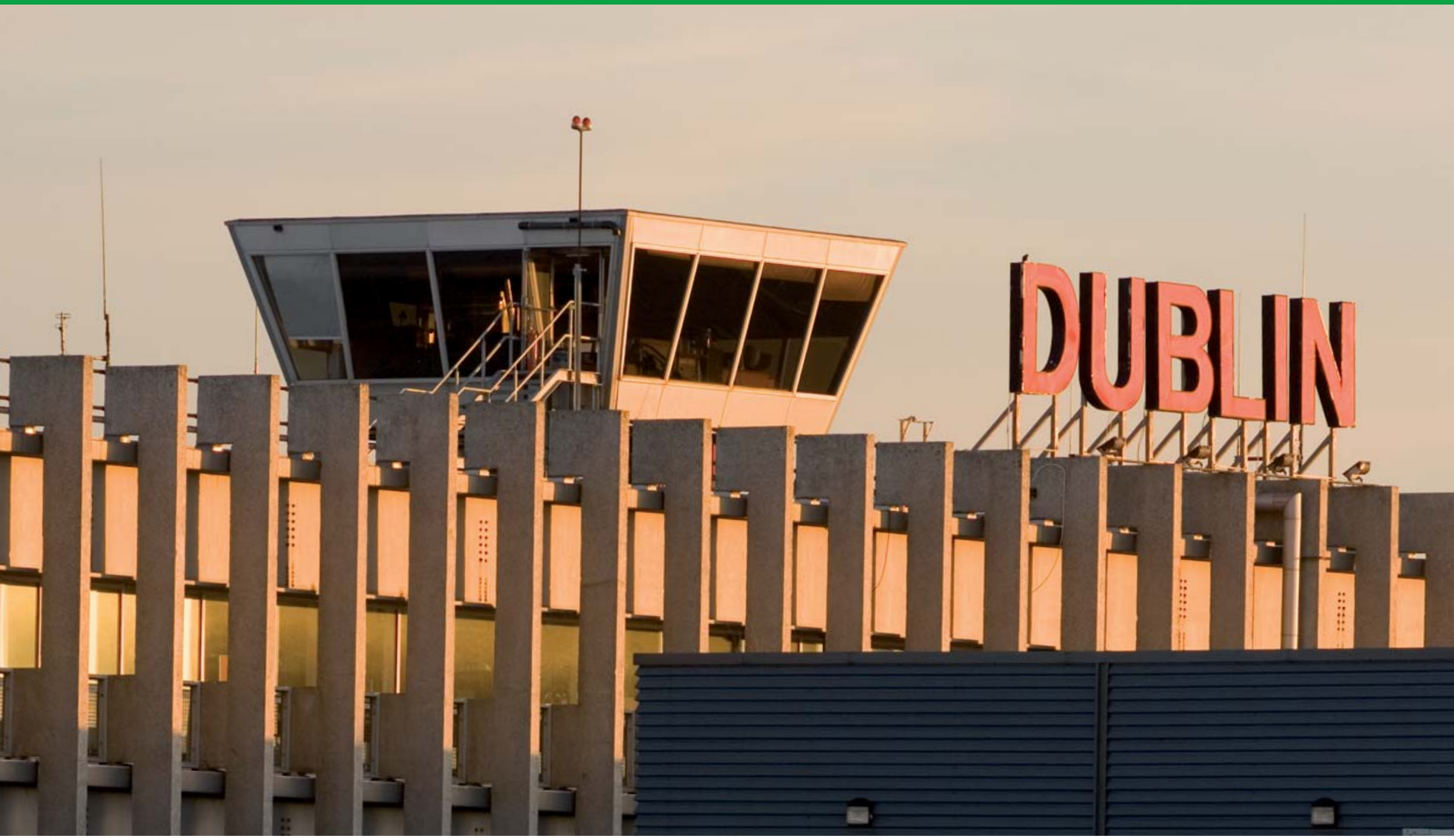
Annual Report 2006



On the right Track.

Sachsen LB Europe plc

International Banking Solutions

Total Assets	4,496.6 Mio €
Net Interest Income	16.2 Mio €
Fee Income	48.6 Mio €
Profit on Ordinary Activities before ta x	54.9 Mio €
Profit at year end (after tax)	47.9 Mio €
Capital	197.0 Mio €
Employees (as of 31 December 2006)	50

Current Ratings of Sachsen LB Europe plc

(as of January 2007)

Standard & Poor's:

Long Term Counterparty rating:	BBB +
Short Term Counterparty rating:	A – 2
Outlook:	Stable

Moody's:

Long Term Counterparty rating:	A1
Short Term Counterparty rating:	Prime –1
Outlook:	Stable

Fitch:

Long Term Counterparty rating:	A+
Short Term Counterparty rating:	F1+
Support rating:	1
Outlook:	Stable

Annual Report 2006

Sachsen LB Europe plc

Directors' Report and Financial Statements

Year Ended 31 December 2006

Contents

Directors and other Information

Board of Directors at 31 December 2006

Mr Stefan Leusder	(German)	(Chairman)
Mr Sven Petersen	(German)	(Managing Director)
Mr Morgan O'Sullivan		(Managing Director)
Mr Herbert Süß	(German)	
Ms Elaine Hanly		
Mr Patrick Diamond		
Mr John Hogan		

Secretary and Registered Office

AIB International Financial Services Limited
9th Floor – Block A
1 Georges Quay Plaza
Georges Quay, Dublin 2

Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Georges Quay, Dublin 2

Solicitors

William Fry
Fitzwilton House
Wilton Place
Dublin 2

Bankers

AIB International Banking Services
Ashford House
P O Box 518
Tara Street
Dublin 2

Landesbank Sachsen Girozentrale
Humboldtstrasse 25
04105 Leipzig
Germany

Report of the Directors

The directors present their annual report and the audited financial statements of Sachsen LB Europe plc for the year ended 31 December 2006.

Review of business 2006 and future developments for 2007

It was the sixth successful year for the bank, delivering a strong performance for the fiscal year with a profit before tax of EUR 54.9 million, despite tough market conditions. The balance sheet has reduced in comparison to the previous year reflecting maturities in the portfolio and active management of assets to enhance the overall risk profile of the portfolio; 31 December 2006 the balance sheet was EUR 4.5 billion. The performance of the bank was again underpinned by the continuing contribution made by staff during a challenging year for Sachsen LB Europe plc, and we wish to thank each member of staff for their continued support and loyalty to the company.

The quality of the credit portfolio held in Dublin continues to be of the highest level, and continues to reflect the risk adverse nature of the bank. At the 31st December 2006, the international credit portfolio comprised of debt securities, loans and credit default swaps, the portfolio is almost entirely rated investment grade with just over 65% rated AAA, and less than 0.44% either non-rated or below investment grade. The majority of credit portfolio exposure is to Euroland, and mainly denominated in EUR or USD. The company's capitalisation remained above minimum requirements with a Total capital ratio of 14.38%.

The effect of the higher spreads from structured credit products is evident in the increase in Net interest income. Fees in relation to third party asset management increased to EUR 32 million (EUR 22m 2005) reflecting the volume of assets managed. The cost income ratio for 2006 was 16% compared to 18% in the previous year. The net effect of fair value movements to the Profit and Loss was negative EUR 350 k.

The credit markets in 2006 saw the continuation of tightening spreads across nearly all sectors, there was some unrest in the US housing market, particularly in the BBB/BB part of the various structures where there has been significant unrest and widening, evident in the early 2007 widening in the underlying derivative indices. As an investor in high grade ABS this will not affect our investments and in general ABS should continue to exhibit stability in the high grades however the market continues to exhibit concern lower down the capital structure. Interest rates continue to steadily increase as the European Central Bank continue to be vigilant on the macro-economic factors within the EU, with expectations for possibly two to three rate hikes in 2007. Overall, we believe spreads have possibly reached their tightest for the current cycle. There has been some spread softening, and we do not rule out the possibility that spreads may retrace some of the lost ground but we expect spreads to remain in a narrow range without much volatility until the end of this year.

Mr. Morgan O'Sullivan was appointed Managing Director (Front Office) on the 15th December 2006, replacing Mr. Adrian Fitzgibbon. Mr. O'Sullivan had been acting as Deputy Managing Director since the beginning of August 2006 and previous to this was Head of Asset Management /Sales. Mr. O'Sullivan has been with the bank since December 2001 and prior to joining SLBE was a vice president at Greenwich Capital Markets, USA. Mr. O'Sullivan has a wealth of capital markets knowledge and shall help develop and grow the bank over the coming years.

The average number of employees in 2006 was 50 (46 in 2005). There was some turnover at various levels in management within the bank during the year, however with efficient succession planning the replacement candidates have more than adequately filled those gaps, which is evident by the strong figures for 2006. During the coming year a separate and distinct middle office function shall be created to enhance existing operations and maintain the integrity of the information flow within the bank. It is expected staff turnover will be limited for 2007 with scope for additional members of staff within Front, Middle and Back office functions.

SLBE have established a trading platform within the bank during 2006, it is intended that this platform shall increase and diversify the revenue stream for the bank, the first trades have been executed by the bank early 07, this area shall be further developed in the coming months. With innovative structured credit products SLBE shall in the coming months place more emphasis on its role as a solutions provider for third parties, providing a range of services including asset management, structuring agent, credit analysis, agency services and risk monitor.

It is the directors' expectation that the business will develop along lines consistent with previous experience. Operating within a benign credit environment, the transition from Irish GAAP to IFRS and implementation of Basel II, and a relatively liquid job market in financial services, the year ahead shall be a challenging one for the bank. Through a combination of research and development of new opportunities in the market, increased focus on the development and motivation of staff, and increasing our product offering to third parties we shall continue to grow the earnings of the bank for the future. Given the exceptional calibre of personnel in the company and their continued loyalty we shall be well positioned in meeting those challenges going forward.

There was a capital contribution of € 50 mn made in January 2006. There were no significant changes in the principal activities of the company and there were no important events affecting the company since the year end.

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable Irish law and Generally Accepted Accounting Practice in Ireland including the accounting standards issued by the Accounting Standards Board and published by The Institute of Chartered Accountants in Ireland.

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank and of the profit or loss of the bank for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the bank will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the bank and enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and to comply with Irish statute comprising the Companies Acts 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations 1992. They are also responsible for safeguarding the assets of the bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern and books of account

The directors are satisfied that the bank has adequate resources to continue in business for the foreseeable future.

The measures taken by the directors to secure compliance with the company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are held at the bank's registered office.

Principal activities

Sachsen LB Europe plc engage in wholesale banking activities. The bank also generates fee income which is principally derived from third party asset management fees.

The bank is a wholly owned subsidiary of Landesbank Sachsen Girozentrale, Leipzig, a company incorporated in Germany. The purpose of the bank is to engage in banking activities. The main focus is to provide credit facilities to corporate customers, banks, public sector institutions and sovereign borrowers on a global basis.

Legal form

The legal form of the bank is that of a public limited company. Sachsen LB Europe plc benefits from a strong "letter of comfort" issued by Landesbank Sachsen Girozentrale, Leipzig. This letter states, that the parent company will always ensure that the Irish subsidiary will be managed and funded in such a way that it is able to meet all its liabilities as they fall due.

Results for the year and state of affairs at 31 December 2006

The profit and loss account and balance sheet for the year ended 31 December 2006 are set out on pages 8 and 9, shareholder's funds amounted to EUR'000 196,958 (2005: EUR'000 142,833). Profit after taxation for the year amounted to EUR'000 47,931 (2005: EUR'000 44,240).

Dividends and retentions

Dividends paid for the year 2006 amount to EUR'000 47,000 (2005: EUR'000 57,500).

Directors

The names of the persons who were directors at any time during the year ended 31 December 2006, or before the date of signing the accounts are set out below. Except as indicated they served as directors for the entire year.

Mr Stefan Leusder	(German)	(Chairman)	
Mr. Sven Petersen	(German)	(Managing Director)	
Morgan O'Sullivan		(Managing Director)	Appointed 15/12/06
Mr Claus-Harald Wilsing	(German)		Resigned 31/07/06
Mr Adrian Fitzgibbon			Resigned 31/07/06
Mr Herbert Süß	(German)		
Ms Elaine Hanly			
Mr Patrick Diamond			
Mr John Hogan			

Changes in directors during the year

During the year Mr Claus-Harald Wilsing and Mr Adrian Fitzgibbon resigned as directors of Sachsen LB Europe plc. Mr Morgan O'Sullivan was appointed Managing Director effective 15 December 2006.

Directors' and secretary's interests

The directors and secretary of Sachsen LB Europe plc who held office at 31 December 2006, and their families, had no beneficial interest in the issued shares of Sachsen LB, Leipzig, or other companies in the Sachsen LB Group apart from Sachsen LB Europe plc.

Directors' interests in shares

The following directors held a non - beneficial interest in the ordinary shares of EUR1 each in Sachsen LB Europe plc at 31 December 2006:

	31 December 2006 Number of shares
Mr Stefan Leusder	1
Mr Sven Petersen	1
Mr Morgan O'Sullivan	1
Mr Herbert Süß	1

Auditors

In accordance with Section 160(2) of the Companies Act 1963, PricewaterhouseCoopers have indicated their willingness to continue in office.

On behalf of the board

Sven Petersen	(Director)
Morgan O' Sullivan	(Director)
Stefan Leusder	(Director)
AIB International Financial Services Ltd.	(Company Secretary)

Date: 1 March 2007

The maintenance and integrity of the Sachsen LB Europe plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.


SAMSKIP PIONE
St. JOHN's
IMO 9322566

Independent auditors' report to the shareholders of Sachsen LB Europe plc

We have audited the financial statements of Sachsen LB Europe plc for the year ended 31 December 2006 which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable Irish law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) are set out in the statement of directors' responsibilities in the directors' report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account;
- whether the directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the company to convene an extraordinary general meeting – such a financial situation may exist if the net assets of the company, as stated in the balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the company’s state of affairs as at 31 December 2006 and of its profit and cashflows for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts, 1963 to 2006 and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the directors’ report is consistent with the financial statements.

The net assets of the company as stated in the balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2006 a financial situation which, under section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors, Dublin

1 March 2007

Profit and Loss Account
Year Ended 31 December 2006

in EUR'000	Notes	2006	2005
Interest receivable and similar income		196,967	192,341
Interest payable and similar charges		(180,747)	(181,178)
Net Interest Income		16,220	11,163
Fee income		43,407	38,582
Other operating income/(expense)	3	5,878	12,052
Administrative expenses	4	(10,213)	(10,758)
Depreciation	5	(406)	(460)
Profit on ordinary activities before tax	5	54,886	50,579
Tax on profit on ordinary activities	6	(6,955)	(6,339)
Profit on ordinary activities after tax		**47,931**	**44,240**

The notes on pages 18 to 43 form part of these financial statements. Income and expenditure arose solely on continuing operations.

Statement of total Recognised Gains and Losses
Year Ended 31 December 2006

in EUR'000		2006	2005
Profit for the financial year		47,931	44,240
Transition adjustment		–	36,041
Net gains/(losses) on available for sale investments, net of tax, not recognised in the profit and loss account	23	1,693	(14,454)
Total recognised gains for the year		**49,624**	**65,827**

On behalf of the board

Sven Petersen	(Director)
Morgan O' Sullivan	(Director)
Stefan Leusder	(Director)
AIB International Financial Services Ltd.	(Company Secretary)

Balance Sheet
31 December 2006

in EUR'000	Notes	2006	2005
Assets			
Cash and bank balances with Central Bank of Ireland		354	337
Loans and advances to banks	8	764,947	994,619
Loans and advances to customers	9	311,125	502,988
Financial assets at fair value through profit & loss	10	930,592	181,903
Derivative financial instruments	11	58,221	52,572
Available-for-sale securities	12	2,325,041	3,058,571
Tangible fixed assets	13	1,456	1,580
Equity shares	14	3,252	502
Other assets	15	101,606	97,381
Total assets		**4,496,594**	**4,890,453**
Liabilities			
Deposits by banks	16	2,234,878	2,532,669
Deposits by customers	17	159,995	166,068
Derivative financial instruments	11	300,585	553,081
Financial liabilities at fair value through profit & loss	18	47	15,893
Debt securities in issue	19	1,509,068	1,385,444
Accruals and deferred income		90,621	88,283
Other liabilities 20		4,442	6,182
		4,299,636	4,747,620
Shareholders' funds			
Called up share capital	21	6,349	6,349
Capital contribution	22	150,000	100,000
Profit and loss account		36,956	36,025
Other Reserves	23	3,653	459
Shareholders' funds – equity interests		196,958	142,833
Total liabilities and shareholders' funds		**4,496,594**	**4,890,453**

The notes on pages 18 to 43 form part of these financial statements.

On behalf of the board

Sven Petersen	(Director)
Morgan O' Sullivan	(Director)
Stefan Leusder	(Director)
AIB International Financial Services Ltd.	(Company Secretary)

Reconcilation of Shareholders Funds

in EUR'000	Share Capital	Capital Contribution	Available-for-sale	Retained Earnings reserve	Total
At 31 December 2005	6,349	100,000	459	36,025	142,833
Net change in available for sale investments, net of tax	–	–	3,194	–	3,194
Net profit for the financial year	–	–	–	47,931	47,931
Dividend paid in year	–	–	–	(47,000)	(47,000)
Capital Contribution	–	50,000	–	–	50,000
At 31 December 2006	**6,349**	**150,000**	**3,653**	**36,956**	**196,958**

The notes on pages 18 to 43 form part of these financial statements.

Cashflow Statement Year Ended 31 December 2006

in EUR'000	2006	2005
Net inflow/(outflow) from operating activities (note 32)	138,944	591,025
Returns on investments and servicing of finance	–	–
Taxation	(8,081)	(6,939)
Capital expenditure and financial investment (note 33)	34,582	(513,908)
	165,445	70,178
Equity dividends paid	(47,000)	(57,500)
	118,445	12,678
Financing	50,000	–
Increase/(decrease) in cash	**168,445**	**12,678**

Reconciliation of Cash and Cash Equivalents

in EUR'000	31 December 2005	Cashflow	31 December 2006
Cash and bank balances Central Bank of Ireland	337	17	354
Loans and advances to other banks payable on demand	17,551	168,428	185,979
	17,888	**168,445**	**186,333**

Notes to the Financial Statements

1 Accounting policies

Basis of preparation

The accounts have been prepared under the historical cost convention, as modified by the revaluation of available- for-sale financial assets, financial assets and liabilities held at their fair value through the profit and loss account and all derivative contracts. The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland, and Statements of Recommended Practice issued by the British Banker's Association and Irish Banker's Federation and Irish statute comprising the Companies Acts 1963 to 2006, and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board (Generally Accepted Accounting Practice in Ireland.)

Foreign currencies

(a) Functional and presentation currency
The financial statements are presented in euro, denoted by the symbol "EUR", which is the company's functional and presentation currency.

(b) Transactions and balances
Assets and liabilities denominated in non-euro currencies are translated into euro at the appropriate spot or forward rates of exchange ruling at the balance sheet date. Translation differences arising from the application of year-end rates of exchange are recognised in the profit and loss account.

Taxation

Corporation tax is provided on taxable profits at the current rates applicable to the company's activities.

Deferred tax

Deferred tax is provided on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are temporary differences between profits as computed for tax purposes and profits as stated in the financial statements which arise because certain items of income and expenditure in the financial statements are dealt with in different years for tax purposes.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

Interest Income and Expense

Interest income and expense are recognised in the profit & loss account for all interest bearing financial instruments using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest element of all derivative financial instruments is included in net interest income. Interest on financial assets and financial liabilities at fair value through the profit and loss is included in net interest income. Other gains arising from changes in fair value are included in other operating income/expense as marked to market gains/losses.

Fees and Commissions

Fees and commissions received for services which are not an integral part of the effective interest rate are recognised on an accruals basis when the service has been provided.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Financial Assets

Financial assets are classified in the following categories: financial assets at fair value through the profit or loss; loans and receivables; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(a) Financial Assets at fair value through the profit or loss
This category refers to assets designated as fair value through the profit or loss at inception.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(c) Available for sale
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through the profit or loss and available for sale are recognised on the settlement date. Financial assets at fair value through the profit and loss account are initially recognised at fair value with transaction costs being taken to the profit & loss account. Other financial assets are initially recognised at fair value plus transaction costs.

Available-for-sale financial assets and financial assets at fair value through the profit and loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of financial assets at fair value through profit and loss category are included in the profit and loss account in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly to equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognised in equity should be recognized in profit or loss. However, interest calculated using the effective interest rate method is recognized in the profit & loss account.

The fair values of financial instruments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) fair values are established by using valuation techniques. These include the use of recent arms length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. If an equity instrument does not have a quoted market price in an active market and the fair value cannot be reliably measured, such an unquoted equity instrument is recorded at cost.

Impairment of financial assets

(a) Assets carried at amortised cost

The company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the company about the following loss events:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the company granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties.

The company first assesses whether objective evidence of impairment exists individually for financial assets. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the company to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the profit and loss account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit and loss account.

(b) Assets carried at fair value

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In addition to the factors set out above a significant and prolonged decline in the fair value of the asset below its cost is considered in determining whether an impairment loss has been incurred. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss account, the impairment loss is reversed through the profit and loss account.

Financial liabilities

Financial liabilities are initially recognised at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently measured at either amortised cost or fair value through the profit and loss. For liabilities subsequently carried at amortised cost, any difference between the proceeds net of transaction costs and the redemption value is recognised in the profit and loss account using the effective interest method. A financial liability may be designated at fair value through the profit and loss account only when

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognising the gains and losses on them on a different basis;
- the financial instrument is a hybrid contract that contains one or more embedded derivatives which significantly modifies the cash flows that otherwise would be required by the contract; or
- a group of financial assets, financial liabilities, or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy.

Depreciation

Depreciation of tangible fixed assets is set out below:

Straight line basis over estimated useful lives:

Computers . . . . .4 years

Computer software . . . . .3 – 5 years

Furniture and fittings . . . . .10 years

Leasehold premises . . . . .25 years

And on a reducing balance basis:

Motor Vehicles 25%

Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit and loss account.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Derivatives are entered into by the bank for the purposes of hedging the fair value of recognised assets or liabilities (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The company also documents its assessment , both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item for which the effective interest rate method is used is amortised to the profit and loss over the period to maturity.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative that does not qualify for hedge accounting are recognised immediately in the profit and loss account.

2 Risk management and control

The company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk, liquidity risk and operational risk. The company's overall risk management programme focuses on the volatility of financial markets and seeks to minimise potential adverse affects on the company's financial performance. The company uses derivative instruments to hedge certain risk exposures.

Risk management is carried out by management under policies, limits and criteria approved by the directors. The directors provide written principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

On the asset side Sachsen LB Europe plc's goal is to achieve wide access to the bond and loan markets in order to increase its asset management activities. The investment policy is stringent and is composed almost entirely of investment grade paper. In principle, Sachsen LB Europe plc is a 'buy and hold' investor and therefore securities are generally held until final maturity. However, in some individual cases, it may be necessary to sell prior to this (change in credit quality, limit considerations, mergers/acquisitions etc.).

(a) Credit risk

The bank takes on exposure to credit risk, which is the risk that a counterparty/issuer will be unable to pay amounts in full when due. Regular reviews of risk concentrations, including those to individual counterparties, rating profiles, countries and geographic regions are undertaken by the Management and reported to the Board of Directors. The company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review. A sectoral analysis of the company's assets is shown in the table below

in EUR'000	2006	2005
Bank	1,528,599	1,797,078
Asset-backed securities	869,100	429,545
Corporate	183,746	247,204
Sovereign	1,890,616	2,393,443
Credit default swaps – Bank	294	1,004
Credit default swaps – Corporate	374	909
Credit default swaps – Sovereign	12,103	10,617
Other	11,762	10,653
Total	**4,496,594**	**4,890,453**

The quality of the credit portfolio held is of the highest level, and continues to reflect the risk adverse nature of the bank. The portfolio is almost entirely rated investment grade with just over 65% rated AAA to AA-, and less than 1% either non-rated or below investment grade. The majority of credit portfolio exposure is to Euro-land, and mainly denominated in EUR or USD.

(b) Market risk

Market risk is the potential adverse change in income or the value of net worth arising from movements in interest rates, exchange rates or other market prices. The company recognises that the effective management of market risk is essential to the maintenance of stable earnings, the preservation of shareholder value and the achievement of the company's objectives.

The company's exposure to market risk is governed by policy approved by the directors. This sets out the nature of risk which may be taken, the types of financial instruments which may be used to increase or reduce risk and the way in which risk is controlled. In line with this policy, the directors approve aggregate risk limits and receive regular reports of compliance with these limits.

- Interest Rate Risk

  The Bank's policy is to avoid general interest rate risk. The Bank borrows at both fixed and floating interest rates and uses interest rate swaps to manage its interest rate exposure. Interest rate risk is actively managed and economically macro-hedged by the Treasury Department. Interest rate risk is monitored by the Risk Controlling Department who estimate the overnight risk potential across the bank's positions. Group policy is to estimate the risk potential by calculating a VaR (1 day, 95%) equivalent shift using the sensitivity approach and based on observed data. As at year end the equivalent shift applied was a 6bp upward parallel shift. The highest overnight risk potential during the year was EUR 615,286 and the lowest was EUR 308,610.

• Currency Risk

It is the Bank's policy to hedge all currency positions so as to ensure that no material currency exposures exist. As a result of taking into account the effect of funding, currency swaps, forward contracts and other financial instruments that contribute to the matching of currency exposures, there are no material currency exposures in the Bank's balance sheet as at 31 December 2006. The majority of assets purchased are EUR denominated. Currency risk is monitored by the Risk Controlling Department who estimate the overnight risk potential due to currency movements by applying a standard exchange rate shift scenario of 1% adverse movement based on observed historic data. The table at note 27 below summaries the Group's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

The total market risk is limited with the limit being assigned by the Board of Directors to cover the combined interest rate risk and currency risk. Stress testing of the at risk exposures is performed regularly.

(c) Liquidity risk

It is a primary policy of the Bank to ensure that resources are available at all times to meet the Bank's obligations. The development and implementation of this policy is the responsibility of the Board of Directors. The day-to-day management of liquidity is the responsibility of the company's management.

(d) Operational risk

The Bank operates such measures of risk identification, assessment, monitoring and management as are necessary to ensure that Operational Risk management is consistent with the approach, aims and strategic goals of the Bank.

3 Other operating income/(expense)

in EUR'000	2006	2005
Foreign exchange gains / (losses)	(166)	373
Mark-to-market gains/(losses)		
– Financial instruments at fair value through profit and loss	4,437	1,459
– Derivatives	(4,641)	2,055
Credit Default Swap income	5,171	4,973
Gain on sale of securities	1,223	3,202
Other income/(expense)	(146)	(10)
	5,878	**12,052**

'Foreign exchange' income includes gains and losses from spot and forward contracts and translated foreign currency assets and liabilities.

4 Administrative expenses

in EUR'000	2006	2005
Staff costs:		
– wages and salaries	5,115	5,731
– social security costs	265	433
– other staff costs	513	535
	5,893	6,699
Other administrative expenses	4,320	4,059
	10,213	**10,758**

The average number of people employed during the year was 50 (2005: 46).

5 Profit on ordinary activities before tax

in EUR'000	2006	2005
This is stated after charging/(crediting):		
Auditors' remuneration – audit related fees	97	60
– Non-audit related fees	58	43
	155	**103**
Depreciation	**406**	**46**
Operating lease rental – property	**478**	**510**

Emoluments of directors

in EUR'000	2006	2005
Directors' fees	**29**	**9**
Directors' other emoluments	**535**	**1,002**

6 Tax on profit on ordinary activities

in EUR'000	2006	2005
Irish corporation tax @ 12.5% (2005: 12.5%)	7,174	6,594
Under/(Over) provision prior year	(13)	(3)
Deferred tax	(206)	(252)
Taxation	**6,955**	**6,339**

The current tax charge for the year is higher than the current charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities. The differences are explained below.

in EUR'000	2006	2005
Profit on ordinary activities before tax	**54,886**	**50,579**
Profit on ordinary activities multiplied by the standard rate of Irish corporation tax for the year of 12.5% (2005: 12.5%)	6,861	6,322
Effects of:		
Disallowable expenses	326	285
Capital allowances	(13)	(13)
Adjustment to tax charge in respect of previous years	(13)	(3)
Current tax charge for the year	**7,161**	**6,591**

7 Dividends

in EUR'000	2006	2005
Dividend paid € 7.40 per share (2005: € 9.06)	47,000	57,500
	47,000	**57,500**

8 Loans and advances to banks

in EUR'000	2006	2005
Repayable on demand	185,979	17,551
Other loans and advances:		
Remaining maturity		
– over 5 years	–	20,000
– 5 years or less but more than 1 year	43,298	19,962
– 1 year or less but over 3 months	177,364	208,817
– 3 months or less	358,306	728,289
	764,947	**994,619**
Including:		
Due from parent company	**292,475**	**457,879**

Loans and advances to banks with variable rates totalled EUR 226 million (2005: EUR 66 million). Loans and advances to banks with fixed rates totalled EUR 538 million (2005: EUR 929 million).

Impairment losses on loans and advances

There were no impairment losses on loans and advances to banks as at 31 December 2006.

9 Loans and advances to customers

in EUR'000	2006	2005
Repayable on demand	–	–
Other loans and advances:		
Remaining maturity		
– Over 5 years	123,468	274,501
– 5 years or less but more than 1 year	98,234	226,891
– 1 year or less but over 3 months	77,023	–
– 3 months or less	12,400	1,596
	311,125	**502,988**

Loans and advances to customers with variable rates totalled EUR 123 million (2005: EUR 333 million) and loans and advances to customers with fixed rates totalled EUR 188 million (2005: EUR 170 million).

The nominal value of assets pledged as collateral under repurchase agreements was EUR'000 25,599 (2005: EUR'000 39,928).

Impairment losses on loans and advances

There were no impairment losses on loans and advances to customers as at 31 December 2006.

10 Financial assets at fair value through the profit and loss

in EUR'000	2006	2005
Financial assets at fair value through the profit & loss account (Designated at initial recognition)	930,592	181,903
	930,592	**181,903**

Included in the financial assets at fair value through the profit and loss account are debt securities with embedded derivatives which would otherwise have been classified as available for sale assets with the embedded option separately accounted for.

There are no debt securities classified as held for trading.

The nominal value of assets pledged as collateral under repurchase agreements was EUR'000 130,000 (2005: Nil)

11 Derivative Financial Instruments

Derivatives held for hedging

The bank uses derivative financial instruments for both hedging and non-hedging purposes. The following table provides examples of the main activities undertaken by the bank, the related risks associated with such activities and the types of derivatives used in the managing of such risks.

Activity	Risk	Type of hedge
Fixed rate lending	Sensitivity to increases in interest rates	Pay fixed interest rate swaps
Fixed rate funding	Sensitivity to decreases in interest rates	Receive fixed interest rate swaps
Investment in foreign currency assets	Sensitivity to changes in exchange rates	Cross currency swaps, Forward foreign exchange contracts
Equity-linked funding	Sensitivity to changes in equity market indices	Receive equity swaps

Derivatives held for trading

Certain derivative financial instruments, while providing an economic hedge are categorised as trading as they do not qualify as accounting hedges under FRS 26. The bank sells protection through the use of credit default swaps.

At 31 December 2006

in EUR'000	Contract/ national amount	Fair Values Assets	Fair Values Liabilities
(a) Derivatives held for trading			
Interest rate contracts	1,116,413	11,457	21,954
Equity- linked Interest rate contracts	550,677	200	50,629
Credit default swaps – sold	2,530,387	12,771	–
	4,197,477	**24,428**	**72,583**
(b) Derivatives held for hedging			
Interest rate contracts	2,005,677	10,303	221,285
Cross currency interest rate contracts	25,903	23,490	6,717
	2,031,580	**33,793**	**228,002**
Total Derivatives as at 31 December 2006	**6,229,057**	**58,221**	**300,585**

At 31 December 2005

in EUR'000	Contract/ national amount	Fair Values Assets	Fair Values Liabilities
(a) Derivatives held for trading			
Interest rate contracts	1,224,120	1,016	1,139
Equity- linked interest rate contracts	557,862	2,438	44,685
Credit default swaps – sold	3,252,490	12,532	1,398
Credit default swaps - bought	38,477	–	1,683
FX swap contracts	15,594	547	–
	5,088,543	**16,533**	**48,905**
(b) Derivatives held for hedging			
Interest rate contracts	2,914,382	13,417	493,479
Cross currency interest rate contracts	258,340	22,622	10,697
	3,172,722	**36,039**	**504,176**
Total Derivatives as at 31 December 2005	**8,261,265**	**52,572**	**553,081**

The company undertakes all of its transactions in foreign exchange and interest rate contracts with other financial institutions. At 31 December 2006 the fixed interest rates vary from 0.43% to 9.125% (December 2005: 0.43% to 9.125%) and the main floating rate is EURIBOR. Derivatives held for hedging are all accounted for using fair value hedge accounting principles.

12 Available for sale

Available for sale securities

in EUR'000	2006	2005
Debt Securities-at fair value		
– listed	2,228,128	2,937,350
– unlisted	96,913	121,221
Total available-for-sale securities	**2,325,041**	**3,058,571**

Analysis of movements in available-for-sale securities

in EUR'000	2006	2005
Balance as 1 January	3,058,571	2,873,521
Acquisitions	41,949	394,762
Disposals and maturities	(585,153)	(315,093)
Movement from changes in fair value	155,251)	66,146
Exchange translation adjustments	(35,075)	39,235
At 31 December	**2,325,041**	**3,058,571**

The nominal value for securities pledged as collateral under repurchase agreements was EUR'000 1,359,409 (2005: EUR'000 1,188,000)

13 Tangible fixed assets

in EUR'000	Leasehold premises	Computer equipment	Computer software	Furniture and fittings	Motor Vehicles	Total
Cost or valuation						
At 31 December 2005	1,045	930	941	315	–	3,231
Additions	–	61	123	20	78	282
At 31 December 2006	1,045	991	1,064	335	78	3,513
Accumulated depreciation						
At 31 December 2005	151	667	729	104	0	1,651
Charge for year	42	132	179	33	20	406
At 31 December 2006	193	799	908	137	20	2,057
Net book value						
At 31 December 2006	**852**	**192**	**156**	**198**	**58**	**1,456**
At 31 December 2005	**894**	**263**	**212**	**211**	**–**	**1,580**

14 Equity shares

in EUR'000	2006	2005
Equity Shares as at 1 January	502	500
Equity Shares purchased	2,750	–
Other movements	–	2
Equity Shares as at 31 December	**3,252**	**502**

The equity shares purchased do not have a quoted market price in an active market and their fair value cannot be reliably measured. Accordingly the unquoted equity shares are measured at cost.

15 Other assets

in EUR'000	2006	2005
Other debtors	10,267	8,533
Accrued/purchased interest receivable	91,302	88,812
Prepayments	37	36
	101,606	**97,381**

16 Deposits by banks

in EUR'000	2006	2005
Repayable on demand	–	–
With agreed maturity dates or periods of notice, by remaining maturity:		
– over 5 years	60,046	63,635
– 5 years or less but over 1 year	22,962	23,263
– 1 year or less but over 3 months	412,449	697,820
– 3 months or less but not repayable on demand	1,739,421	1,747,951
	2,234,878	**2,532,669**
Amounts include:		
Due to the parent company	**2,998**	**2,997**

17 Deposits by customers

in EUR'000	2006	2005
Repayable on demand	–	–
With agreed maturity dates or year of notice, by remaining maturity:		
– over 5 years	145,000	145,000
– 5 years or less but over 1 year	14,995	14,992
– 1 year or less but over 3 months	–	6,076
	159,995	**166,068**

18 Financial liabilities at fair value through profit & loss

in EUR'000	2006	2005
Debt securities in issue	**47**	**15,893**

Certain debt securities in issue which have embedded derivatives have been designated at fair value through the profit & loss arising from the adoption of FRS 26.

19 Debt securities in issue

in EUR'000	2006	2005
Medium term note issues	1,509,068	1,385,444
	1,509,068	**1,385,444**
With agreed maturity dates or periods, by remaining maturity:		
– Over 5 years	989,588	802,057
– 5 years or less but over one year	349,426	469,970
– 1 year or less but over three months	170,054	113,417
	1,509,068	**1,385,444**

20 Other liabilities

in EUR'000	2006	2005
Corporation tax	674	1,594
Deferred tax liability	1,140	889
Other creditors	2,628	3,699
	4,442	**6,182**

21 Called up share capital

in EUR'000	2006	2005
Authorised		
Ordinary shares of EUR 1 each (2005 EUR1 each)	**250,000**	**250,000**
Issued		
Fully paid ordinary shares of EUR 1 each (2005 EUR1 each)	**6,349**	**6,349**

22 Capital contribution

in EUR'000	2006	2005
At 1 January	100,000	100,000
Capital contribution received	50,000	–
At 31 December	**150,000**	**100,000**

An additional capital contribution from the parent company of EUR 50 million was drawn down on 31 January 2006.

23 Available-for-sale reserve

in EUR'000	2006	2005
At 1 January	459	27,316
Net gains (losses) from changes in fair value	1,935	(16,519)
Net (gains)/losses transferred to profit & loss on disposal	1,715	(14,175)
Deferred tax	(456)	3,837
	3,653	**459**

24 Defined contribution scheme

in EUR'000	2006	2005
Pension costs	**1,332**	174
Outstanding/prepaid contributions	–	–

Sachsen LB Europe plc operates a defined contribution scheme for its employees.

25 Interest rate risk gap analysis

Cash flow interest rate risk is the risk that future cash flows of financial instruments will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in market interest rates. The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken and is monitored daily.

The tables on the next two pages summarise the bank's exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of the derivative instruments, which are principally used to reduce the bank's exposure to interest rate movements, are included under the heading 'Non-interest bearing'.

31 December 2006

in EUR'000	1 months or less	3 months or less but over one month	6 months or less but over 3 month	1 year or less but over 6 month	1–5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and balance with the Central Bank of Ireland	–	354	–	–	–	–	–	354
Financial Assets at Fair Value through profit & loss	248,729	516,908	164,955	–	–	–	–	930,592
Derivative financial instruments	–	–	–	–	–	–	58,221	58,221
Loans and advances to banks	386,688	200,895	177,364	–	–	–	–	764,947
Loans and advances to customers	23,376	272,783	14,966	–	–	–	–	311,125
Available-for-sale securities	40,000	2,211,129	73,912	–	–	–	–	2,325,041
Other assets	–	–	–	–	–	–	106,314	106,314
Total assets	**698,793**	**3,202,069**	**431,197**	**–**	**–**	**–**	**164,535**	**4,496,594**
Liabilities								
Deposits by banks	775,755	1,250,500	208,623	–	–	–	–	2,234,878
Deposits by customers	–	159,995	–	–	–	–	–	159,995
Derivative financial instruments	–	–	–	–	–	–	300,585	300,585
Financial liabilities at fair value through profit & loss	–	47	–	–	–	–	–	47
Debt securities in issue	49,990	1,457,823	–	1,255	–	–	–	1,509,068
Other liabilities	–	–	–	–	–	–	95,063	95,063
Shareholders' funds	–	–	–	–	–	–	196,958	196,958
Total liabilities	**825,745**	**2,868,365**	**208,623**	**1,255**	**–**	**–**	**592,606**	**4,496,594**
Interest rate sensitivity gap	**(126,952)**	**333,704**	**222,574**	**(1,255)**	**–**	**–**	**(428,071)**	**–**
Cumulative gap	**(126,952)**	**206,752**	**429,326**	**428,071**	**428,071**	**428,071**	**–**	**–**

The cumulative interest rate gap arises mainly from the assets funded with share capital and capital contribution, which are classified as non-interest bearing. Assuming the financial assets and liabilities at 31 December 2006 were to remain until maturity or settlement without any action by the bank to alter the resulting interest rate risk exposure, an immediate and sustained increase of 1% in market interest rates across all maturities would reduce net present value of assets by approximately EUR4.3million. According to the sensitivity approach, at period end the interest rate VaR (1 day, 95%) was EUR 325,000 for a 6 basis point parallel upward yield curve shift and 100% correlation.

31 December 2005

in EUR'000	1 months or less	3 months or less but over one month	6 months or less but over 3 month	1 year or less but over 6 month	1–5 years	Over 5 years	Non-interest bearing	Total
Assets								
Cash and balance with the Central Bank of Ireland	–	337	–	–	–	–	–	337
Loans and advances to banks	528,936	367,578	52,160	45,945	–	–	–	994,619
Loans and advances to customers	61,880	304,135	136,973	–	–	–	–	502,988
Financial assets at fair value through profit & loss	–	181,903	–	–	–	–	–	181,903
Derivative financial instruments	–	–	–	–	–	–	52,572	52,572
Available-for-sale securities	–	2,899,980	158,591	–	–	–	–	3,058,571
Other assets	–	–	–	–	–	–	99,463	99,463
Total assets	**590,816**	**3,753,933**	**347,724**	**45,945**	**–**	**–**	**152,035**	**4,890,453**
Liabilities								
Deposits by banks	849,170	1,506,964	130,478	46,057	–	–	–	2,532,669
Deposits by customers	–	166,068	–	–	–	–	–	166,068
Derivative financial instruments	–	–	–	–	–	–	553,081	553,081
Financial liabilities at fair value through profit & loss	–	15,893	–	–	–	–	–	15,893
Debt securities in issue	–	1,282,230	100,272	2,942	–	–	–	1,385,444
Other liabilities	–	–	–	–	–	–	94,465	94,465
Shareholders' funds	–	–	–	–	–	–	142,833	142,833
Total liabilities	**849,170**	**2,971,155**	**230,750**	**48,999**	**–**	**–**	**790,379**	**4,890,453**
Interest rate sensitivity gap	**(258,354)**	**782,778**	**116,974**	**(3,054)**	**–**	**–**	**(638,344)**	**–**
Cumulative gap	**(258,354)**	**524,424**	**641,398**	**638,344**	**638,344**	**638,344**	**–**	**–**

26 Effective Interest Rate

The table below summarises the effective interest rate by major currency for monetary financial instruments not carried at fair value through the profit and loss.

At 31 December 2006 in %	EUR	GBP	JPY	USD
Assets				
Loans and advances to banks	3.44	–	4.44	5.54
Loans and advances to customers	4.78	5.74	2.54	5.41
Available-for-sale investments	5.13	6.02	2.86	6.89
Liabilities				
Deposits by banks	3.45	5.23	–	5.23
Deposits by customers	4.60	–	–	–
Debt securities in issue	3.68	–	1.37	3.67
At 31 December 2005 in %	**EUR**	**GBP**	**JPY**	**USD**
Assets				
Loans and advances to banks	2.20	–	–	3.94
Loans and advances to customers	3.71	5.15	2.65	4.40
Available-for-sale investments	5.21	5.61	3.53	6.60
Liabilities				
Deposits by banks	2.26	4.56	–	4.06
Deposits by customers	3.15	–	–	–
Debt securities in issue	2.63	–	1.51	2.92

27 Currency analysis of assets, liabilities and off balance sheet items (in EUR million)

At 31 December 2006	EUR	USD	GBP	JPY	Other	Total
Assets						
Cash and balances with Central Bank of Ireland	–	–	–	–	–	–
Loans and advances to banks	734	28	1	3	–	766
Loans and advances to customers	181	58	15	57	–	311
Financial assets at fair value through profit & loss	875	56	–	–	–	931
Derivative financial Instruments	48	10	–	–	–	58
Available-for-sale securities	2,022	223	23	37	20	2,325
Tangible fixed assets	1	–	–	–	–	1
Equity shares held as financial assets	3	–	–	–	–	3
Other assets	87	11	1	1	2	102
	3,951	386	40	98	22	4,497
Liabilities						
Deposits by banks	1,833	363	39	–	–	2,235
Deposits by customers	160	–	–	–	–	160
Derivative financial instruments	268	27	1	5	–	301
Financial Liabilities at fair value through profit & loss	–	–	–	–	–	–
Debt securities in issue	1,382	22	–	19	86	1,509
Accruals and deferred income	75	12	1	1	2	91
Other liabilities	4	–	–	–	–	4
Total liabilities	**3,722**	**424**	**41**	**25**	**88**	**4,300**
Net on-balance sheet position	**229**	**(38)**	**(1)**	**73**	**(66)**	**197**
At 31 December 2005						
Total assets	4,200	508	39	120	24	4,891
Total liabilities	4,048	561	23	22	92	4,746
Net on-balance sheet position	**152**	**(53)**	**16**	**98**	**(68)**	**145**

28 Related party transactions

Transactions with other companies within the Landesbank Sachsen Girozentrale group are not disclosed as the company has taken advantage of the exemption available to it under Financial Reporting Standard No. 8 – "Related Party Disclosures".

29 Directors' and officers' loans

There were no amounts outstanding at 31 December 2006, under transactions, arrangements and agreements made by Sachsen LB Europe plc from those who were directors (including connected persons) or officers of Sachsen LB Europe plc during the period.

30 Ultimate parent company

The directors regard Landesbank Sachsen Girozentrale which is incorporated in Germany as the ultimate parent company. The largest group into which the results of the company are consolidated is that headed by Landesbank Sachsen Girozentrale. Copies of the financial statements of Landesbank Sachsen Girozentrale may be obtained from Landesbank Sachsen Girozentrale at Humboldtstrasse 25, 04105 Leipzig, Germany.

31 Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of all of the company's financial assets and liabilities not presented on the company's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

in EUR'000	2006 Book Value	2005 Book Value	2006 Fair Value	2005 Fair Value
Financial assets:				
Loans & advances to banks	765,301	994,956	765,299	994,990
Loans and advances customers	311,125	502,988	319,698	504,426
Financial liabilities:				
Deposits due to banks	2,234,878	2,532,669	2,234,871	2,528,749
Deposits by customers	159,995	166,068	160,000	166,000
Debt securities in issue	1,509,068	1,385,444	1,511,607	1,378,682

Loans and advances to banks

Due from other banks includes inter-bank placements. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Deposits by banks and customers

The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities in issue

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

32 Net cash inflow/(outflow) from operating activities

Cashflow statement for the year ended 31 December 2006

in EUR'000	2006	2005
Reconciliation of operating profit to net operating cash flows		
Profit on ordinary activities before tax	54,886	50,579
Increase in accrued income and prepayments	(4,225)	(4,165)
Increase in accruals and deferred income	1,528	13,580
Depreciation and amortisation	406	460
Fair value movements included in operating profit	(5,424)	(22,589)
Net cashflow from trading activities	**47,171**	**37,865**
Net decrease/(increase) in loans and advances to banks and others	392,321	686,814
Net (decrease)/increase in deposits from banks and others	(300,548)	(133,654)
	91,773	553,160
Net cash inflow/(outflow) from operating activities	**138,944**	**591,025**

33 Capital Expenditure and financial investment

in EUR'000	2006	2005
Purchase of equity shares	(2,750)	(2)
Purchase of tangible fixed assets	(282)	(165)
Redemption/issuance of debt securities in issue	126,914	(410,151)
Purchase /sale and maturity of debt securities	(89,300)	(103,590)
	34,582	**(513,908)**

34 Commitments

The Bank has the following leasing commitments in relation to its operating lease.

in EUR'000	2006
Operating lease commitments:	
– over 5 years	6,540
– 5 years or less but more than 1 year	1,744
– 1 year or less	436

35 Approval of financial statements

The financial statements were approved by the board of directors on 1 March 2007.

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