

NORD/LB Covered Finance Bank S.A.



Annual Report as at 31.12.2014

Summary of Key Data

Performance	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (EUR million)	(%)
Loans and advances to banks	1,915.8	1,807.4	108.4	6
Loans and advances to customers	1,195.7	996.1	199.6	20
Risk provisions	-0.2	-0.2	0.0	17
Financial assets	3,506.1	3,173.1	332.9	10
Other assets	468.8	352.5	116.2	33
Balance sheet total – assets	7,086.2	6,329.0	757.2	12
Liabilities to banks	2,848.9	2,923.6	-74.8	-3
Liabilities to customers	991.0	692.5	298.5	43
Securitised liabilities	2,333.3	1,979.9	353.4	18
Other liabilities	836.0	656.1	179.8	27
Reported equity	77.0	76.8	0.2	0
Balance sheet total – liabilities	7,086.2	6,329.0	757.2	12
Lettres de Gage (covered bonds)	3,010.5	2,781.0	229.5	8
Profit/loss performance	2014 (KEUR)	2013 (KEUR)	Increase/decrease (KEUR)	(%)
Net interest income	8,166	6,422	1,744	27
Net commission income	-4,595	186	-4,781	< -100
Profit/loss from financial assets	-1,800	1,822	-3,622	< -100
Other profit/loss	-4,905	-5,578	673	-12
Earnings before expenses	-3,134	2,852	-5,986	< -100
Administrative expenses	-839	-721	-118	16
Profit/loss from changes in valuation and risk provision	4,655	-2,026	6,681	< -100
Taxes	-210	-4	-206	> 100
Earnings after taxes	472	101	371	> 100
Key Economic Data	2014	2013	Increase/decrease (absolute)	(%)
Cost-Income-Ratio in % ^{†)}	-	25.3	-25.3	-100
RoRaC in % ^{**)}	0.9	0.1	0.8	> 100

^{†)} The Cost-Income Ratio (CIR) is equal to the quotients from administrative expenses and the earnings before costs less risk provisions and other operating profit/loss. Due to negative earnings before expenses in the current financial year, this was not calculated.

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

Regulatory Law Key Figures	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (EUR million)	(%)
Risk-weighted asset values	978.8	758.8	220.1	29
Core capital	90.7	97.8	-7.1	-7
Equity capital	94.6	126.8	-32.2	-25
Core capital ratio	9.3%	12.9%	-3.6%	-28
Overall coefficient	9.7%	16.7%	-7.0%	-42
Change in number of employees	31.12.2014	31.12.2013	Increase/decrease (absolute)	(%)
Number of employees ^{†)}	0	0	0	0

^{†)} See "Position within the Group"



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340 350

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NORD/LB Covered Finance Bank S.A.
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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)

Ulrike Brouzi

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

Thomas S. 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 (until 31 December 2014)
Sparkasse Hannover

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

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

Christoph Schulz

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

Board of Directors

CEO

Chairman of the Board of Directors

Christian Veit

Deputy CEO

Deputy Chairman of the Board of Directors

Thorsten Schmidt



CEO
Chairman of the Board
of Directors
Christian Veit



Deputy CEO
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 (hereinafter NORD/LB Luxembourg Group) and in the consolidated financial statements of Norddeutsche Landesbank Girozentrale, Hanover (hereinafter referred to as “NORD/LB”, “NORD/LB Group”, or “Group”). The consolidated financial statements of NORD/LB Luxembourg can be viewed on the Internet at www.nordlb.lu and the consolidated financial statements of NORD/LB at www.nordlb.de.

NORD/LB and NORD/LB Luxembourg each issued a letter of comfort for NORD/LB CFB 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 has been fully integrated into the control of NORD/LB Luxembourg since 2012 (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

Global economic development at the beginning of 2014 was influenced by extreme weather conditions on both sides of the Atlantic. While the cold spell in the USA noticeably slowed down the economy, the German construction industry in particular, but indirectly economic growth in the whole Eurozone as well, benefitted from the very mild temperatures. Backed by domestic demand, the US economy performed very strongly over the rest of the year, while the economy in Germany and the Eurozone only just escaped a recession. At the same time, the drop in crude oil prices led to a significant reduction in inflation rates.

The process of a persistent slowdown in growth continued in China. In particular, the property market started to give cause for concern in the real economy. The financial markets continued to focus on the risks of the shadow banking market. Beijing controlled the domestic market by means of targeted regulatory easing measures and further fiscal and monetary stimuli.

While the Federal Reserve phased out its programme of buying bonds (QE3) in October 2014, there were increasingly clear indications towards the end of the year that the European Central Bank (ECB) would introduce similar measures at the beginning of 2015. The central bank based in Frankfurt had previously lowered the tender rate and the marginal lending facility in two stages and moved the deposit facility into the negative range. The yields for German federal bonds likewise fell steadily below the zero line for short-term maturities; at the long end of the curve, more and more low points were reached and by the end of the year, it was below 0.60 % p.a. for ten-year maturities.

Economic Development in Germany

Real gross domestic product in Germany was 1.5 % last year and was therefore much stronger than in the previous two years. Once again, the essential pillar of the economy was private consumption. At an expansion of 1.1 % as compared to the previous year, private consumption contributed about 0.6 percentage points to growth. At 1.0 %, public-sector consumption also expanded at a similar rate as compared to the previous year. Export trade, in contrast,

only supplied a moderate contribution of 0.4 percentage points to growth. Export growth was constrained by weak economic growth in the Eurozone. After two successive decreases, gross fixed asset investments contributed to growth again last year, even though investment activities lost speed again noticeably over the course of the year due to the weak economy in the Eurozone and geopolitical conflicts. Nevertheless, gross fixed asset investments grew by 3.1 % as compared to 2013.

... in Euroland

Economic recovery in the Eurozone was sluggish in 2014, as expected. Although at 0.35 percentage points, the statistical surplus was positive again for the first time in three years and the beginning of the year, with a growth rate of 0.3 %, was a reasonable development at first glance as compared to the previous quarter, these positive figures were mainly due to the upwardly distorted growth rate in Germany that was attributed to the weather (+0.8 % up on the previous quarter). With the temporary elimination of the positive stimulus from the German economy, growth in the Eurozone reached rates only slightly above the zero line in the following quarters. For the year in total, real gross domestic product rose in 2014 by an anticipated 0.8 % as compared to the previous year. The deficit ratio in the Eurozone has, in all probability, fallen slightly below 3.0 % of the gross domestic product.

... in the USA

Following growth rates of 2.3 % in 2012 and 2.2 % in 2013, the USA is expected to report a solid 2.4 % growth rate in 2014. After being affected by the consequences of an unexpectedly harsh onset of winter in the first quarter of 2014, the world's largest economy experienced a resumption of the rapid speed of growth seen at the end of 2013 in the following two quarters. The USA is thus setting itself apart from many other regions of the world. In 2014, private consumption was a pillar of the American economy. This was helped by the fact that no additional fiscal burdens were placed on the population as had been the case in previous years. Moreover, the improved economic outlook, sustained low interest rates and brighter prospects on the employment market led to greater willingness on the part of Americans to consume and spend. Recently, the huge drop in oil prices gave rise to consumption opportunities for private households. Companies also started noticing these developments and reacted with a higher propensity to in-

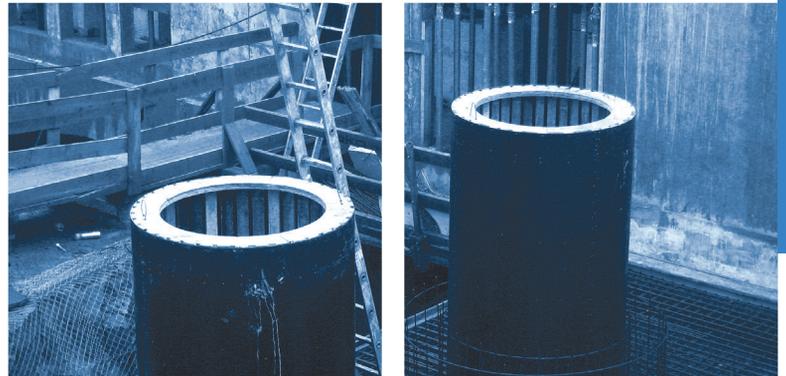
vest. A continuation of the recovery was seen on the property market, where a reduction in private household debt over the last few years and sustained low interest rates led to slow easing and a rise in house prices.

At USD 1.21, the euro was valued much lower at the end of the 2014 than at the beginning of the year. While the common European currency touched the USD 1.40 mark twice in the first five months, there was a significant devaluation during the second half of the year. The causes of this were initially the uncertainty surrounding the crisis in Eastern Ukraine, and starting in autumn, the renewed discussions about a possible return of the European sovereign debt crisis. Moreover, it was becoming more and more obvious that the US economy could resume its strong growth trend after the weak phase in the winter. However, the divergent directions taken in monetary policy – towards a more neutral course again in the USA and towards more and more new dimensions in the Eurozone with measures to inject liquidity – were primarily responsible for an increasingly resolute exchange rate with the USD.

Financial Markets and Movements in Interest Rates

In view of an improved economic situation, the Federal Reserve somewhat relaxed its expansive monetary policy with the gradual reduction of the purchasing programme (QE3). The tapering of QE3 was brought to an end in October. After inflation had risen to 2.1 % by mid-year, it dropped back to 0.8 % by the end of the year as a result of the oil prices. In this respect, the Federal Reserve Bank had the option at the end of 2014 to slowly move forward with the normalisation of monetary policy it has been striving for. Despite these prospects and a strong economic situation, the yields of ten-year US treasuries fell from 3.00% at the beginning of 2014 to below 2.20 % at the end of the year. This development is attributed to investors increasingly seeking out safe haven investments.

Against the background of falling inflation in the euro currency area, the ECB took a range of measures to tackle the growing risks of deflation over the course of 2014. The tender rate was reduced to 0.05 % in the process. In this connection, the ECB introduced a negative deposit facility rate for the first time. The weekly absorption tender was suspended in the middle of the year. In addition, the ECB's Governing Council strengthened its forward guidance once more and assured the markets that it would abide by the



fixed rate full allotment mode in main refinancing options and longer term operations with a maturity of up to three months for as long as necessary, but at least until the end of 2016. Moreover, “targeted longer-term refinancing options” (TLTROs) were resolved and purchase programmes for both issued covered bonds (CBPP3) and for asset backed securities (ABSPP) were launched.

The German blue chip share index, DAX, finished a turbulent year without any major increase in price. Record highs alternated with sudden plunges, and the price has even dropped below the 9,000 points mark in the meantime. Geopolitical risks – namely the crisis in Ukraine and the conflicts in Syria and Iraq – had the greatest negative impact. Support was primarily provided by the sustained recovery in the US economy. In fact, starting in the second quarter of 2014, pleasing data on the economic situation in the United States was published frequently. The newly gained strength of the USA may also have been a reason why the US stock markets showed a more stable upwards trend as compared to the DAX. The market environment shaped by the economic recovery trend in North America is, however, creating a potential problem for equity shares. The Federal Reserve Bank will not be able to avoid raising base rates in 2015. Monetary policy therefore remains relevant to the market developments in the stocks segment. This does not just apply to the Federal Reserve. The China central bank was forced to undertake an unexpected lowering of the base rate at the end of the year, causing corresponding price reactions on the international stock markets. Market players are hoping for positive effects of the ECB's expansive monetary policy measures. This monetary policy environment is pushing interest rates down and supporting the stock markets. On the other hand, the increasing uncertainty regarding the development of the Chinese economy and the political events in Greece are having a negative impact.

Covered Bond Markets and Lettres de Gage Publiques

2014 was characterised by a slight increase in the issue volume in covered bonds. The market was heavily influenced by monetary policy decisions made by the European Central Bank. In this connection, the consideration of covered bonds as Level 1 and 2 assets for the liquidity coverage ratio (LCR) is important. Issues from third countries or without rating requirements could also qualify here. The European Central Bank's purchasing programme announced on 4 September 2014 gave further impetus to the market.

Central Bank purchasing within the scope of the CBPP3 programme especially led to a further narrowing of the already relatively low covered bond spreads. Classic covered bond investors such as insurance companies and pension funds were consequently very reluctant to make purchases towards the end of the year. This reticence was further bolstered by the greatly reduced yield level, which hardly sufficed to achieve the minimum rate of return any more.

Banks, and to a lesser degree asset managers as well, remained the most important buyers of covered bonds in 2014 although it could be seen that after CBPP3 began, both primary and secondary sales were mainly driven by the central banks. This development then led to significantly poorer liquidity on the covered bonds market because investors were no longer willing to take them up at expensive spread levels. This effect could be observed particularly well in the case of the final issues in 2014.

Nevertheless, those 2014 issuers of covered bonds from the periphery states who were able to place larger issue volumes without problem utilised the overall positive environment for covered bonds. Issuers from Ireland in particular were able to launch issues very successfully due to the revival of their domestic market as well the "search for yields" on the part of the investors. Issuers from Great Britain and Canada also profited from the market environment. The Canadian market players used the favourable EUR/CAD basis in order to expand their investor landscape and placed nearly EUR 20 billion in new issues. New issue business in Germany, France and Australia was stable at a high level. Issues from Sweden, Switzerland and Norway fell significantly in contrast.

Once again, it could be observed in the past year that the proportion of public covered bonds continued to drop significantly, while mortgage-backed covered bonds came to

the forefront both in the new issues business and in the secondary markets. In terms of currencies, it was the euro that dominated. In addition, covered bonds denominated in USD and GBP were predominantly issued.

The trend towards rating deterioration in covered bond programmes, which was observed in previous years and was primarily brought about by the rating pressure on states as a consequence of the financial crisis, continued. In the meantime, however, there have been indications that this will bottom out.

In 2014, the market for lettres de gage in Luxembourg was characterised by the organised reduction in activities by some players. The amendment of the Luxembourg Covered Bond Law of 2013, which included the introduction of an additional asset class (Lettres de Gage Mutuelles), has thus far not been able to reverse the declining trend in lettres de gage volumes. NORD/LB CFB considerably increased its new issues as compared to the previous years, however.

In 2014, as in past years, covered bonds were able to further strengthen their status as a long-term, high-quality capital market product. This is demonstrated, among other things, by the regulatory advantages of covered bonds under Basel III and Solvency II. Further proof is the general consideration of covered bonds as Level 1 or Level 2 assets within the scope of LCR control. The increasing importance of covered bonds as a refinancing instrument in the global market is reflected in the structure and expansion of corresponding legislation.

Forecasts and other statements on anticipated developments

Global Economic Outlook

There are many indications that the economy will remain strong in the USA; the Federal Reserve may well raise the base rate for the first time there in June or September. In the Eurozone, the development of leading indicators justifies cautious hope for a stabilisation of the economic situation. However, the growth differentials between the individual economies in the common currency area will remain pronounced. Very low inflation rates are to be expected for the currency zone as a whole, and they will fall below the zero line for a longer period of time. In view of these circumstances, the ECB resolved a broad purchasing programme for public and private assets in the amount of

EUR 60 billion euros a month. These purchases are initially planned to run until September 2016. The total planned volume of the programme is therefore significantly above one trillion euros and also includes the purchasing programme for ABS and covered bonds that is already underway. Starting in March 2015, the ECB will invest in government bonds and securities from government-related issuers with a maturity of between two and thirty years. This measure has once again led to significantly lower yields on the bond market, which may well be extremely low throughout large parts of the year.

Economic Forecast: Germany and the Euro Area

The overall mood regarding the economic development in Germany improved significantly by the end of 2014 and early 2015. In surveys conducted by ZEW and sentix, economic expectations in particular were noticeably picking up. The ifo Business Climate Index also increased again recently, likewise driven by more optimistic estimates for the near future. The falling oil price, devaluation of the euro and the prospect of a lasting and extremely expansive monetary policy direction by the ECB in 2015 is likely to have raised the mood of market players and companies considerably. Production expectations in the processing industry have, however, remained weak so far, even if the improved export prospects are raising hopes of more dynamic foreign business in 2015. Domestic demand and specifically private consumption will especially be the main growth drivers here again. Along with ongoing low inflation mainly due to the decline of the oil price as well as continued higher employment rates and the slight drop in unemployment, this will also be supported by sustained and strong increases in collectively bargained wages. Private consumption will therefore rise by just over 1.5% in real terms and thus see the strongest growth since 2011. Strong domestic demand will stimulate imports and therefore keep net exports low in 2015 despite increasing export activities. The German economy is facing a solid upturn. Economic output may well rise by 1.5% in comparison to the previous year. Arithmetically, there are two more business days available in 2015, which is equivalent to a growth effect of 0.3 percentage points. 2016 might possibly see another slight acceleration in economic activity.

In the euro area, the economic recovery will continue in 2015 but will probably still remain relatively weak. This forecast assumes that the price advantages associated with crude oil and further monetary policy stimulations

could contribute to a gradual acceleration of economic momentum over the course of the year. The stimulus from net exports will remain at around the same level as in 2014, while domestic demand will increase at a greater rate than in the previous year. A gradual recovery is to be expected in terms of investments in 2015, but the most important contributions to growth will once again come from private and public consumption. The growth differentials will remain large; as before, the German economy should expand at a greater rate than the rest of the Eurozone. Slight improvements but no resounding successes are expected with regard to the reduction in unemployment rates and the deficit ratio.

Financial Market Development and Interest Rate Forecast

The direction of the Federal Reserve's monetary policy will be gradually normalised in 2015. Once QE3 has come to an end, an initial moderate interest rate rise is likely in 2015. Although the Federal Reserve will proceed cautiously, irritation among market players and companies with regard to the timing cannot be completely ruled out. US monetary policy will therefore basically remain expansive this year, albeit a little less so than previously. The movement in yields of ten-year US treasuries will depend on the discussions regarding the timing of the first interest rate increase and will experience an uptrend as the base rate is raised gradually.

The euro exchange rate may well continue to be determined in 2015 by the European sovereign debt crisis, the growth and interest differentials as well as the monetary policy focuses on both sides of the Atlantic. Essentially, there are currently many reasons to expect a continuation of the devaluation of the European single currency that already started in 2014: While a first interest rate hike will likely be on the agenda in the USA, the ECB, with the massive purchasing programme it resolved in January 2015, has a much more expansive focus on its monetary policy once again. A large number of these factors may well have already been priced into the exchange rate, so that the strengthening of the greenback is not expected to continue at the rate it has been recently. The euro should be able to stabilise in the region of USD 1.20 again by the end of 2015.

Central Bank policy is likely to remain a deciding factor in the performance of capital market yields within the Eurozone. The sustained downward trend in the yields of Euro-

pean government bonds had already anticipated the sovereign QE programme resolved by the ECB at the end of January 2015. The yields of ten-year German federal bonds slid to below 0.40 % as a result of the central bank's decision; moreover, the spreads of government bonds of many member states to federal bonds narrowed even further. The German interest rate structure curve is therefore extremely flat at the beginning of the year and will probably only steepen slightly by the end of 2015.

By the end of 2015, the DAX is not likely to appear weak over the long term. In particular, low interest rates – in addition to the strength of the US economy – will benefit asset class shares. The lack of investment alternatives are now forcing even defensive investors to at least consider the purchase of equities. Moreover, there are also hopes in 2015 for more M&A activity and attractive dividend payouts from companies, especially relative to the interest rate.

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 ALM/Treasury (integrated into the Financial Markets organisational unit of NORD/LB Luxembourg). This division is responsible for the management of the cover pool and the issue of covered bonds. The strategic approach taken for the business with "lettres de gage" is aimed at utilising the regulatory advantages of the Luxembourg Pfandbrief (covered bond) Act. In particular, these advantages are leveraged with the municipal undertakings, savings banks and institutional investors customer groups. The covered bond business is being further strengthened from Luxembourg as a complementary component of the funding of the NORD/LB Group. The investor base is being expanded beyond this business segment.

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.

Business Development of Financial Markets

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 website.

The new issue activities of NORD/LB CFB concentrate on long term lettres de gage issues denominated in euros,

which are sold to institutional investors within the scope of private placements. As at the reporting date, the cover pool exceeds the volume of issued public covered bonds by EUR 854.5 million (26.8 %) nominal and EUR 1,020.9 million (29.8 %) in cash terms, and therefore significantly exceeds the statutory excess cover level of 2 %. As of the reporting date on 31 December 2014, about 12.9 % of all assets in the cover pool are awarded the best rating: AAA.

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 15 February 2014 in its rating update. On 26 March 2014, the long term IDR of "A" and the short term IDR of "F1" were affirmed by FITCH Ratings. The outlook was moved from "stable" to "negative", however, within the scope of the reassessment of support by the Federal Republic of Germany for the parent company. The long term IDR of "A" with a negative outlook was reconfirmed by FITCH Ratings on 21 July 2014.

The rating agency Standard & Poors (S&P) confirmed the unsecured rating BBB+ (outlook negative) for NORD/LB CFB on 30 April 2014 and 27 May 2014, based on the same unsolicited rating for NORD/LB. The S&P approach for lettres de gage from Luxembourg allows a maximum elevation of 6 notches above the uncovered rating. Since NORD/LB CFB's cover pool shows a balanced ALM profile and a high quality, the maximum elevation continues to be applied. The maximum possible rating of AA+ was confirmed on 24 February 2014. The outlook was still classified as "negative". This is a consequence of the still unchanged outlook for the unsolicited unsecured rating of "negative" for NORD/LB.

Lending

The focus here is on the lending business with near-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. The Bank can offer competitive conditions in this highly competitive customer segment via covered refinancing.

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 improving the strategic profile and the focus on the customer-driven lending business, international government financing is restricted to management of the existing portfolio. In terms of organisation, this portfolio is managed by Financial Markets.

Business Development of Lending

The strategic customer business with near-municipal undertakings is operated in cooperation with the Corporate Clients division of NORD/LB and continued to be a focus in 2014. The volume was slightly increased as compared to the previous year. The cooperation with the Structured Finance division also provided positive impetus. In particular, infrastructure projects from this segment qualify as cover pool assets according to the definitions applicable in Luxembourg.

Outlook

NORD/LB Luxembourg and its subsidiary NORD/LB CFB will be merging during the course of 2015 to form a special bank (covered finance bank as defined by Article 12-1 et seq. of the Law of 5 April 1993 on the Financial Sector, in the latest amended version). The new bank will trade under the name of "NORD/LB Luxembourg S.A Covered Bond Bank". The new covered finance bank will continue NORD/LB CFB's task of generating additional covered refinancing for the core business of the NORD/LB Group by issuing covered bonds in accordance with Luxembourg law. The strict cost management strategy already started will continue to be pursued consistently through the merger of the two banks and the associated synergy effects. In October 2014, both FITCH Ratings and S&P used the announcement of the merger of NORD/LB CFB with NORD/LB Luxembourg, scheduled for 2015, as an opportunity to confirm the aforementioned ratings (see "Business Development of Financial Markets").

Financial year 2015 will be shaped by the special effects of the merger project and the launch of new organisational structures. The business segments of the two banks were already subject to integrated management in the past, so that continuity will be maintained. Only some of the focal points will be reset.

In the future, the strategy of NORD/LB Luxembourg S.A Covered Bond Bank will be based on three clearly distinct business segments:

Loans/Allied Lending

The current agreements with the allied partners of both merged banks will be continued here. In addition, commitments from the NORD/LB Group that are eligible for the cover pool under the Luxembourg criteria will be pooled here. Along with the "Lettres de Gage Publiques" that are already used today, additional classes of covered bond will be issued in the future. With regard to the Bank's medium-term planning, the focus will clearly be on further expansion of this business segment and in particular on strengthening the cooperation with the Structured Finance segment at NORD/LB.

Financial Markets/Sales

Financial Markets comprises all of the classic functions related to interest rate, liquidity and currency management. The new issuance of lettres de gage and associated support of covered bond investors will shift more to the forefront. Sales will also become more important through the further expansion of activities in the "Fixed Income/Structured Products Sales Europe" segment. In accordance with the agreement with NORD/LB, the Luxembourg group unit will be responsible for the regional sales for other European countries. Alongside covered bonds, other products will also be offered. These will be sold to institutional customers on behalf of the Group, without assumption of the risk.

Client Services/B2B

The merged special bank will not operate any private banking itself, but will use the available efficient IT infrastructure and existing expertise to offer services to external asset managers and offices within the Group. Client Services' first customer is the newly established affiliate NORD/LB Vermögensmanagement Luxembourg S.A., an asset manager which will also use B2B services from NORD/LB Luxembourg on the basis of service agreements.

In addition to extensive project activities related to the reorganisation of the Bank – including the split-off of Private Banking and the merger of NORD/LB CFB and NORD/LB Luxembourg – already established B2B activities will be stabilised in 2015 and process flows optimised for scalability in order to be able to bring new customers on board starting in 2016.

The business activities of Galimondo S.à r.l., Luxembourg, will likewise be allocated to this business segment.

Earnings

NORD/LB CFB's financial statements as at 31 December 2014 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International 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 2014 and 2013 reporting years:

	2014 (KEUR)	2013 (KEUR)	Increase/decrease ^{*)} (KEUR)
Net interest income	8,166	6,422	1,744
Loan loss provisions	- 32	49	- 82
Net commission income	-4,595	186	-4,781
Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting	4,687	-2,075	6,762
Other operating profit/loss	-4,905	-5,578	673
Administrative expenses	-839	-721	-118
Profit/loss from financial assets	-1,800	1,822	-3,622
Earnings before income taxes	682	105	577
Income taxes	-210	-4	-206
Net income for the year	472	101	371

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

The individual items comprising the result are as follows:

Net interest income

	2014 (KEUR)	2013 (KEUR)	Increase/decrease ^{*)} (KEUR)
Interest income	328,605	334,197	-5,592
Interest expense	-320,439	-327,775	7,336
Net interest income	8,166	6,422	1,744

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

Net interest income increased in comparison to the previous year by KEUR 1,744, to KEUR 8,166. On the one hand this can be attributed to own issues that had matured, which were reissued at more favourable conditions. On the other, the increase is due to the scheduled expansion of business, which led to a higher balance sheet total. It was possible to generate interest rate margins in the process, mainly through the increases in loans and advances to customers.

With regard to the details, please refer to Note (15).

Loan loss provisions

In the lending business, risk provisions in the sum of KEUR 32 were allocated in the financial year as opposed to a reversal of KEUR 49 in the previous year. This is due to changes in the lending portfolio affecting the portfolio-based loan loss provisions.

As in the previous years, there were no individual loan loss provisions.

Net commission income

	2014 (KEUR)	2013 (KEUR)	Increase/decrease ^{*)} (KEUR)
Commission income	565	1,833	-1,268
Commission expense	-5,160	-1,647	-3,513
Net commission income	-4,595	186	-4,781

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

Net commission income decreased against the comparative period by KEUR 4,781 to KEUR -4,595. The negative development is characterised by both a decrease in commission income from the lending and guarantees business as compared to the previous year (KEUR 565, previous year 1,833) and by higher commission expenses from the lending and guarantees business (KEUR -4,735, previous year KEUR -1,250). This was essentially due to avalisation costs charged by NORD/LB Luxembourg (KEUR 2,648, previous year KEUR 0). Commission from the securities and custodian business (KEUR -386, previous year KEUR -363) remained stable, as did other commission (KEUR -38, previous year KEUR -34).

Profit/loss from financial instruments stated at fair value through profit or loss and hedge accounting

	2014 (KEUR)	2013 (KEUR)	Increase/decrease ^{*)} (KEUR)
Trading profit/loss	523	272	252
Profit/loss from fair value option	0	0	0
Profit/loss from hedge accounting	4,164	-2,347	6,511
Profit/loss from financial instruments stated at fair value through profit or loss, including hedge accounting	4,687	-2,075	6,762

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

Profit/loss from financial instruments at fair value through profit or loss (KEUR 4,687, previous year KEUR -2,075) rose considerably. **Trading profit/loss** (KEUR 523, previous year KEUR 272) 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. The changes in the **profit/loss from hedge accounting** (KEUR 4,164, previous year KEUR -2,347) result from market interest rate fluctuations as well as OIS and CVA/DVA effects.

Other operating profit/loss

	2014 (KEUR)	2013 (KEUR)	Increase/decrease ^{*)} (KEUR)
Other operating income	368	164	204
Other operating expenses	-5,274	-5,742	469
Other operating profit/loss	-4,905	-5,578	673

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

Other operating profit/loss improved by KEUR 673 to KEUR -4,905. Other operating income (KEUR 368, previous year KEUR 164) was essentially characterised by the reversal of tax provisions and repayments of overpaid VAT (KEUR 81, previous year 85) and a reversal of accruals (KEUR 253, previous year KEUR 0). Other operating expenses (KEUR -5,274, previous year KEUR -5,742) mainly comprise accounting for services with the NORD/LB Group (KEUR -5,245, previous year KEUR -5,723).

Administrative expenses

	2014 (KEUR)	2013 (KEUR)	Increase/decrease ^{*)} (KEUR)
Staff expenses	0	0	0
Wages and salaries	0	0	0
Other staff expenses	0	0	0
Other administrative expenses	-839	-721	-118
Depreciation and value adjustments	0	0	0
Administrative expenses	-839	-721	-118

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

Administrative expenses are KEUR 118 higher than the previous year. Increases in consultancy and auditing expenses (KEUR -659, previous year KEUR -547) were responsible for this. Due to the outsourcing of staff to NORD/LB Luxembourg in 2012, there are no staff expenses, as was the case in the previous year.

Profit/loss from financial assets

	2014 (KEUR)	2013 (KEUR)	Increase/decrease ^{*)} (KEUR)
Profit/loss from financial assets classified as LaR, incl. portfolio value adjustments	-1,800	1,822	-3,622
Profit/loss from financial assets classified as AfS	0	0	0
Profit/loss from financial assets	-1,800	1,822	-3,622

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

Profit/loss from financial assets results exclusively from profit/loss from financial assets classified as Loans and Receivables (LaR) (KEUR -1,800, previous year KEUR 1,822). This comprises portfolio-based value adjustment of financial assets (KEUR -1,189, previous year KEUR 2,335) and the realisation profit/loss (KEUR -611, previous year KEUR -514).

Income taxes

	2014 (KEUR)	2013 (KEUR)	Increase/decrease ^{*)} (KEUR)
Current taxes	-210	-4	-206
Deferred taxes	0	0	0
Income taxes	-210	-4	-206

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

Income taxes were calculated on the basis of the income tax rate anticipated to apply to the financial year.

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.

Schedule of Assets and Financial Data

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/decrease (EUR million)
Loans and advances to banks	1,915.8	1,807.4	108.4
Loans and advances to customers	1,195.7	996.1	199.6
Risk provisions	-0.2	-0.2	0.0
Financial assets at fair value through profit or loss	36.0	45.8	-9.8
Financial assets	3,506.1	3,173.1	332.9
Other assets	432.8	306.7	126.1
Total assets	7,086.2	6,329.0	757.2
Liabilities to banks	2,848.9	2,923.6	-74.8
Liabilities to customers	991.0	692.5	298.5
Securitised liabilities	2,333.3	1,979.9	353.4
Financial liabilities at fair value through profit or loss	34.4	41.3	-6.8
Provisions	0.0	0.0	0.0
Other liabilities	801.5	614.9	186.6
Reported equity	77.0	76.8	0.2
Total equity and liabilities	7,086.2	6,329.0	757.2

The **balance sheet** total has risen by EUR 757.2 million in comparison to the reporting date on 31 December 2013, from EUR 6,329.0 million to EUR 7,086.2 million.

The **liabilities to banks** item increased by EUR 108.4 million as compared to 31 December 2013. Within this item, the increase was primarily attributed to liabilities from money transactions (EUR 1,375.9 million, previous year EUR 1,192.8 million). In contrast, the portfolio of open market credits decreased (EUR 539.9 million, previous year EUR 614.7 million).

In alignment with the Bank's strategy, **liabilities to customers** continue their positive development. An increase from EUR 199.6 million to EUR 1,195.7 million was recorded here. The higher figure mainly results from a greater volume of loans to public authorities and corporate clients.

The Bank's **risk provisions** remained stable at EUR -0.2 million.

Assets at fair value through profit or loss fell by EUR 9.8 million. Financial assets and liabilities at fair value through profit or loss essentially 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. On the whole, the changes in value were due to market interest rate and currency fluctuations.

Financial assets rose in parallel with the development of the medium term notes issued on the liabilities side by EUR 332.9 million to EUR 3,506.1 million. The scheduled increase affected financial assets classified as LaR and fi-

financial assets classified as AfS in equal share. In addition to new commitments, the falling EUR to USD exchange rate led to an increase in financial assets in the balance sheet currency.

Other assets rose by EUR 126.1 million to EUR 432.8 million, caused almost exclusively by an increase in the fair values from hedge accounting (EUR 423.5 million, previous year EUR 297.9 million). The opposite effect can be seen in other liabilities and in other balance sheet items where the effects from hedged underlying transactions are shown.

Liabilities to banks decreased by EUR 74.8 million to EUR 2,848.9 million. Deposits from other banks rose by EUR 39.9 million, but were overcompensated by EUR 114.7 million by a drop in liabilities from money market transactions. This change mainly results from movements within the product range and maturity terms.

The **liabilities to customers** item increased by EUR 298.5 million to EUR 991.0 million. The scheduled increase essentially relates to issues of lettres de gage which were acquired by corporate clients. The maturities of these are between 2019 and 2044.

Securitised liabilities increased by EUR 353.4 million as compared to the end of the previous year. At EUR 445.0 million (nominal volume), the newly issued European medium term notes exceeded the maturing securities, which were at EUR 125.0 million.

Financial liabilities at fair value through profit or loss fell by EUR 6.8 million. 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.

Other liabilities amounted to EUR 801.5 million, corresponding to an increase of EUR 186.6 million. The major items here are fair values from hedge accounting (EUR 793.1 million, previous year EUR 579.9 million). The opposite effect can be seen in other assets and in other balance sheet items where the effects from hedged underlying transactions are shown. The changes in value are primarily attributed to market interest rate and currency fluctuations.

As at 31 December 2014, the **reported equity** of the Bank was EUR 77.0 million (previous year EUR 76.8 million).

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 2014 was prepared on the basis of IFRS 7.

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

Risk Management

Principles

The business activities of a bank are inextricably linked to the conscious taking of risks. Efficient risk management in terms of a risk and return oriented equity allocation is therefore a central component of modern bank management and a high priority for NORD/LB CFB. Risk management is primarily aimed at controlling risks.

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

The risk management process implemented at the Bank consists of the following levels: risk identification, risk assessment, risk reporting as well as 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 all relevant parameters. 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 have a negative impact on the capital adequacy, earnings position, liquidity position or the achievement of strategic goals of the NORD/LB Luxembourg Group.



The overall risk profile is reviewed at least once a year as well as in relation to events (risk inventory) and adjusted if necessary.

As a result of the last risk inventory, 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), reputation risk, syndication risk, real estate risk, pension 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, including the establishment of an accounting system for liquidity costs in accordance with MaRisk, emerge from the fourth amendment to MaRisk, which was published in December 2012 and came into force on 1 January 2013. The main requirements for the implementation of a transfer pricing system are originally based on the "Guidelines on Liquidity Cost Benefit Allocation" from the CEBS (now EBA) dated 27 October 2010. These have been applied in essence in MaRisk and in the European supervisory framework (CRR (Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amend-

ing Regulation (EU) 648/2012), CRD (Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EU and repealing Directives 2006/48/EC and 2006/49/EC). In addition, the Bank must take into account the requirements of the CSSF, which addresses relevant requirements (in particular with regard to risk-transfer pricing ("RTP")) in its circular 12/552, updated by 13/563 and 14/597.

The NORD/LB Group has improved its liquidity management within the scope of extensive project activities. The methods, models and procedures underlying the funds transfer pricing (FTP) were also examined, improved or enhanced, in particular with regard to the liquidity components. The Group FTP Policy^{*)} functions as a standard set of rules for the entire Group. To a large extent, the regulatory framework of the FTP system is also defined for the Bank through the standard group documents.

At the individual bank level, the responsibility for the FTP system is undertaken by the banks in the NORD/LB Group themselves, while the depiction of bank-specific peculiarities (for example with regard to regulation, business model, business characteristics) in their FTP system is possible – whilst complying with the principle of broad methodological consistency and absence of arbitrage within the NORD/LB Group. The NORD/LB Luxembourg Group has specified the points relating to the FTP/RTP system that specifically apply to the Group itself in a framework document.

Strategy

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. Accordingly, NORD/LB Luxembourg's main principle is to handle risks responsibly. The risk strategy formulated at the NORD/LB Luxembourg Group level is thus aligned with the business model, the business strategy and the specifications of NORD/LB Group's 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 strategy 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 the transparent presentation of them to the Bank's Board of Directors, the regulatory authorities 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.

The risk strategy was reviewed in the year under report and adjusted to reflect the reorganisation of the NORD/LB Luxembourg Group in 2015, when both individual banks

^{*)} According to the Group FTP policy: "The FTP System supplements the market interest rate method, which has long been used in the NORD/LB Group, with 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 the Market and Treasury units. The FTP is not an independent, separate control loop, but is rather integrated into the existing control processes."

will merge to become NORD/LB Luxembourg S.A. Covered Bond Bank. Following approval by the Board of Directors, the new risk strategy was discussed with the Supervisory Board, which then approved it. It will come into effect when the merger is completed and will then replace the risk strategy formulated in 2013.

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 undertaken by the Market and Back Office Board of NORD/LB Luxembourg by way of a union of personnel. In addition, the supervisory board function is 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 NORD/LB Luxembourg is responsible for developing and monitoring the risk strategy. This includes the monitoring of all significant risks, including risk reporting.

To support the Board in controlling and monitoring the risks, the NORD/LB Luxembourg Group introduced the "Luxembourg Risk Committee" (LRC) in the first quarter of 2014. The LRC supports the Board by giving recommendations for action. The LRC's operational framework is defined by the business and risk strategy. The LRC meets at least six times a year and replaces the former "Credit Risk Committee" and "OpRisk Roundtable" committees.

The Bank's internal control system (ICS) is based on the requirements of the banking supervisory body (CSSF), mainly in the updated circular 12/552. The role of ICS officer is undertaken by the head of the Organisation department. His work is supported by the ICS organisers in the Organisation Department.

Risk management is subjected to continuous review and improvement. In this regard, the NORD/LB Luxembourg Group utilises the standardised methods used by the NORD/LB Group. Adjustments that may become necessary include organisational measures, revisions in the proce-

dures 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 Board level.

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

Market/Back Office	Department
Market	Financial Markets
	Loans
Back Office	Finance
	Credit Risk Management
	Operation Services
	Org/IT
	Compliance
	Legal
	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 related 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 the updated CSSF circular 12/552 is an essential component of risk management. With the approval of the CSSF, the role of CRO (Chief Risk Officer) as defined by CSSF circular 12/552 is undertaken 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 to ensure that all potential risks for NORD/LB Luxembourg are 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.

Further statements and information on the structure and organisation of the risk management system can be found in the following subsections on structure and organisation by risk category.

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. The regular monitoring and reporting process ensures that the competent governing bodies of the Bank are promptly informed 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 III. 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 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 capital side is based both on the Gone Concern approach and in the regulatory on equity and near-equity components, which have to be taken into account according to regulatory rules on capital stock. In the Gone Concern case, there is an adjustment of the risk capital in relation to various aspects (e.g. by taking hidden liabilities into account). If the capital needed to cover the risks in the gone concern case is used up, a continuation of the Bank would in principle no longer be possible under otherwise unchanged assumptions.

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. The strategic limits from the consideration of the risk-bearing capacity are derived taking into account the risk capital allocation undertaken in the risk strategy on the basis of the Going Concern approach.

The monthly reports prepared by Risk Controlling on the risk-bearing capacity (RBC reports) constitute the central 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 RBC calculations on the quarterly reporting dates are an integral component of the Bank’s regular supervisory board meetings.

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 primarily analysed within the scope of stress tests. The NORD/LB Luxembourg Group introduced the NORD/LB Group’s new stress test concept in the first half of 2014. In the course of this process, the NORD/LB Group event scenarios formerly inte-

grated into the risk-bearing capacity calculation and the inverse stress test that had been performed annually up until then were replaced. The standard group approach based on a predefined “process map” to select scenarios, determine functional chains and their conversion into specific parameters or shock intensities forms the basis of the efficient performance of event-driven stress tests.

When selecting and drafting the stress scenarios, the business and risk focuses of the Bank are deliberately utilised as selection guidelines. The sectors, segments, regions and customers, etc. which have a major influence on the Bank’s risk situation are therefore to be selected. The presumption of a major influence is based on the absolute size of exposure, the absolute risk contributions (proportion of unexpected loss), the rating distribution, strategic focuses and past crises. The stress tests therefore implicitly focus on inter-risk concentrations.

After the main focuses are identified, distinct events are defined that describe the negative development and performance of the selected focuses. These events absolutely must be designed to cover all risk categories. All risk categories that could develop adversely in the crisis situations which have to be specifically described, are therefore to be included in the stress test parameterisation and thus increase the potential of losses in the stress scenarios. Potential losses resulting from stress establish the active economic risk capital. Furthermore, in addition to the RBC perspectives, the effects of the stress scenario on the control parameters of the profit and loss account, distance to illiquidity and regulatory capital ratios are analysed.

Pursuant to both for the requirements of MaRisk (AT 4.3.3) and 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.

In principle, the drafting of the stress tests in the NORD/LB Luxembourg Group facilitates the identification and quantification of exceeded critical threshold values when entering certain scenarios (inverse stress test). If the effects of the stress testing with respect to their negative impact are too weak, the stress test method generally makes it possible to strengthen them in a targeted and appropriate manner.

In addition to the stress tests, which apply to all risk types, topics are addressed through an interview procedure which covers a wide range of positions of 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.

Development of Risk-Bearing Capacity in 2014

With the approval of the CSSF, economic management (ICAAP) at the NORD/LB Luxembourg Group has been implemented exclusively on a consolidated basis since the 2012 reporting period. This also comprises the regular reports on risks and capital to the steering committees, so that only one RBC report is prepared at the level of the NORD/LB Luxembourg Group.

The risk-bearing capacity model of the NORD/LB Group was converted to an IFRS-based logic in the first quarter of 2014. This had an effect on the NORD/LB Luxembourg Group's risk-bearing capacity calculation as regards the dynamisation of the risk capital and the quantification of the market price risks. One particular reason for this is the modified classification of the hidden liabilities as well as the credit spread risks, which now follow the classification according to IFRS and no longer the logic of the German Commercial Code (HGB). Credit spread risks from the HfT, AfS and dFV categories are taken into account in the going concern (formerly the trading book and liquidity reserve) while the LaR (formerly assets) are also included in the gone concern.

The utilisation of the risk capital in the going concern scenario at the NORD/LB Luxembourg Group level was 37 % as at 31 December 2014.

Outlook

The European Banking Authority (EBA) published a consultation paper on the "Guidelines for common procedures and methodologies for the SREP (supervisory review and evaluation process)" on 7 July 2014. The guidelines provide

a common framework for the work of supervisors in the assessment of risks to banks' business models, their solvency and liquidity.

A comprehensive SREP framework is introduced in the guidelines, comprised of various components. Firstly, the banks are divided into four categories following the proportionality principle, with the most important banks, in terms of regulation, included in the first category. The analysis of the business model has become a new focal point for supervision. Depending on their category, the banks are subject to different minimum levels of supervision. In practice, this affects the cycle and frequency of monitoring certain key indicators, assessment of various core areas and regular supervisory dialogue. Internal governance and controls, risks to capital and capital adequacy, as well as liquidity and funding risks and liquidity adequacy are particular focuses of the assessments.

Each individual component is assessed using a scoring system. These sub-results are then combined to get an overall SREP score. The scores range from 1 ("no discernible risk") to 4 ("high risk"). For the overall SREP score, there is an additional category F ("failing or likely to fail"). These scores must be suitable to provide an indication of the banks' viability and the necessity of supervisory measures or early intervention measures. The competent authorities have to integrate these guidelines into their supervisory processes and procedures by 1 January 2016.

It is generally assumed that the ECB will at least partially apply the new SREP process as early as 2015. Therefore, during the year under report, the Bank already started identifying the requirements for risk management arising from this as well as any existing gaps.

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 creditworthi-

ness 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 (transfer risk) associated with international transactions. This includes the risk of a loss occurring because of overriding state restraints, despite the ability and willingness of the counterparty to fulfil its payment obligations.

Strategy

In accordance with statutory provisions, the core business of Pfandbrief (covered bond) 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, the focus is on assets which are not eligible for cover pool in Germany according to German legislation.

This complementary strategy to the covered bond 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 NORD/LB 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 LRC, 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 LRC 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.

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.

Control and Monitoring

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. The rating modules used in the process were either developed within the scope of various projects in the allied business with savings banks and regional banks or were developed by NORD/LB itself.

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 risk-bearing capacity 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.

Measurement

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 at NORD/LB Luxembourg using an economic credit risk model for different confidence levels and a time horizon of one year. The credit risk model used by all of the units in the NORD/LB Group incorporates correlations and concentrations into the risk assessment and is subject to an annual review and validation.

The credit risk model determines the unexpected loss at the level of the overall portfolio. The model used is based on the basic model CreditRisk+. It involves representing systematic sector influences on the distribution of loss using correlated sector variables. The estimate of the probability of default (PD) draws on the internal rating procedure.

The loss quotas (loss given default 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 companies defined as key within the NORD/LB Group in order to ensure a standardised approach within the NORD/LB Group. The current risk management and control procedures are implemented for the Bank by the Finance and Credit Risk Management divisions of NORD/LB Luxembourg, taking into account any characteristics specific to the Bank.

In order to calculate the capital required for credit risks, the Bank uses the Internal Ratings Based Approach (IRBA). An exception to this is a few portfolios where the credit risk standard approach is used. The Bank has permission via its parent company to use their rating system and to apply credit risk minimisation methods.

Reporting

As part of the management information system, the Finance division drafts a detailed lending portfolio report on a quarterly basis at the level the NORD/LB Luxembourg Group for the Board of Directors and for the members of the LRC, in order to make existing risks or risk concentrations transparent at an early stage and if required, initiate any necessary measures. The lending portfolio reports are also discussed at the meetings of the Supervisory Board.

The lending portfolio report, which essentially focuses on economically determined key risk figures (expected loss, unexpected loss) and thus has a direct relevance to the risk-bearing capacity perspective, was compiled for the first time for the period ending 31 March 2014. This replaces the counterparty risk reports which were produced until 31 December 2013, and were based on data from the regulatory reporting process.

As well as a detailed presentation of the lending portfolio by business segment, rating categories, sectors and regions, the report contains quantitative and qualitative analyses of selected borrowers and individual commit-

ments. The report also covers the development and performance of regulatory key figures as well as credit risk specific stress tests.

In addition, the Board of Directors and members of the LRC receive additional regular and event-driven reports on the Bank's lending portfolio from the Credit Risk Management division, for example on risk concentrations in borrower units, country and sector concentrations, and commitments requiring comment (credit risk watchlist).

The credit risks of the Bank, a major company within NORD/LB Group, were the subject of the comprehensive assessment conducted at NORD/LB. In this connection, the Bank reported the required information regarding the credit risks allocated to the selected portfolios to NORD/LB for the purpose of the Asset Quality Review (AQR). The Bank has not received any feedback regarding the relevant findings within the scope of the AQR. The NORD/LB Group decisively passed the stress test following the AQR with a solid core capital ratio (CET1) of 10.93 % (basic scenario) and 8.77 % (adverse scenario).

Developments in 2014

The maximum credit default risk amount for reported and off-balance sheet financial instruments is EUR 7.5 billion as at the reporting date and increased by 15.6 % in 2014.

Risk-bearing financial instruments In € million	Maximum default risk amount	Maximum default risk amount
	31.12.2014	31.12.2013
Loans and advances to banks	1,915.8	1,807.4
Loans and advances to customers	1,195.7	996.1
Financial assets stated at fair value through profit or loss	36.0	45.8
Positive fair values from hedge accounting derivatives	523.5	271.8
Financial assets	3,506.1	3,173.1
Sub-total	7,177.1	6,294.2
Non-utilised loan commitments	338.6	205.8
Guarantees for third-party invoices	–	–
Total	7,515.7	6,500.0

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 42.5 % (previous year 45 %) and revocable credit commitments at 37.5 % (previous year 25 %), while securities are not taken into account.

Analysis of Credit Exposure

The credit exposure at NORD/LB CFB as at 31 December 2014 amounts to EUR 7.3 billion (previous year EUR 6.3 billion), as shown in the tables below. The 14.8% increase in the exposure is mainly due to the new issue of loans eligible for the cover pool.

The NORD/LB CFB Group uses the standard IFD rating scale, which the banks, savings banks and associations that participate in the Initiative Finanzstandort Deutschland (IFD – Initiative of the Financial Centre Germany) have agreed upon 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 ¹⁾²⁾ in € million	Loans ³⁾	Securities ⁴⁾ 31.12.2014	Derivatives ⁵⁾	Other ⁶⁾	Total	
					31.12.2014	31.12.2013
Very good to good	2,739.5	3,203.4	231.0	0.0	6,173.8	5,493.8
Good/satisfactory	4.9	780.7	0.0	0.0	785.6	594.7
Still good/adequate	0.0	80.5	0.0	0.0	80.5	118.4
Increased risk	0.0	221.2	0.0	0.0	221.2	82.2
High risk	0.0	0.0	0.0	0.0	0.0	21.6
Very high risk	0.0	0.0	0.0	0.0	0.0	0.7
Default (= NPL)	0.0	0.0	0.0	0.0	0.0	11.5
Total	2,744.3	4,285.9	231.0	0.0	7,261.2	6,322.8

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 42.5% and the revocable ones at 37.5%, as in the internal reporting

4) Includes the Bank's own portfolio 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 (85.0%) is in the “very good to good” rating category. The proportion of this rating, the best rating category, in the total exposure continues to be very high due to the large volume of business conducted with financing institutions and public administrative offices.

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

Rating Structure ¹⁾²⁾ in € million	Loans ³⁾	Securities ⁴⁾ 31.12.2014	Derivatives ⁵⁾	Other ⁶⁾	Total	
					31.12.2014	31.12.2013
Financial institutes/insurers	1,502.8	1,667.5	230.8	0.0	3,401.2	3,089.4
Service industry/other	307.8	2,193.9	0.2	0.0	2,501.9	2,027.7
of which real estate and residential	0.0	0.0	0.0	0.0	0.0	140.3
of which public administration	23.0	2,187.9	0.2	0.0	2,211.1	1,807.1
Transport/news broadcasting	150.4	95.5	0.0	0.0	245.9	255.4
of which shipping	0.0	0.0	0.0	0.0	0.0	0.0
of which air transport	23.9	0.0	0.0	0.0	23.9	26.3
Processing industry	0.0	0.0	0.0	0.0	0.0	30.5
Energy, water supply, mining	679.2	328.9	0.0	0.0	1,008.1	889.7
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	104.1	0.0	0.0	0.0	104.1	30.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
Total	2,744.3	4,285.9	231.0	0.0	7,261.2	6,322.8

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 42.5% and the revocable ones at 37.5%, as in the internal reporting

4) Includes the Bank's own portfolio 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 77.3%, continues to make up a major share of the total exposure.

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

Regions ¹⁾²⁾ in € million	Loans ³⁾	Securities ⁴⁾ 31.12.2014	Derivatives ⁵⁾	Other ⁶⁾	Total	
					31.12.2014	31.12.2013
Euro states	2,312.0	2,215.2	222.6	0.0	4,749.8	4,102.1
of which Germany	1,215.2	746.3	93.8	0.0	2,055.3	1,554.9
Other Europe	388.1	355.3	7.8	0.0	751.2	684.8
North America	44.2	1,591.5	0.6	0.0	1,636.3	1,384.4
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	0.0	123.9	0.0	0.0	123.9	151.5
Other	0.0	0.0	0.0	0.0	0.0	0.0
Total	2,744.3	4,285.9	231.0	0.0	7,261.2	6,322.8

1) Classification same as internal reporting according to economic criteria

2) to 6) see previous table on sector overview

With a proportion of 65.4%, the Eurozone is still the most important business area of NORD/LB CFB. The exposure in North America essentially results from old portfolios.

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.

Outlook

In 2015, 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 revising the sector schematic), the loss data

collection for the validation of the LGD and Credit Conversion Factor (CCF) components will also be further expanded. The introduction of a backtesting procedure for model validation is also planned at the NORD/LB Group level.

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 position.

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 arise when the value of a position or portfolio reacts sensitively to changes in one or more currency exchange rates and the change 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.

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, as a covered finance bank, is regulated by Art. 12-1 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 Bank's hedging strategies is to rule out the interest rate and currency risks as far as possible by using appropriate hedges and thus 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 Man-



agement) 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.

The Risk Controlling unit (Finance division) of NORD/LB Luxembourg is responsible for monitoring the risks.

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.

Control and Monitoring

In order to control and monitor, including limiting, the market price risks of NORD/LB CFB, a Value-at-Risk (VaR) procedure that is standardised within the NORD/LB Group is used. 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. Any possible losses are set off against separate loss limits and lead to a reduction in the VaR limits based on the principle of self-depreciation. Correlation effects between the portfolios are taken into account both in the VaR calculation and in the derivation of the sub-limits.

Measurement

The value-at-risk key figures are determined on a daily basis using the historical simulation method. 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 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, the number of outliers in relation to the VaR at the overall bank level, according to the Basel traffic light approach, is back in the green region again at NORD/LB CFB, following a red phase.

Within the scope of the backtesting the CSVaR, the outliers at NORD/LB CFB were in the amber region at the beginning of the reporting year, according to the Basel traffic light ap-

proach; they have been in the green region since May. The last outlier occurred on 25 October 2013.

In addition to the daily VaR control, the effects of extreme market changes on the risk positions are examined within the scope of monthly stress test analyses.

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.

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 head of Financial Markets and the Board of Directors on a daily basis.

Along with the value-at-risk analyses, the head of Financial Markets and the Board of Directors are informed on a monthly basis with regard to 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.

Developments in 2014

As part of changing the risk-bearing capacity model to an IFRS-based logic, the operational control of market price risks was adjusted in the first quarter. In accordance with the procedure in the going concern scenario, which is relevant to control, the credit spread risks from securities in the IFRS categories HfT, dFV and AfS have been taken into account in the value-at-risk (that is calculated daily) and limited (formerly the trading book and liquidity reserve) since 1 March 2014. The daily value-at-risk at NORD/LB Luxembourg Group level was likewise introduced with effect from 1 March 2014 (previously individual bank level).

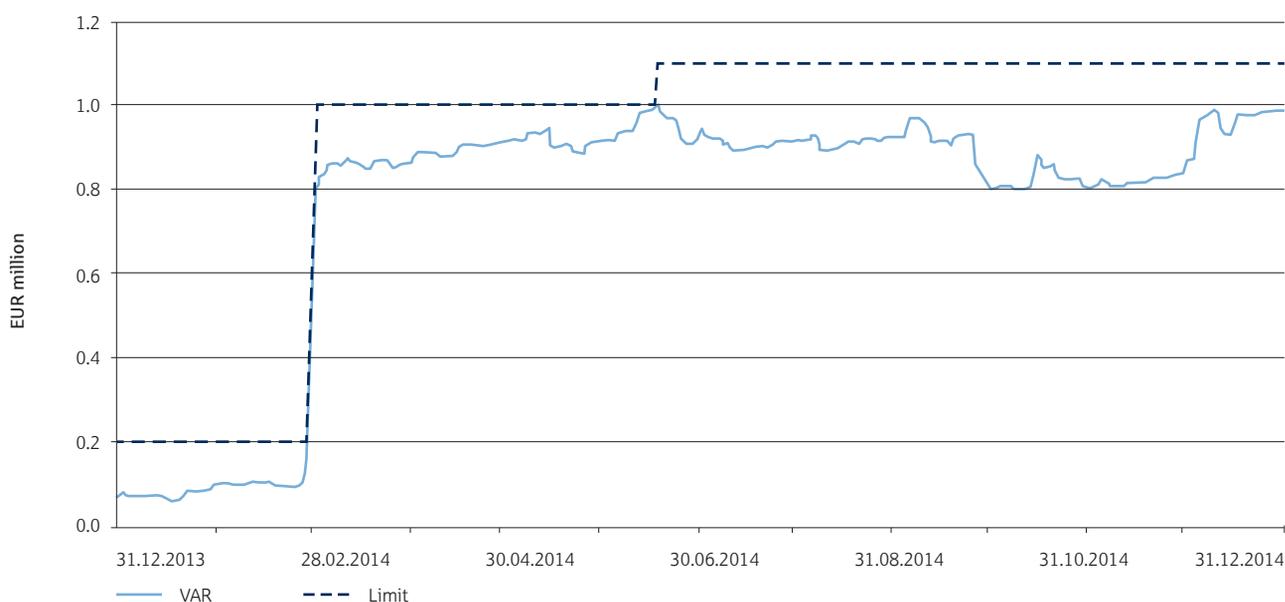
In addition, there was a methodological change in the calculation of the daily risk key indicators (confidence level

95 %, holding time one day). Analogous to the determination of the market price risks in the risk-bearing capacity model, there is now also a scaling of the value-at-risk indicators in the daily control with a stabilising adjustment factor, which is calculated based on statistical long-term analyses of the market price risk factors that are significant to the

NORD/LB Luxembourg Group. In very calm market phases, the factor has the effect of increasing the calculated value-at-risk values by 50 % to 60 %, as at the reporting date.

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

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



There were stricter limits overall for the operational control of market price risks in the NORD/LB Luxembourg Group as a result of changing the NORD/LB Group's risk-bearing capacity model to an IFRS-based methodology. In order to account for the associated rise in risk resulting from the integration of additional credit spread risks, the value-at-risk limit at NORD/LB CFB was increased on 3 March 2014 from EUR 0.2 million to EUR 1.0 million. A further EUR 0.1 million limit was redistributed within the NORD/LB Luxembourg Group in favour of NORD/LB CFB on 19 June 2014.

The value-at-risk at NORD/LB CFB on 31 December 2014 was EUR 0.99 million (previous year EUR 0.07 million). The Bank did not build up any significant new risk positions over the course of the year. The sharp rise in VaR is explained by the integration of credit spread risks from AfS positions as well as taking into account the adjustment factor described above.

Due to the narrow value-at-risk limit, its average utilisation was 77.1 % (previous year 19.6 %), the maximum utilisation was 99.2 % and the minimum utilisation was 29.0 %.

The security positions in connection with the interest rate and liquidity control of the cover pool lead to an focus on the market price risks from credit spreads. Interest rate risks mainly result from transactions in EUR and GBP.

As per 31 December 2014, interest rate risks were measured in the amount of EUR 0.1 million, foreign currency risks in the amount of EUR 0.2 million, volatility risks in the amount of EUR 0.03 million and credit spread risks in the amount of EUR 0.5 million.

With regard to the interest rate risks in the investment book, the effects of a standardised interest rate shock are also analysed monthly in accordance with the requirements of 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 calculating the capital required for interest, currency and price risks, the Bank uses the standard method according to CRR. Taking into account the requirements based on the adjustment of the credit assessment (CVA), a capital re-

quirement in the amount of EUR 2.9 million was calculated for the market price risk as at 31 December 2014.

In contrast to the credit spread risks of the IFRS categories HfT, AfS and dFV, the credit spread risks of the LaR stocks are not included in the value-at-risk for market price risks, since this focuses on the going concern perspective of the risk-bearing capacity 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 risk-bearing capacity model.

The credit spread value-at-risk of the LaR portfolios has been EUR 134.0 million at NORD/LB CFB since its introduction on 1 March 2014. The average limit utilisation was 51.9 %, the maximum utilisation was 64.4 % and the minimum utilisation was 38.8 %. As at 31 December 2014, the credit spread value-at-risk of the LaR positions was EUR 83.9 million.

Outlook

The Bank is not expecting any significant increase in the market price risk in 2015. With respect to the future development of the credit spread risks, NORD/LB CFB anticipates a sideways movement.

Furthermore, it remains the Bank's aim to acquire assets eligible for the cover pool mainly from the lending business and less from the securities business.

Liquidity Risk

Liquidity risks comprise risks which may result from problems in the liquidity of individual market segments, unexpected events in the lending, deposit or issue 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 may lead to important asset classes no longer being available for 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 decreases in 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. The spread risks from cross currency swaps are also taken into consideration by examining the individual currencies.

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. In particular, market liquidity risks can arise from security positions in the investment books.

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, all which take these requirements into account.

Ensuring liquidity at all times represents a strategic necessity for the Bank. While classic liquidity risk is principally to be avoided by maintaining a sufficient supply of liquid assets (in particular central bank eligible securities), a structural liquidity maturity transformation 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 corporate policy principles for the liquidity risk in the NORD/LB Group are defined in the Global Group Liquidity Policy (GGLP). In addition, the individual banks in the NORD/LB Group have policies on liquidity management, which constitute the strategic guidelines for ensuring adequate liquidity. The measures for liquidity management in emergencies and crises are described in contingency plans. Moreover, the applicable working directives, applicable sections of the (NORD/LB Group) risk handbook and NORD/LB Luxembourg's methodology handbook all apply.

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 ALCO.

Risk Controlling (Finance division) is responsible for monitoring the liquidity risks. It assumes control functions in the calculation of the refinancing risk as well as in ascertaining and monitoring the classic liquidity risk (in each case at the NORD/LB Luxembourg Group level) and plays a key role in the introduction and improvement of internal procedures for measuring, limiting and monitoring liquidity risks.

The CFP (Contingency Funding Plan) action committee is

ready in case of an emergency and will take over liquidity management in close cooperation with the Board of Directors.

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, the risk of a rating downgrade in connection with the shipping portfolio as well as a market environment which is still characterised by the economic problems of the EU periphery states. The analysis is performed on the basis of liquidity cash flows 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 of the market situation are made, 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 NORD/LB-specific scenario, the alternative 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 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 (covered bonds) 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.

Measurement

The Bank calculates the utilisation of volume structure limits for the various maturity bands on the basis of a liquidity progress review of the entire position. 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 cen-

tral 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.

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 head of Financial Markets and Market board members are informed on a daily basis of the classic liquidity risk as well as the refinancing risk of the NORD/LB Luxembourg Group. In addition, these key figures are the subject of reporting to the Board of Directors within the scope of weekly and monthly risk reports. 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).

As part of monitoring 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 Board of 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 and 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 the LCR at monthly intervals and the NSFR (Net Stable Funding Ratio) at quarterly intervals to the Luxembourg regulators and to NORD/LB.

Developments in 2014

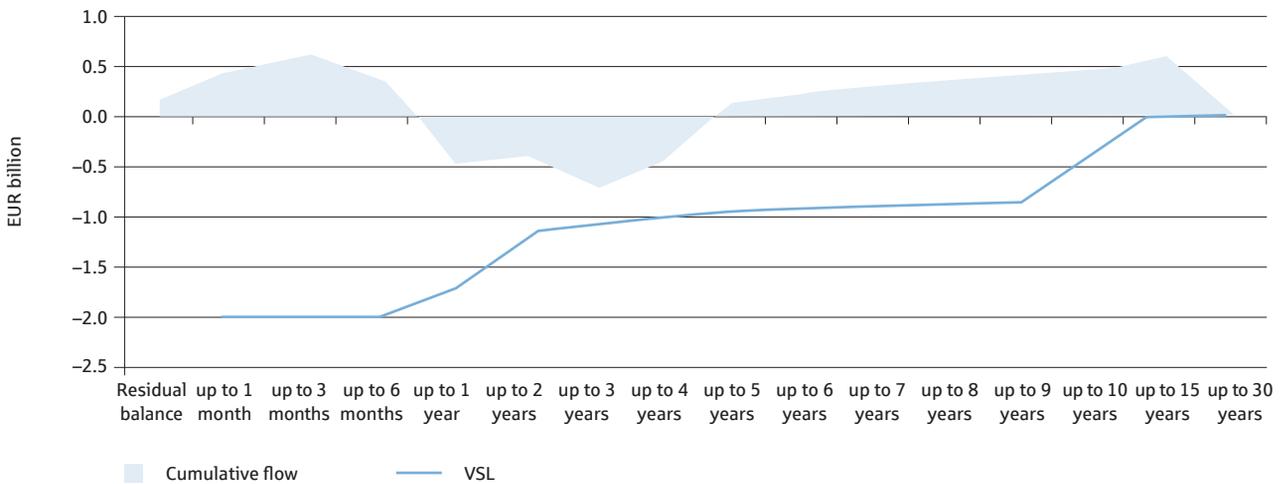
The perceptible easing of the financial market proceeded over the course of the year. Because of the extremely low interest rate level and adequate liquidity on the market, short-term liquidity in particular was available at all times. In the second quarter, larger volumes of long-term liquidity were acquired in the form of lettres de gage.

The Bank continues to specialise in the business of lending to municipal undertakings as well as their covered refinancing.

As at the reporting date, the aggregated liquidity progress review used for the internal control of the refinancing risk was as follows at the NORD/LB Luxembourg Group level:

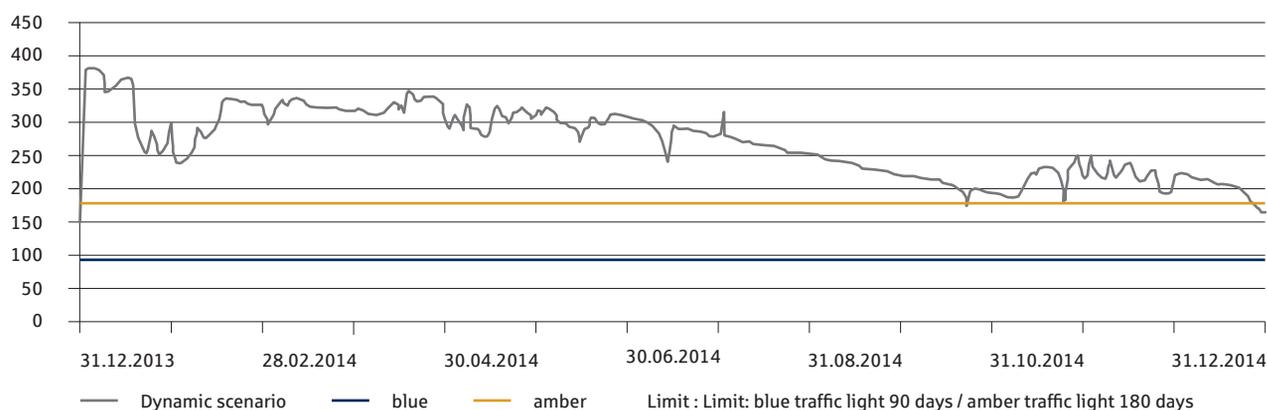
Liquidity Refinancing Risk at NORD/LB Luxembourg Group as at 31.12.2014

Cumulative Schedule of Liquidity Flows



The course of distance-to-illiquidity (Dtl) in the dynamic control-relevant scenario was as follows for the NORD/LB Luxembourg Group over the course of the year:

Distance to Illiquidity, Dynamic Scenario in 2014



The Dtl in the dynamic scenario was always above 150 days in the year under report. Amber phases were consciously managed in consideration of profitability aspects.

The regulatory requirements were complied with at all times in 2014.

Outlook

A moderate increase in liquidity risks is anticipated for 2015 as a result of the active liquidity management and planned lending business.

The methods of risk assessment and the reporting processes are being improved. In particular, the development and expansion of methods for validation and control of regulatory provisions will be a focus in 2015. Along with the increased reporting frequency for the LCR, further progress will be made with regard to the operationalisation of the regulatory provisions.

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). Strategic risks and business risks are not included.

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 risk.

- 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. Legal risk only exists in the Bank's external relations. 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.
- Compliance risk denotes risks of judicial, official or disciplinary measures which result from improper 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 risks 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 risks 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.
- Misconduct risk denotes the risks to a Bank which could arise through the sale of unsuitable products, conflicts of interest when fulfilling business relationships, manipulation of reference interest rates or foreign exchange rates, impeding switches of financial products and unfair handling of customer complaints.

Strategy

The NORD/LB Luxembourg Group pursues the objective of 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.

NORD/LB Luxembourg has a security strategy and consistent, uniform standards in order to protect the Bank from losses efficiently and on a sustained basis. At the same time, the strategy meets statutory and regulatory requirements. The emergency management measures ensure appropriate emergency operations and the quickest possible return to normal operations by means of an interrelated business continuation and recovery plan, which focuses on time-sensitive activities and processes. The superordinate emergency and crisis organisation ensures the capability to communicate and make decisions in the event of escalating emergencies and crises. The strategic and conceptual security, emergency and crisis management (business continuity management [BCM]) tasks are pooled in the ORG/IT unit of NORD/LB Luxembourg in the role of the Bank's BCM/Emergency Officer.

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 Finance and Risk Controlling division at NORD/LB holds the decision-making authority with respect to improving instruments provided across the Group for controlling operational risks. NORD/LB Luxembourg's Risk Controlling is involved in improving the methods via regular method boards at the NORD/LB Group level as well as through ongoing informal exchange of information with the experts at NORD/LB. It is also responsible for properly implementing centralised methods and for coordinating the implementation of decentralised methods in the NORD/LB Luxembourg Group.

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.

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 makes sure that relevant regulations and standards are met and the compliance of the Bank is ensured.

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 (ICS) 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 is 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 which are not based on approved templates. 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 hedging 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.

Measurement

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 implemented 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 indicator method was also introduced in the NORD/LB Luxembourg Group. 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 utilised as an internal control parameter for operational risks in the risk-bearing capacity 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 the NORD/LB Luxembourg Group 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 CRR on the use of the advanced measurement approach to the greatest possible extent.

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.

Developments in 2014

In 2014, the NORD/LB Group continued on its path to integrated OpRisk management. The existing reporting channels from the ICS, Compliance, Security and OpRisk divisions were used to prepare a standard risk report (Governance, OpRisk & Compliance Report, or "GOC Report" for short) for the NORD/LB Group. This was published for the first time in the first quarter of the last calendar year and has also been compiled on a quarterly basis since the second half of the year.

In view of this, the OpRisk Roundtable was transferred into the LRC at the NORD/LB Luxembourg Group. This committee now also covers risk controlling and credit risk management as well as compliance, ICS and OpRisk.

As per 31 December 2014, the risk potential for the operational risk according to the internal model (confidence level 95 %, holding period one year) was EUR 2.2 million in the NORD/LB Luxembourg Group.

Outlook

The path to integrated OpRisk management that has already begun will be continued in the NORD/LB Luxembourg Group in 2015 with the close involvement of the risk control function. A new self-assessment system is currently being piloted for this purpose. The objective is a consistent risk assessment for the OpRisk, ICS and Compliance areas. NORD/LB has already started to introduce this. It is scheduled to be implemented in the banks in the NORD/LB Group during the first quarter of 2015.

Other Risks

Apart from the credit, participation, market price, liquidity and operational risks already presented, there are no other risks identified as significant at the NORD/LB Luxembourg Group. The relevant risks of the NORD/LB Luxembourg Group that were not identified as major include the business and strategic risk (including allied risks), reputational risk, syndication risk, real estate risk, pensions 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 Bank may incur heavy or sustained losses due to a loss of confidence among customers, business partners, employees, providers or the public.

The syndication risk denotes the risk that syndicate or consortium partners may not be available for the planned consortium transaction and the risks would therefore remain with the Bank.

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 Bank are misrepresented as a result.

The pensions risk denotes the risk of a potential need to increase pension provisions as a result of increased pension expenses and in particular valuation-related effects.

The other risks are discussed at the regular LRC meetings. Within this framework, the current status is discussed with the respective experts for the individual risk types and reported on. Measures to limit them are taken as required.

Within the Bank, the respective specialist departments are directly responsible for keeping risks as low as possible or for preventing them from occurring 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 risk-bearing capacity model shows that the risks were covered at all times in the NORD/LB Luxembourg Group in the period under report. According to the estimation of the Bank, there are currently no risks that threaten its existence.

In 2014, NORD/LB CFB fulfilled the applicable regulatory provisions on capital stock and liquidity at all times.

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 2015 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 2012 and 01 April 2012.

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 Board of Directors and Supervisory Board would like to acknowledge and thank the staff of NORD/LB Luxembourg and NORD/LB 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.

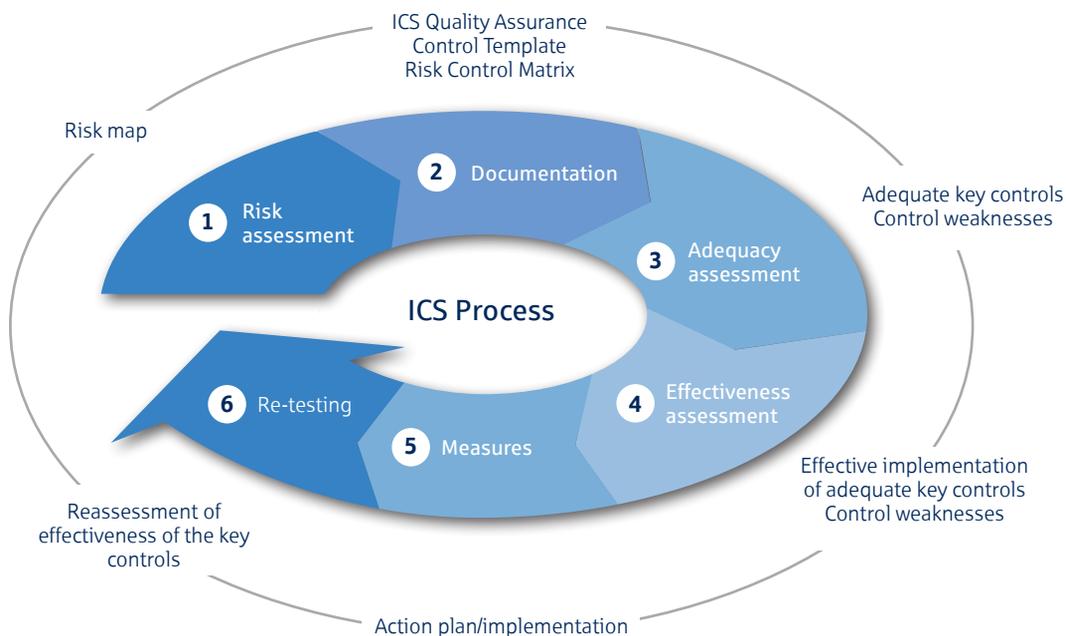
The Bank’s ICS is designed to ensure adequate reliability in relation to compliance with applicable legal requirements, regularity and sound financial management of the business activities and the completeness and accuracy of the financial reports.

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 the ICS officers. 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 the updated 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 or functions under their direct responsibility,
- 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. All of the following facts therefore always relate to the NORD/LB Luxembourg Group and not the individual bank.

Our Conviction

The Group has decided to establish a sustainability management system at NORD/LB Luxembourg. The sustainability officer started with a small team in 2013. The team's work focuses on the requirements that come from NORD/LB.

The success of the Group can only be sustained in a stable natural environment and only in a society with balanced economic and social conditions. This understanding shapes the strategic focus of NORD/LB Luxembourg and the organisation of our business model. At the same time, it is an important contribution to aligning our daily actions with the requirements of our interest groups. Conduct and actions aligned with high standards therefore contribute to our future viability – both in the interests of corporate success as much as out of our responsibility to our customers, staff, the environment and society.

Sustainability as a Strategic Factor

The sustainability strategy forms the basis for our actions. The main focuses of the individual fields of action and specific objectives that we want to achieve by 2020 are documented in the strategy. In a sustainability programme that is continuously updated, we describe the measures we are using to strive towards achieving these focuses and objectives. We will be informing our interest groups regularly on our website about the results of our sustainability activities.

Governance

For us, acting with integrity is synonymous with responsible corporate management. This also continuously strengthens the trust that interest groups have in the NORD/LB Luxembourg Group. Our work guidelines contain voluntary commitments which broaden corporate actions to include environmental, social and ethical aspects.

Customers

We want to actively support our customers as they look to the future. We support them in utilising opportunities and reducing possible risks arising from sustainable development and global change. This increases customer satisfaction and ensures customer loyalty to the NORD/LB Luxembourg Group in the sense of lasting partnerships.

Staff

We create the conditions in which our staff can develop their potential – for their own benefit and to the advantage of customers and the Bank. These include offers that foster professional and personal development and a work-life balance as well as providing a healthy, anti-discriminatory work environment where people enjoy working.

Environment

Active corporate environmental protection is an important part of our actions and the corporate responsibility we practice. We reduce our corporate environmental impact through various measures, reduce our energy and resource costs, and thus put less of a burden on both our corporate balance sheet and on the environment. To achieve this, we use state-of-the-art technologies, such as a photovoltaic system which we commissioned at the end of 2013.

Society

We are committed to improving the living conditions of people within our sphere of influence and thus also to ensuring the future viability and sustainability of the social environment and community. This includes the training and education of bank employees just as much as supporting community organisations and initiatives. The Bank supports social organisations and counselling centres as well as cultural societies and associations with money and material donations. We will be reporting on our current projects, objectives and future focuses on our website in the future.

Supplementary Report

There are no major financial consequences for the Bank resulting from the strong increase in the value of the Swiss franc (CHF) against the euro (EUR) in January 2015.

Apart from the changes with regard to the merger in financial year 2015, there were no significant events between the balance sheet date on 31 December 2014 and the preparation of these financial statements on 27 February 2015 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 of NORD/LB CFB’s 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, 27 February 2015
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 2014:

	Notes	2014 (KEUR)	2013 (KEUR)
Net interest income	(15)	8,166	6,422
Interest income		328,605	334,197
Interest expense		-320,439	-327,775
Loan loss provisions	(16)	-32	49
Net commission income	(17)	-4,595	186
Commission income		565	1,833
Commission expense		-5,160	-1,647
Profit/loss from financial instruments at fair value through profit or loss	(18)	523	272
Trading profit/loss		523	272
Profit/loss from fair value option		0	0
Profit/loss from hedge accounting	(19)	4,164	-2,347
Profit/loss from financial assets	(20)	-1,800	1,822
Administrative expenses	(21)	-839	-721
Staff expenses		0	0
Other administrative expenses		-839	-721
Depreciation of property, plant and equipment		0	0
Depreciation on intangible assets		0	0
Other operating profit/loss	(22)	-4,905	-5,578
Earnings before taxes (EBT)		682	105
Income taxes	(23)	-210	-4
Net income for the year		472	101
of which: attributable to shareholders		472	101
of which: not attributable to controlling shares		0	0

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

Overall Profit and Loss Account

The total income of NORD/LB CFB for 2014 comprises the revenues and expenses recognised in the profit and loss account and directly in the equity.

NORD/LB Covered Finance Bank S.A. for the year under report from 1 January to 31 December 2014:

	2014 (KEUR)	2013 (KEUR)
Net income for the year	472	101
Other profit/loss	-237	9,058
Other profit/loss, which will not be reclassified to the P&L account in subsequent years	0	0
Revaluation of net liability from performance-related (defined benefit) pension plans	0	0
Deferred taxes	0	0
Other profit/loss, which will not be reclassified to the P&L account in subsequent periods	-237	9,058
Changes from AfS financial instruments	-335	12,797
Unrealised gains/losses	-335	12,797
Reclassifications due to realisation of profit/loss	0	0
Deferred taxes	98	-3,739
Total profit/loss for the year	235	9,159
of which due to the shareholders	235	9,159
of which not attributable to controlling shares	0	0

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

Balance Sheet

NORD/LB Covered Finance Bank S.A. for the reporting date on 31 December 2014:

Assets	Notes	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Cash reserve	(24)	0.2	0.0
Loans and advances to banks	(25)	1,915.8	1,807.4
Loans and advances to customers	(26)	1,195.7	996.1
Risk provisions	(27)	-0.2	-0.2
Financial assets at fair value through profit or loss	(28)	36.0	45.8
Derivatives – fair values from hedge accounting	(29)	423.5	297.9
Financial assets	(30)	3,506.1	3,173.1
Property, plant and equipment	(31)	0.0	0.0
Intangible assets	(32)	0.0	0.0
Deferred income tax claims	(33)	8.8	8.7
Other assets	(34)	0.3	0.1
Total assets		7,086.2	6,329.0
Liabilities	Notes	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Liabilities to banks	(35)	2,848.9	2,923.6
of which lettres de gage		134.3	108.6
Liabilities to customers	(36)	991.0	692.5
of which lettres de gage		991.0	692.4
Securitised liabilities	(37)	2,333.3	1,979.9
of which lettres de gage		1,885.2	1,979.9
Financial liabilities at fair value through profit or loss	(38)	34.4	41.3
Derivatives – fair values from hedge accounting	(39)	793.1	579.9
Provisions	(40)	0.0	0.0
Income tax liabilities	(41)	0.0	0.0
Other liabilities	(42)	8.4	5.9
Subordinated capital	(43)	0.0	29.0
Equity			
Issued capital		80.0	80.0
Capital reserves		1.7	1.7
Revenue reserves		16.6	16.2
Revaluation reserve		-21.4	-21.1
Currency translation reserve		0.0	0.0
Total equity	(45)	77.0	76.8
Equity attributable to shareholders		0.0	76.8
Equity allocated to shares without a controlling influence		77.0	0.0
Total equity and liabilities		7,086.2	6,329.0

The following Notes are 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 2014:

	2014 (EUR million)	2013 (EUR million)
Profit for the year before taxes	0.7	0.1
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	1.2	-2.4
Increase/decrease in provisions	0.0	0.0
Gains/losses from the disposal of property, plant and equipment and financial assets	0.6	0.5
Increase/decrease in other non-cash items	0.7	-1.3
Profit/loss from interest	-8.2	-6.4
Other adjustments	-0.2	0.0
Sub-total	-5.2	-9.5
Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks and customers	-312.5	755.3
Other assets and liabilities from operational business activities	-370.7	232.7
Liabilities to banks and customers	221.8	-988.8
Securitised liabilities	350.9	-231.8
Interest and dividends received	265.0	301.6
Interest paid	-260.7	-284.4
Income taxes paid	0.0	0.0
Cash flow from operating activities	-111.4	-224.9
Cash receipts from the disposal of		
Financial assets	495.4	262.1
Property, plant and equipment and intangible assets	0.0	0.0
Cash payments for the acquisition of		
Financial assets	-353.1	-35.4
Property, plant and equipment and intangible assets	0.0	0.0
Increase/decrease in funds from other investment activity	0.0	0.0
Cash flow from investment activity	142.3	226.7

The following Notes are 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 2014:

	2014 (EUR million)	2013 (EUR million)
Cash receipts from equity contributions	0.0	0.0
Increase/decrease in funds from other capital	-29.7	0.0
Interest expense on subordinated capital	-1.1	-1.9
Dividends paid	0.0	0.0
Cash flow from financing activities	-30.8	-1.9
Cash and cash equivalents at end of the previous year	0.0	0.0
Cash flow from operating activities	-111.4	-224.9
Cash flow from investment activity	142.3	226.7
Cash flow from financing activities	-30.8	-1.9
Cash flow total	0.2	0.0
Effects of exchange rate differences	0.0	0.0
Cash and cash equivalents at end of reporting year	0.2	0.0

The following Notes are 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 2014:

EUR million	Issued capital	Capital reserves	Revenue reserves	Revaluation reserve	Currency translation reserve	Equity before shares with controlling influence	Shares without controlling influence	Equity
Equity on 01.01.2013	80.0	1.7	16.1	-30.2	0.0	67.6	0.0	67.6
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
Total profit/loss for the period	0.0	0.0	0.1	9.1	0.0	9.2	0.0	9.2
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
Equity on 31.12.2013	80.0	1.7	16.2	-21.1	0.0	76.8	0.0	76.8
Net income for the year	0.0	0.0	0.5	0.0	0.0	0.5	0.0	0.5
Increase/decrease from AfS financial instruments	0.0	0.0	0.0	-0.3	0.0	-0.3	0.0	-0.3
Deferred taxes	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1
Total profit/loss for the period	0.0	0.0	0.5	-0.2	0.0	0.2	0.0	0.2
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
Equity on 31.12.2014	80.0	1.7	16.6	-21.4	0.0	77.0	0.0	77.0

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

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Accounting Policies

(1) Principles for the preparation of the financial statements

The financial statements of NORD/LB Covered Finance Bank S.A. (NORD/LB CFB) as at 31 December 2014 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 2013 were adopted at the general meeting held on 31 March 2014 and formed the basis for the determination and appropriation of profit for the 2013 financial year.

The financial statements as at 31 December 2014 take into account the national provisions of the law of 17 June 1992 on the annual accounts of credit institutions established under Luxembourg law, in the latest amended version. 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, apart from financial instruments under IAS 39, which are measured at fair value. These financial statements have been prepared under the going concern assumption. Income and expense are amortised on a pro rata basis. They are reported and shown in the period to which they are economically attributable. The fundamental accounting policies are described below.

The reporting and functional currency used in the financial statements is the euro. Unless stated otherwise, all amounts are shown in millions of euros (EUR million) rounded to one decimal place. The statement of percentage 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 (52).

b) Pension Payments

The expenditure from performance-related plans and the cash value from pension obligations are determined with reference to actuarial calculations. These 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 moved its staff to NORD/LB Luxembourg in financial year 2012. As part of this move, 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 2014 reporting year.

In the period under report, the following changes to standards to be applied for the first time as of 01 January 2014 were taken into account:

- **IAS 28 (amended 2011) – Investments in Associates and Joint Ventures**

The IASB published the revised IAS 28 – Investments in Associates and Joint Ventures in May 2011. This standard contains rules regarding the application of equity methods when reporting investments in associates and joint ventures. This is essentially a subsequent amendment to extend the scope of application in connection with IFRS 11.

The new version of IAS 28 does not lead to any changes for NORD/LB CFB.

- **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 offsetting 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 meaning of “currently has a legally enforceable right of set-off” and the conditions for systems with gross settlement as the equivalent of net settlement are explained.

In connection with the application of the changes to IAS 32, the gross amounts of offset financial assets and liabilities reported in the balance sheet and the non-offset financial assets and liabilities, which are the subject of offsetting arrangements, started to be disclosed in the financial statements as Note (60) Offsetting of financial assets and liabilities.

- **Amendments to IAS 36 – Impairment of Assets – Disclosure of Recoverable Amount of Non-financial Assets**

These amendments modified the requirements regarding disclosure of the recoverable amount from cash-generating units introduced with IFRS 13. Moreover, new disclosure obligations were introduced in the case there is an impairment or a reversal of impairment and the recoverable amount was determined on the basis of the fair value less the costs of sale.

There are no effects on the financial statements as at 31 December 2014 resulting from the amendments to IAS 36.

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

In its Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting published in June 2013, the IASB clarifies that the novation of a derivative with a central counterparty is to be reported on the balance sheet as a disposal of the original derivative and acquisition of the novated derivative. In the process, a novation is deemed to be an agreement between the contracting parties to a derivative that one or more central counterparties shall replace the original counterparties in order to become the new counterparty for each original contracting party. The term central counterparty likewise covers companies, for example members of a clearing house or clearing companies or customers of either of the latter, which act as a contracting party in order to achieve settlement of a payment (clearing) through a central counterparty. When a derivative is novated, the hedge may be continued under certain conditions despite a change in counterparty.

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

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 2014 for NORD/LB CFB:

- **IFRIC 21 – Levies**

In May 2013 the IASB published IFRIC 21 as an interpretation of IAS 37 on the subject of levies, which essentially regulates which government-imposed levies are subject to assessment and when there is a liability that must be reported on the balance sheet.

It is only mandatory for NORD/LB CFB to apply IFRIC 21 for the first time with retrospective effect from 1 January 2015 due to its adoption into EU law.

- **Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions**

The Amendments to IAS 19 – Employee benefits, published in November 2013, introduced a option for performance-related pension plans in relation to taking into account employee contributions linked to employee performance which are not dependent on the number of years in service. The application of these amendments is obligatory for the first time for financial years beginning on or after 1 July 2014 (subject to endorsement by the EU, expected in the fourth quarter of 2014).

No effects on NORD/LB CFB will arise from this.

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

- 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

The application of the amendments affecting NORD/LB CFB is strictly obligatory for financial years starting on or after 1 July 2014. No significant impact on the financial statements of NORD/LB CFB are expected from the annual improvements of the IFRS.

Adoption into European law by the EU Commission is still pending for the following standards, amendments to standards and interpretations.

- **IFRS 9 – Financial Instruments**

In July 2014, the IASB concluded its project to replace IAS 39 by publishing the final version of IFRS 9 – Financial Instruments. IFRS 9 regulates the following areas in particular:

Categorisation and valuation of financial assets and financial obligations.

In contrast to the first published version, the second proposal to amend the categorisation and measurement rules in IFRS 9, published in November 2012, specifically contained the proposal to introduce an additional, third measurement model especially 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). The content of this amendment to the categorisation and valuation regulations was adopted in the final standard. 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.

Expected Credit Losses

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).

General Hedge Accounting

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 draft proposal on macro hedge accounting is no longer expected before 2018. Until then, the regulations in IAS 39 regarding portfolio fair value hedges for interest rate risks will remain in place and will not be adopted in IFRS 9. The General Hedge Accounting standard pursues the objective of reflecting operational risk management to a greater extent than before by showing hedges in closed portfolios on the balance sheet. In this connection, the role of qualitative implementation criteria was strengthened as compared to the quantitative implementation criteria, in contrast to the regulations in IAS 39. In addition, the scope of underlying and hedging transactions which come into question for hedge accounting has been greatly 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.

Subject to its adoption into European law, it will be obligatory to apply IFRS 9 to financial years starting on or after 1 January 2018.

Due to the forthcoming merger with NORD/LB Luxembourg, the standard is no longer applicable to NORD/LB CFB.

• IFRS 15 – Revenues from Customer Contracts

The IASB and the FASB published a joint accounting standard on reporting revenue in May 2014, which combines the large number of preceding rules and at the same time defines consistent basic principles which are applicable to all sectors and all categories of sales transactions. In addition to the introduction of a new five-step model for determining revenue recognition, the standard covers rules on detailed questions, for example on multi-component transactions and handling service agreements and contract adjustments as well as a broadening of the required disclosures in the notes to financial statements.

IFRS 15 will replace the contents of IAS 18 – Revenues and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13, IFRIC 15 and IFRIC 18 and SIC 31 and take effect for reporting periods starting on or after

1 January 2017 – subject to adoption into European law.

Due to the forthcoming merger with NORD/LB Luxembourg, the standard is no longer applicable to NORD/LB CFB.

• Amendments to IAS 1 – Presentation of Financial Statements

Initial proposals to amend IAS 1 – Presentation of Financial Statements, which can be implemented at short notice, were implemented in the amendments to the standard published on 18 December 2014. The amendments emphasise the concept of materiality in order to promote the disclosure of relevant information in IFRS financial statements. This should be achieved by waiving the disclosure of minor information, through the option of additional sub-totals and a greater degree of flexibility in the structure of the notes to the financial statements. There is also a clarification of the breakdown of Other Comprehensive Income (OCI) in the overall profit and loss account.

Subject to their adoption into EU law, it will be obligatory to apply the amendments to financial years starting on or after 1 January 2016.

Due to the forthcoming merger with NORD/LB Luxembourg, the standard is no longer applicable to NORD/LB CFB.

Furthermore, the following amendments to standards have not yet been adopted into European law:

- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants
- Improvements of the IFRS (2012 - 2014 cycle) within the scope of the annual improvement process of the IASB

Subject to their adoption into EU law, it will be mandatory to apply the amendments to financial years starting on or after 1 January 2016. Due to the forthcoming merger with NORD/LB Luxembourg, the standard is no longer applicable to NORD/LB CFB.

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

(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 2014. 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 generally reflected 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 debt instrument. The financial instruments of NORD/LB CFB are recognised in its accounts accordingly. They are classified in accordance with the requirements of IAS 39 and measured in line with that classification.

a) Recognition and derecognition of financial instruments

A financial asset or a financial liability shall be recognised on the balance sheet when the Bank becomes a party to the contractual provisions of the financial instrument. The trade date and settlement date generally diverge in the case of regular way purchases or sales 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 continu-

ing 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 obligations specified in the contract are discharged, cancelled or expired. 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) 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)

Provided 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 (28) Financial assets at fair value through profit or loss and Note (38) Financial liabilities at fair value through profit or loss. Financial instruments for which the fair value option

is used are shown in the relevant balance sheet items and designated at fair value through profit or loss in the context of the subsequent valuation. Premiums and discounts are amortised using the effective interest rate.

The 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. This can include, in particular, bonds and debt securities as well as shares and participating 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, provided 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 measured at cost of acquisition. 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 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 (48) 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 CFB in the financial year.

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 a 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 standard 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 resultant fair value of the respective financial instrument 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, 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 as well as 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 cash flow methods or the Hull & White model for options), where the calculations are essentially 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. 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 or credit curves (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 2014 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 that 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 utilised fully for their measurement are to be assigned to Level 3. For Level 3 measurement, in contrast to and unlike the Level 2 measurement, institution-specific models are generally used and data is included which cannot be observed on the market. 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 CRR) 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 implemented or coordinated in the Finance department or in 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.

At the Luxembourg sub-group, the prices of securities in Level 1 and 2 are calculated using a selection method

based on the fuzzy theory. Human decision-making behaviour is reproduced using mathematical logic within the scope of a price finding process in the determination of the valid price. For example, in liquid markets, the implemented logic is used to select the most valid price from a large number of price providers. In illiquid markets, this is done by selecting the most valid price which results from a combination of a few providers specialised in pricing as well as comparable security and spread engineering methods. All of the methods used are integrated into the fuzzy engine that is implemented. On the whole, the selection process is thus integrated into the system and is transparent at all times.

With respect to Level 3 measurement, which is currently not used in the sub-group, the prices are determined on a group-wide basis by means of a discounted cash flow method using default probabilities based on ratings.

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. The CVA/DVA is 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:

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 using LIBOR discounting.

- **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 a measurement method is generally used (discounted cash flow 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, NORDB'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 cash flow model). Input data for this model is the risk-free interest rate and a risk premium.

Further information on the fair value hierarchy and the fair values of financial instruments can be found in Notes (51) Fair Value Hierarchy and (52) 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).

At present, 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 and requirements of fair value hedge accounting, derivative financial instruments at fair value used in hedging are reported as positive or negative fair values from hedge accounting (Note (29) and Note (39) Fair values from hedge accounting. The changes in valuation are shown through profit or loss (Note (19) 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 the 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 valued 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, is sold or exercised or when the hedge accounting requirements 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 2014.

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.

With regard to the scope and volume of repurchase transactions, reference is made to Note (58) Offsetting Financial Assets and Liabilities.

(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 value adjustment is calculated on the basis of the difference between the book value and the cash value of the expected future cash flow.

The stage prior to risk provision is forbearance exposures (Note 58 (Forbearance)), based on liabilities from borrowers, which are no longer capable of meeting the contractual terms and conditions due to financial difficulties or run the risk of not being able to meet the terms and conditions in the future. In order to prevent default or impairment, the Bank has decided to modify the conditions of these commitments in favour of the borrower by implementing the following measures ("forbearance measures"):

- Modification of the contractual terms and conditions
- Refinancing or restructuring
- Approval of a contractually granted option
- Lending institution's waiver of the exercise of contractually given rights

For risks that have occurred but have not yet been identified by the Bank, value adjustments are made at the portfolio level for groups of financial assets with comparable credit risks. This portfolio-based provision relating to credit rating is made on the basis of historical default probabilities and loss given defaults. In addition, the portfolio-specific LIP (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 CRR 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 Bank adjusted the parameters to market conditions accordingly during the year under report.

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 leases

There are no finance lease agreements as at reporting date.

Operating leases

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

(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 moved its staff to NORD/LB Luxembourg in financial year 2012. As part of this move, 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, on experience and, where necessary, on expert opinions or reports. Risks and uncertainties are taken into consideration in the process. 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. Due to the temporary differences, deferred tax assets and liabilities will probably lead 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 breakdown into 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 option to choose whether to pay taxes on earnings from first-time adoption in the first year of IFRS accounting or spread those 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 164bis of the Luxembourg Income Tax Law (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 of the 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.

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 organisational structures of the NORD/LB Luxembourg Group.

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.

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 segment 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.

Loans (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.

(13) Classification by business segment

KEUR	Segments		
	Financial Markets	Loans (Credit Management)	Total
Net interest income	706	7,459	8,166
ditto previous year	1,028	5,394	6,422
Loan loss provisions	-3	-29	-32
ditto previous year	27	23	49
Net interest income after loan loss provisions	703	7,430	8,133
ditto previous year	1,055	5,417	6,471
Net commission income	-1,736	-2,859	-4,595
ditto previous year	-595	781	186
Profit/loss from financial instruments at fair value through profit or loss	523	0	523
ditto previous year	272	0	272
Profit/loss from hedge accounting	4,164	0	4,164
ditto previous year	-2,347	0	-2,347
Profit/loss from financial assets	-1,801	1	-1,800
ditto previous year	1,822	0	1,822
Profit/loss from equity-accounted investments	0	0	0
ditto previous year	0	0	0
Administrative expenses	-545	-293	-839
ditto previous year	-468	-252	-721
Other income/expenses	-3,070	-1,836	-4,905
ditto previous year	-3,575	-2,003	-5,578
Earnings before taxes (EBT)	-1,761	2,443	682
ditto previous year	-3,837	3,942	105
Taxes	-136	-73	-210
ditto previous year	-4	0	-4
Earnings after taxes	-1,897	2,369	472
ditto previous year	-3,841	3,942	101

EUR million	Segments		
	Financial Markets	Loans (Credit Management)	Total
Segment assets	5,921.6	1,164.6	7,086.2
ditto previous year	5,378.5	950.5	6,329.0
Segment liabilities (incl. equity)	7,086.2	0.0	7,086.2
ditto previous year	6,329.0	0.0	6,329.0
Risk assets (annual average values)	754.5	162.7	917.2
ditto previous year	708.3	97.3	805.6
Equity commitment (basis: annual average values)	60.4	13.0	73.4
ditto previous year	56.7	7.8	64.5
CIR*	–	10.6 %	–
ditto previous year*	–	6.0 %	25.3 %
RoRaC (basis: annual average values)**	–3.0 %	18.8 %	0.9 %
ditto previous year	–6.4 %	32.9 %	0.1 %

* In the event of negative results before costs, the calculation has been omitted.

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

Additional segment information:

EUR million	Financial Markets	Loans (Credit Management)	Total
Property, plant and equipment, net	0.0	0.0	0.0
ditto previous year	0.0	0.0	0.0
Depreciation of property, plant and equipment, current year	0.0	0.0	0.0
ditto previous year	0.0	0.0	0.0
Intangible assets, net	0.0	0.0	0.0
ditto previous year	0.0	0.0	0.0
Depreciation of intangible assets, current year	0.0	0.0	0.0
ditto previous year	0.0	0.0	0.0
Increase/decrease in value adjustments on financial assets, current year	–1.2	0.0	–1.2
ditto previous year	2.3	0.0	2.3

(14) Segmentation by geographical characteristics

EUR million	Segments							Total
	Germany	Luxem- bourg	Switzer- land	Rest of Europe	USA	Rest of America	Other Countries	
Earnings before taxes (EBT)	0.2	0.1	0.0	0.2	0.1	0.0	0.0	0.7
ditto previous year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Segment assets	2,022.5	1,467.5	2.7	1,916.7	1,156.3	343.0	177.4	7,086.2
ditto previous year	1,494.9	1,418.0	18.5	1,862.5	1,032.8	313.3	188.9	6,329.0
Segment liabilities (incl. equity)	2,205.0	4,556.1	2.7	297.0	25.4	0.0	0.0	7,086.2
ditto previous year	1,439.3	4,609.8	5.1	256.8	18.0	0.0	0.0	6,329.0
Risk assets (annual average values)	261.8	190.0	0.4	248.1	149.7	44.4	23.0	917.2
ditto previous year	190.3	180.5	2.4	237.1	131.5	39.9	24.1	805.6
Equity commitment (basis: annual averages)	20.9	15.2	0.0	19.8	12.0	3.6	1.8	73.4
ditto previous year	15.2	14.4	0.2	19.0	10.5	3.2	1.9	64.5
Additional segment information:								
Property, plant and equipment, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ditto previous year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangible assets, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ditto previous year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Notes to the Income Statement

(15) 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 expense.

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

Negative interest, if there is any, is offset against the other interest income. No material negative interest was incurred during financial year 2014.

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Interest income	328,605	334,197	-2
Interest income from lending and money market transactions	52,561	50,967	3
Interest income from fixed income and book entry securities	109,036	113,296	-4
Current income	0	0	-
Interest income from hedge derivatives	167,009	169,935	-2
Other interest income and similar income	0	0	-
Interest expense	-320,439	-327,775	-2
Interest expense from lending and money market transactions	-52,368	-50,354	4
Interest expense from securitised liabilities	-39,450	-37,211	6
Interest expense from subordinated capital	-1,080	-1,852	-42
Interest expense from hedge derivatives	-227,541	-238,189	-4
Interest expense for provisions and liabilities	0	0	-
Other interest expense and similar expense	0	-169	-100
Total	8,166	6,422	27

(16) Loan loss provisions

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Income from loan loss provisions	0	49	-100
Reduction in provisions for claims	0	0	-
Reductions in portfolio-based provisions for receivables	0	49	-100
Reversal of provisions in lending business	0	0	-
Additions to receivables written off	0	0	-
Loan loss provision expense	-32	0	> 100
Allocations to provisions for claims	0	0	-
Allocation to portfolio-based provisions for claims	-32	0	> 100
Allocation to provisions in lending business	0	0	-
Direct write-offs of claims	0	0	-
Total	-32	49	< -100

(17) 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 shows 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 lending and guarantee transactions to hedge major risks and expenses from margin splitting. The other commission expenses are transaction-related and are mainly attributed to depositary fees.

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Commission income	565	1,833	-69
from security and custody transactions	0	0	-
from lending and guarantee transactions	565	1,833	-69
Other commission income	0	0	-
Commission expense	-5,160	-1,647	> 100
from security and custody transactions	-386	-363	6
from lending and guarantee transactions	-4,735	-1,250	> 100
Other commission expense	-38	-34	12
Total	-4,595	186	< -100

(18) Profit/loss from financial instruments at fair value through profit or loss

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

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

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Trading profit/loss	523	272	93
Realised profit/loss	0	0	–
Measurement gains/losses	13	382	–97
from debt securities and other fixed interest securities	0	0	–
from shares and other variable yield securities	0	0	–
from derivatives	13	382	–97
from other receivables held for trading	0	0	–
Foreign exchange profit/loss	510	–111	< –100
Other profit/loss	0	0	–
Profit/loss from fair value option	0	0	–
Total	523	272	93

(19) 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. 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.

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Profit/loss from micro fair value hedge transactions	4,164	-2,347	< -100
from hedged underlying transactions	88,993	-107,414	< -100
from derivatives used as hedging instruments	-84,829	105,067	< -100
Total	4,164	-2,347	< -100

(20) 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 from participating interests.

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Profit/loss from financial assets classified as LaR	-1,800	1,822	< -100
from debt securities and other fixed interest securities	-611	-514	19
from establishment of portfolio loss provisions	-1,189	2,335	< -100
Profit/loss from financial assets classified as AfS (no joint ownership)	0	0	0
from debt securities and other fixed interest securities	0	0	0
from own issues repurchased for price management	0	0	0
from shares and other variable yield securities	0	0	0
from other financial assets	0	0	0
Profit/loss from value adjustments for debt securities and other fixed interest securities	0	0	0
Total	-1,800	1,822	< -100

(21) Administrative expenses

The administrative expenses comprise staff expenses, other administrative expenses as well as depreciation and impairments on tangible assets and intangible assets.

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Staff expenses	0	0	> 100
Wages and salaries	0	0	–
Social security contributions	0	0	–
Expenses for pension provision	0	0	–
Other staff expenses	0	0	> 100
Other administrative expenses	–839	–721	16
Expense for operating and office equipment and IT	–137	–135	2
Legal, audit, survey and professional fees	–659	–547	20
Other administrative expenses	–43	–38	12
Depreciation and impairments	0	0	–
Depreciation of property, plant and equipment	0	0	–
Depreciation on intangible assets	0	0	–
Impairments	0	0	–
Total	–839	–721	16

(22) Other operating profit/loss

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Other operating income	368	164	> 100
from the reversal of provisions	0	0	–
Other income	368	164	> 100
Other operating expenses	–5,274	–5,742	–8
from the allocation of provisions	0	0	–
from accounting for services	–5,245	–5,723	–8
Other expenses	–29	–19	52
Total	–4,905	–5,578	–12

Other operating expenses include the reversal of accruals for accounting for services (KEUR 214, previous year KEUR 10), margin splitting (KEUR 34, previous year KEUR 18) and consultancy (KEUR 39, previous year KEUR 1) and the refund of VAT (KEUR 81, previous year KEUR 92). In addition, income was generated in the previous year from the reversal of various accrual items (KEUR 30) and the refund of wealth tax (KEUR 9).

The other operating expenses primarily comprise the costs for services received from NORD/LB (KEUR 439, previous year KEUR 728) and NORD/LB Luxembourg (KEUR 4,806, previous year KEUR 4,995). Expenses were also incurred for wealth tax (KEUR 21, previous year KEUR 0) as well as uninsured loss events (KEUR 8, previous year KEUR 19).

(23) Income taxes

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Current income taxes	-210	-4	> 100
Deferred taxes	0	0	-
Total	-210	-4	> 100

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

	2014 (KEUR)	2013 (KEUR)
IFRS Earnings before taxes (EBT)	682	105
Expected income tax expense	-199	-31
Effects of reconciliation:		
Effects due to different tax rates for taxable items	0	0
Taxes from previous years recognised in the year under report	0	17
Effects of tax rate changes	0	0
Non-allowable income taxes	0	0
Non-deductible operating expenses	-11	-8
Effects of tax-free income	0	0
Effects of permanent effects on the balance sheet	0	0
Expected income tax expense	0	18
Effects of reconciliation:	-210	-4

The expected income tax expense in the tax reconciliation is calculated from the corporate and trade tax burden applicable in Luxembourg in 2014, in the amount of 29.22 % (previous year 29.22 %).

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

(24) Cash reserve

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Cash	0.0	0.0	–
Balances with central banks	0.2	0.0	> 100
Total	0.2	0.0	> 100

At EUR 0.2 million (previous year EUR 0.0 million), balances with central banks are attributable to balances deposited at the Luxembourg Central Bank and relate to the planned minimum reserve.

(25) Loans and advances to banks

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Receivables from money market transactions	688.8	504.7	36
Luxembourg banks	205.3	108.3	90
Foreign banks	483.5	396.4	22
Other receivables	1,227.0	1,302.8	–6
Luxembourg banks	959.0	987.0	–3
due on demand	687.1	688.1	0
deferred	271.9	299.0	–9
Foreign banks	268.0	315.7	–15
due on demand	0.0	0.0	–
deferred	268.0	315.7	–15
Total	1,915.8	1,807.4	6

Of the total amount, EUR 751.5 million (previous year EUR 712.1 million) relate to loans and advances to foreign banks. A partial amount of EUR 539.9 million (previous year EUR 573.2 million) of the loans and advances to banks only becomes due after more than twelve months.

A share of EUR 483.5 million (previous year EUR 399.5 million) results from cash securities received in accordance with existing framework agreements on derivative transactions.

(26) Loans and advances to customers

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Receivables from money market transactions	9.1	5.8	57
Luxembourg customers	0.0	0.0	–
Foreign customers	9.1	5.8	57
Other receivables	1,186.6	990.3	20
Luxembourg customers	15.9	8.1	96
due on demand	0.0	0.0	–
deferred	15.9	8.1	96
Foreign customers	1,170.7	982.2	19
due on demand	0.0	0.0	–
deferred	1,170.7	982.2	19
Total	1,195.7	996.1	20

The total amount is attributed almost exclusively to loans and advances to foreign customers. Of the total amount, EUR 1,068.1 million (previous year EUR 889.0 million) is only due in more than twelve months.

(27) Risk provisions

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Individual value adjustments for receivables	0.0	0.0	–
Foreign banks	0.0	0.0	–
Luxembourg customers	0.0	0.0	–
Foreign customers	0.0	0.0	–
Portfolio-based provisions for receivables	–0.2	–0.2	17
Total	–0.2	–0.2	17

The reported risk provisions have changed as follows:

EUR million	Specific value adjustments	Portfolio-based provisions	Loan loss provisions	Total
01.01.2013	0.0	0.2	0.0	0.2
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
31.12.2013	0.0	0.2	0.0	0.2
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
31.12.2014	0.0	0.2	0.0	0.2

(28) 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.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Trading assets	36.0	45.8	-21
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:	36.0	45.8	-21
Interest rate risks	34.4	39.8	-13
Currency risks	1.6	6.1	-74
Share and other price risks	0.0	0.0	-
Trading portfolio claims	0.0	0.0	-
Financial assets designated at fair value	0.0	0.0	-
Loans and advances to banks and customers	0.0	0.0	-
Debt securities and other fixed interest securities	0.0	0.0	-
Shares and other variable yield securities	0.0	0.0	-
Total	36.0	45.8	-21

The Bank does not hold any credit derivatives or similar financial instruments in its portfolio.

Of the total amount, EUR 29.9 million (previous year EUR 44.8 million) is only due in more than twelve months.

(29) Fair values from hedge accounting

This item comprises positive fair values from hedging instruments in effective micro and portfolio fair value hedging relationships. The Bank utilises micro fair value hedge accounting to hedge interest rate and currency risks.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Positive fair values from allocated micro fair value hedge derivatives	423.5	297.9	42
Fair values from derivatives in portfolio fair value hedge accounting	0.0	0.0	–
Total	423.5	297.9	42

Hedge derivatives with a fair value of EUR 386.1 million will become due at the earliest after twelve months (previous year EUR 296.0 million).

(30) Financial assets

The financial assets balance sheet item essentially includes all the debt securities that are classified as available for sale (AfS) and loans and receivables (LaR) and are not held for trading.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Financial assets in the LaR category	2,972.4	2,787.4	7
Bonds and debt securities	2,985.2	2,798.6	7
from public issuers	1,744.7	1,624.9	7
from other issuers	1,240.4	1,173.7	6
Portfolio value adjustments on LaR financial assets	–12.8	–11.2	14
Financial assets classified as AfS	533.7	385.7	38
Bonds and debt securities	533.7	385.7	38
from public issuers	337.8	149.7	> 100
from other issuers	195.9	236.0	–17
Total	3,506.1	3,173.1	10

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 103.3 million (previous year EUR 102.6 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 2,995.5 million are only due after more than twelve months (previous year EUR 2,937.2 million).

The Bank utilised the options under IAS 39.50E and reclassified 18 AfS securities (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, but were rather 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 that 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	31.12.2014			31.12.2013			31.12.2012		
	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	631.6	595.8	645.6	580.6	508.9	645.6	644.5	510.3

EUR million	31.12.2011			31.12.2010			31.12.2009		
	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	698.4	569.7	645.6	660.3	627.9	645.6	731.4	712.1

EUR million	31.12.2008		
	Book value on transfer	Book value	Fair value
Reclassified financial assets	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 %.

In KEUR	31.12.2014	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 reclassification								-13,193.6
Pro rata reductions in accordance with IAS 39.54	327	388	433	610	703	676	316	

In the 2014 reporting year, the pro rata reduction amounted to KEUR 327 (previous year KEUR 388) 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	31.12.2014	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	-36.1	-71.9	-135.2	-128.7	-32.4	-19.3	-27.1	-13.2
Deferred taxes	10.5	21.0	39.5	37.1	9.3	5.5	8.0	3.9
Net effect in equity from reclassified financial assets available for sale	-25.6	-50.9	-95.7	-91.6	-23.1	-13.8	-19.1	-9.3

(31) Property, plant and equipment

As in the previous year, NORD/LB CFB does not have any property, plant or equipment.

(32) Intangible assets

As in the previous year, NORD/LB CFB does not have any intangible assets.

(33) Income tax assets

Income tax assets are broken down as follows:

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Current income tax assets	0.0	0.0	-
Active deferred taxes	8.8	8.7	1
Total	8.8	8.7	1

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 tax requirements have been applied to the IFRS financial statements since the 2008 reporting year. 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.

(34) Other assets

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Tax reimbursement rights from other taxes	0.0	0.0	-3
Other assets	0.3	0.1	> 100
Other assets including accruals and deferred income	0.0	0.0	-
Total	0.3	0.1	> 100

Other assets comprise accruals and deferred income.

(35) Liabilities to banks

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Deposits from other banks	543.0	792.4	-31
Luxembourg banks	140.0	579.1	-76
Foreign banks	403.0	213.3	89
Liabilities arising from money market transactions	1,623.0	1,448.8	12
Luxembourg banks	1,212.3	1,166.8	4
Foreign banks	410.7	282.1	46
Other liabilities	682.9	682.4	0
Luxembourg banks	682.8	682.4	0
due on demand	682.8	682.4	0
deferred	0.0	0.0	-
Foreign banks	0.0	0.0	> 100
due on demand	0.0	0.0	> 100
deferred	0.0	0.0	-
Total	2,848.9	2,923.6	-3

Of the total amount, EUR 457.2 million (previous year EUR 771.9 million) is attributable to liabilities which will only become due after more than twelve months.

Registered covered bonds in the sum of EUR 134.3 million (previous year EUR 108.6 million) are included in the liabilities to banks.

(36) Liabilities to customers

	31.12.2014 (EUR million)	31.12.2013 (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	991.0	692.5	43
Luxembourg customers	0.0	0.1	–65
due on demand	0.0	0.1	–65
deferred	0.0	0.0	–
Foreign customers	991.0	692.4	43
due on demand	0.0	0.0	–100
deferred	991.0	692.4	43
Total	991.0	692.5	43

EUR 991.0 million of the total amount (previous year EUR 666.9 million) shows a remaining term of more than 12 months. In both years, this balance sheet item results almost exclusively from registered covered bonds.

(37) Securitised liabilities

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Issued debt securities	2,333.3	1,979.9	18
Other securitised liabilities	0.0	0.0	–
Total	2,333.3	1,979.9	18

Of the total amount, EUR 1,820.1 million (previous year EUR 1,854.0 million) is attributable to liabilities which will only become due after more than twelve months.

The largest share (EUR 1,885.2 million, previous year EUR 1,979.9 million) of the issued debt securities are covered bonds under Luxembourg law (lettres de gage). Of this amount, EUR 1,654.8 million is listed on the Luxembourg exchange (previous year EUR 1,758.6 million). Lettres de Gage to a counter value of EUR 230.4 million are listed on the Swiss exchange (previous year EUR 221.4 million).

(38) 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 do not meet the rules 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.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Trading liabilities	34.4	41.3	-17
Negative fair values from derivatives in connection with:	34.4	41.3	-17
Interest rate risks	34.4	41.2	-16
Currency risks	0.0	0.1	-75
Share and other price risks	0.0	0.0	-
Credit derivatives	0.0	0.0	-
Short sale delivery obligations	0.0	0.0	-
Financial liabilities designated at fair value	0.0	0.0	-
Liabilities to banks and customers	0.0	0.0	-
Securitised liabilities	0.0	0.0	-
Total	34.4	41.3	-17

An amount of EUR 34.4 million of the trading liabilities will only become due after more than 12 months (previous year EUR 41.2 million).

(39) Fair values from hedge accounting

This item comprises negative fair values from hedging instruments from effective micro fair value hedging relationships. The Bank utilises micro fair value hedge accounting to hedge interest rate and currency risks.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Negative fair values from allocated micro fair value hedge derivatives	793.1	579.9	37
Total	793.1	579.9	37

Hedge derivatives with a negative fair value of EUR 782.1 million will only become due after twelve months at the earliest (previous year EUR 571.2 million).

(40) Provisions

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. There are no other provisions, as was the case in the previous year.

(41) Income tax liabilities

Due to the tax group status, with respect to paying income taxes, the Bank reports these as liabilities to the parent company and not to the tax authorities.

(42) Other liabilities

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Liabilities from outstanding invoices	0.6	0.6	-12
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	0.2	0.1	15
Liabilities on interim accounts	0.0	0.0	-
Insurance-related liabilities	0.0	0.0	-
Other liabilities	7.7	5.2	49
Total	8.4	5.9	41

The other liabilities primarily result from taxes to be paid to the parent company, NORD/LB Luxembourg, in the amount of EUR 0.2 million (previous year EUR 0.1 million) and the internal accounting for services with NORD/LB Luxembourg in the sum of EUR 4.8 million (previous year EUR 5.0 million) and guarantee commission for the guarantor NORD/LB Luxembourg at EUR 2.6 million (previous year EUR 0.0 million).

(43) Subordinated capital

Subordinated liabilities are only repaid after the claims of all senior lenders have been settled.

The expenses for subordinate liabilities amounted to KEUR 1,079.9 (previous year KEUR 1,852) in the year under report.

The existing subordinate loan was paid back to NORD/LB Luxembourg in full in financial year 2014 with the approval of the CSSF. The loan was settled at its nominal price. If it had been repaid at market conditions, an expense of KEUR 647 would have been incurred by the NORD/LB CFB.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Subordinated liabilities	0.0	29.0	-100
Profit participation capital	0.0	0.0	-
Contributions from silent partners	0.0	0.0	-
Total	0.0	29.0	-100

Other Disclosures

(44) 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:

In KEUR	Amount before taxes 2014	Income Tax effect 2014	Amount after taxes 2014	Amount before taxes 2013	Income Tax effect 2013	Amount after taxes 2013
Increase/decrease from available for sale (AFS) financial instruments	-335	98	-237	12.797	-3.739	9.058
Actuarial gains / losses for defined benefit provisions for pensions	0	0	0	0	0	0
Profit/loss recognised directly in equity	-335	98	-237	12.797	-3.739	9.058
of which attributable to the shareholders of NORD/LB Luxembourg	-335	98	-237	12.797	-3.739	9.058
of which not attributable to controlling shares	0	0	0	0	0	0

(45) Notes to the statement of changes in equity

The company's subscribed capital amounts to EUR 80 million as at 31 December 2014 (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 2013 reporting year were paid out to the shareholders (previous year KEUR 0). The individual components of equity and their development in 2013 and 2014 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 fully 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
2010	0.0	31.12.2015
2011	0.3	31.12.2016
2012	0.3	31.12.2017
2013	0.1	31.12.2018
2014	0.3	31.12.2019
Total	1.0	

(46) 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

(47) Term to maturity of financial liabilities and contingent liabilities

At 31 December 2014:

EUR million	< 1 month	1 month < 3 months	3 months < 1 year	1 year < 5 years	> 5 years	Total
Liabilities to banks	2,140.8	135.3	115.6	51.6	405.6	2,848.9
Liabilities to customers	0.0	0.0	0.0	125.6	865.5	991.0
Securitised liabilities	68.2	0.0	445.0	1,231.2	588.9	2,333.3
Financial liabilities at fair value through profit or loss (without derivatives)	0.0	0.0	0.0	0.0	0.0	0.0
Subordinated capital	0.0	0.0	0.0	0.0	0.0	0.0
Irrevocable credit commitments	5.0	9.1	13.1	196.3	115.0	338.6
Total	2,214.0	144.5	573.6	1,604.7	1,975.0	6,511.8

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
Total	2,043.9	107.1	153.3	2,143.3	1,383.3	5,830.9

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 of the above risk report. This report contains more detailed information about liquidity management, the control and measurement of the liquidity risks, reporting as well as the development in 2014 and the outlook.

(48) Book values according to valuation categories

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Assets			
Financial Assets Designated at Fair Value through Profit or Loss	459.5	343.7	34
Financial assets held for trading	459.5	343.7	34
Financial assets designated at fair value through profit or loss	0.0	0.0	–
Available for Sale Assets	533.7	385.7	38
Loans and Receivables	6,083.9	5,590.7	9
Total	7,077.1	6,320.1	12
Liabilities			
Financial Liabilities Designated at Fair Value through Profit or Loss	827.6	621.2	33
Financial liabilities held for trading	827.6	621.2	33
Financial liabilities designated at fair value through profit or loss	0.0	0.0	–
Other Liabilities	6,173.2	5,625.1	10
Total	7,000.8	6,246.3	12

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.

(49) Net results according to valuation categories

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Financial Instruments at Fair Value through Profit or Loss	–60,009	–67,982	–12
Financial Instruments Held for Trading	–60,009	–67,982	–12
Financial Instruments Designated at Fair Value through Profit or Loss	0	0	–
Available for Sale Assets	8,779	8,155	8
Loans and Receivables	150,979	157,929	–4
Other Liabilities	–92,860	–89,587	4
Total	6,889	8,515	–19

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.

(50) Impairments/reversal of impairments according to valuation categories

	2014 (KEUR)	2013 (KEUR)	Increase/ decrease (%)
Available for Sale Assets	0.0	0.0	–
Result from valuation adjustments of AfS financial assets	0.0	0.0	–
Result from direct write-down of uncollectible receivables/ Receipts on written down receivables	0.0	0.0	–
Total	0.0	0.0	–
Loans and Receivables	–1,221.4	2,384.5	< –100
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	–1,221.4	2,384.5	< –100
Result from direct write-down of uncollectible receivables/ Receipts on written down receivables	0.0	0.0	–
Total	–1,221.4	2,384.5	< –100

(51) Fair Value Hierarchy

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

31.12.2014 EUR million	Level 1 (Mark-to- Market)	Level 2 (Mark-to- Matrix)	Level 3 (Mark-to- Model)	Total
Trading assets	0.0	36.0	0.0	36.0
Interest rate risks	0.0	34.4	0.0	34.4
Currency risks	0.0	1.6	0.0	1.6
Financial assets designated at fair value	0.0	0.0	0.0	0.0
Positive fair values hedge accounting derivatives	0.0	423.5	0.0	423.5
Interest rate risks	0.0	334.1	0.0	334.1
Currency risks	0.0	89.4	0.0	89.4
Financial assets (measured at fair value)	408.3	125.4	0.0	533.7
Assets	408.3	584.9	0.0	993.2

31.12.2014 EUR million	Level 1 (Mark-to- Market)	Level 2 (Mark-to- Matrix)	Level 3 (Mark-to- Model)	Total
Trading liabilities	0.0	34.4	0.0	34.4
Interest rate risks	0.0	34.4	0.0	34.4
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	793.1	0.0	793.1
Interest rate risks	0.0	693.6	0.0	693.6
Currency risks	0.0	99.5	0.0	99.5
Liabilities	0.0	827.6	0.0	827.6

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 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
Assets	74.5	654.9	0.0	729.4
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
Liabilities	0.0	621.2	0.0	621.2

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

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
Assets	51.0	0.0	53.4	0.0	0.0	0.0
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 account- ing 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
Liabilities	0.0	0.0	0.0	0.0	0.0	0.0

The level transfer from Level 2 into Level 1 concerned two securities for which there was no market price on the reporting date.

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

Financial assets and liabilities are initially measured at market prices at the time of acquisition. There was no initial valuation at Level 3 in either 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:

31.12.2014 EUR million	Level 1 (Mark-to- Market)	Level 2 (Mark-to- Matrix)	Level 3 (Mark-to- Model)	Total
Cash reserve	0.2	0.0	0.0	0.2
Loans and advances to banks	1,170.6	556.2	205.3	1,932.1
Loans and advances to customers	9.1	137.5	1,060.3	1,206.9
Financial assets not posted at fair value	76.1	2,646.3	0.0	2,722.4
Assets	1,255.9	3,327.3	1,265.6	5,848.8
Liabilities to banks	1,420.7	0.0	1,437.9	2,858.6
Liabilities to customers	0.0	0.0	974.9	974.9
Securitised liabilities	0.0	0.0	2,340.3	2,340.3
Subordinated capital	0.0	0.0	0.0	0.0
Liabilities	1,420.8	0.0	4,753.0	6,173.8

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
Assets	1,093.4	3,250.2	917.8	5,261.4
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
Liabilities	1,380.9	0.0	4,278.6	5,659.5

(52) 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 31.12.2014	Book value 31.12.2014	Difference 31.12.2014	Fair value 31.12.2013	Book value 31.12.2013	Difference 31.12.2013
Assets	6,395.3	6,617.5	-222.3	5,658.3	5,976.4	-318.1
Cash reserve	0.2	0.2	0.0	0.0	0.0	0.0
Loans and advances to banks	1,932.1	1,915.8	16.3	1,830.8	1,807.4	23.4
Loans and advances to customers	1,206.9	1,195.7	11.2	984.5	996.1	-11.5
Risk provisions	0.0	-0.2	0.2	0.0	-0.2	0.2
Financial assets	3,256.1	3,506.1	-250.0	2,843.0	3,173.1	-330.1
Loans and advances after risk provisions	6,395.1	6,617.4	-222.3	5,658.3	5,976.4	-318.1
Liabilities	6,173.8	6,173.2	0.6	5,659.5	5,625.1	34.3
Liabilities to banks	2,858.6	2,848.9	9.8	2,928.4	2,923.6	4.8
Liabilities to customers	974.9	991.0	-16.1	692.5	692.5	0.0
Securitised liabilities	2,340.3	2,333.3	7.0	2,004.4	1,979.9	24.5
Subordinated capital	0.0	0.0	0.0	34.1	29.0	5.1

Fair values are determined using 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 decrease in hidden liabilities (before risk provisions) in the financial assets, totalling EUR 262.8 million (previous year EUR 341.3 million), is mainly due to recovery effects. As in the previous year, there are no Level 3 assets at the Bank as at 31 December 2014. The Bank has guarantees on its books which secure financial assets with hidden liabilities in the nominal sum of EUR 717.8 million (previous year EUR 783.4 million). These guarantees cover the respective nominal amount plus pro rata interest. The hidden liabilities in these commitments amount to EUR 93.6 million (previous year EUR 137.3 million). Of this amount, the guarantees received secure EUR 7.9 million (previous year EUR 56.7 million).

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

(53) Derivative financial instruments

NORD/LB CFB uses derivative financial instruments for hedging within the scope 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 31.12.2014	Nominal values 31.12.2013	Market values, positive 31.12.2014	Market values, positive 31.12.2013	Market values, negative 31.12.2014	Market values, negative 31.12.2013
Interest rate risks	7,272.2	6,477.9	368.5	240.6	728.0	562.7
Interest rate swaps	7,132.2	6,462.5	364.0	240.2	728.0	562.7
Other forward rate agreements	140.0	15.4	4.5	0.4	0.0	0.0
Currency risks	1,617.0	1,796.6	91.0	103.1	99.5	58.5
Forward exchange contracts	13.0	181.4	0.0	1.1	0.0	0.0
Currency swaps/ Interest rate-currency swaps	1,604.0	1,615.2	91.0	102.0	99.5	58.5
Total	8,889.2	8,274.5	459.5	343.7	827.5	621.2

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. 2014	31.12. 2013	31.12. 2014	31.12. 2013	31.12. 2014	31.12. 2013	31.12. 2014	31.12. 2013
Term to maturity								
up to 3 months	104.0	118.9	26.9	264.4	0.0	0.0	0.0	0.0
over 3 months and up to 1 year	413.4	166.3	306.1	18.1	0.0	0.0	0.0	0.0
over 1 year and up to 5 years	2,067.9	2,063.2	269.2	570.7	0.0	0.0	0.0	0.0
over 5 years	4,687.0	4,129.4	1,014.9	943.4	0.0	0.0	0.0	0.0
Total	7,272.2	6,477.9	1,617.0	1,796.6	0.0	0.0	0.0	0.0

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

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

EUR million	Nominal values 31.12.2014	Nominal values 31.12.2013	Market values, positive 31.12.2014	Market values, positive 31.12.2013	Market values, negative 31.12.2014	Market values, negative 31.12.2013
Banks in OECD countries	8,714.2	8,224.1	455.0	343.3	818.2	615.8
Banks outside OECD countries	0.0	0.0	0.0	0.0	0.0	0.0
Public sector entities in OECD countries	35.0	35.0	0.0	0.0	9.3	5.4
Other counterparties (including stock exchange contracts)	140.0	15.4	4.5	0.4	0.0	0.0
Total	8,889.2	8,274.5	459.5	343.7	827.5	621.2

(54) 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.

31.12.2014 EUR million	Financial Instruments Held for Trading	Financial Instruments Designated at Fair Value through Profit or Loss	Available for Sale Assets	Loans and Receivables
Portugal				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0	0.0	0.0
Corporates/Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0
Ireland				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0	0.0	82.7
Corporates/Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	82.7
Italy				
Sovereign Exposure	0.0	0.0	99.7	73.8
Financial Institutions/Insurance Companies	0.0	0.0	0.0	52.0
Corporates/Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	99.7	125.8
Hungary				
Sovereign Exposure	0.0	0.0	0.0	119.0
Financial Institutions/Insurance Companies	0.0	0.0	0.0	0.0
Corporates/Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	119.0
Spain				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0	0.0	262.6
Corporates/Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	262.6

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
Portugal				
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
Total	0.0	0.0	15.4	0.0
Ireland				
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
Total	0.0	0.0	0.0	81.8
Italy				
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
Total	0.0	0.0	80.8	112.6
Hungary				
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
Total	0.0	0.0	0.0	119.6
Spain				
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
Total	0.0	0.0	0.0	224.7

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 86.3 million (previous year EUR 101.2 million), the cumulative valuation result in the equity with regard to the abovementioned selected countries totals EUR –22.0 million (EUR –21.8 million) after tax. 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 319.3 million (previous year EUR 318.6 million). For Hungary, guarantees were provided by NORD/LB Luxembourg for EUR 100.0 million (previous year EUR 100.0 million), for Ireland EUR 61.1

million (previous year EUR 61.0 million), for Italy EUR 33.3 million (previous year EUR 32.6 million) and for Spain EUR 125.0 million (previous year EUR 125.0 million). Portfolio loss provisions total EUR 1.7 million (previous year EUR 1.0 million). The fair value of these receivables in the Loans and Receivables category totals EUR 541.8 million (previous year EUR 447.5 million).

The interest rates for the abovementioned transactions are between 0.33% and 6.59%. The individual terms of the transactions range between 2016 – 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 2013 and 2014:

31.12.2014 EUR million	Level 1	Level 2	Level 3	Total
Portugal				
Sovereign Exposure	0.0	0.0	0.0	0.0
Financial Institutions/Insurance Companies	0.0	0.0	0.0	0.0
Corporates/Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0

Italy				
Sovereign Exposure	0.0	99.7	0.0	99.7
Financial Institutions/Insurance Companies	0.0	0.0	0.0	0.0
Corporates/Other	0.0	0.0	0.0	0.0
Total	0.0	99.7	0.0	99.7

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

Italy				
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
Total	0.0	80.8	0.0	80.8

(55) 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.

(56) Underlying transactions in effective hedging relationships

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

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

The balance sheet reporting of financial instruments of the AfS category 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:

	31.12.2014 (EUR million)	31.12.2013 (EUR million)	Increase/ decrease (%)
Assets			
Loans and advances to banks	392.9	402.2	-2
Loans and advances to customers	364.3	335.8	8
Financial assets	2,966.8	2,879.5	3
Total	3,724.0	3,617.5	3
Liabilities			
Liabilities to banks	244.8	292.8	-16
Liabilities to customers	991.0	692.4	43
Securitised liabilities	2,122.2	1,762.3	20
Subordinated capital	0.0	0.0	-
Total	3,358.0	2,747.6	22

(57) NORD/LB CFB as assignor and assignee

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

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Loans and advances to banks	483.5	399.5
Loans and advances to customers	9.1	5.8
Financial instruments measured at fair value through profit or loss	0.0	0.0
Financial assets	121.7	0.0
Total	614.3	405.3

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 (53) Derivative financial instruments.

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

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Liabilities to banks	861.9	698.4
Liabilities to customers	0.0	0.0
Total	861.9	698.4

In the 2014 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.

(58) 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.

31.12.2014 (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	
Assets							
Derivatives	455.0	0.0	455.0	-300.5	0.0	-152.8	1.7
Lending transactions and repurchase agreements	0.0	0.0	0.0	-	0.0	-	0.0
Liabilities							
Derivatives	823.0	0.0	823.0	-300.5	0.0	-492.6	29.8
Lending transactions and repurchase agreements	124.0	0.0	124.0	0.0	-114.3	0.0	9.7

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	
Assets							
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
Liabilities							
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

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.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Genuine repurchase agreements as a repurchase buyer (reverse repos)	0.0	0.0
Loans and advances to banks	0.0	0.0
Loans and advances to customers	0.0	0.0
Genuine repurchase agreements as a repurchase seller (repos)	124.0	0.0
Liabilities to banks	124.0	0.0
Liabilities to customers	0.0	0.0

	31.12.2014 (EUR million)	31.12.2013 (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	121.7	0.0
Securities sold under repurchase agreements at fair value through profit or loss	0.0	0.0
Securities sold under repurchase agreements from financial assets	121.7	0.0
Securities bought under repurchase agreements	0.0	0.0

(59) 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	31.12.2014		31.12.2013	
	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	121.7	124.0	0.0	0.0
Financial assets posted at fair value	0.0	0.0	0.0	0.0
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
Total	121.7	124.0	0.0	0.0

The assets are securities placed in a repo transaction.

Other Notes

(60) Regulatory Information

The risk-weighted asset values and the regulatory equity have been based on the regulations of the IFRS since the 2008 reporting year and on the basis of the CRR since financial year 2014. A separate report will be compiled for the information to be disclosed pursuant to Section 13 of the CRR and will be published on the NORD/LB CFB website when it is finished.

Risk-weighted asset values

The Bank uses internal approaches for the purpose of determining risk.

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Risk assets	932.4	737.1
Weighted operational risks	10.6	13.8
Market risk positions	35.9	7.9
Total	978.8	758.8

Regulatory equity

	31.12.2014 (EUR million)	31.12.2013 (EUR million)
Core capital	90.7	97.8
Contributed capital	80.0	80.0
Other reserves	17.9	17.8
Remaining components	-7.2	0.0
Supplementary capital	4.0	29.0
Expected loss surplus	4.0	0.0
Mandatory convertible bond (first class supplementary capital)	0.0	0.0
Subordinate debt securities (recognisable portion) (upper tier 2 supplementary capital)	0.0	29.0
Items deductible from core and supplementary capital	0.0	0.0
Liable equity	94.6	126.8
Tier three funds	0.0	0.0
Equity capital	94.6	126.8

The objectives of equity management to ensure an adequate equity base from a quantitative and qualitative standpoint, generate a reasonable return on equity and permanently comply 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 CRR.

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

	31.12.2014	31.12.2013
Overall coefficient	9.67 %	16.71 %
Core capital ratio	9.26 %	12.89 %

The significant reduction in capital ratios is firstly due to the early repayment of a subordinate loan in the nominal sum of USD 40 million. Secondly, in contrast to the previous year, since 1 January 2014, deductions from the core capital have been undertaken for prudent valuation (EUR 1.7 million) and the negative revaluation reserve (EUR 5.5 million), due to the newly applicable CRR regulations. As a result, NORD/LB CFB's regulatory equity fell by approx. EUR 32.2 million as compared to 31 December 2013, corresponding to a decrease of 25 %.

Furthermore, the burdens from counterparty and market price risks rose by EUR 220 million, from EUR 758.8 million to EUR 978.8 million, which also contributed to a significant reduction in the ratios.

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 are implemented.

Minimum capital ratios

The Bank complied with the regulatory minimum capital ratios at all times during 2013 and 2014.

The risk-weighted assets arising from counterparty risks (as major risk drivers) increased by about EUR 195 million.

In 2014, the Bank constantly fulfilled the applicable regulatory provisions on equity and liquidity.

In response to a request by the Bank, the CSSF regulatory body granted the Bank exemption from compliance with the large risk limit for companies in the NORD/LB Group in accordance with Article 20 "Group Exemptions" of Regulation 14/01. According to regulatory methodology, there are credit risks with respect to Group companies on the reporting date in the sum of EUR 3,099.9 million (previous year EUR 2,622.9 million).

(61) Foreign currency volumes

On 31 December 2014, there were the following assets and liabilities in foreign currencies:

EUR million	USD	JPY	CHF	Other	Total
Assets					
Cash reserve	0.0	0.0	0.0	0.0	0.0
Loans and advances to banks	6.7	0.0	0.0	3.4	10.1
Loans and advances to customers	0.0	0.0	0.0	47.4	47.4
Risk provisions	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through profit or loss	-5.9	0.0	37.4	0.0	31.6
Positive fair values from hedge accounting	25.6	195.3	74.9	281.4	577.2
Financial assets	1,670.1	161.7	127.2	184.3	2,143.2
Other assets	0.0	0.0	0.0	0.0	0.0
Total	1,696.4	357.0	239.6	516.5	2,809.5
Liabilities					
Liabilities to banks	250.4	0.0	0.0	16.9	267.2
Liabilities to customers	0.0	0.0	0.0	0.0	0.0
Securitised liabilities	328.5	274.5	230.4	289.6	1,123.1
Financial liabilities at fair value through profit or loss	29.9	0.0	0.0	0.0	29.9
Negative fair values from hedge accounting	1,115.4	88.1	11.3	223.7	1,438.6
Other liabilities	0.0	0.0	0.0	0.0	0.0
Subordinated capital	0.0	0.0	0.0	0.0	0.0
Total	1,724.2	362.7	241.8	530.2	2,858.9

(62) Contingent liabilities and other obligations

	31.12.2014 (EUR million)	31.12.2013 (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	338.6	205.8
Total	338.6	205.8

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 338.6 million (previous year EUR 205.8 million).

(63) Subordinated assets

	31.12.2014 (EUR million)	31.12.2013 (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
Total	45.0	45.0

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 in accordance with former legislation.

(64) Events after the balance sheet date

There are no major financial consequences for the Bank resulting from the strong increase in the value of the Swiss franc (CHF) against the euro (EUR) in January 2015.

Apart from the changes with regard to the merger in financial year 2015, there were no significant events between the balance sheet date on 31 December 2014 and the preparation of these financial statements on 27 February 2015 by the Board of Directors.

(65) Number of employees

The Bank already fully integrated its employees into NORD/LB Luxembourg on 1 January 2012 and 01 April 2012.

(66) Auditor's fees

	2014 (KEUR)	2013 (KEUR)
Auditor's fees for:		
Auditing	97	93
Other confirmation services	81	78
Tax consultancy	0	0
Other services	0	0

No fees were paid to the auditors other than those shown in the table. The amounts are shown excluding statutory value added tax. The tax consultancy expenses were paid by the parent company of the tax group (NORD/LB Luxembourg).

(67) 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 only to establish a system to mutually secure customer deposits of the AGDL member institutes.

Since 2001, the AGDL has also been protecting customers' 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 limited liability companies, there is no obligation in the event of a loss.

Information on the Cover Pool

(68) Geographical distribution

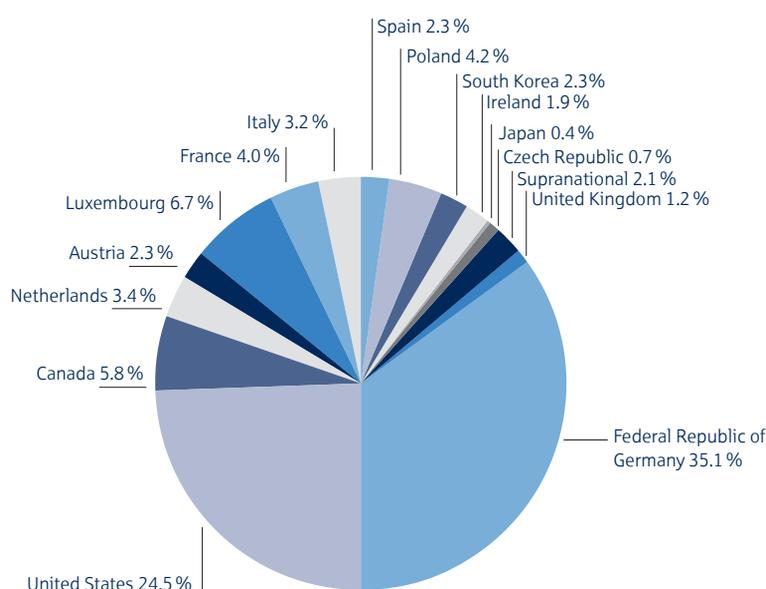
As a rule, Luxembourg covered bond legislation allows the coverage of accounts receivable from countries which belong to the OECD, the European Union and the EEA or countries with (very) good ratings from approved rating agencies.

The Bank does not have any risk positions in Estonia, Latvia, Lithuania, Greece, Iceland, Mexico or Turkey. As a re-

sult of the currently particularly difficult situation, the Bank is not planning any new commitments in these countries either.

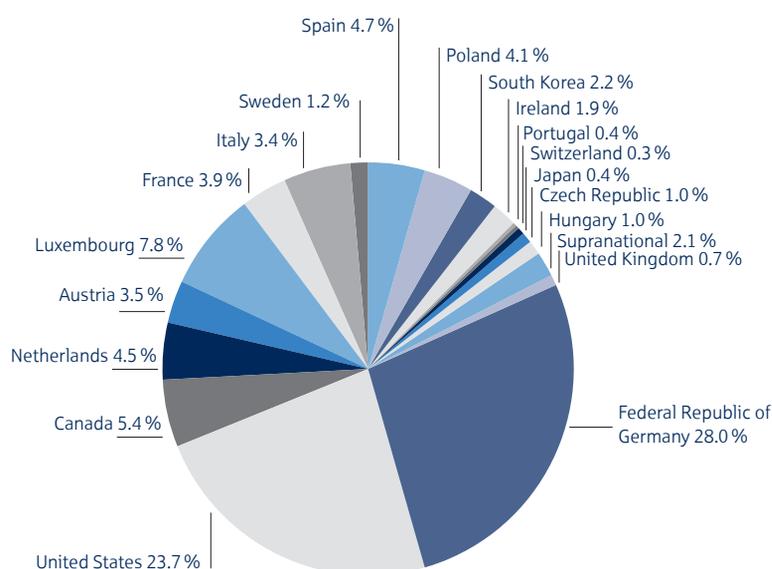
Nor will the Bank be transacting any business in Eastern Europe, Ireland or the USA until further notice. A continuation of investment in these countries will depend on the future development of the economic situation of the individual economies. Geographically, the cover pool at NORD/LB CFB is diversified over 15 (previous year 20) different OECD countries and two international organisations.

As of the reporting date on 31 December 2014



Region	in %
Europe	67.0
North America	30.3
Asia	2.7
Oceania	0.0

As of the reporting date on 31 December 2013

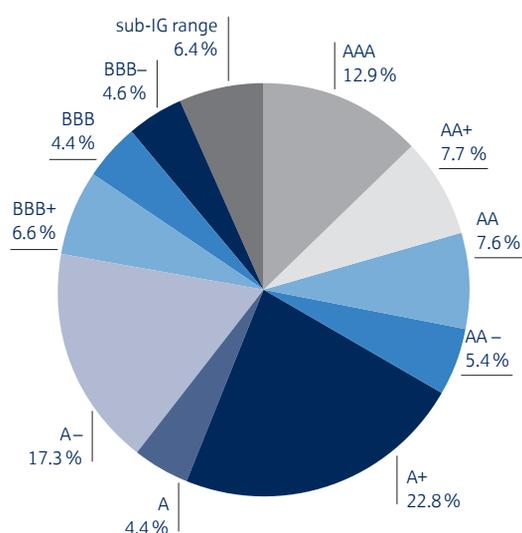


Region	in %
Europe	68.3
North America	29.2
Asia	2.5
Oceania	0.0

(69) Credit rating structure

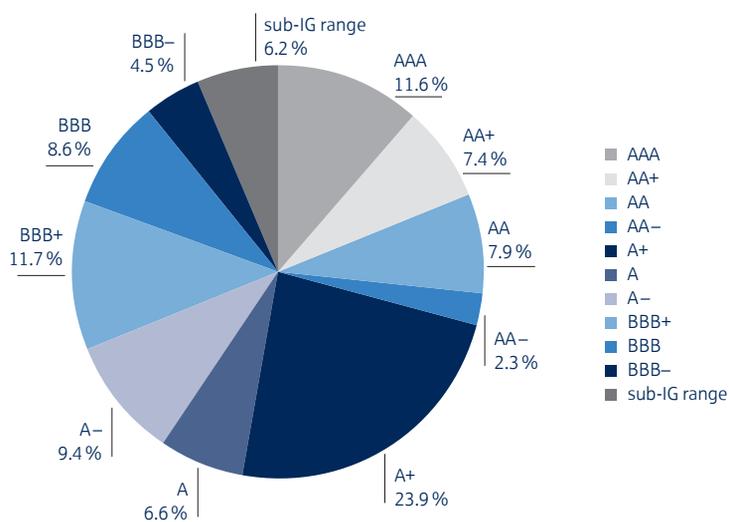
The structure of the cover pool according to credit rating is as follows:

As of the reporting date on 31 December 2014



Rating	in %	in %	in %
AAA	12.9		
AA	20.7		33.6
A	44.4	78.0	
BBB	15.6		
sub-IG range	6.4		

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		

(70) 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)	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Total	4,048.0	4,108.0	3,193.5	3,183.0	854.5	925.0

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

Related Parties

(71) 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. In financial year 2014, the existing subordinate loan was paid back to NORD/LB Luxembourg in full and a counter promissory note loan was returned to NORD/LB Luxembourg. Both transactions were settled at the nominal price. If they had been repaid at market conditions, an income of KEUR 2,639 would have been incurred by NORD/LB CFB, which would have been a corresponding expense for NORD/LB Luxembourg. No guarantee commission was charged in the year under report for guarantees received from shareholders for a partial portfolio (nominal volume EUR 138.5 million, previous year EUR 1,305.8 million). At normal market conditions, the guarantee commission would have been between 0.03 % p.a. and 0.34375 % p.a. (previous year 0.03 % p.a. and 0.788 % p.a.).

The scope of transactions with related companies and persons in 2014 and 2013 can be seen in the following lists. Changes in the group of related companies and persons necessitate adjustments of the previous year's figures where necessary:

At 31 December 2014:

In KEUR	Shareholders	Persons in key functions	Other related parties
Outstanding loans and advances			
to banks	1,164,317	0	33,900
to customers	0	0	0
Trading and hedging derivatives on assets side	178,496		246,547
Other assets	0	0	5
Total assets	1,342,812	0	280,451
Outstanding liabilities			
to banks	2,035,220	0	322,250
to customers	0	0	0
Securitised liabilities	636,117	0	453,115
Trading and hedging derivatives on liabilities side	102,474	0	231,371
Other liabilities	7,658	0	303
Total equity and liabilities	2,781,469	0	1,007,037

In KEUR	Shareholders	Persons in key functions	Other related parties
Guarantees/sureties granted	0	0	0
Interest expense	-109,611	0	-53,232
Interest income	110,817	0	47,761
Commission expense	-2,648	0	-2,087
Commission income	0	0	0
Other income and expense	-24,807	-31	24,379
Total contributions to income	-26,248	-31	16,820

The Bank has transferred a total of KEUR 5,180 (previous year KEUR 5,723) to NORD/LB Luxembourg and NORD/LB for services rendered with regard to personnel, use of buildings and other material costs.

At 31 December 2013:

In 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
Total assets	1,267,701	0	152,028
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
Total equity and liabilities	3,178,387	0	449,384
Guarantees / sureties granted	0	0	0
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
Total contributions to income	-74,671	-31	9,043

All payments and loans to executive bodies in accordance with the provisions relating to trade are set out in Note (73) Remuneration of and loans to executive bodies.

(72) Members of executive bodies and their positions

Members of the Board of Directors

- Christian Veit, Luxemburg (Chairman)
- Thorsten Schmidt, Irrel (Deputy Chairman)

Supervisory Board

- Dr. Gunter Dunkel, Chairman of the Board of Directors of Norddeutschen Landesbank Girozentrale, Hannover (Chairman)
- Ulrike Brouzi, Member of the Board of Directors of Norddeutschen Landesbank Girozentrale, Hannover
- Thomas S. Bürkle, Member of the Board of Directors of Norddeutschen Landesbank Girozentrale, Hannover (as of 1 March 2014)
- Walter Kleine, Chairman of the Board of Directors of Sparkasse Hannover, Hannover
- Dr. Johannes-Jörg Riegler, Deputy Chairman of the Board of Directors of Norddeutschen Landesbank Girozentrale, Hannover (until 28 February 2014)
- Christoph Schulz, Member of the Board of Directors of Norddeutschen Landesbank Girozentrale, Hannover

Positions

During the financial year the following positions were held by the members of the Board of Directors of NORD/LB CFB:

Christian Veit

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

Thorsten Schmidt

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

(73) Remuneration of and loans to executive bodies

	2014 (in KEUR)	2013 (in KEUR)
Payments to active executive body members	31	31
Extended management *	0	0
Supervisory Board	31	31
Payments to active executive body members	0	0
Pension obligations	0	0
Advances, loans and liabilities	0	0

* Board of Directors and senior staff



NORD/LB Covered Finance Bank S.A.

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, 27 February 2015
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.



Report of the Réviseur d'Entreprises agréé

To the Shareholders of
NORD/LB Covered Finance Bank S.A.
7, rue Lou Hemmer
L-1748 Luxembourg-Findel

Report on the consolidated financial statements

Following our appointment by the Board of Directors of NORD/LB Covered Finance Bank S.A. dated June, 27th, 2014, we have audited the accompanying financial statements of NORD/LB Covered Finance Bank S.A., which comprise the statement of financial position as at December 31st, 2014, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of NORD/LB Covered Finance Bank S.A. as of December 31st, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

Without qualifying our opinion, we draw attention to the remarks in note 52 "Fair Value of financial instruments" to the financial statements. There is stated that the portfolio of financial fixed assets contains financial instruments with a carrying value of EUR 3,506 m (preceding year: EUR 3,173 m) whose fair value amount to EUR 3.256 m (preceding year: EUR 2.843 m). The bank received guarantees which partially cover the financial instruments with hidden encumbrances.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the financial statements.

Luxembourg, February 27th, 2015

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

H. Thönes T. Feld

Disclaimer:

This translation was drawn up for information purposes only. In case of discrepancies between the German and the English text, the German text shall prevail.



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 2014 reporting year.

The financial statements of NORD/LB CFB for the 2014 reporting year were audited by KPMG Luxembourg Société coopérative, 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 13 March 2015 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, the Supervisory Board 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. Among other issues, this included dealing extensively with the strategic realignment and the merger of the two banks Norddeutsche Landesbank Luxembourg S.A. and NORD/LB Covered Finance Bank S.A., which is scheduled for 2015.

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

At its meeting on 13 March 2015, the Supervisory Board approved the management report and the financial statements as at 31 December 2014, which are therefore formally approved.

The Supervisory Board proposes to the general meeting to approve the actions of the Board of Directors and to allocate the profit from the 2014 reporting year to profit carried forward.

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 2014.

Luxembourg
March 2015

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

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Supervision

Commission de Surveillance du Secteur Financier

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