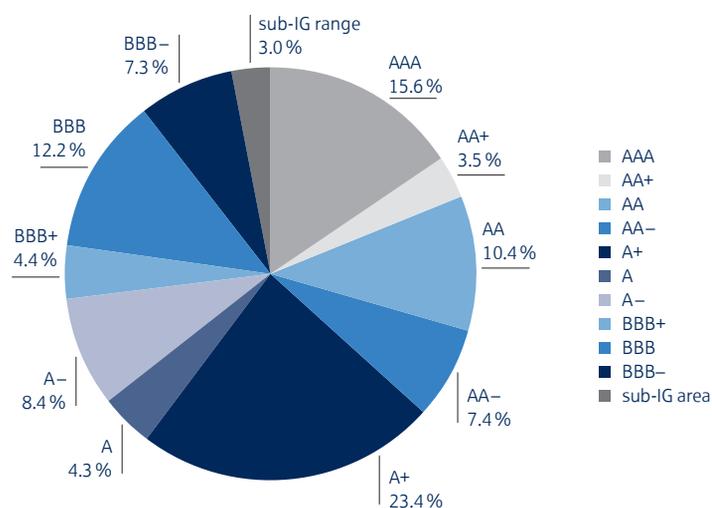
The structure of the cover pool according to credit rating is as follows:

As of the reporting date on 31 December 2013



Rating	in %	in %	in %
AAA	11.6		
AA	17.6		29.2
A	39.9	69.1	
BBB	24.8		
sub-IG range	6.2		

As of the reporting date on 31 December 2012



Rating	in %	in %	in %
AAA	15.6		
AA	21.4		37.0
A	36.1	73.1	
BBB	23.9		
sub-IG range	3.0		

## (71) Cover Ratios

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

Cover Calculation	Cover Pool (EUR million)		Issues *) (EUR million)		Deficit (-)/Surplus (+) (EUR million)	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Total	4,108.0	4,225.8	3,183.0	3,505.5	925.0	720.3

\*) Nominal amount of covered issues in circulation, incl. bank's own stocks.

## Related Parties

### (72) Related Party Disclosures

The NORD/LB Luxembourg shareholder qualifies as a related legal party. In addition, NORD/LB (parent company of NORD/LB Luxembourg) and entities pursuant to IAS 24.9 (b) are deemed to be related parties.

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

Within the scope of ordinary business activities, transactions with related parties are concluded under normal market terms and conditions. These transactions are subject to the market conformity monitoring used in the Bank. No guarantee commission was charged in the year under report for guarantees received from shareholders (nominal volume EUR 1,305.8 million). At normal market conditions, the guarantee commission would have been between 0.03 % p.a. and 0.788 % p.a.

The full extent of the transactions with related parties and entities in 2013 and 2012 is detailed below. Changes in the group of related companies and persons necessitate adjustments of the previous year's figures where necessary:

At 31 December 2013:

KEUR	Shareholders	Persons in Key Functions	Other Related Parties
Outstanding loans and advances			
to banks	1,095,275	0	23,003
to customers	0	0	0
Trading and hedging derivatives on assets side	172,425		129,025
Other assets	0	0	0
<b>Total assets</b>	<b>1,267,701</b>	<b>0</b>	<b>152,028</b>
Outstanding liabilities			
to banks	2,428,262	0	265,654
to customers	0	0	0
Securitised liabilities	626,177	0	56,133
Trading and hedging derivatives on liabilities side	89,805	0	127,106
Other liabilities	34,144	0	491
<b>Total equity and liabilities</b>	<b>3,178,387</b>	<b>0</b>	<b>449,384</b>

KEUR	Shareholders	Persons in Key Functions	Other Related Parties
<b>Guarantees/sureties granted</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interest expense	-119,703	0	-49,837
Interest income	113,217	0	42,514
Commission expense	0	0	-1,250
Commission income	0	0	0
Other income and expense	-68,185	-31	17,616
<b>Total contributions to income</b>	<b>-74,671</b>	<b>-31</b>	<b>9,043</b>

For services rendered within the scope of service agreements regarding personnel, use of buildings and other material costs, the Bank transferred a total of KEUR 5,723 (previous year KEUR 4,266) to NORD/LB Luxembourg and NORD/LB.

At 31 December 2012:

KEUR	Shareholder after Adjustment	Shareholder before Adjustment	Persons in Key Functions	Other Related Parties
<b>Outstanding loans and advances</b>				
to banks	1,830,887	1,830,887	0	25,402
to customers	0	0	0	0
Trading and hedging derivatives on assets side	329,973	169,336	0	189,606
Other assets	0	0	0	15
<b>Total assets</b>	<b>2,160,860</b>	<b>2,000,223</b>	<b>0</b>	<b>215,023</b>
<b>Outstanding liabilities</b>				
to banks	3,273,783	3,273,783	0	302,817
to customers	0	0	0	0
Securitized liabilities	633,163	633,163		57,164
Trading and hedging derivatives on liabilities side	132,181	73,194	0	192,663
Other liabilities	34,889	34,889	0	755
<b>Total equity and liabilities</b>	<b>4,074,017</b>	<b>4,015,029</b>	<b>0</b>	<b>553,399</b>

KEUR	Shareholder after Adjustment	Shareholder before Adjustment	Persons in Key Functions	Other Related Parties
<b>Guarantees/sureties granted</b>	0	0	0	0
Interest expense	-108,587	-95,198	0	-59,320
Interest income	83,069	68,629	0	52,641
Commission expense	0	0	0	-542
Commission income	0	0	0	0
Other income and expense	-21,778	-29,973	-350	47,239
<b>Total contributions to income</b>	<b>-47,296</b>	<b>-56,542</b>	<b>-350</b>	<b>40,018</b>

All payments and loans to executive bodies in accordance with the provisions relating to trade are presented in Note (74) Remuneration of and Loans to Executive Bodies.

The previous year's comparative figures were adjusted on the basis of IAS 8.42 in this financial statement. Part of the internal group business/net results with NORD/LB Luxembourg were not shown correctly in financial year 2012. A corresponding adjustment of the previous year's figures has therefore been made in the statements for the current financial year.

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

### Members of the Board of Directors

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

### Supervisory Board

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

### Positions

As of 31 December 2013, the following positions were held by the members of the Board of Directors of NORD/LB CFB:

#### Christian Veit

- Norddeutsche Landesbank Luxembourg S.A., Luxembourg, Deputy Chairman of the Board
- L'Institut de Formation Bancaire (IFBL), Luxembourg, Member of the Administrative Board
- Skandifinanz AG, Zürich, Member of the Administrative Board

#### Thorsten Schmidt

- NORD/LB G-MTN S.A., Luxembourg, Chairman of the Administrative Board
- Norddeutsche Landesbank Luxembourg S.A., Luxembourg, Member of the Board of Directors

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

	2013 (KEUR)	2012 (KEUR)
Payments to active executive body members	31	350
Extended management *	0	325
Supervisory Board	31	25
Payments to active executive body members	0	0
Pension obligations	0	0
Advances, loans and liabilities	0	0

\* Board of Directors and senior staff



## Responsibility Statement

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

Luxembourg, 28 February 2014  
NORD/LB Covered Finance Bank S.A.

Christian Veit  
Chairman of the Board of Directors  
NORD/LB Covered Finance Bank S.A.

Thorsten Schmidt  
Deputy Chairman of the Board of Directors  
NORD/LB Covered Finance Bank S.A.

# Annual Report 2013



NORD/LB Covered Finance Bank S.A.

# Report of the Auditors

To the shareholders of  
NORD/LB Covered Finance Bank S.A.  
7, rue Lou Hemmer  
1748 Luxembourg-Findel, Luxembourg

## Report of the Auditors

### Report on the Financial Statements

In accordance with the instructions received from the Board of Directors of NORD/LB Covered Finance Bank S.A. on 24 September 2013, we have audited the attached annual financial statements of NORD/LB Covered Finance Bank S.A., which comprise the balance sheet as at 31 December 2013, the income statement, the statement of changes in equity and the cash flow statement for the period 01 January 2013 to 31 December 2013 as well as a summary of important accounting methods and other explanatory information.

### Responsibility of the Board of Directors for the Annual Financial Statements

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

### Responsibility of the Auditor

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

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

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

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

### Opinion

In our opinion, the financial statements, in accordance with the International Financial Reporting Standards as they are to be applied in the European Union, give a true picture of the assets and financial situation of NORD/LB Covered Finance Bank S.A. as at 31 December 2013 and of the earnings and cash flows for the period 01 January 2013 to 31 December 2013.

### One Set of Facts to be highlighted

Without prejudice to our audit opinion, we refer to the information in Section (53) "Fair Value of Financial Instruments" in the Notes. It is stated there that financial instruments with a book value of EUR 3,173 million (previous year EUR 3,737 million), the attributable fair value of which amounts to EUR 2,843 million (previous year EUR 3,270 million), are included in the financial assets. The Bank has received guarantees which partially secure financial instruments with hidden liabilities

## Report on other Legal and Regulatory Requirements

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

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

T. Feld

Luxembourg, 28 February 2014



## Report of the Supervisory Board

In the year under report, the Board of Directors of the Bank briefed the Supervisory Board on a regular basis about the development of the business and the position of the Bank. The Supervisory Board met a total of four times in the 2013 reporting year.

The financial statements of NORD/LB CFB for the 2013 reporting year 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 2014 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. Beyond this, it has dealt extensively with the business and risk strategy of the Bank. Fundamental issues relating to business strategy and operations were discussed in detail at several meetings.

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

At its meeting held on 14 March 2014, the Supervisory Board approved the management report and the financial statements as at 31 December 2013, which are therefore formally approved.

The Supervisory Board proposes to the general meeting to approve the actions of the Board of Directors and to carry forward the residual value of the profit from the year under report 2013.

The Supervisory Board thanks the Bank's Board of Directors for their faithful cooperation and expresses its appreciation to the Board and to all the Bank's employees for the work they performed in 2013.

Luxembourg  
March 2014

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

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

NOLALULL

**Supervision**

Commission de Surveillance du Secteur Financier

**Internet**

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