Annual Report 2012

Norddeutsche Landesbank Girozentrale
(Anstalt öffentlichen Rechts)

Finanzgruppe

NORD/LB
Die norddeutsche Art.

NORD/LB at a glance

In € million	1 Jan. – 31 Dec. 2012	1 Jan. – 31 Dec. 2011	Change (in %)
Net interest income	1 325	1 302	2
Net commission income	151	167	– 10
Net income from trading portfolio	88	– 23	> 100
Administrative expenses	– 820	– 730	12
Other operating profit / loss	– 95	– 121	– 21
Operating result before loan loss provisions and valuation	649	595	9
Result of evaluation of receivables, securities and investments	– 369	– 144	> 100
Assumption of investment losses	– 10	– 42	– 76
Allocation to funds for general banking risks	–	– 100	– 100
Operating result after loan loss provisions and valuation	270	309	– 13
Extraordinary result	– 42	– 18	> 100
Partial profit transfer	– 97	– 160	– 39
Tax income	– 58	– 22	> 100
Profit for the year before appropriation of earnings	73	109	– 33

Balance figures in € million	31 Dec. 2012	31 Dec. 2011	Change (in %)
Total assets	148 846	148 308	0
Liabilities to customers	36 940	40 086	– 8
Loans and advances to customers	64 040	65 605	– 2
Equity	7 044	6 789	4
Regulatory key figures			
Core capital for solvency reasons in € million	7 412	7 173	3
Regulatory equity in € million	8 754	8 835	– 1
Total capital ratio in %	17,8	16,0	–

NORD/LB ratings (long-term/short-term/individual)
Moody's A3/P-2/D Fitch Ratings A / F1 / bbb-

Total differences are rounding differences and may cause minor deviations in the calculation of percentages.

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Content

Business Activities and the General Environment

(Previous year figures for the 2011 accounting period or as at 31 December 2011 are shown in brackets)

NORD/LB Norddeutsche Landesbank Girozentrale

NORD/LB Norddeutsche Landesbank Girozentrale (hereafter NORD/LB or the bank) is a registered public institution (AöR) in Germany, with registered offices in Hanover, Braunschweig and Magdeburg. Its head office is in Hanover. Under the name of Braunschweigische Landessparkasse, Braunschweig, NORD/LB performs the function of a savings bank in the Braunschweig region and maintains a close network of branches in this region. NORD/LB also has branches in Hamburg, Düsseldorf, Schwerin, London, New York, Shanghai and Singapore. The bank also has representative offices in Beijing, Moscow and Mumbai.

The owners of the bank are the German federal states of Lower Saxony and Saxony-Anhalt, the Association of the Savings Banks of Lower Saxony (Sparkassenverband Niedersachsen) in Hanover (hereafter SVN), the Holding Association of the Savings Banks of Saxony-Anhalt and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania.

The subscribed capital amounts to € 1 607 257 810, with the federal state of Lower Saxony holding 59.13 per cent (of which 33.44 per cent is held in trust for the state-owned Hannoversche Beteiligungsgesellschaft mbH), the federal state of Saxony-Anhalt 5.57 per cent, the Lower Saxony Association of Savings Banks and Girobanks 26.36 per cent, the Holding Association of the Savings Banks of Saxony-Anhalt 5.28 per cent and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania 3.66 per cent.

The executive bodies of the bank are the Owners' Meeting, the Supervisory Board and the Managing Board.

NORD/LB is the state bank for the federal states of Lower Saxony and Saxony-Anhalt. In these two federal states and in Mecklenburg-Western Pomerania the bank performs the functions of a central and clearing bank for the savings banks (Girozentrale). NORD/LB focuses its business strategy on north-east Germany and also serves customers from all the areas of banking business.

NORD/LB operates in the following segments:

- Private and Commercial Customers
- Corporate Customers & Markets
- Energy and Infrastructure Customers
- Ship and Aircraft Customers
- Real Estate Banking Customers

The bank also handles promotional loans on behalf of the federal states through Investitionsbank Sachsen-Anhalt, an institute of NORD/LB, and through Landesförderinstitut Mecklenburg-Vorpommern (LFI), a division of Norddeutsche Landesbank Girozentrale.

NORD/LB is the parent company of a group which also includes Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale, Bremen (hereafter Bremer Landesbank), Norddeutsche Landesbank Luxembourg S.A., Luxembourg/Luxembourg (hereafter NORD/LB Luxembourg), Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover, (hereafter Deutsche Hypo), LBS Norddeutsche Landesbausparkasse, Berlin, Hanover (hereafter LBS), Öffentliche Lebensversicherung Braunschweig, Braunschweig and Öffentliche Sachversicherung Braunschweig, Braunschweig, (hereafter ÖVBS). The bank also holds other investments as shown in the disclosures of the notes.

Control Systems

The control of profitability, productivity and the Group's risk profile are the responsibility of the Managing Board. The aim of this system of control is to optimise short and medium-term profitability and efficiency while at the same time maintaining the best possible degree of transparency in terms of earnings and cost. Regulating earnings and productivity at NORD/LB is primarily focused on the key figures of return on equity (RoE), cost-income ratio (CIR) and the risk rate, on operating profit (contribution margin V) and on commercial profit/loss. The significance of key indicators is aligned towards the targets, depending on the respective banking division or the type of product. The cost-income ratio is defined as the ratio between administrative expenses and the sum total of the following income items: net interest income, net commission income, profit/loss from financial instruments at fair value through profit or loss, profit/loss from hedge accounting, profit/loss from investments accounted for using the equity method and other operating profit/loss. The calculation of the return on equity in the Group complies with the standard international definitions of key indicators and refers to earnings before taxes and long-term equity under commercial law (reported equity capital less revaluation reserve less earnings after taxes.

Based on a central, medium-term forecast of the operating result, in the third and fourth quarters the bank prepares the target operating result for the coming reporting year in a decentralised planning process. The aim of medium-term planning within the planning process is for the respective profit centres to obtain estimates concerning the medium-term development of customer potential, the market situation, products, risks, resources and measures.

Significant Events in the Financial Year 2012

Capital Measures

In 2012 NORD/LB continued the capital-boosting programme launched in 2011 and implemented further extensive capital measures.

In the spring of 2011 NORD/LB introduced a capital-boosting programme with which the bank prepared for the increased minimal capital requirements placed on banks (Basel III), which will be implemented in EU law in the EU Capital Adequacy Directive which is currently progressing through the legislative process. After the European Banking Authority (EBA) announced an EU-wide bank stress test, which was carried out in the summer of 2011 and in which contributions from silent partners were not recognised as core tier 1 capital contrary to the German Banking Act, NORD/LB reacted promptly by bringing forward significant parts of its capital-boosting programme and in the process taking into account the requirements of the EU-wide stress test. Significant components of the programme were the limiting of risk-weighted assets, the retention of profits from 2010, the sale of investments and several measures to optimise the capital structure. These comprised specifically the conversion of silent participations in NORD/LB held until this time by the owners and other capital instruments of in total around € 1 146 million into share capital plus a premium counted as core tier 1 capital and an increase in cash capital by several owners of in total around € 521 million. Overall NORD/LB's share capital including premium increased in 2011 as a result of the capital measures by around € 1 667 million. In accordance with regulatory laws, part of these measures in the amount of around € 279 million did not take effect until the start of 2012.

In addition to the requirements previously imposed by the EBA, the EU heads of state and government decided at their summit in October 2011 to place even greater capital adequacy requirements on banks. As a result of their decision, from 30 June 2012 system-relevant banks in the EU should have had a core tier 1 capital ratio of at least 9 per cent in accordance with the EBA definition. Against this background NORD/LB, as one of the system-relevant banks, added measures to its capital-boosting programme from the autumn of 2011 which were to ensure that the minimum core tier 1 capital ratio required at Group level would be met by mid-2012.

In order to boost its core tier 1 capital, in the financial year 2012 NORD/LB retained its entire profit from 2011, continued the sale of investments and restructured other silent participations into core tier 1 capital instruments.

For example, silent participations and structure-congruent bonds of several special purpose entities were converted. As a result the state of Lower Saxony increased its share capital plus premium in NORD/LB in August 2012 by € 400 million. At the same time the silent participations in the bank that were to be offset in accordance with regulatory laws were reduced by the same amount.

In order to increase in particular the core tier 1 capital at Group level, silent participations held in Bremer Landesbank in August 2012 by the state of Bremen, the Association of the Savings Banks of Lower Saxony (Sparkassenverband) and NORD/LB itself were converted. With this conversion NORD/LB's share in the share capital of Bremer Landesbank fell from 92.5 per cent to around 54.8 per cent.

In addition, the sale of further investments whose carrying amounts were to be deducted from capital in accordance with regulatory laws was reviewed. In this connection, NORD/LB reduced its share in NORD Holding Unternehmensbeteiligungsgesellschaft mbH in 2012 from 40 per cent to 5 per cent and, with the resulting reduction in the deductible item under regulatory laws, increased the core tier 1 capital according to the definition of the EBA.

In addition to this, the states of Lower Saxony and Saxony-Anhalt have provided a guarantee since August 2012 for the mezzanine tranch of a loan portfolio of NORD/LB brought into a securitisation structure. This guarantee is of a purely precautionary nature and may be used by NORD/LB if needed until the end of 2014. During this period NORD/LB will pay a fee to the two guarantors.

With the successful implementation of all of the capital measures in 2011 and 2012, NORD/LB has met at Group level the minimum requirements specified by the EBA concerning the required level of core tier 1 capital.

EU Process: Restructuring Plan and Commitments made by NORD/LB

In order for the capital measures to be implemented in 2011 and 2012, the measures needed to be reviewed and approved by the EU Commission. For the measures implemented by the start of 2012, the EU Commission granted its approval at the end of 2011 under the proviso that a restructuring plan, which also had to include the measures planned for 2012, was submitted by NORD/LB within half a year.

The main content of this plan, which was agreed in the first half of 2012 by the bank, its owners, the German Government and the EU Commission, included the presentation of the business strategy and the business model, a medium-term business plan and a detailed explanation of all of the relevant measures and commitments made to the EU Commission. With the restructuring plan NORD/LB provided proof of the profitability and viability of its business model. On the basis of this plan, the EU Commission approved all of the capital measures in July 2012.

The commitments in the plan defined in this respect the general conditions and restrictions that NORD/LB needed to comply with in order for the aims of the restructuring plan to be met. NORD/LB, the German Government and the EU Commission agreed on significant points such as the content and technical layout of the guarantee, the future focus of the Group's business segments with regard to for example the definition of target customers, business volumes and the activities that will be focused on in the business regions, as well as a reduction in the Group's total assets and the optimisation of cost levels.

The bank also made a commitment not to make any dividend payments to the owners for the years 2012 and 2013. Any profits from 2012 and/or 2013 may though be carried forward to new account so that, provided earnings and capital develop according to plan, a dividend can be paid to the owners after this period.

An independent trustee set up by the EU Commission will monitor whether the commitments that have been made are being kept and reports to the EU Commission.

Based on the commitments that apply to 2014 (at most to the end of 2016), NORD/LB can continue to focus on its proven business model. Only a few adjustments to the business model are required, for example in the form of the agreed closure of a few representative offices and the restriction of business activities. The agreed key figures overwhelmingly endorse the focus of the business model and are consistent with the strategy and medium-term plan of the bank. This also applies for Group-wide objectives such as the planned controlled reduction of total assets and RWA, the continued retention of profits and the stabilisation of administrative expenses.

Efficiency Improvement Programme

NORD/LB decided at the start of 2011, with the agreement of its owners, to stabilise the administrative expenses of the NORD/LB Group at € 1.1 billion. NORD/LB has made a commitment to the EU Commission to reduce the NORD/LB Group's operating costs (not including special effects) to € 1.07 billion by the end of 2016. NORD/LB must make a significant contribution to this. In order to achieve this goal, NORD/LB launched an efficiency improvement programme in March 2011 to reduce both the cost of materials and staff expenses. In 2012 provisions for contractual agreements concerning the termination of contracts of employment were made in the amount of € 22.7 million. Severance payments have also been made; the amount of these was negligible.

Economic Development

Global Economic Environment

The global economy was increasingly gloomy in 2012. The effects of the slowdown in growth were felt in almost all major economies. Global trade also lost momentum in the same period. The worsening of the debt crisis in the eurozone between April and the end of July also had an impact on the global economy. Against this background, business and consumer confidence receded in particular in the eurozone. The effects of the consolidation measures and structural reforms have triggered a severe adjustment recession in Southern Europe. As a result, the single currency area also experienced a downturn that lasted to the end of the year.

In the USA, despite a temporary fall in the most important confidence indicators here as well, the economy showed itself to be relatively stable. Although unemployment persists and the unemployment rate is only falling slowly, there are clear signs of improvement in the USA real estate market. For example, private housing construction has seen sustained growth in recent quarters. Real estate market indicators, such as the number of planning approvals and the number of construction projects that are started, suggest that the recovery in the real estate market will continue. However, the rate of economic recovery in 2012 was at 2 per cent well below the rate of growth seen in previous periods of economic expansion.

The emerging markets were not spared by the global economic slowdown in the past year. At the start of 2012 growth started to slow in China. Despite the economy picking up again later in the year, the rate of growth for 2012 is well below 10 per cent. Growth also slowed in the South East Asian tiger economies that are strongly influenced by the Chinese economy. Accordingly, the rate of global economic growth has fallen and will be only slightly above 3 per cent.

Eurozone

Although the level of stress in the financial and capital markets has fallen significantly of late, the improvement in the rescue infrastructure alone will not be enough to overcome the crisis that has now lasted for three years. The continuing adjustments in the public and private sectors are having a significant dampening effect on total demand in the crisis countries. The eurozone's gross domestic product (GOP) has not risen since the third quarter of 2011.

With hindsight it has to be stated that the eurozone provided hardly any surprises in its economic development in 2012. Not only NORD/LB's prediction of a recession in the eurozone was proven to be correct. The extent to which (GDP) contracted, estimated at – 0.4 per cent, was also in line with expectations. In the first quarter the relatively robust development in Germany was sustained, compensating almost entirely for the fall in economic output in the rest of the eurozone. In the rest of year the rate of growth in the German economy was not enough, though, to prevent the eurozone's economy from shrinking compared to the previous quarter.

As nothing else was to be expected, in particular the austerity measures and temporarily more stringent refinancing conditions have had a negative impact in the crisis countries. In addition to this, for a while there was extremely high uncertainty concerning the progress of the debt crisis. Accordingly, sentiment indicators fell heavily: both consumer and industry confidence fell in the wake of these developments to their lowest levels since the crisis year of 2009. The indicators available up to the reporting month of November also suggest a further fall in GDP for the final quarter; this fall might well be greater than the fall in the previous quarter. The eurozone therefore proved to be a growth-free zone in 2012, at least when looked at as a single entity.

However, regional disparities in economic development remained high in 2012. If Germany is taken out of the equation, the fall in GDP in the rest of the eurozone is much more painful at approx. – 1.0 per cent compared to the previous year. However, as well as Germany, some smaller member states also withstood the effects of the debt crisis and the austerity policies. Furthermore, France, which has the second largest economy, was with economic stagnation more an anchor of stability than a burden for the eurozone. As expected, Spain and Italy fell deeper into recession though with their economic output falling by approx. – 1.5 per cent and – 2 per cent respectively. In countries with full adjustment programmes, the picture was similar to the previous year: Ireland's economy grew slightly again in 2012, while the disastrous development in Greece continued and the contraction in Portugal was greater than in the previous year.

Private consumption suffered in particular from the high and still rising level of unemployment. In December more than 18.7 million people were unemployed in the eurozone. This equates to a seasonally-adjusted unemployment rate of 11.7 per cent. As there is currently no sign of this trend stabilising or reversing, consumer confidence remains very low. Investments also suffered from the poor state of the economy in many member states. However, the trade balance developed positively. Although this is due in part to a fall in imports as a result of the recession, exports have also increased significantly, which suggests that the competitive position is gradually improving.

Germany

The economy developed much better in Germany in the past year than in the rest of the eurozone, although the rate of growth slowed here as well during the course of the year. GDP only increased by 0.7 per cent in 2012 compared to the previous year. In 2011 the economy grew by 3 per cent. However, it also needs to be taken into account that there were three fewer working days in 2012, which had a corresponding negative impact. After a very robust start into 2012, growth slowed continually in Germany during the rest of the year. The provisional figures of the Federal Statistical Office show that in the fourth quarter the German economy shrank compared to the previous quarter for the first time in a year by around – 0.4 per cent. This corresponds with the picture previously drawn by the hard economic indicators. In particular industrial production between October and December was well below the average for the third quarter.

It is thanks to the continuing strength of exports and the robust level consumption that the slowdown in growth was not greater in 2012. Although the real private consumption rose by 0.8 per cent and therefore by only half as much as in the previous year, against the background of the effects of the debt crisis and the slight rise in inflation of 2.1 per cent over the year, a greater rise could hardly have been expected. The still relatively robust situation in the job market also contributed to the positive level of consumption. Although unemployment has been rising again in recent months with the unemployment rate climbing slightly to 6.9 per cent, employment rose to a new record level in the past year. On average, the number of persons in gainful employment rose to around 41.6 million. Thanks to the growth in employment and further increases in gross and net salaries, the disposable income of private households rose correspondingly by 2.3 per cent compared to the previous year.

Exports set a new record with foreign trade contributing 1.1 per cent to the real growth in GDP, despite the heavy fall in demand from the eurozone. This was compensated for by the sustained high level of orders for German export goods from outside of Europe. Not least of all due to the debt crisis and the recession in many eurozone countries, businesses were much more cautious than in the previous year, and this was reflected by a distinct reluctance to invest. For instance, despite extremely low interest rates, 4.4 per cent less was invested in plant and equipment than in the previous year. Construction investment also fell slightly overall by – 1.1 per cent despite the continuing boom in private housing construction. However, at the end of the year there are now increasing signs that the economy will recover quickly and as a result the outlook for the German economy is brighter. Incoming orders in industry have stabilised and the expectations of businesses have improved significantly. This is probably attributable to the recent improved outlook for the global economy and the noticeable stabilisation of financial markets. Several factors have contributed to this development. In particular the European Central Bank (ECB), with its announcement of a new programme to purchase government bonds (outright monetary transactions, OMTs), has for the time being removed the basis for an extreme crisis. The rescue infrastructure has also improved with the start of the European Stability Mechanism (ESM), which the German Federal Constitutional Court paved the way for with its ruling on the Fiscal Pact and the ESM.

USA

Following growth of 2.4 per cent in 2010 and 1.8 per cent in 2011, the USA recorded economic growth of 2.2 per cent in 2012 as a whole. The world’s biggest economy has therefore managed to set itself apart from many other regions in the world, and in particular Europe and Japan, and continue the trend of a moderate, albeit slower rate of recovery in the period following the real estate and financial market crisis.

Private consumption once again proved to be an important pillar for the USA economy in 2012. Consumer confidence improved in the second half of the year, which was probably due in particular to an improvement in the situation in the real estate market and stock market gains. In particular the successive rise in employment in every month in 2012, which was accompanied by a fall in the unemployment rate from 8.5 to 7.7 per cent, should be highlighted. The improvement in the job market stalled briefly only in the second quarter. While the manufacturing sector started the year very confidently, around the middle of the year increasing uncertainty resulted in businesses adopting a wait-and-see attitude. The European debt crisis, the significant slowdown in the Chinese economy and concerns about the possible impending impact of a change in US fiscal policy were responsible for this. As a result, new orders in the manufacturing sector were restricted to what was necessary and production was reduced in the second half of the year. 2012 was also affected by the US presidential election.

The Federal Reserve continued its expansive monetary policy in 2012 in order to support the economy. Since late summer the QE3 programme has been running with the monthly purchase of $ 40 billion of mortgage backed securities. Following the end of the programme Operation Twist, the additional monthly purchase $ 45 billion of US treasuries was announced (QE3.5). These measures should keep long-term interest rates low. In addition to this, the Federal Reserve wants to keep the extremely low base rate until the unemployment rate has fallen below 6.5 per cent and inflation expectations have risen to above 2.5 per cent. Inflation does not currently represent a burden for the Federal Reserve.

As at the start of 2012, the euro was listed at the end of the year at close to $ 1.30. While the euro rose in the first quarter to $ 1.35, in the second quarter following uncertainty surrounding the European debt crisis, it fell to just over $ 1.20. The poorer economic figures from the USA also played a role here because they resulted in greater risk aversion among investors and a flight into US dollars. In the second half of the year the EU single currency, driven by a decline in risk aversion among investors and a correspondingly positive stock market performance, climbed to $ 1.30. The upward trend of the euro also continued after the turn of the year.

Financial Markets and Interest Rates

The debt crisis remains the dominant issue in the eurozone in 2012. In particular Greece remained the focus of attention. In March the haircut on Greek government bonds held by private creditors took place (PSI). Although this initially reduced Greece's debt burden, in part as a result of subsequently introduced Collective Action Clauses (CACs) being triggered, the accompanying credit package of the European Financial Stability Facility (EFSF) and the poorer development of the economy than had been forecasted by the International Monetary Fund (IMF) and European investors meant that the net effect on the debt ratio was negligible. The country's consolidation policy also stalled due to the long election campaign due to the repeated parliamentary election in spring. Due to the new funding gaps that emerged, Greece had to commit to new savings measures in order to benefit from a further package of measures. In addition to a reduction in interest rates, the deferment of repayments and the extension of credit periods, these included a debt buy-back programme which removed a net € 20 billion of the debt mountain by the end of the year. This kept the IMF in the boat of financers for the time being.

In the middle of the year Spain also secured the willingness of its European partners to support its stricken national banking sector. In addition to this, following pressure from Spain and Italy at the summit held in late June, the conditions linked to the receiving of financial aid were eased. In order to enable direct bank recapitalisation, negotiations concerning a single regulator for Europe also commenced. Initial consolidation successes and structural improvements in some countries followed, which could be seen in the development of primary balances and improvements in trade balances. Governance was also strengthened in the eurozone with the implementation of the Fiscal Pact and the start of the permanent European Stability Mechanism (ESM). Emergency appeals against the ESM were thrown out by the German Federal Constitutional Court, with the exception of those involving minor clarifications concerning the details of the treaty.

The European Central Bank (ECB) again emerged as the only institution capable of action. At the turn of 2011/12 it had shown its ability to intervene and tried to stabilise the markets with the unconventional measure of two three-year tenders totalling over € 1 billion. The June summit and the unusually heterogeneous interpretation of the results did not stabilise the markets – on the contrary. The uncertainty concerning the continuation of the debt crisis culminated in the middle of the year in growing doubts about the continued existence of the single currency. This resulted in an intense flight of capital from the southern euro states to regions and asset classes considered to be safe. The renewed lowering of the base rate to a new historic low of 0.75 per cent almost came to nothing. The ECB therefore felt compelled once again to take massive interventionary action.

In late July ECB President Mario Draghi hinted at what was introduced by the ECB Governing Council as the new purchase programme for European government bonds in September. With strict conditions, the ECB is willing to intervene in the markets for government bonds in unrestricted amounts where this is necessary for monetary policy reasons. Initially the announcement by the ECB alone was enough to end the flight from South European government bonds and resulted in a noticeable stabilisation of markets. Possible renewed massive distortions might prove to be the litmus test for the willingness and ability of the ECB to act and the extent of possible interventions via the markets.

The situation in the financial markets has stabilised noticeably of late. For instance, the yields of government bonds of the crisis countries have fallen significantly, and as a result the spreads on German government bonds have reduced. During the course of the year the yields of German government bonds with residual terms of ten years fluctuated between just under 2.1 per cent in mid-March and the new all-time-low of 1.17 per cent, which was recorded in early June and once again in mid-July. At the end of the year the yield on ten-year government bonds was 1.32 per cent; after the turn over the year this rose markedly to over 1.5 per cent. Share markets were also more optimistic in the second half of the year. The German share index DAX climbed by a good 1 700 points from the low for the year of 5 969 points recorded in early June to its high for the year of 7 672 points recorded on 20 December.

The yields of the government bonds of the crisis countries have fallen significantly since the end of July. The ECB has continued its expansive monetary policy. In July it lowered the main refinancing rate to the historically low level of 0.75 per cent. The interest rates for the deposit facility and the marginal lending facility were also lowered in line with this by 25 basis points. Money market rates subsequently fell and, due to the continuing policy of full allocation, the three-month Euribor was well below the tender rate, falling below 0.2 per cent for the first time in late October. At the start of 2013 the rejection of a further lowering of interest rates in the near future put a halt to the fall in money market rates and they even started to move slightly in the other direction.

Aircraft

According to the International Air Transport Association (IATA), air passenger traffic rose by 5.3 per cent in 2012 compared to the previous year. As in previous years there were great regional differences. Middle East airlines achieved above average growth with airlines in this region contributing almost one third of the growth in international passenger traffic. Among other things an increase in capacity, which allowed many new long-haul flights to Africa, Europe and the Asia-Pacific region, had a positive impact. Passenger traffic in the Asia-Pacific region also grew at an above average rate in 2012. Although Asia-Pacific airlines suffered from strong competition and the effects of a shift in the flow of goods in mid-2012, in the last quarter the rate of growth quickened due in particular to the upturn in the Chinese economy. The rate of growth of Asian imports and exports also quickened in the fourth quarter of 2012. In Europe solid growth was achieved despite the difficult economic conditions. This, though, was well below the previous year's growth due among other things to the negative developments regarding employment and lower consumer confidence in some regions. The slowest rate of growth in passenger numbers was recorded by North America. The reasons for the slow passenger growth in North America were among other things the restrictive management of capacity, restructuring and consolidation of North American airlines.

Global air freight fell by 1.5 per cent in 2012. The reasons for this were in particular the reduction in global trade due to the slowdown in growth of the global economy and the deepening of the crisis in Europe. Asian airlines in particular were negatively affected by this and reported negative growth due to a fall in demand from Europe and North America for Asian goods. Only Middle East airlines were able to record a significant increase in air freight in 2012.

The IATA raised its global profit forecast for airlines in its December Financial Forecast to $ 6.7 billion (previous forecast: September 2012 $ 4.1 billion). The net margin of around 1 per cent for global airlines is therefore still very low. Overall, the European airlines can only expect to break even. The North American airlines managed to further improve their profitability in 2012 due among other things to consolidation/cooperation effects and strict capacity and cost management.

Despite the fall in total firm orders compared to 2011, the order activity of aircraft manufacturers was at a good level in 2012 and in some cases exceeded general market expectations. Boeing recorded a total of 1,203 net new orders (2011: 805) – and in particular numerous orders for the 737 MAX. However, as expected, Airbus recorded a significant fall in net new orders in 2012 (833) following the record year of 2011 (1,419). The number of deliveries to Boeing in 2012 totalled 601 (2011: 477) and to Airbus 588 (2011: 534). Neither aircraft manufacturer had delivered so many aircraft in a single year before.

Ships

The momentum provided by the global economy in 2012 was much less than hoped for and required in order to haul the shipping sector out of crisis mode. Only the development in bunker prices, which fell from their record levels during the course of the year, provided relief on the cost side. Pressure on charter rates remained high as surplus tonnage available in the market initially reduced charter demand. The euro debt crisis also resulted in a significant fall in demand on the Far East-Europe trading route, particularly in the container segment. The continuing wave of megaliner deliveries (VLCS) with load capacities above 10 000 TEU could not be absorbed by slow steaming or shifting capacity to more profitable routes (North-South routes). Smaller ship categories were also impacted negatively due to a domino effect. In the tanker segment, surplus tonnage, a fall in demand and continuing geopolitical uncertainties had a negative impact. In addition to this, further strategically-driven orders by Chinese state-owned companies were launched; these did not reduce the capacity surplus with a phase-out effect (scrapping of old single hull tankers) and resulted in negative sentiment at the end of the year. Assuming that there will only be a moderate change in the global demand for oil, there was no sign of a revival at the turn of the year. Developments in the bulk goods market also provided little cause for joy. The weak state of the Chinese economy initially had a very negative impact in particular on the Capesize segment, which was still suffering from surplus tonnage. The effects of the hot spells in major producers of agricultural commodities such as the USA and Russia also reduced the demand for bulker capacity. The Baltic Dry Index was only able to record slight gains at the end of the year. Developments in the cruise industry were more positive though. Here the travel boom continued despite the disaster at the start of the year. The offshore segments also recorded a sustainable development with robust demand. This niche is currently in a period of radical change as fleets are being adjusted to meet changing requirements (for offshore use).

Real Estate

Global investment in commercial real estate rose slightly in the year under review (+ 36 per cent since 2010). Real estate is still considered to be an attractive asset class in view of the prospect of poor returns in other asset classes and the poor outlook for the global economy.

USA

In the USA investment in commercial real estate increased again in 2012 compared to the previous year. A very dynamic end to the year is responsible for this good result. The feared increase in capital gains tax related to the fiscal cliff triggered a wave of year-end transactions. There are still a lot of commercial properties that are causing financial difficulties, although the share of distress sales in the total investment volume was reduced further. Investors concentrated greatly on core properties in the core markets. The demand for first-class office space fell during the course of the year. In view of the low number of completions, vacancy rates fell still further. The rise in rents was slightly less than expected due to the lack of economic growth. The retail market showed the first signs of recovery with a slight reduction in vacancies.

Construction activity in the residential real estate market has been picking up since mid-2011. The current level of construction starts and planning approvals is slowly approaching the level seen before the outbreak of the financial crisis in the autumn of 2008.

Germany

2012 was the third best year for transactions in the German commercial real estate market. The transaction volume was just under € 25.6 billion. The good result is due not least of all to the sharp increase in investment turnover in the last three months. The share of foreign investors, which rose to almost 40 per cent during the course of the year, shows that German real estate is highly attractive particularly in times of turbulence and economic uncertainty. Office properties contributed almost 42 per cent to the overall result, while the share of retail properties in commercial turnover was only 30.5 per cent due to the lack of available properties. In addition to the office properties that were keenly sought after in 2012, logistics properties also made up ground.

Investors continued to compete for the supposedly most secure core properties. As the supply of these properties was much lower than the demand for them and new construction activity remained low, a significant increase in the supply of core properties cannot be expected in the current year either. Returns on core properties have fallen due to the high demand during the year across all types of use.

The office letting market has developed robustly of late due to the stable situation in the job market. Space turnover in the seven German property strongholds totalled 3.04 million m² in 2012. This equates to a fall of 11 per cent compared to the previous year. Due to the moderate level of new construction activity, the vacancy rate in Germany's seven largest office locations fell again.

2012 again was a positive year for letting retail properties. Though total space fell slightly to 590 000 m² the number of contracts rose from 980 to 989. The lack of attractive space in 1 A locations resulted in a further rise in rents. However, the rise in rents was lower than in the previous year.

There was also a high level of demand from investors in the housing market in 2012. The transaction volume for housing portfolios (> 10 residential units) totalled around € 11.1 billion and therefore exceeded the previous year's figure by 70 per cent. The German housing market remains extremely attractive for foreign investors. The share of foreign capital in this asset class has risen steadily in the last three years to currently 38 per cent.

Europe

Despite the continuing uncertainties in the eurozone and the worsening economic situation, investment in commercial real estate increased slightly in Europe in 2012 to around € 123 billion (+3 per cent compared to 2011). Investors continued to view Great Britain, Germany and France as the "safest havens". The three countries accounted for most of the investment volume. Investment activity in the Benelux countries and Central and Eastern European countries continued to increase, although starting from a low level, while the investment volume in Scandinavian countries fell.

At the start of 2012 European residential property prices reached the level seen before the outbreak of the financial crisis. However, a slight fall in prices has been recorded of late. The reasons for this are, despite the lower interest rates for lending, the tightening of lending guidelines by the banks and a rise in unemployment. The increased risk aversion has reinforced the divide between the countries in the eurozone. While countries such as Spain, Italy and Portugal continue to struggle with the adjustments to their markets, countries such as Germany, Sweden and Switzerland are among the "safe havens" in Europe.

NORD/LB's Earnings Position

The earnings position of NORD/LB was primarily affected in the financial year 2012 by the situation in the European economies (with the German economy remaining stable), the continuing and deepening crisis in the shipping sector and a further fall in the low-level interest rates in the money and capital markets. In addition to this, the financial markets have stabilised slightly with an associated fall in risk premiums.

The table below shows the profit breakdown:

	2012 (in € million)	2011 (in € million)	Change (in %)
Net interest income	1 325	1 302	2
Net commission income*)	151	167	– 10
Net income from trading activities	88	– 23	> 100
Administrative expenses	– 820	– 730	12
Other operating profit/loss*)	– 95	– 121	– 21
Operating result before loan loss provisions and valuation	649	595	9
Result of evaluation of receivables, securities and investments*)	– 369	– 144	> 100
Assumption of investment losses	– 10	– 42	– 76
Allocation to funds for general banking risks	–	– 100	– 100
Operating result after loan loss provisions and valuation	270	309	– 13
Extraordinary result	– 42	– 18	> 100
Partial profit transfer (silent participations)	– 97	– 160	– 39
Tax income	– 58	– 22	> 100
Profit for the year before appropriation of earnings	73	109	– 33

*) In the past financial year some net commission income and other comprehensive income and valuation result of loans and advances, securities and investments were reclassified. The previous year's figures were adjusted accordingly.

In the financial year 2012 the **operating result before loan loss provisions** improved compared to the previous year. Net interest income, net income from trading activities and other operating profit/loss developed positively in the past year. This was countered by a reduction in net commission income and the increase in administrative expenses.

In addition, the risk situation worsened significantly in the financial year 2012 due in particular to the worsening of the crisis in transport shipping. Overall the impairment required for loans and advances, securities and investments rose to € 369 million. Accordingly, the item **operating result after loan loss provisions and valuation result** reduced by 13 per cent to € 270 million (€ 309 million).

After taking account of the rise in negative extraordinary earnings to € 42 million (€ 18 million), the partial profit transfer to silent participations of € 97 million, which is 39 per cent less than the previous year (€ 160 million), and the tax expense of € 58 million (€ 22 million), a **profit for the year before appropriation of earnings** of € 73 million (€ 109 million) remains.

Net **interest income** is broken down as follows:

	2012 (in € million)	2011 (in € million)	Change (in %)
Interest income from			
Lending and money market transactions	3 074	3 233	– 5
Fixed-income and book entry securities	698	910	– 23
Current income from trading portfolio	1 500	1 932	– 22
	5 272	6 075	– 13
Interest for liabilities to			
banks	651	776	– 16
non-banks	1 008	1 042	– 3
Securitised liabilities	1 160	1 349	– 14
Current expense from trading portfolio	1 557	1 944	– 20
	4 376	5 111	– 14
Remaining interest and similar expenses	308	192	60
	1 204	1 156	4
Current income from shares and other variable-yield securities, investments and shares in affiliated companies	114	130	– 12
Income from profit pooling, profit transfer and partial profit transfer agreements	7	16	– 56
Net interest income	1 325	1 302	2

The continuing low level of interest rates in the money and capital market has resulted in a significant reduction in both interest income and interest expenses. An increase was realised in remaining interest and similar income, which includes in particular income from interest derivatives in the amount of € 391 million (€ 370 million). In addition to this, € 76 million net (€ 15 million) was realised from the liquidation of interest-rate derivatives, which were contracted for interest-rate risk control in the banking book compared to the trading book. The result of interest income less interest expenses is, at € 1 204 million, 4 per cent higher than in the previous year. Current income from shares and other variable-yield securities, investments and shares in affiliated companies fell by around 12 per cent. This reduction is attributable in particular to lower income from shares and other variable-yield securities. Although income from investments and shares in affiliated companies was lower than in the previous year, the reduction was much less pronounced. The development in the contribution from interest rate conditions and earnings from term transformations, referred to NORD/LB as the contribution from interest rate change risk control, is proof of the slightly positive trend in net interest income. As a result of the increase in margins, the contribution from interest-rate conditions in lending business rose. At the same time the contribution from interest-rate conditions in deposit business was only slightly below the previous year's level due to a limited-period special interest-rate campaign to attract/retain current account customers. Income from term transformation, shown at NORD/LB under interest-rate risk control and liquidity control, declined significantly. Given the liquidity reserves and a lack of lucrative investment opportunities, pressure on net interest income resulted in a loss in the financial year 2012.

Net commission income is at € 151 million below the previous year's result of € 167 million. Here commission income of € 219 million (€ 233 million) is seen alongside commission expenses of € 68 million (€ 65 million). In the financial year 2012 NORD/LB generated commission income primarily from lending business in the amount of € 120 million (€ 116 million), from payment transactions in the amount of € 30 million (€ 33 million), from securities transactions in the amount of € 24 million (€ 28 million) and brokering in the amount of € 22 million (€ 23 million). Commission expenses were primarily incurred in lending business in the amount of € 34 million (€ 24 million) and in securities transactions in the amount of € 18 million (€ 19 million). Included for the first time in commission expenses in this financial year are premiums paid in the amount of € 19 million to the states of Lower Saxony and Saxony-Anhalt for the provision of a possible guarantee. This guarantee is of a purely precautionary nature and may be used by NORD/LB if needed until the end of 2014.

Net income from trading activities improved due to the improvement in realised profit and valuation results of € 111 million to € 88 million (€ – 23 million) and were, unlike in the previous year, positive again. Reflected in this turnaround are primarily the stabilisation of financial markets in the second half of 2012, the associated reduction in risk premiums of NORD/LB's counterparties resulting in valuation gains in the trading portfolio, improved margins in NORD/LB's customer business and successful position management in interest-rate risks.

The increase in **administrative expenses** to € 820 million (€ 730 million) with the number of employees remaining constant was influenced by an increase in wages and salaries of € 15 million based on the collective wage agreement for private and public banks in June 2012 and by the resulting increase in pension provisions. Expenditure on pension schemes was at € 76 million therefore well above the previous year's figure of € 15 million. In addition to the change based on the collective wage agreement, the increased allocation to pension provisions is also attributable to the reduced discount factor as a result of lower interest rates. Social security contributions were at € 39 million virtually unchanged compared to the previous year. Other administrative expenses increased by € 9 million to € 352 million, although this figure includes some expenses that actually fell. Here in particular donations in the amount of € 22 million should be highlighted; these relate primarily to the capitalisation of NORD/LB's newly founded Lower Saxony Art and Culture Foundation. In order to secure its competitive position, NORD/LB launched an efficiency improvement programme in March 2011 with the goal of sustainably stabilising the cost of materials and staff expenses.

Other operating profit/loss improved in the financial year 2012 by € 26 million to € – 95 million (€ – 121 million). This includes the profitable sale of the "Tulips" sculpture by Jeff Koons in the amount of € 21 million which was used to finance the donations. Losses from the repurchase of liabilities totalling € 50 million that were completed for the purpose of investor relations reasons and the management of the overall bank's position had a balancing effect. The annual contribution to the restructuring fund for banks included in this item totalled € 26 million.

The **valuation result of loans and advances, securities and investments** was primarily influenced in the past financial year by the continuing and deepening crisis in the shipping sector. The negative valuation result of € 369 million is primarily attributable to the net loan loss provisions of € 351 million.

The write-down requirement for investments and shares in affiliated companies totalled € 18 million in the financial year 2012. However, the write-up of securities was greater than the write-down and the requirement for loan loss provisions.

Losses transferred from investments recorded at € 10 million (€ 41 million) a positive trend compared to the previous year. This is attributable in particular to a significant reduction in the write-down requirement for Nord-Ostdeutsche Bankbeteiligungs GmbH and the corresponding reduction in the loss transferred.

An **allocation to the fund for general banking risks** in accordance with §340g of the German Commercial Code (HGB) does not need to be made for the financial year 2012 due to the positive earnings from financial transactions in the trading portfolio, as this item is covered sufficiently in accordance with § 340e para. 4 clause 2 no. 2 of the German Commercial Code.

Extraordinary earnings include in addition to transition effects in the amount of € 19 million relating to the initial application of the German Accounting Law Modernisation Act (BilMoG) restructuring expenses in the amount of € 23 million relating to the efficiency improvement programme. These concern employee-related expenses for measures to reduce material costs, staff expenses and commission expenses.

Due to the conversion of silent participations into core capital at the end of the financial year 2011, the **partial profit transfer** reduced in the financial year 2012 from € 160 million to € 97 million.

NORD/LB Assets

The table below shows the condensed balance sheet items as at 31 December 2012 alongside the figures for the previous year.

	2012 (in € million)	2011 (in € million)	Change (in %)
Assets			
Loans and advances to banks*)	34 705	30 711	13
Loans and advances to customers*)	64 040	65 605	– 2
Securities	30 210	32 452	– 7
Trading portfolio	9 521	9 348	2
Investment property and shares in affiliated companies	2 077	2 175	– 5
Other assets	8 293	8 017	3
Total assets	148 846	148 308	0
Liabilities			
Liabilities to banks*)	46 674	39 942	17
Liabilities to customers*)	36 940	40 086	– 8
Securitised liabilities	40 918	44 074	– 7
Trading portfolio	4 568	4 020	14
Provisions	1 331	1 213	10
Participatory capital and subordinated liabilities	2 641	2 817	– 6
Bank's own funds	7 044	6 789	4
Other liabilities	8 730	9 367	– 7
Total liabilities	148 846	148 308	0
Balance sheet data			
Contingent liabilities	5 840	8 466	– 31
Other obligations	7 010	6 849	2
Business volume	161 696	163 623	– 1

*) In the past financial year some loans and advances to customers were reclassified as loans and advances to banks and some liabilities to customers were reclassified as liabilities to banks. The previous year's figures were adjusted accordingly.

Total assets were at € 149 billion virtually unchanged compared to the previous year. The assets side is again defined by lending business. Loans and advances to banks increased primarily due to the increase in liquidity reserves and greater liquidity control within the Group by around € 4 billion. The increase in municipal loans under the item loans and advances to customers was only partly balanced by the fall in mortgage loans and other loans. The development of the item securities was affected by the strategic reduction of investment items. However, securities were used to increase liquidity reserves and security. Securities represent at € 30 billion (€ 32 billion) 20 per cent (22 per cent) of total assets. By reducing the investment portfolio and making necessary write-downs, the value of investments and shares in affiliated companies was reduced by 5 per cent compared to the previous year. Significant items under other assets include trust assets, deferred items and pro-rata and due interest relating to interest-rate swap transactions.

In line with the assets side of the balance sheet, liabilities to banks rose significantly due in particular to greater liquidity control within the Group and now represent the largest item on the liabilities side at € 47 billion (€ 40 billion). Liabilities to customers, on the other hand, are at € 37 billion below the previous year's value of € 40 billion. This fall is attributable in particular to registered covered bonds (Pfandbriefe) and other liabilities, while savings deposits were virtually unchanged compared to the previous year. Reflected in the reduction in securitised liabilities to € 41 billion (€ 44 billion) is the reduced requirement for long-term refinancing. Provisions were increased by 10 per cent primarily due to a greater requirement for pension provisions compared to the previous year. Reported under other liabilities are trust assets, deferred items, the fund for general banking risks and an adjustment item for foreign currency transactions.

The capital-boosting programme launched in 2011 was continued in the past financial year and further silent participations were converted into core capital. The own funds ratio was 4.7 per cent as at the reporting date (4.6 per cent).

Regulatory own funds totalled € 8 754 million as at 31 December 2012 (previous year € 8 835 million), of which € 7 412 million related to core capital (€ 7 173 million). The own funds ratio (= total ratio) makes up 17.8 per cent of risk-weighted assets compared to 16.0 per cent in the previous year.

The fall in contingent liabilities to € 6 billion (€ 8 billion) is due to a fall in the volume of guarantees for credit derivatives.

Development of the Business Segments

(in € million)	Private and Commercial Customers	Corporate Customers & Markets	Energy and Infrastructure Customers	Ships and Aircraft Customers	Real Estate Banking Customers	Investments/ Others	Operating income	Income statement
Operating result before loan loss provisions and valuation	3	348	92	293	53	– 140	649	649
Loan loss provisions and valuation	1	– 55	– 18	– 319	– 61	73	– 379	– 379
Operating result after loan loss provisions and valuation	4	292	73	– 26	– 8	– 66	270	270
Previous year	44	242	82	174	65	– 296	309	309
CIR	98 %	32 %	32 %	14 %	15 %		56 %	56 %
CIR for the previous year	78 %	35 %	29 %	11 %	16 %		53 %	53 %
RoRaC/RoE	1 %	35 %	21 %	– 1 %	– 2 %		2 %	2 %
RoRaC/RoE for the previous year	24 %	37 %	30 %	15 %	16 %		2 %	2 %

CIR (Cost-Income Ratio) = Administrative expenses / (Total earnings including balance of other income/expenses)
RoRaC (Return on Risk-adjusted Capital) for the business segments = (Earnings before taxes) / Committed core capital (7 % (previous year: 5 per cent) of the higher of the RWA limits and the amount called on)
RoE (Return on Equity) for the overall bank = (Earnings before taxes) / Long-term equity under commercial law (= reported equity capital – silent participations – earnings after taxes + fund for general banking risk

The CIR for 2012 was 56 per cent, 3 per cent higher than in 2011. The greater increase in administrative expenses compared to the increase in income was responsible for this. The increase in administrative expenses is primarily due to the significant increase in staff expenses as a result of increased allocations to pension provisions due to the double tariff agreement. On the income side, the trading profit/loss in 2012 was increased significantly in both realised profit and in the valuation result, while there was a slight increase in net interest income. Net commission income from customer business was stable compared to the previous year; the reduction was the result of the first-time inclusion of expenses for the guarantee provided by the states.

A capital securitisation level of 7 per cent (previous year: 5 per cent) of risk-weighted asset values applies for calculating committed capital in the segments. RoRaC calculations in the segments include earnings before taxes of committed capital (here 7 per cent (previous year: 5 per cent) of the higher value out of the RWA limit and the amount called on). The calculation of the Group's return on equity (RoE) complies with the standard international definitions of financial ratios (see above for the definition).

The continued boosting of equity in 2012 had no noticeable impact on the development of the RoE. Earnings before taxes are virtually unchanged compared to 2011. The RoE is 2 per cent.

Private and Commercial Customers

As well as business with private, individual, commercial and small-business customers in the Braunschweig region, Hanover and Hamburg, the private and commercial customers segment also includes middle-market corporate customer business in the Braunschweig region. In this business segment NORD/LB assumes the role in the Braunschweig region of a savings bank in the form of Braunschweigische Landessparkasse, founded on 1 January 2008 as an institute with partial legal capacities, a so-called “Anstalt in der Anstalt”, or “AidA” for short, translated as an institute within an institute.

Braunschweigische Landessparkasse is a sales savings bank with approximately 400,000 customers and an extensive presence. As a member of the savings bank financial group it has access to its range of services. As an integral part of NORD/LB it also has direct access to the full range of an internationally active landesbank.

Based on its leading position in the market, its strategic goal of quality leadership in consulting and service was pursued systematically in 2012. The key for quality leadership in private customer business is a high standard of customised and long-term-oriented advice. The S finance check, a tried-and-tested instrument of the savings bank group, ensures that full consideration is given to the respective customer's individual situation.

In the past year a wide range of attractive products has been provided for a range of customer-specific requirements, from personal loans to the "TopZinsKonto" (Top Interest Account).

Due to the major success of the "Geburtstagskredit-kampagne" (Birthday Personal Loan campaign) in 2011, another campaign took place in 2012. In particular the use of comparison websites to advertise it for the first time, which rated it as "good" to "very good", should be highlighted. With its interest rate for the Birthday Personal Loan, Braunschweigische Landessparkasse was listed among the Top 3 by comparison websites. Insurance business, in particular property insurance, was expanded as a result of cooperating more closely with ÖVBS.

Sales also focused on property-related issues in 2012, with quality advice and long-term customer support at the heart of this. The introduction of a fixed interest rate for up to 25 years for real estate finance has also been very well received by the customers concerned. The volume of construction loans in private customer business was increased compared to the previous year due among other things to this offer.

In fund business there was particular focus on the benefits of fund savings plans for long-term asset accumulation. In cooperation with the network partner DekaBank, the broad "Weit kommen gesichert" (go far with protection) campaign attracted considerable attention from customers.

The Top Interest offer in June and July 2012 aroused particular interest. During the period of the campaign a lot of new customers were gained and a significant increase in deposits was achieved.

Particular attention was also paid in the past financial year to new generation customers. The Germany-wide sales campaign "Giro sucht Hero" (Giro looks for a hero) went into a second round, with the savings bank's giro account portrayed as an "advertising star". The new career-starter campaign was launched just in time for the start of apprenticeship programmes, and as part of the World Savings Day young customers were targeted with among other things attractive gifts.

In the area of asset management the focus was on new customer acquisition and activating and intensifying existing customer relations. A special campaign targeted one-product customers in a multi-stage mailshot, making them aware of various investment products. This special campaign was also supported by a range of special marketing events.

In Private Banking the comprehensive advisory approach was extended with detailed and modular asset planning and inheritance and foundation management. The target group here includes very wealthy private customers, self-employed and employed entrepreneurs and freelancers who receive advice from corporate and private customer advisers. As in previous years, Private Banking was again tested by Fuchs-Briefe, a leading reference medium, and awarded an excellent third place for its consistently excellent quality in supporting foundations.

In the middle-market corporate customers business in the Braunschweig region, as in the previous year the focus in 2012 was on providing comprehensive advice supported by the use of the S finance concept. In order to take the specific requirements of freelancers fully into account, specialist advisers for this customer group were installed in 2012. In addition to this, business with municipalities was intensified.

In cooperation with Braunschweig Zukunft GmbH, the Braunschweig Start-up Prize was awarded for the second time. Every two years successful business founders will receive awards for being "pioneers". The doubling of the prize money in the year under review to € 10 000 shows the importance Braunschweigische Landessparkasse attaches to start-up businesses, for which it has employed specifically qualified start-up advisers.

The product range in Braunschweigische Landessparkasse's corporate customer business was extended by the Business-Kapital account. Corporate customers therefore have at their disposal an interesting and easy-to-manage form of investment for money that is available on demand with attractive staggered interest rates. NORD/LB acquired around € 295 million with this product.

Earnings in the Private and Commercial Customers segment fell by € 40 million to € 4 million. This was largely due to a fall in net interest income and an increase in staff expenses.

The fall in net interest income was affected by a sales campaign for private customer deposits in the second half of 2012 in which customers were offered conditions above the level of the market and competition in order to acquire deposits. Further reductions in earnings from deposit business are attributable to special conditions for corporate and commercial customers. In lending business, a slight increase in earnings was achieved compared to the previous year.

Net commission income fell compared to the previous year. This was largely due to turbulence in the capital markets, which put off in particular many small investors from investing in securities.

Loan loss provisions in private customer business are close to zero. In the past financial year loan loss provisions in the amount of € 1 million were reversed. In the previous year an allocation to loan loss provisions of € 1 million needed to be made.

As a result of the large increase in the allocation to pension provisions due to the double tariff agreement in 2012, staff expenses rose by € 14 million in the year under review. The cost of materials is at the same level as the previous year.

With an increase in the calculated capital requirements and significant fall in earnings, the segment's RoRaC fell to 1 per cent. The CIR rose to 98 per cent.

Corporate Customers & Markets

The "Corporate Customers & Markets" segment created in 2012 combines the expertise of the former Corporate Customers, Savings Bank Network (Institutional Savings Bank Business, Savings Bank Syndicate Business and Municipal Business segments) and parts of the Financial Markets (Institutional Customers and Corporate Sales) segment. The aim is to offer the bundled products and services to customers in a more customer-oriented and customer-focused manner.

Corporate Customers Sub-segment

NORD/LB's Corporate Customers business comprises the special financing segments of Agricultural Banking and Housing in addition to business transacted with middle-market corporate customers primarily in Northern Germany (excluding the business of Braunschweigische Landessparkasse and Bremer Landesbank). At the same time NORD/LB acts as a partner to the savings banks and their corporate customers for syndicate business in the network region with an extensive product range.

NORD/LB's performance in corporate customer business was once more very pleasing in 2012 and the bank was able to successfully build on its position as a middle market bank. Around 120 companies were acquired as new customers all over Germany. New business in the area of acquisition finance experienced dynamic growth. NORD/LB was able to successfully establish itself as an arranger here. In North Rhine-Westphalia NORD/LB stepped up its activities and steadily increased the number of corporate customer advisers.

In addition to traditional credit financing, the focus was on individual, innovative solutions in close cooperation with the Corporate Finance product division. NORD/LB issued further bonded loans very successfully in the capital market for its customers in 2012. Bonded loans offer an individual and flexible alternative to traditional bank loans. For customers this form of finance, with which is obtained without having to declare the purpose, represents an interesting opportunity to gain first experience in the capital market and to make themselves known to external investors. This significantly increases their entrepreneurial and financial flexibility in competition.

Alternative forms of capital procurement were a key concern for many customers. Finance solutions such as factoring, reverse factoring and borrowing base financing provided NORD/LB's customers not only with the required liquidity, but at the same time optimised the structure of their balance sheets.

Customers also made use of NORD/LB's expertise and competitiveness in the area of interest and currency management in order to obtain planning reliability with long-term interest hedging strategies based on the historically low level of interest rates.

NORD/LB's special expertise in the area of housing is making an impact nationwide. The bank is one of the leading financers in the housing sector in Germany. In view of the demographic changes, requirements in the area of energy efficiency in the housing stock and the supply of housing, municipalities and other parties involved in housing face major challenges. For example, NORD/LB financed in a consortium with Sparkasse Hannover one of the largest public-private-partnership projects in the country in which a school complex from the 1970s was to be pulled down and rebuilt to meet the latest educational and energy-efficiency standards. With intelligent solutions such as sale-and-lease-back finance and forward loans, NORD/LB helped its housing customers to optimise their financing structures, improve their rating, release liquidity and not least of all retain their real estate assets.

NORD/LB also reinforced its market position as the most important special financer in Agricultural Banking in the year under review. The exclusive use of agricultural economists with specific knowledge on the structures, production processes and market parameters in the agricultural sector is making an impact nationwide. For example, NORD/LB helped its agricultural customers to implement necessary adjustment processes and financed businesses in rural areas. Due to among other things the amended Renewable Energies Act (EEG 2012), which places more complex demands on newly constructed biogas plants, the level of investment in biogas plants has fallen. For many agricultural enterprises such investments were now proving to be uneconomical. Despite the falling trend of investment in newly constructed biogas plants near to farms, NORD/LB financed 20 new biogas plants near to farms and ten new wind power plants with a total output of approx. 100 megawatts and a credit volume of approx. € 150 million.

Due to the pooling of expertise, the savings bank syndicate business was geared even more to the needs of the savings banks and their customers. The number of customers in the network region has increased steadily. The volume trend was slightly upward due to new business despite the high proportion of repayments of existing finance. The focus remained on energy suppliers (e.g. public utilities companies), infrastructure/logistics, automotive suppliers and wood processing. There was also growing demand in the area of renewable energies.

NORD/LB continues to offer its associated savings banks loans for indirect investment via its syndication platform. In addition to traditional investment finance, recently its business activities in its savings bank syndicate business have focused on public utilities companies. Many licence contracts for electricity and gas networks that are currently being awarded involve the remunicipalisation of power networks, with the result that NORD/LB has been able to offer the respective public utilities companies its advisory and finance expertise as they finance the takeover of the power networks.

The Corporate Customers segment's contribution to the operating result after loan loss provisions and valuation result totalled € 134 million. Although this result is lower than the previous year's result due to the amount of loan loss provisions, it is better than expected due to the positive earnings development.

The Corporate Customers segment's net interest income continued to develop positively and improved compared to the previous year by 9 per cent (€ +16 million). In lending business the expansion strategy was reflected in increased volumes while at the same time maintaining margins. In deposit business the result was slightly above the previous year's.

The profit/loss from services rose moderately in 2012 after a significant increase in the previous year, while the trading profit/loss remained at the previous year's level.

It was not possible to repeat the previous year's very low level of loan loss provisions. An increase of € 33 million was recorded, which was in line with expectations.

Investments in the Corporate Customers segment resulted in an increase in operating costs. Much of the increase is due though to an increased allocation to pension provisions.

Markets Sub-segment

The Markets sub-segment is responsible for providing the other business segments with advice and the sales of institutional customers and savings banks.

Driven by an increase in demand from companies for capital-market-oriented financing solutions, the "Origination Corporates" unit has in turn developed successfully. Overall the number of debentures mandates has been increased significantly in cooperation with the Corporate Customers segment and the Corporate Finance product division. A total volume of over € 1 billion was issued, enabling NORD/LB to further establish its position in this market segment as a partner of middle-market businesses.

On 10 July 2012 NORD/LB issued the first ever aircraft Pfandbrief (mortgage covered bond) worldwide and in so doing successfully paved the way for a new covered bond product. This historic issue was made possible by the amendment to the Pfandbrief Act in 2009, which allows Pfandbriefe to also be secured by aircraft mortgages. Following a pan-European roadshow, the issue took place before the summer break. This first ever issue of an aircraft Pfandbrief was met by overwhelming demand from investors. For this reason the issuer closed the order book before an hour had passed with an order volume close to € 1.2 billion; € 500 million was finally allocated.

On 17 July 2012 NORD/LB successfully placed its second benchmark bond of 2012 on the market following its aircraft Pfandbrief with a long 7-year public sector Pfandbrief. Following the excellent take-up of the previous week's issue, NORD/LB made use of the available issuing window to place a further well-oversubscribed issue in a very short space of time in "Jumbolino" format. This Pfandbrief issue was again met by very high demand from investors.

In October 2012 the first issue of a US dollar public sector Pfandbrief with a term of three years and a volume of $ 1 billion followed. The issue was placed under the lead of an international syndicate. In accordance with Rule 144A of the US Securities Act, the Pfandbrief could also be directly acquired by qualified institutional investors in the USA. This is the first issue by a German issuer in the US capital market since 2006. After just three hours the order book had already greatly exceeded the advised benchmark volume of $ 1 billion with more than $ 3 billion. In line with expectations, approx. 60 per cent of the volume was placed with qualified institutional investors in the USA. The issue was given an "Aaa" or "AAA" rating by Moody's and Fitch.

NORD/LB also concluded two major risk-hedging transactions in the past financial year. This first was a Blue Rock, a new type of synthetic securitisation transaction involving infrastructure loans from UK with a total portfolio value of around GBP 360 million, and the second was a state guarantee. Due to the successful structuring of the Blue Rock securitisation transaction, NORD/LB was able to offer institutional investors a new investment alternative and positively influence the bank's RWA.

The state guarantee is a mezzanine finance guarantee provided by the states of Lower Saxony and Saxony-Anhalt in the amount of € 700 million on a total portfolio of more than € 14 billion, spread across different loan classes such as aircraft, middle market and real estate finance. The state guarantee is of a purely precautionary nature and enables NORD/LB to release RWA and equity if required until 2014. During this period NORD/LB will pay the two guarantors a commitment fee.

The Markets sub-segment was again able to generate a very good result with existing customers in 2012. The operating result after loan loss provisions and valuation rose compared to the previous year by € 72 million to € 156 million. This is primarily attributable to the positive development in the financial markets, lower costs of liquidity and as a result a better-than-expected positive trading profit/loss. In the previous year the division was negatively affected by market turbulence and the euro crisis. The positive trading profit/loss therefore more than compensated for the fall in interest income from securities transactions.

Overall, the Markets sub-segment achieved earnings of € 258 million, which compared to the previous year equates to an increase of around 58 per cent. Operating costs rose compared to the previous year by € 21 million; this was primarily attributable to increased costs for projects such as OTC Derivatives and MUREX 3 Migration and the increase in staff expenses for pensions.

Municipal Business Sub-segment

In the Municipal Business sub-segment business with the public sector in the states of Lower Saxony, Saxony-Anhalt, Mecklenburg-Western Pomerania and Bremen is consolidated. In addition to its traditional municipal business, NORD/LB provides municipalities with comprehensive advice on all matters concerning municipal finance.

The Municipal Business sub-segment's contribution to the operating result after loan loss provisions and valuation totalled € 3 million, an improvement of € 5 million on the previous year's result. Earnings from lending business with municipalities were in line with the previous year's result, while administrative expenses fell due to an increase in the amount of costs for services rendered that were reallocated internally.

Corporate Customers & Markets Segment

In the Corporate Customers & Markets segment the operating result after loan loss provisions and valuation improved by € 51 million to € 292 million. In particular the € 130 million improvement in the Markets sub-segment's trading profit/loss contributed to this positive development. Developments in the area of net interest income (€ – 16 million due to lower interest income from securities transactions), loan loss provisions (€ + 35 million) and administrative expenses (€ + 27 million for investments, projects and allocations to pension provisions) had a negative effect.

The CIR improved due to the much improved income situation compared to the previous year from 35 per cent to 32 per cent. The RoRaC fell due to the increased capital adequacy requirements from 37 per cent to 35 per cent.

Energy and Infrastructure Customers

In the Energy and Infrastructure Customers segment activities focus on the structuring and arranging of individual financing solutions for mainly project-related transactions of energy and infrastructure. The central locations of the strategic business segment are Hanover and London, with support also being given to customers of the New York, Singapore and Shanghai branches.

In the area of renewable energies, the focus is on financing energy production from wind and solar energy/photovoltaics. NORD/LB has been financing projects in the area of renewable energies since the beginning of the 1990s. Its core customers include established project developers, operating companies and plant manufacturers. The focus is on building long-term customer relationships (franchise) and supporting customers in the relevant markets.

Despite the challenges of crisis-ridden markets, NORD/LB was able to maintain its market position as one of the leading financers of renewable energies in Europe and in particular in Germany and Ireland. In particular the arrangement, structuring and financing of one of the largest open area solar parks in Europe should be highlighted here. The 90-megawatt project in Brandenburg was developed and supplied by a German module manufacturer. A well-known Hamburg asset manager acted as the final sponsor. With this project NORD/LB provided proof that it is one of the leading banks for major projects in the renewable energies sector.

In Ireland NORD/LB structured and arranged in 2012 a wind power project for a German developer from the Frankfurt region in which German wind turbines were used. NORD/LB is therefore not only supporting the exporting of German project development expertise, but also the exporting of German turbine technology to those locations that have excellent wind resources.

In the area of infrastructure, NORD/LB is financing projects in public-sector building construction, social infrastructure and transport infrastructure. In doing so, NORD/LB supports its customers from the start of the invitation-to-tender process to the conclusion of contracts. The bank's status as a public bank, its proximity to the public sector and its high level of expertise represent significant added value for customers in the structuring and negotiation of flexible and attractive financing structures.

In the area of state and municipal infrastructure finance, it is evident that as a result of the national debit crisis consideration is increasingly being given to finance where the state or municipality shares the financing with private and/or institutional investors (public-private partnership ("PPP") finance).

NORD/LB extended its market position in the financing of infrastructure investment in 2012 with the structuring and financing of further projects particularly in Germany and France. For example, NORD/LB concluded an agreement to finance the new vehicle fleet of one of the major rail networks in its home market of Lower Saxony. It also arranged and structured the construction of a court building in Paris, the biggest PPP project to date in the justice sector. NORD/LB is participating in the financing during the construction phase and in the long-term Cession Dailly tranch.

In 2012 a mezzanine tranch of a high-value credit portfolio of 20 different British infrastructure projects was placed with an institutional investor (Blue Rock), which shows the great interest that capital market investors have in the asset class of infrastructure.

Overall the segment's contribution to the operating result after loan loss provisions and valuation fell by € 8 million to € 73 million. This development is attributable to higher loan loss provisions and an increase in operating costs. Loan loss provisions increased compared to the previous year despite lower allocations due to even lower reversals by the net amount of € 4 million. The increase in operating costs in this segment by € 4 million to 43 million is the result of an increase in staff expenses (in particular allocations to pension provisions) and an increase in the expense from internal cost allocation. The material expenses decreased instead.

The profit/loss from services and trading was slightly below the previous year's high figure, while the contribution to net interest income was also down slightly due to lower margins. Due to an improvement in other operating profit/loss, earnings remained roughly the same.

The overall development of the income items and the higher capital adequacy requirement resulted in the RoRaC falling compared to the previous year to 21 per cent (30 per cent). The CIR rose to 32 per cent (29 per cent) and remains at a low level.

Ship and Aircraft Customers

Ship Customers Sub-segment

NORD/LB has been involved in ship finance (commercial and specialist ships) for many years and has become one of the world's leading providers in this global market, which has an established customer structure.

2012 marked the fourth year of crisis in a row in the shipping sector. As expected at the start of the year, the twelve months turned out to be the hardest yet in the shipping sector. In addition to falling values in virtually all ship categories, charter rates showed no sign of recovery.

In the container segment the price war among shipping lines came to an end and freight rates rose gradually throughout the year. However, the euro debt crisis resulted in significant falls in demand, which had a negative impact on one of the most important trade routes (Far East-Europe). This impact together with the continued high number of deliveries of large container ships affected in particular chartered ships.

The tanker market was initially affected positively by the impact of the embargo against Iran, but then fell behind expectations. Here too the reasons for this were surplus capacity and the slowdown of the global economy.

The bulker segment suffered on the demand side in 2012 from the droughts in the year and the less-than-forecasted growth in the Chinese economy, which greatly affected the largest bulker segment in particular. As there was again surplus tonnage in the market in 2012, rates were volatile and remained on the whole low.

Regarding the overall portfolio, NORD/LB has accounted for the difficult conditions with active risk management. However, it should be noted that the long-lasting crisis is also reflected in the form of an increase in loan loss provisions.

The structure of the shipping portfolio (Exposure at Default € 11.9 billion) as at 30 September 2012 is broken down as follows:

Ship type	Exposure
Container	33 %
Bulker	10 %
Multipurpose	9 %
Product tanker	8 %
Others	40 %

At individual customer level, activities continue to focus on supporting existing customers. Even in this difficult environment customers were supported in particular with follow-up finance or the extension of existing finance. Numerous restructurings also took place.

In the limited and selective new business the focus was increasingly on equity-friendly forms of finance, so-called ECA-covered finance, and finance not related to commercial shipping. NORD/LB intensified its cooperation with the Korean state-owned insurance company Korea Trade Insurance Corp. ("K-Sure"), Seoul, by concluding a framework agreement in the form of a Memorandum of Agreement. Within the scope of a joint financing arrangement, NORD/LB obtains from the export insurance company a guarantee for 95 per cent of the loan amount plus interest, which provides the bank, over and above the credit rating of the respective borrower, with the very good credit rating of South Korea as additional security. Examples of such ECA-covered finance were the financing of three bulk carriers covered by K-Sure. Two car transporters were also financed with the Chinese state-owned export insurance company China Export & Credit Insurance Corp. (Sinosure), Beijing.

NORD/LB also helped structure within the scope of a club deal the construction of the crane ship "Vidar" that was to be used in the assembly of offshore wind turbines; a good example of a successful inter-bank collaboration that was enhanced by NORD/LB's expertise in financing energy projects and specialist ships.

The fall in business volume due to the targeted portfolio control was more than compensated for by a risk-adequate increase in the credit margin in various credit commitments, with the result of an increase in interest income (€ + 17 million). The profit/loss from services was again very pleasing and improved in particular due to earnings from restructuring (€ + 5 million). The very difficult situation in the shipping markets is reflected in loan loss provisions. Compared to the previous year they have risen significantly by € 216 million to € 316 million.

Aircraft Customers Sub-segment

NORD/LB is one of the market leaders in the area of aircraft financing and offers its customers a wide range of commercial and covered finance for wide-body, narrow-body and regional aircraft.

The global growth in air transport (passenger and air freight) slowed to October 2012. According to the IATA, air passenger traffic rose by approximately 5.3 per cent in 2012 compared to the previous year. Falls were recorded in the air freight markets. As in previous years, however, there were great geographical differences. In Europe good growth was achieved despite the difficult economic conditions, with Middle East airlines achieving above average growth particularly in the long-haul segment. Here among other things an increase in capacity, which allowed many new long-haul flights to Africa and Europe, had a positive impact. Asia / Pacific on the other hand was one of the weakest regions. In this region the airlines suffered from strong competition and the effects of the poor states of the economies in the USA and Europe.

A slight upward trend was only recorded in the air freight markets at the start of 2012; during the rest of the year the trend was downward. The reasons for this development were in particular the increasing reduction in global trade due to a slowdown of the global economy and the worsening of the crisis in Europe. Declining consumer confidence in large parts of Europe resulted in among other things a fall in demand for goods which are produced in Asia and transported by air freight. Only Middle East airlines recorded a significant increase in air freight to October 2012.

The order activity (option and firm orders) of aircraft manufacturers was at a good level in 2012 and in some cases exceeded general market expectations, although the number of firm orders fell overall compared to the previous year. Boeing continued to benefit from a certain catch-up effect and recorded numerous orders for the 737 MAX. However, as expected Airbus recorded a significant fall in firm orders following the record year of 2011.

NORD/LB's new business remained brisk and concentrated on modern and functional types of aircraft. Since the start of 2012 a positive development in new business has been recorded with RWA-friendly structures. The credit volume remained constant due to expirations and repayments. In particular the high average margin of new business contributed to the division's good overall result. Interest income increased by a total of € 13 million. The profit/loss from services and trading was slightly below the previous year's figure but in line with expectations.

Lending focused on conservative lending against collateral again proved to be reliable from a risk point of view. There was again no need to make significant loan loss provisions for the portfolio in 2012.

With the first issue worldwide of an aircraft Pfandbrief, NORD/LB also managed to successfully broaden its refinancing instruments. The Pfandbrief has a volume of € 500 million. The term is five years; the envisaged spread over the mid-swap rate was even reduced in the end due to the order book being oversubscribed several times over.

Ship and Aircraft Customers Segment

Overall the Ship and Aircraft Customers segment was unable to repeat its result of the previous year; the operating result after loan loss provisions and valuation was negative in 2012 at € – 26 million. This equates to a fall in earnings of € 200 million compared to the previous year. This fall in earnings is entirely attributable to the increase in loan loss provisions in the area ship financing. Earnings from aircraft financing increased by € 9 million.

Accordingly, the segment's RoRaC is negative. Due to the increase in costs as a result of the high level of resources tied up during the crisis in the shipping sector, the CIR rose to 14 per cent (previous year: 11 per cent).

Real Estate Banking Customers

NORD/LB concentrates its commercial real estate business in the wholly-owned subsidiary Deutsche Hypothekenbank (Actien-Gesellschaft). Since 2009 its existing business has been gradually transferred to Deutsche Hypo. Credit commitments which have not yet been transferred, i.e. those for which NORD/LB is still liable, will be managed by Deutsche Hypo within the scope of a mandate.

The real estate portfolio still with NORD/LB in the year under review primarily comprises existing financing projects in the target markets of Germany, Western Europe and the USA which are no longer defined as the target market. The portfolio includes office and retail properties, multi-storey residential properties, hotels and logistics properties. Borrowers are professional real estate banking customers who primarily generate their cash flow from real estate business or regularly make major real estate investments. NORD/LB no longer takes on new business involving commercial property.

Compared to the previous year the contribution to the operating result after loan loss provisions and valuation in NORD/LB's Real Estate Banking Customers segment fell significantly to € – 8 million (€ 65 million). In addition to a fall in income, in particular the increase in loan loss provisions is responsible for this development.

Earnings in NORD/LB's Real Estate Banking Customers segment totalled € 63 million (€ 84 million). As a result of the gradual reduction in the portfolio due to the transfer of business to Deutsche Hypothekenbank and scheduled and unscheduled repayments in NORD/LB, income from interest-rate transactions fell sharply compared to the previous year. A slight fall was also recorded in the profit/loss from services and trading.

The increased loan loss provisions in the year under review of € 61 million (€ 6 million) are primarily attributable to specific valuation allowances relating to two existing commitments as part of the restructuring.

Administrative expenses reduced further to € 10 million (€ 13 million). The reduction in the portfolio and the further reduction in personnel capacity resulted in a fall in staff expenses, the material expenses and internal cost allocation.

Due to the positive development in earnings, the RoRaC fell from 16 per cent to –2 per cent. The CIR improved slightly to 15 per cent (16 per cent). RWA fell in line with the transfer of existing business to Deutsche Hypothekenbank.

Group Controlling/Others

Reported under Group Controlling/Others are all sources of income directly related to business activities which are not controlled by the profit centres. These are mainly sources of income which are not allocated to the profit centres, such as investment and financing income (among others, income from investments of capital) and administrative expenses relating to non-allocated service centre items, overhead costs and projects covering the entire bank. Elements of other operating profit/loss such as the bank levy, expenses relating to the restructuring and certain provisions are also allocated to this segment.

Also reported here are reconciliation items from profits/losses from internal accounting and external reporting in the income statement, consolidation items, requirements for valuation in the liquidity reserve portfolio and changes to provision reserves in accordance with § 340f HGB and the fund for general banking risk in accordance with § 340g HGB.

Since the start of the financial year 2012 earnings that are not the direct result of customer business and were previously reported under Financial Markets, for example from interest rate change risk control, the balancing provision, liquidity management and self-induced assets, have also been shown here.

Treasury Sub-segment

As the key division responsible for controlling interest, currency and liquidity risks, Treasury was again affected by the impact of the financial market crisis in 2012.

Due to the very successful issues of the aircraft Pfandbrief and the USD Public-Sector Pfandbrief, acc. to 144a, a further diversification and widening of the investor base and the necessary optimisation of the refinancing mix were achieved.

The business and earnings development was primarily characterised in the second half of the year by the European debt crisis. Negative effects on earnings from interest rate change risk control and liquidity control as a result of the very adequate liquidity resources were compensated for by a proactive interest-rate management and gains realised by the Treasury sub-segment.

Overall the Treasury sub-segment's contribution to the operating result after loan loss provisions and valuation was € 52 million less than in the previous year.

Despite the slightly negative earnings from interest rate change risk control and liquidity control, due to the measures taken and better-than-expected interest income in Collateral Management, interest income totalled € 115 million and was therefore € 17 million above the previous year's figure.

Overall, though, earnings were € 117 million below the previous year's figure. This is primarily attributable to positive one-time effects in other operating profit/loss in the previous year. In addition, a slight increase in expenses in the profit/loss from services (securities transactions) and negative valuation effects in Collateral Management in trading profit/loss contributed to the fall in earnings.

The loan loss provisions made in the previous year for Greece commitments were reversed following the restructure and subsequent disposal of bonds and resulted in a positive contribution to earnings.

Despite the fall in the cost of materials, administrative expenses rose slightly overall in 2012 as a result of an increase in staff expenses due to allocations to pension provisions and severance payments as well as due to greater use of internal services. The overall development of the cost and income items resulted in a much higher CIR in the Treasury of 34 per cent compared to the previous year (15 per cent). A slight fall in RWA resulted, with a significant fall in income, in a RoRaC of 58 per cent (previous year: 134 per cent).

Bank-Assets Allocation Sub-segment
The Bank-Assets Allocation (BAA) sub-segment emerged at the start of the year from the Portfolio Investments segment and was reorganised with a view to greater integration for overall bank control. The trading books closed at the turn of 2012, so that only portfolios in the banking book, which are all subject to the control of NORD/LB's Asset Liability Committee, are accounted for.

The Corporate Investments group has the task of providing operational support to the bank's management of RWA. Within this framework, in 2012 it continued the portfolio reduction started in the previous years and contributed significantly with sales over and above maturities to the reduction in NORD/LB's RWA.

The Fund Investments group rearranged the bank's current fund investments in the banking book. In the process several special funds were sold and the released volume was pooled in a master fund with clear investment guidelines.

In the financial year 2012 the Bank-Assets Allocation sub-segment increased its earnings compared to the previous year by € 14 million to € 53 million. This is primarily attributable to a significant improvement in the Fund Investments unit's trading profit/loss; however, there was a significant fall in interest and commission income. The € 10 million reduction in loan loss provisions and lower staff expenses and cost of materials also contributed to the improvement in earnings. However, the division's contribution to earnings is slightly negative due to the level of loan loss provisions.

Against the background of the RWA reduction measures, the equity commitment has reduced significantly and the RoRaC improved from – 11 per cent to – 2 per cent. The CIR improved significantly due to the increase in income and reduced operating costs 50 per cent to 27 per cent.

Group Controlling/Others
The earnings after loan loss provisions and valuation reported under Group Controlling/Others improved compared to the previous year by € 230 million to € – 66 million. This positive development is attributable in particular to the improvement in the valuation result of investments (€ + 120 million), the earnings from securities classified as financial assets (€ + 117 million) and the Bank-Assets Allocation division (€ + 29 million). The fall in earnings in Treasury (€ – 52 million) had a significant negative impact.

Personnel Report

As at 31 December 2012 a total of 4534 people were employed by NORD/LB. The number of employees has therefore remained constant compared to the previous year with a change of 0.2 per cent. The effects of the ongoing efficiency improvement programme cannot be seen as yet, as the changes in work processes required to reduce personnel capacity still need to be implemented and at the same time the efficiencies gained will be used in part to increase the number of personnel in other areas where necessary.

The fluctuation rate is at 3.8 per cent (previous year: 3.7 per cent) virtually unchanged, although the illness rate rose again from 4.8 to 5.2 per cent.

While the proportion of female employees in Germany is unchanged at 51.7 per cent, the proportion of female managers has risen from 20.3 to 23.3 per cent.

Investment in the training of young people is still high despite the ongoing efficiency improvement programme in order to ensure that the bank has the required level of qualified young talent in the coming years. The number of apprentices has increased in the year under review from 222 to 232 as at 31 December 2012; the trainee rate is currently 5.4 per cent (previous year: 5.2 per cent).

NORD/LB Structural Data

Reporting date	31 December 2012	Of which female	Female (in %)	31 December 2011	Of which female	Female (in %)
Non-tariff employees	1 461	400	27.4	1 365	352	25.8
Tariff employees	2 497	1 626	65.1	2 570	1 677	65.3
Trainees and apprentices	260	149	57.3	260	140	53.8
Abroad	254	106	41.7	265	114	43.0
Others	62	37	59.7	63	33	52.4
Employees total	4 534	2 318	51.1	4 523	2 316	51.2

Employee Development

NORD/LB has adapted its business model to the requirements of the market and accordingly initiated the necessary training measures. NORD/LB has an internal training programme which in 2012 continued to support the employees in their professional development in line with the needs of the divisions. The nature and scope of long-term training measures are structured by NORD/LB's development catalogue.

The development of employees with special potential covers three different career paths: "Managers", "Experts" and "Project/Programme Managers". In particular the Programme for "Project/Programme Managers", which was launched last year as a pilot, has been so successful that it will be offered to all divisions in 2013.

In 2012 the second round of the twelve-month mentoring programme for female managers started and will be successfully completed in early 2013.

Forecast Report

General Economic Development

Global Economic Outlook

The outlook for global growth has improved again of late. As at the end of 2012 industrial production appears to have bottomed out. The development of the early indicators and the improved rate of growth in China indicate that the global economic dip will soon be over. Nevertheless, risks remain with the financial and debt crisis in many industrial countries. In particular the progress of structural adjustments in the eurozone will be monitored intensively by the capital markets.

For 2013 we are expecting gross domestic product (GDP) in the USA to grow by a good 2 per cent. This, though, is based on the assumption that the politicians in Washington reach a final compromise for the budget dispute (fiscal cliff) so that only part of the tax increases and spending cuts in the amount of $ 150 to 200 billion will come into effect. In this case the budget would have a moderately negative effect in the first quarter with a slightly dampening effect on GDP growth. However, this should be followed by higher growth rates in the following quarters. This would also result in continuing improvement in the job market.

Economic Forecast for Germany and the Eurozone

The outlook for economic development in the eurozone has improved of late. The most important sentiment indicators rose at the end of the year, although from a very low level. The debt crisis remains, despite the recent stabilisation of the markets, the greatest economic risk for the eurozone. The recession will continue for the time being in particular in the crisis countries in Southern Europe. A number of countries in the eurozone will therefore not achieve their original consolidation targets, which might result in a new wave of mistrust in the markets. In the context of the debt crisis, the focus will remain above all on the two major economies of Spain and Italy, Due to the poor final quarter of 2012 and the anticipated resulting impact of this (statistical underhang), we are expecting economic output to stagnate in 2013. However, this does not hide the fact that the European economy should start to gradually recover during the course of the year. The slight improvements in early indicators of late, although from a very low level, and the rise in the real M1 money supply provide hope that a bottoming out will take place in spring. This is also supported by the expectation that the additional discretionary fiscal burdens will be lower in 2013 than previously. The eurozone's deficit ratio will fall back below 3 per cent of GDP in 2013 thanks to the consolidation efforts. However, all of this is providing that there will be no new shockwaves in the financial markets.

The outlook for the German economy is mixed. After the painful economic downturn in the winter half of the year, NORD/LB believes that the economy will soon start to recover. There are increasing signs that the economy bottomed out in the poor winter half-year. For example, in the fourth quarter incoming orders in manufacturing stabilised at slightly above the level of the previous quarter. It its too early to state that the trend has been reversed, however, the development in the order situation is likely to already have had a positive impact on the sentiment indicators. At least the business expectations of companies questioned by the Ifo Institute were surprisingly much brighter, which also corresponds with the Centre for European Economic Research's improved expectations for the economy. We therefore expect a slowdown, but do not expect a recession in the winter half-year.

Exports will also benefit from the improved rate of growth in the global economy. Investment in plant and equipment is not likely to pick until some time later due to the level of capacity utilisation being well below the long-term average. The boom in housing construction investment favoured by low interest rates and the flight into tangible assets will continue though. Public and private consumer expenditure will remain important pillars for growth in 2013. The latter will benefit from the triad of a relatively robust job market, a fall in inflationary pressure and a further rise in real disposable income. This development will only take place though if further burdens from the debt crisis on both sides of the Atlantic can be avoided. Overall we are expecting moderate GDP growth for 2013 in Germany of 0.8 per cent compared to the previous year.

We believe that the job market will continue to develop relatively robustly in 2013. However, the slowdown in economic growth and a more cautious recruitment policy by companies have resulted in recent months in a slight but steady rise in the number of unemployed. In the current year the number of unemployed will continue to rise as an after-effect of the economic slowdown. In the process the discrepancy between the development in the number of unemployed and persons in gainful employment that has been evident for some time will reduce; as economic growth slows, so does the mobilisation of hidden reserves. The level of migration into the German job market will remain high though. Overall we are expecting the unemployment rate to rise slightly to 7.0 per cent in 2013. As a result the income expectations of private households will remain stable, which is necessary if the growth in consumption is to continue.

Inflationary pressure will be low both in the eurozone and in Germany in the coming year. During the course of the year the rate of inflation for consumer prices in Germany and the eurozone will fall to below 2 per cent compared to the previous year. The consolidation of public finances will suffer a slight setback in 2013. After net borrowing at macroeconomic level had been in balance in 2012 (Maastricht), the temporary economic slowdown and a reduction in social security revenue will have a negative impact on public budgets. This should though only result in a slight rise in the deficit ratio. The extraordinary low level of interest rates will continue to have a positive impact.

Financial Market Development and Interest Rate Forecast

US monetary policy will remain extremely expansive throughout 2013, even if the economy's development should be surprisingly positive. A change in monetary policy will not take place until 2014 at the earliest. Therefore there is only limited potential for a rise in the yield of ten-year US treasuries, although NORD/LB expects that they will rise gradually to over 2 per cent as the economy picks up. The euro exchange rate will also be determined in the coming year by the European national debt crisis and the recovery of the US economy and with it the global economy. We also expect that the national debt crisis will remain an issue in the eurozone, and as a result the euro will pick up more and more headwind. The increasingly restrictive budget policy on this side of the Atlantic compared to the other side should significantly increase opportunities for growth in the USA, which should be associated with a moderate rise in the value of the dollar. We therefore envisage that the euro will be around $ 1.25 at the end of 2013.

The financial markets should remain positive for the time being. We expect that yields of German government bonds will rise slightly in all term categories as it is expected that the safe-haven motive will gradually become less important. However, in the event of severe tension in the capital markets, it is possible that yields will fall again to close to their lowest levels. Due to the economic concerns and the debt crisis in the eurozone, the monetary policy of the most important central banks will remain expansive for some time. The Federal Reserve, the Bank of England, the Swiss National Bank and the European Central Bank are not expected to increase interest rates for some time.

Banking Market Development

The European banking market continues to face challenges five years after the financial market crisis started. A sustained stabilisation of the market is still a long way off. The cautious economic outlook for 2013 in the majority of European countries implies that there will continue to be difficulties concerning the credit quality, capital adequacy and earnings potential of banks. Further efforts will be necessary to improve the stability of financial markets. These mainly involve the further reduction of balance sheet risks, the boosting of equity, the maintenance of capital market capability and the increasing of earnings potential. This process will be accompanied in future by a tightening of the regulatory environment. This will apply in equal measure for the German banking market.

Asian banks have largely emerged unscathed from the current financial crisis. This is primarily attributable to the fact that Asian banks on the whole have relatively low exposure to borrowers in the Eurpoean crisis countries and sound capital resources. The exposure of US banks to the European crisis countries also poses no threat to their own stability. Overall, though, the recovery of the US banking system will last longer as the growth and earnings prospects for US banks will continue to be limited in the coming years as a result of tighter regulatory changes.

Ships

In the container segment NORD/LB is expecting charter rates to recover in 2015 at the latest due to the reduction in surplus supply in the medium term and the market discipline of the major shipping lines. The recovery will start from a low level. The challenge for the current year is to cope with a forecasted increase of approx. 9 per cent in the fleet, which is also attributable to deferrals. On the whole the order books indicate an increase in tonnage. As a result of the impending wave of deliveries primarily in the larger size categories, pressure is expected to remain on the medium-sized segments (domino effect). The trend towards size will continue for the time being for cost and efficiency reasons. The order books currently indicate that there will be a significant fall in the total number of deliveries to 2015. However, NORD/LB believes that deliveries could be deferred to 2014 if the economic conditions do not change.

The tanker market will come under pressure on two fronts in 2013. Firstly, fewer old single-hull ships will be scrapped with the end of the phase-out effect in 2015, while at the same time there are increasing indications of a rise in order activity among Chinese companies in particular in the VLCC (Very Large Crude Carrier) segment, and as a result the situation is unlikely to ease on the supply side. Secondly, forecasts for global oil consumption based on current economic development only envisage a sideways movement, and as a result the demand side is not expected to provide any significant impetus. For the product tanker sub-segment the outlook is cautiously positive due to the expansion of refinery capacity, the associated possibility of an increase in maritime trade and the predominantly controlled fleet growth in this segment. NORD/LB therefore expects this market to recover from 2015.

In the short term, freight rates will also remain under pressure in the bulker segment. The Capesize segment will continue to be influenced by demand from China, which is reflected in the recurring conclusions of the indices. The Panamax segment faces great challenges due to the high number of deliveries advised for 2013. Against the background of continuing surplus tonnage, it will be difficult in the medium term to achieve equilibrium between supply and demand. Demand in the Far East (Asia) will for the foreseeable future drive the bulker market.

The trend in the cruise market appears to be unbroken. The order books of the shipyards contain between four and six newbuilds per year to 2016. The forecasts of the market research institutes show no sign of the collapse initially feared in 2012. Although the growth figures have levelled off somewhat, passenger numbers will continue to rise particularly in Europe to 2017. We therefore believe that the market is still able to absorb the impending new cruise ships.

The offshore market continues to be viewed as a very promising niche. The rising long-term energy requirement of the emerging markets and the fall in production capacity in current oil and gas excavation areas resulted in fanciful predictions. Currently many offshore fleets are being realigned, resulting in a rejuvenation of capacity. In addition to this, the number of possible uses is often increased (range and type of use). To be viewed as negative are first of all the already high order books for individual vessel types and secondly the recent change in the US energy strategy (fracking, the breaking up of shale in order to excavate oil and gas), which might result in a fall in demand for offshore exploration in North America. However, if oil and energy prices remain high, the offshore boom will in the view of NORD/LB continue for the time being.

Aircraft

For 2013 the IATA is expecting passenger growth of 4.5 per cent. If the recent positive development in the business climate index and consumer confidence should continue, particularly in the USA, the demand for air freight might stabilise in 2013. The IATA is therefore currently forecasting growth of 2.4 per cent for air freight. However, slow growth is again expected for the global economy in 2013, and as a result the environment for the air freight market will remain fragile. Against this background, the airlines are expanding their capacity very restrictively for utilisation and operational performance reasons.

NORD/LB expects that order activity will settle down in 2013 and that the number of new orders for both Boeing and Airbus might fall as a result. The reasons for this are that most airlines have already placed their orders and that in the last two years order activity in the civil aviation industry has been stimulated greatly by the launch of the A320neo and the 737MAX. As both Boeing and Airbus expanded their production capacity in 2012, the number of new aircraft deliveries will continue to rise in 2013.

Real Estate

As in previous years, global investment in commercial real estate is expected to rise slightly in 2013.

The increasingly noticeable recovery of the US real estate market should continue in 2013. In view of the volatile share market and low yields for government bonds, the commercial real estate market will continue to remain attractive for investors in the current year. Further growth in construction activity is also expected in the residential real estate market as well as an increase in house prices. In view of the expansive monetary policy, a lot of liquidity will be available in the market at very attractive interest rates.

The continuing economic slowdown in Europe will also be felt in the European commercial real estate market in 2013. The investment volume should be around the same level as the previous year. The picture will continue to be mixed though: while the Northern European real estate markets will be largely stable, the forecasts for the Southern European markets are much more pessimistic. In view of the shortage of core properties, it is expected that investors will be more willing to take risks in order to achieve higher returns.

Europe's residential real estate markets will also continue to be mixed in the current year. While the housing markets in countries such as Germany and Austria are stable and characterised by continuing rising prices, the housing markets in countries such as Ireland, Spain and the Netherlands are currently in the midst of an adjustment phase.

The German real estate market will remain a "safe haven" in Europe for investors in 2013. The outlook for the current year therefore continues to be positive. As there is no clear indication that yields for government bonds will rise in the short term, there is still an attractive spread for safe real estate investments. If at the same time investor interest in value-added and opportunistic investments should pick up again, a transaction volume of € 22 billion to € 25 billion can be expected in 2013. Peak returns should stabilise at a low level in 2013 following a fall in the previous year for office, retail and logistics properties.

The German residential real estate market continues to develop well in light of the strong demand, particularly in Germany's metropolis regions. As the slight pick-up in housing construction is not enough to cover the high demand, further rent increases are expected in the current year.

NORD/LB Strategic Development

On the basis of the general economic conditions in Germany, NORD/LB will continue to pursue its proven customer-oriented business model and its risk-conscious business policy. The essence of NORD/LB's business model is to focus business activities closely on customer needs and to continually improve its risk-adjusted profitability. In the process the focus is increasingly on separating earnings growth from risk-weighted-assets (RWA) growth and to secure its refinancing. NORD/LB will continue to focus on its core business and reduce its non-strategic portfolios.

NORD/LB expects that it will continue to benefit from the high level of diversification in its business portfolio, which is characterised by the financing of various asset classes in opposing cycles. The savings bank network business in the owners' region, which is important for NORD/LB as a landesbank, the retail banking business and the granular and profitable corporate banking business will be reinforced in the business model. Renewable energies business will also play an important role in the business model. Here NORD/LB can point, not least of all due to its regional location in Northern Germany, to many more years of success and experience than its competitors. The financing of ships, aircraft and real estate will continue to be the mainstays of the business model. The importance of the overall portfolios in these areas will be re-scaled with an eye to the future in order to obtain an even more balanced risk structure. In summary, NORD/LB will in future concentrate even more on its (extended) regional activities and focus on its target customers. The strategic focus emphasises the aspiration stated in NORD/LB's vision, i.e. of being a leader in its target markets.

NORD/LB is seeking, by pushing RWA-friendly transactions, to change the earnings structure in its core business with a view to increasing net commission income by increasing its sales of services. This should be achieved by NORD/LB being perceived in its markets as a competent partner for its customers and by the many years of know-how in its business segments.

As part of the approval process for the capital-boosting programme, NORD/LB and the EU Commission agreed a catalogue of commitments for the development of the NORD/LB Group in the next few years. This will accordingly also have an impact on the development of NORD/LB. The commitments endorse the path that the NORD/LB Group has already taken.

NORD/LB Planning for 2013 and Outlook for 2014

For 2013 NORD/LB is planning, based on the operational successes of the previous year, to build on the result for 2012 qualitatively and quantitatively, although it is becoming more difficult to increase annual profits under the current conditions, e.g. the commitments made to the EU, the shipping crisis and the national debt crisis. Overall though, NORD/LB will continue on a cautious upward development path, but a rise in earnings is only expected in the medium term.

On the income side the bank is expecting a fall in income in 2013. NORD/LB is expecting net interest income to be on the whole stable. In lending business lower contributions than in the previous year are expected due to the requirement to meet the commitments made to the EU, the non-recurrence of positive one-time effects of the previous year and the transfer of business to Deutsche Hypo. Increases in income are, however, planned on the deposit side due to the expiry of special conditions in the previous year, attractive product combinations in private customer business and an increase in earnings from interest rate change risk control. It is anticipated that net commission income will be at the level of the previous year; higher income in customer business will compensate for higher commission expenses for state guarantees, which will be included in 2013 with the full amount for the year. Lower income from realisations and valuations is estimated in the trading profit/loss for the current year.

With administrative expenses NORD/LB is expecting a slight fall in staff expenses due to the efficiency improvement programme and a lower allocation to pension provisions than in the previous year. Other administrative expenses are planned to be at the same level as the previous year, therefore overall lower administrative expenses are expected.

Other operating profit/loss, which includes the bank levy, is planned to be better in 2013 than in the previous year due to the non-recurrence of expenses of the previous year (redemption of the bank's own issues).

Following the high loan loss provisions in the previous year, NORD/LB is planning lower loan loss provisions overall in its ship financing and real estate financing business in 2013, although high loan loss provisions are provided for in the shipping portfolio when compared historically due to the continuing shipping crisis. The valuation result of securities and investments is estimated at close to zero.

Restructuring expenses are planned in extraordinary earnings. The level of restructuring expenses is directly dependent on the number of employees who leave the bank as part of the restructuring within the provisions of the ESP (efficiency improvement programme) service agreement. The number of persons concerned is recorded monthly and the restructuring figure is reported quarterly to the Managing Board; however, it cannot be predicted precisely due to the structure of the service agreement.

NORD/LB's operating result after loan loss provisions and valuation is planned to be higher in 2013 than in the previous year with a corresponding development in the RoE. Due to the lower administrative expenses the CIR will improve slightly despite lower income. Income and administrative expenses are expected to be stable in 2014 due to a fall in loan loss provisions and a further slight improvement in the operating result after loan loss provisions and valuation.

The planning for 2013 and 2014 was based on an average exchange rate of 1.25 $/€.

NORD/LB expects the next two years to be a challenging period characterised by the risks of the shipping and euro national debt crisis, the meeting of the commitments made to the EU, the regional restriction of business activities, cost-containment measures, a reduction in RWA and total assets and one-time expenses (reorganisation expenses). In addition, NORD/LB faces strong competition from banks for deposits and certain customer groups with the resulting pressure on margins, but there are also opportunities for new business and increasing margins due to the withdrawal from competitors and due to the bank's good reputation.

The EU Capital Adequacy Directive, which will transpose the so-called "Basel III" regulations into EU law, is likely to come into effect by the end of 2013. Thanks in part to the comprehensive capital measures successfully implemented in 2011 and 2012, NORD/LB will meet these capital requirements in full.

Segment Planning for 2013 and Outlook for 2014

Private and Commercial Customers

In this segment a special product combination with attractive offers (e.g. Top Interest Savings Book, Save + Invest, Combi Bond Top Interest) has been put together for the deposits side in the current year which is also aimed at young adults. In addition to the use of traditional channels to sell the products, the use of media sales is being developed and intensified in order to position the bank as a quality multi-channel provider. At the same time the founding of an insurance agency together with the cooperation partner Öffentliche Versicherung Braunschweig (ÖVBS) has created the basis for increasing the sale of insurance products. In addition to this, the real estate agency business will be resumed in selected regions in the current year.

By positioning Private Banking as a quality leader, as measured by the customer satisfaction index, with excellent advice, excellent services and great product and process quality, in future the high level of customer satisfaction should be maintained with the acquisition of new customers and customer reactivation a major focus in asset management.

In the commercial and corporate customers business the focus in 2013 will be on the targeted acquisition of new customers, investment finance and on providing comprehensive needs-based advice to commercial and private customers. For this purpose appropriate marketing measures have been planned in cooperation with the private customers business. For commercial customers the launch of an instalment loan for investment volumes up to € 100 000 is planned.

Interest income should be increased in particular in deposit business with attractive product combinations and a higher volume of deposits. An increase in net commission income compared to the previous year is also planned. These increases in earnings will primarily come from securities transactions and brokering business (insurance and home loan savings).

Due to the non-recurrence of the high level of expenditure on pension provisions and a positive one-time effect in administrative expenses in 2012 (VAT refund for **KreditServices Nord**), a fall in staff expenses compared to the previous year is seen alongside a significant increase in the cost of materials. The reasons for this are an increase in IT costs and the direct allocation of German Association of Savings Banks and Girobanks (DSGV) and Association of the Savings Banks of Lower Saxony (SVN) charges to the segment.

After the reversal of loan loss provisions in the previous year, an increase in loan loss provisions is planned for 2013 at the level of the required imputed covering.

The expected increase in earnings in deposit and commission business and reduction in staff expenses should more than compensate for the increase in loan loss provisions in this segment in 2013, with the result that an increase in contribution to earnings is planned. This will also have a corresponding impact on the CIR and RoRaC. RWA will remain at the previous year's level.

In 2014 a further increase in earnings is planned. The reason for this is a further increase in net commission income.

A further fall in interest rates and an increase in funds transferred to competitors (for example, VW Bank's only branch in Germany is in the business region of Braunschweigische Landessparkasse) in lending and deposit business might increase the pressure on net interest income in the current financial year. It is also conceivable that, due to the continued abstinence of small investors in the capital markets, net commission income might come under pressure as a not inconsiderable share is generated in the area of securities transactions. Opportunities will arise accordingly as interest rates rise again and capital markets develop very positively.

Corporate Customers & Markets

In addition to supporting corporate customers, this segment is responsible for providing the segments Corporate Finance, Corporate Sales and Markets with advice and the sales of institutional customers, savings banks and securitisations.

The economy is continuing to prove to be very robust and the bank's corporate customers appreciate having a strong and reliable financial partner by their side. The strategy of focusing on growth which has been pursued with success in recent years will also define the next year. In the process the earnings base should be placed on a broad foundation by extending the involvement of the Corporate Finance segment and extended cross-selling. At the same time it is planned to leverage customer and business potential in foreign business. In this respect NORD/LB's full bank and renminbi (Chinese currency) licence in Shanghai should be used to establish or intensify business relations with German companies with Chinese locations.

In 2013 the Corporate Sales segment is planning to further expand its capital market business with customers. Here the focus is in particular on the growth initiative in NORD/LB's corporate customers business, which is supported by appropriate market strategies and resources. After the integration of parts of the Savings Bank Network, the expertise in interest and currency management will also be made available to the associated savings banks to develop their corporate customer business. In a successful cooperation it will be possible to leverage potential in the customer portfolios of the savings banks. NORD/LB's special finance business will remain a further focus of Corporate Sales in the capital market business with customers to hedge risks and maintain opportunities.

The Markets segment is planning to further develop and expand its securitisation business. For this purpose the activities of Markets will concentrate on creating the conditions for a higher balance sheet turnover and the making the necessary instruments available. For the first half of 2013 NORD/LB is planning to issue a new euro aircraft Pfandbrief in the benchmark format (which would be the second of its kind) in order to further establish the investment product in the capital market. In Relationship Management the focus of the measures to increase the balance sheet turnover for finance will be in particular on the asset classes of infrastructure, renewable energies, real estate, corporate customers and ship and aircraft finance. For this purpose a range of structural and procedural measures have been decided which will allow greater support to be provided for institutional customers, by among other things establishing a team of Relationship Managers focused on this task.

Due to investment in this segment, earnings should remain at a high level. However, it will not be possible to repeat the very successful previous year. Increases in corporate customer business and in securitisation business will not be able to compensate for the planned reduction in trading profit/loss.

As a result of investment in personnel and material resources and the associated secondary costs, administrative expenses will rise compared to the previous year.

An increase in loan loss provisions compared to the previous year is expected in the Corporate Customers segment due to the state of the economy.

Overall a fall in the contribution to earnings compared to the previous year is planned due to the lower earnings, higher anticipated loan loss provisions and the increase in administrative expenses. In 2014 earnings are expected to rise again and costs are expected to increase moderately, which should result in improved earnings. Due to the volume-induced increase in RWA and the associated higher equity commitment and the fall in contribution to earnings from the previous year's high level, the RoRaC will fall compared to the previous year. The CIR will rise initially due to the investments in this business segment.

Challenges will be provided by numerous regulatory issues that will have an effect on customer business such as the higher capital adequacy requirement relating to derivatives under Basel III or the regulatory impact of the introduction of central counterparties under the European Market Infrastructure Regulation (EMIR) and the implementation of the Dodd Frank Act (DFA). In the Corporate Customers segment the challenges will be in realising the segment's planned growth and in the competitive situation in Germany. Opportunities exist in the expanding the good market position by extending the business with German corporate customers.

Energy and Infrastructure Customers

The Energy and Infrastructure Customers segment's long-term outlook for growth is being used to increase diversification within the portfolio and improve the quality of the earnings structure by increasing mandated lead arranger mandates. The earnings base will be increased in particular by generating income from services and trading as a result of sales activities.

The market for energy and infrastructure finance is currently in a period of major change. The nuclear disaster in Fukushima in Japan 2011 and the German Government's resulting change in energy policy have resulted in increased projections for renewable energy projects. Although the rate of growth has slowed recently in recent years, it is assumed that the German and international wind energy market (particularly in China) will continue to grow in the next few years. In the area of state and municipal infrastructure finance, it is evident that as a result of the national debt crisis increasingly consideration is being given to finance where the state or municipality shares the financing with private and/or institutional investors (public-private partnership ("PPP") finance).

Due to its clear strategic positioning in the market and many years of experience and longstanding customer relationships, NORD/LB has been able to increasingly acquire mandated lead arranger mandates in recent years and as a result strengthen the profitability of its nuclear business. This high level of profitability will also be ensured in future by a good market position and a slight rise in deal flow. In the medium term higher commission income per transaction should be achieved.

Due to regulatory changes in Asia (in particular Shanghai) and the meeting of EU commitments, the segment is downsizing in Asia and focusing on project finance in the European market. Adjusted for the downsizing in Asia, the planned portfolio increase in strategic new business with stable margins will result in an increase in the contribution from interest-rate conditions in lending business in 2013. The profit/loss from services and trading will also develop positively due among other things to the sales activities in 2013.

For the current year administrative expenses are expected to be virtually unchanged. Due to the creation of more effective procedures, the growth in business will be able to be largely achieved by the current staff. A fall in staff expenses due to a reduction in the allocation to pension schemes will be seen alongside an increase in administrative expenses for legal costs, IT and Marketing.

Greater migration effects due to the high diversification of the portfolio are not envisaged. Accordingly the imputed loan loss provisions have been used in the planning. As reversals of specific valuation allowances made in the previous year are not expected in the current year, a moderate increase will be recorded here.

Despite the planned portfolio increase due to strategic new business, only moderate growth in committed RWA is expected, which is attributable in particular to the regulatory requirements (Basel III). The increased focus on RWA-friendly structures such as public-private partnerships in France and Hermes/ECA-covered (project) finance will provide relief here on RWA. Further placement transactions will also be sought.

The contribution to earnings before taxes in 2013 will not reach the level of 2012 due to the slight increase in loan loss provisions and the downsizing in Asia. Due to the regulatory requirements (Basel III), an increase in RWA is expected, which will result in a fall in the RoRaC. The cost-income ratio will rise due to lower income. In 2014 the contribution to earnings before taxes will rise again due to an increase in interest income as a result of higher estimated margins and a fall in loan loss provisions as a result of an improved credit rating for the credit portfolio.

NORD/LB has achieved, as one of the pioneers in the area of financing renewable energies (such as wind energy plants, bioenergy and solar energy), an important market position in Europe. With the entry of competitors into this area, risks are primarily seen in the future development of margins and commission.

Ship and Aircraft Customers

The ship finance market in which the Ship and Aircraft Customers segment operates has been in crisis for four years. The anticipated market development has been considered in the planning for 2013 and 2014. Loan loss provisions in the area of ship finance will continue to play a crucial role for the meeting of targets. Due to NORD/LB's conservative approach to loan loss provisions, net loan loss provisions in the area of ship finance will continue to be high in the next two years. This development reflects the expectation that the shipping crisis will continue.

Given the slight reduction in loan portfolios, NORD/LB is concentrating in the area of ship finance on price and risk-optimised repayment-replacement and new business (primarily ECA-covered (ECA = Export Credit Agencies)). The current earnings can be maintained by a further increase in margins as a result of higher restructuring pricing and a general improvement in NORD/LB's competitive position for new business following the loss of competitors.

In the area of aircraft finance a slight increase in lending portfolios while at the same time meeting the defined RWA targets is planned. This will happen by means of the targeted expansion of ECA transactions with a low level of RWA and RWA-friendly credit structures. Throughout the planning period sustained refinancing benefits from the aircraft Pfandbrief issue in 2012 and further issues in the coming years are planned.

NORD/LB has reacted to the intensity of the shipping crisis and the expected continuing delay in the recovery of the market by among other things adjusting its risk model In order to take into account the different market recovery phases in the respective market segments, the factors influencing the cash-flow model used to calculate the loan loss provisions was reviewed and partially adjusted for current market developments.

Interest income from ship and aircraft finance is expected to be relatively stable in 2013 and 2014. Due to the restructuring in the ship business and new aircraft business, net commission and trading income are expected to remain high, though slightly below the level of 2012.

Additional jobs in the area of ship finance and restructuring that are necessary due to the crisis and the planned slight increase in the volume of aircraft finance will result in a general slight increase in administrative expenses in the Ship and Aircraft Customers segment.

Loan loss provisions are influenced by the shipping crisis and will remain high in 2013 and 2014. The level of loan loss provisions depends not only on the global economy and the supply and demand situation in the ship markets, but also on the decisions by the tax authorities concerning the insurance tax treatment of shipper pools.

Due to the expected stable earnings for aircraft in 2013 and 2014 and the high reduction in loan loss provisions in ship lending, a positive contribution to the operating result before taxes is planned. For ship finance, a negative contribution to earnings is again expected in 2013 and a break-even figure is not expected until 2014.

Despite the reduction in the volume of ship finance in 2013, a further increase in RWA is expected. In particular the rating migration in ships is responsible for this. The RoRaC will be low due to the increase in RWA and the only moderately positive earnings when compared historically. The CIR is expected to rise, but will remain at a good level.

Income and earnings will continue to be affected by the shipping crisis; the market will start to recover later and to a different degree than previously expected and with corresponding risks and opportunities for earnings.

Real Estate Banking Customers

Deutsche Hypo is responsible for new business activity relating to commercial real estate finance. The transfer of NORD/LB's portfolio commitments to Deutsche Hypo and the reduction in the portfolio remaining in NORD/LB with scheduled and unscheduled repayments will result in a further reduction in income (in particular net interest income).

For 2013 lower loan loss provisions are expected compared to the previous year. Due to the reduction in the portfolio, staff and other administrative expenses, individual cost reallocations and RWA will fall in the medium term. Overall, the operating result before taxes for 2013 will remain slightly negative, but will improve compared to the previous year.

Group Controlling / Others

This segment covers all units that have no direct contact with customers such as Treasury and Bank Assets Allocation (BAA). This segment also covers all other performance data that is not the direct result of customer business and therefore not allocatable to the segments: income from investments and financing not allocated to the profit centres, income from interest rate change risk control, the balancing provision, liquidity management and self-induced assets, costs of the corporate and service centres which have not been allocated, major projects, consolidation items and reconciliations. The other operating profit/loss of this segment includes among other things the bank levy, while commission income includes the expenses for the guarantee provided by the states. Restructuring expenses are planned in extraordinary earnings.

Bank Assets Allocation will continue to focus on the needs of overall bank control and RWA management. All items held here will continue to be subject to NORD/LB's conservative investment policy in 2013. In the Corporate Portfolio, a further portfolio reduction will take place in order to meet the commitments made to the EU regarding RWA and the total assets.

For the coming financial year the Treasury division is expecting a high level of market volatility due to the continuing uncertainty regarding the EU debt crisis. The continuing financial market crisis and its systemic effects require that the strategic focus remains on NORD/LB's target markets while analysing the feasibility, changes and adjustment requirements regarding the valuation of refinancing instruments and on the continual adjustment of the refinancing mix. At the same time the division will continue to focus on the upcoming changes to the legal and regulatory framework, e.g. Basel III, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) etc.).

The planned net interest income for 2013 is below the level of the previous year. The reduction of items in BAA results in a planned fall in net interest income. In addition, positive effects on earnings in the Treasury division from gains realised in the previous year are not included in the plan for 2013 to dampen the negative effect on earnings as a result of the good liquidity resources. Furthermore, slightly lower contributions are expected in income from investments and financing in 2013 due to interest rates. These falls in earnings will not be able to be compensated for by the planned increase in earnings from interest rate change risk and liquidity control, with the result of a fall in the planned contribution to net interest income of Group Controlling/Others.

Commission income is expected to be lower than in the previous year in this segment in the plan for 2013. This is primarily the result of the higher, all-year-round effect of the commission expenses for state guarantees and the reduction of items in Bank Assets Allocation.

In earnings from financial transaction, NORD/LB is expecting an increase in earnings compared to the previous year as a result of the continued stabilisation of financial markets.

With administrative expenses NORD/LB is expecting a slight fall in staff expenses due to the efficiency improvement programme and the high allocation to pension provisions in the previous year due to the double tariff agreement. Lower other administrative expenses are also considered in the planning. On the other hand, expenses for depreciation of property and equipment will rise due among other things to the capitalisation of project costs in the previous years. Overall, administrative expenses will fall in this segment.

Other operating profit/loss, which includes the bank levy, will be lower in 2013 due to the special effects in the previous year (sale of the "Tulips" sculpture).

For 2013 it is expected that loan loss provisions will offer some relief in this segment compared to 2012, particularly in the BAA division. The valuation result in the planning is close to zero and therefore below the previous year's figure. Restructuring expenses are planned in extraordinary earnings.

The fall in income may be compensated for in the planning by a reduction in operating costs and loan loss provisions and result overall for 2013 in a slightly improved contribution to the operating result in the Group Controlling/Others segment. Due to the increased expenditure relating to projects covering the entire bank, earnings in this segment in 2014 are planned to be lower than in 2013.

Overall a slight fall in RWA is expected in this segment. Against the background of the gradual reduction in the portfolio and low level of new business, RWA will fall in the BAA segment to 2014.

In the Bank Asset Allocation profit centre, risks may arise from rating-induced sale transactions with a negative effect on earnings. Opportunities and risks for the Treasury division primarily arise as a result of market parameters (interest rate and currency fluctuations) deviating from the forecast and the associated effect on earnings in interest rate change and liquidity control.

Medium-Term Planning for the Period up to 2016

NORD/LB will continue to resolutely pursue its strategy of operating its customer-oriented business model which has proved itself in the crisis and its risk-conscious business policy. The business model will be constantly reviewed and adjusted if necessary. In its estimation of its medium-term development, NORD/LB assumes that there will be a positive economic climate and that the economy will continue on a sustainable path of growth. The planned increase in earnings in the medium term will focus on growth in all significant earnings components and at the same time improving the earnings structure and a return to normal loan loss provisions. In the medium term the issue of refinancing will continue to be of key importance to NORD/LB in particular in longer maturity periods.

The aim of the efficiency improvement programme that has been launched is to ensure that staff expenses remain stable in the medium term. Other administrative expenses will fall slightly in the medium-term plan and depreciation will fall when depreciation relating to the capitalisation of projects finishes. The main reason for the planned fall in other administration expenses in the medium term is IT costs. They are attributable in particular to IT roadmap issues (e.g. Credit IT, optimisation projects) and projects required for regulatory reasons (e.g. reporting system, valuation of derivatives). IT costs are controlled by a special committee (Project and Investment Committee), which meets at regular intervals, reports to the Managing Board on current developments and provides an outlook on future budgets.

Compliance with the Basel III requirements and the criteria of the EBA are of key importance for NORD/LB. NORD/LB expects due to the implementation of the EU Capital Adequacy Directive in the next few years an increase in regulatory minimum capital requirements with pressure on equity ratios. With the help of the equity measures that have already been implemented and with retained earnings, NORD/LB plans to meet all capital requirements in future in full.

The planning for all years to 2016 was based on an average exchange rate of 1.25 $/€.

For the period up to 2016 NORD/LB is planning, given the overall development of earnings and expenditure, with loan loss provisions at the level of the required imputed covering, for a significant increase in its operating result after loan loss provisions and valuation, accompanied by a corresponding improvement in key figures.

Risk Report

Risk Management

Risk Management – The Fundamentals

The business activities of a bank inevitably involve the deliberate undertaking of risks. Efficient risk management in terms of a risk-and-return-oriented allocation of equity is therefore a key component of modern bank management and a high priority for NORD/LB.

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

NORD/LB conducts at least once a year and when required a multi-stage process to develop an overall risk profile in accordance with the Minimum Requirements for Risk Management (MaRisk) AT 2.2. In this profile the risk types relevant to NORD/LB are presented and a further distinction is made between material and non-material risks. Material in this context are all relevant risks which could have a negative impact on the NORD/LB Group's capital resources, earnings, the liquidity position or the achievement of NORD/LB's strategic goals.

Identified as material risk types were credit risk, investment risk, market-price risk, liquidity risk and operational risk. Also considered to be relevant are business and strategic risk, reputational risk, syndication risk, model risk and real estate risk.

Basic conditions for structuring this risk management process are specified for banks and groups of banks in the Minimum Requirements for Risk Management on the basis of § 25a of the German Banking Act. In accordance with these 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.

Further changes in the standards of risk management are a result of the fourth amendment of the Minimum Requirements for Risk Management published in December 2012. Any analysis of the new requirements has shown that most of these are already met in NORD/LB. Suitable measures have been taken for those new requirements where there was a need for action in order to ensure that they are implemented in due time.

Risk Management – Strategies

The responsible handing of risks is the uppermost priority in NORD/LB's business policy. The risk strategy is accordingly drafted to always conform to the business model, the business strategy and the specifications of the risk strategy of the NORD/LB Group and it is reviewed at least once a year. It accordingly contains information on the principles of risk strategy, the organisation of the risk management and on sub-strategies for risks relating to the material risk types.

The core element of the risk strategy is the risk-bearing capacity model (RBC model), on the basis of which risk appetite is specified and the allocation of risk capital to the material risk types is undertaken. For NORD/LB it was conservatively determined that in the going-concern scenario at most 80 per cent of the risk may be covered with risk potential. 20 per cent of the risk capital is held as a buffer.

The maximum risk capital is also allocated to the material risk types in the risk strategies. Most of the coverage is allocated to credit risk, reflecting NORD/LB's focus on customer-oriented lending business. The individual institutes are responsible for determining the allocation relevant for them, although this must be consistent with the allocation for the Group.

The Group risk strategy and the risk strategy of NORD/LB were reviewed and adjusted in 2012 and discussed with the Supervisory Board after being passed by the Managing Board.

The risk strategy aims at achieving an optimal management of all material risk types and at achieving a transparent presentation of these risks to the management, the supervisory bodies and other third parties with a justified interest. Based on this, NORD/LB has a range of further instruments at operational level which ensure that there is sufficient transparency of the risk situation and structure the required limitation and portfolio diversification in a way which can be controlled and monitored. These instruments are described in detail in NORD/LB's risk handbook.

Furthermore, NORD/LB has also made commitments in the restructuring plan agreed with the European Union (EU) in the year under review which are considered in the risk management.

Risk Management – Structure and Organisation
Responsibility for the NORD/LB's risk management lies with the Managing Board of NORD/LB. The Managing Board coordinates the higher Group risk strategy and its amendments in the Erweiterter Konzernvorstand (Extended Group Managing Board), which also includes the Chairmen of the Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo. Following the adoption of the Group risk strategy and the risk strategy of NORD/LB by the Managing Board of NORD/LB, they are then submitted to the Supervisory Board of NORD/LB for its information and discussed with it.

The responsible Chief Risk Officer (CRO) in the Managing Board of NORD/LB bears, in concert with the heads of the market departments, responsibility for drawing up and monitoring the risk strategy. This includes the monitoring of material risks including the risk reporting.

NORD/LB's Finance and Risk Control Division is responsible for updating and developing the RBC model, continually monitoring compliance and regularly reviewing the risk strategies of NORD/LB.

In addition to the Erweiterter Konzernvorstand, various other committees are involved in the risk management of NORD/LB:

- Konzernsteuerungskreise (Group Control Committees): A system of Konzernsteuerungskreise (KSK), whose members are, depending on the Konzernsteuerungskreis, various members of the Managing Board and divisional heads of the significant companies of the NORD/LB Group from a risk point of view, supports the institute-wide control.

- Group Risk Committee: The Group Risk Committee (GRC) is chaired by the Chief Risk Officer. Other permanent members are the Chairman of the Managing Board, the Chief Operating Officer, the heads of the market divisions and the heads of the Central Management Risk, the Finance and Risk Control Division, Research/Economy and the credit back office divisions of NORD/LB and the risk officers at Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo. Further participants are invited when required. The GRC supports the respective Managing Board in the holistic consideration of risks. The focus of the GRC lies in considering the overall portfolio of the NORD/LB Group taking into account all material risk types and strengthening Group integration.

- Other advising committees: The Konzernsteuerungskreise and Managing Boards are supported by a number of other committees which provide advice in specific areas. These include for example the Asset Liability Committee (ALCO).

The RWA(+) Board is responsible for generating impetus in the operational control of risk-weighted assets (RWA). In this committee the relevant information on RWA and shortfall development and on economic and regulatory equity is analysed and combined in a forecast. In the RWA(+) Board possible measures are compiled, assessed and controlled in respect of their implementation.

The structure and organisation of risk management in NORD/LB complies with the Minimum Requirements for Risk Management. The process of risk management is subject to constant review and improvement. Adjustments which may be made cover organisational measures, adjustments to procedures for quantifying risk and the continuous updating of relevant parameters.

From 1 July 2012 the divisions Risk Control and Controlling and the group Cost and Efficiency Management were consolidated under the Finance and Risk Control Division. The formation of the new competence centre allows the control systems of NORD/LB to be further optimised, processes to be arranged more efficiently and the reporting to be more specific and tailored even better to the needs of the various user groups.

A risk-oriented and process-independent audit of the effectiveness and adequacy of risk management is carried out by NORD/LB's Internal Audit Division. As an instrument of the Managing Board it is part of the internal monitoring process. The aims of Internal Audit also include the monitoring of the effectiveness, efficiency and correctness of business activities. It also facilitates the optimisation of business processes and of controlling and monitoring procedures.

The treatment of new products, new markets, new sales channels, new services and their variations is regulated in the new product process (NPP). The essential aim of the NPP is to identify, analyse and assess all potential risks for NORD/LB prior to starting the new business. This includes all of the essential audit areas, documentation of the new business activities, their treatment in the overall operational process, the decisions to start the business and where applicable the associated restrictions.

More detailed information on the structure and organisation of risk control is provided in the sections below on structure and organisation by risk type.

Risk Management – Risk-Bearing Capacity Model

The risk-bearing capacity model (RBC model) constitutes the methodical basis for monitoring the risk strategies in NORD/LB. This monitoring is carried out by NORD/LB's Finance and Risk Control Division. The Finance and Risk Control Division's Strategy and Models Department is responsible for the overall control and development of the model.

The aim of the model is to aggregate and duly present the bank's risk-bearing capacity. The monitoring and reporting process is conducted regularly and guarantees that the responsible bodies are promptly informed about NORD/LB's risk-bearing capacity situation.

NORD/LB significantly improved its RBC model in 2012. The changes were based among other things on the requirements formulated by the regulatory authority regarding the assessment of internal bank risk-bearing-capacity concepts and the latest industry-wide discussions on this. The objective was also to reinforce NORD/LB's risk management and to consider changes in economic conditions and the associated higher volatility.

NORD/LB's RBC model consists of the three pillars of going concern, gone concern and regulatory framework, in which the respective material risks (risk potential) are compared with the defined risk capital.

The improved RBC model assumes the going-concern scenario to be the decisive approach. The overriding objective of this model is the independent continuation of the business based on NORD/LB's current business model even if all of the available coverage is used up by risks that have materialised. It compares, the economically calculated risk potential, using a confidence level of 95 per cent (which is lower than the other two pillars) with risk capital in the form of free regulatory capital based on defined total capital and core capital ratios. In addition to this, further risk capital effects are considered in an indexation process.

The second and third pillars are based in terms of risk potential on a higher confidence level of 99.9 per cent. Economically calculated risk potentials are used for the gone concern, while risk potentials calculated based on the regulatory framework are used for the regulatory capital adequacy. On the capital side, both in the gone concern and in the regulatory framework, tests are based on equity and equity-like components which according to banking regulations are to be classified as equity. In the gone concern the risk capital is adjusted to take into account various aspects (e.g. with the consideration of hidden liabilities). In the event of the capital required to cover risks in the gone concern being consumed, it would basically no longer be possible for the bank to continue under otherwise unchanged assumptions.

The gone-concern approach represents a secondary requirement in the RBC model, while the regulatory framework represents a strict secondary requirement. Strategic limits are derived from NORD/LB's risk-bearing capacity taking into account the allocations of risk capital in the risk strategies of the NORD/LB Group and NORD/LB based on the going-concern case.

When calculating risk-bearing capacity, risk concentrations are also considered, both within a risk type as well as across risk types. Concentrations within a risk type essentially concern credit risks as the most significant risk type for NORD/LB. These are integrated via the internal credit risk model into the RBC model.

Concentrations across different risk types are considered by stress tests. When selecting the stress scenarios, NORD/LB's key business areas and risks are deliberately used as guidelines for selection. In the process among other things industries, segments and regions are selected which have a significant impact on the Group's risk situation. These risk concentrations are reported and monitored on a regular basis in the context of risk-bearing capacity with targeted stress tests. All of the scenarios and parameters are reviewed regularly and if necessary updated.

The reports drawn up at least a quarterly basis on risk-bearing capacity (RBC reports) constitute the main instrument for risk reporting to the Managing Board and the supervisory bodies. Compliance with the specifications of the risk strategy on risk appetite and on the allocation of risk capital to the material risk types is therefore reviewed regularly.

In supplement to the report on risk-bearing capacity, the Managing Board is also informed about risks relating to covered bond (Pfandbrief) business on at least a quarterly basis. The report prepared meets the requirements of § 27 of the German Covered Bond Act.

The developments in the RBC model have been considered for the first time as at the reporting date 31 March 2012; the reference date 31 December 2011 has been recalculated based on the changes in method. The stress scenarios considered within the scope of risk-bearing capacity will also be revised.

Risk Management – Development in 2012

The utilisation of risk capital in the going concern improved compared to the reference date (adjusted for the changes in method) by 4 per cent and is 29 per cent as at the reporting date. The fall is primarily attributable to a fall in risk-weighted assets, which caused in a significant increase in risk capital.

Of the material risks included in the model, namely credit, investment, market price, liquidity and operational risk, credit risk is by far the most significant. The reason for the rise in risk potential is in particular a rise in market-price and liquidity risk. The utilisation of risk capital in the going concern can be seen in the table risk-bearing capacity:

(in € million)[1]	Risk-bearing capacity 31 Dec. 2012		Risk-bearing capacity 31 Dec. 2011[2]	
Risk capital	3 769	100 %	2 843	100 %
Credit risks	562	15 %	521	18 %
Investment risks	172	5 %	341	12 %
Market-price risks	281	7 %	155	5 %
Liquidity risks	170	5 %	72	3 %
Operational risks	55	1 %	48	2 %
Other[3]	– 153	– 4 %	– 202	– 7 %
Total risk potential	1 087		936	
Utilisation		29 %		33 %

[1] Total differences are rounding differences.
[2] Previous year's figures were re-calculated under consideration of a methodological change.
[3] Includes adjusted items from the comparison of regulatory and economical expected losses.

Overall utilisation is well below the internally specified target of 80 per cent. The specifications of the risk strategy concerning the allocation of risk capital to risk types were also complied with. The risk-bearing capacity is also given taking into account the stress scenarios covering all risk types.

Credit Risk

Credit risk is a component of counterparty risk and is broken down into classic credit risk and counterparty risk in trading. Credit risk defines the risk of loss occured when a credit borrower defaults or when the credit rating of such a credit borrower deteriorates. Counterparty risk in trading defines the risk of loss occured when a borrower or contract partner in trading transactions defaults or when the credit rating of such a borrower or contract partner deteriorates. It is broken down into counterparty risk in trading, replacement risk, settlement risk and issuer risk:

- Counterparty risk in trading defines the risk of loss occured when a borrower defaults or when the credit rating of such a borrower deteriorates. It equates to traditional credit risk and relates to money market transactions.

Replacement risk defines the risk of the contract partner in a pending transaction with a positive present value defaulting and this transaction having to be replaced with a loss.

- Settlement risk is broken down into advance payment risk and clearing risk. Advance payment risk defines the risk when the bank has completed a payment of the counter-payment not being made by the contract partner or, if payments are offset, the balance not being paid. Clearing risk defines the risk of transactions of transactions not being able to be cleared by either party upon or after the expiry of the contractually agreed performance date.

- Issuer risk defines the risk of loss involved when an issuer or reference entity defaults or when the credit rating of such an issuer or reference entity deteriorates.

- In addition to the original credit risk, cross-border capital transfer services involve country risk (transfer risk). This is the risk that, despite the ability and willingness of the individual counterparty to meet payment claims, a loss will occur as a result of overriding government hindrances.

Credit Risk – Management

Strategy

For NORD/LB lending business and the management of credit risks is a core competence that is to be permanently developed and extended. NORD/LB sees itself as a reliable universal bank focusing on credit business and it positions itself with its customers accordingly.

In order to meet the specific requirements of each business segment, NORD/LB has established financing principles for the individual market segments which are classified in the strategic business segments as risk-relevant; these cover both market and back office divisions. These principles represent binding guidelines for new lending business, among others for ratings of the target customers.

New lending business focuses on concluding agreements with customers with a good to very good credit rating. NORD/LB also concentrates on business with borrowers of good standing in the capital market business.

The controlling of NORD/LB's credit portfolio takes into account opportunities and risks. The aim is to produce competitive profitability and ensure efficiency and flexibility in terms of the active management of credit risk positions in order to minimise unexpected losses.

NORD/LB focuses regionally mainly on domestic business. Its foreign lending business focuses on developed countries and selected emerging markets. Regional concentrations are deliberately realised outside of Germany in the USA, Great Britain and France. In accordance with the business strategy of the NORD/LB Group, the focus at industry level is on commercial shipping, aircraft, automotive, real estate and the continually reducing bank portfolio. Exposures are also concentrated on local authorities in Germany.

Structure and Organisation

A risk-related organisational structure and the functions, responsibilities and authorisation of divisions involved in risk processes are clearly down to employee level. In accordance with the Minimum Requirements for Risk Management, processes in credit business are characterised by a clear organisational separation of the market and risk management divisions, right through to management level.

NORD/LB market divisions conduct the operational financing business relating to customers, properties and projects on a national and international level within a framework of specified limits. They are primarily responsible for the core tasks of acquisition and sales. The market divisions are responsible for the initial vote, for structuring conditions and for earnings. In the case of minor-volume, low-risk exposures, the market divisions will in some cases also bear sole responsibility for the risk (unilateral authorisation) as well as responsibility for analysing and observing these risks.

Tasks relating to analysis (including assigning ratings) and risk observation as well as the specification of collateral values are combined in the Credit Risk Management (CRM) back office division. Real estate and special appraisals are exceptions here; these are carried out in a separate department. The Credit Risk Management Division is also responsible for the second vote taken for decisions on individual loans. Exposures with a concentration of risks are also subjected to a credit rating process in respect of large exposure management. In a multi-stage reporting system, the division also prepares segment portfolio reports on selected sub-segments at regular intervals.

The Credit and Securities Management division in the CRM is responsible for implementing the credit decisions for risk-relevant exposures including the contract documentation and for managing portfolios. With special finance the respective market division is responsible for these tasks.

The central management of risk concentrations in NORD/LB's credit portfolio is the responsibility of the Credit Portfolio Management Group which is part of the CRM. Concentrations are examined with regard to the size an economic borrower entity in accordance with § 19 para. 2 of the German Banking Act as well as by country and industry.

The processing of non-performing loans or loans requiring debt readjustment is the responsibility of the Special Credit Management (SCM) Division at NORD/LB. Credits with a rating of 11 on the rating master scale of the German Association of Savings Banks and Girobanks (DSGV) (i.e. allocation to the "high risk" category in accordance with the "Initiative Finanzstandort Deutschland" (IFD, initiative for Germany as a financial location) or lower must be reported to the SCM division. Other defined indicators of risk (e.g. suspicion of behaviour not in the interests of creditors or the initiation of restructuring processes) may also require reporting. The SCM decides whether it will assume full responsibility, whether coaching is to take place or whether the exposure remains in the Market or CRM division with intensive support. From a rating of 16 (allocation to the IFD Default risk category (non-performing loans)), the SCM division is obliged to take over responsibility for an exposure. Exceptions are made with both the reporting requirement and assuming of responsibility for low-risk business and business-specific reasons. For financial institutions including central governments and foreign regional authorities, asset-backed securities and corporate bonds, processing takes place in the Credit Risk Management Division.

Credit decision authorisation is classified in accordance with the total loan eligible and the rating of a borrower. Credit decisions are always taken by an authorised person in authority in a market division and an authorised person in a back office division (bilateral authorisation). The second vote is prepared in units independent of the market divisions in accordance with specified criteria. In addition to fulfilling the regulatory requirement of functional separation for credit assessments, this ensures that first-class credit decisions are taken on the basis of unified standards.

The Managing Board is responsible for controlling NORD/LB's credit portfolio. In performing its tasks, the Board consults among other things the Group Risk Committee (GRC), which ensures that a link between individual credit decisions and portfolio management is given and takes into account all risk types. The GRC recommends to the Managing Board various instruments for this purpose such as the ordering of an acquisition stop, the limiting of national, industrial or borrower-related concentrations or making recommendations relating to the placement of exposures and sub-portfolios. Within the general guidelines set by the Managing Board, where necessary the GRC also determines individual strategies for individual borrower entities, countries and industries within the strategic limit systems. The individual credit decision remains the responsibility of the Managing Board.

As at a certain volume, decisions are taken by the Managing Board or by the General Working and Credit Committee (AAKA), a sub-committee of the Supervisory Board of NORD/LB. The AAKA participates in the process of granting loans in accordance with an authorisation regulation passed by the Supervisory Board. The acquiring of investments is also subject to a Supervisory Board resolution as is approval for loans to executives.

The Strategy and Models Department of the Finance and Risk Control Division is responsible for the methods for measuring credit risks and for credit risk control instruments. It is responsible together with the Management Information Systems Department for the independent monitoring of credit and investment risk at portfolio level and for the corresponding reporting system as well as the regulatory reporting system. The Strategy and Models Department is also responsible for the methods used for the economic quantification of counterparty risk.

Credit Risk – Securities

For the assessment of credit risks, in addition to the credit rating of borrowers or counterparties reflected in the rating, the customary bank securities available and other risk reduction methods are of importance. NORD/LB therefore accepts domestic and foreign securities in the form of property and rights (collateral) to reduce credit risk. When accepting securities the cost-benefit relationship of the security is considered.

The securities are assessed both at the time the loan is granted and during the subsequent ongoing (normally at least yearly) monitoring as to whether they appear to be disposable at the assumed value based on foreseeable economic developments during the (remaining) term of the loan. They are therefore reviewed on a case-to-case basis as to whether the valuation appears to be justified based on the respective type of security and based on its legal and economic applicability in respect of the person of the borrower and the type of loan. If factors relevant to the assessment have changed, the assessment is adjusted accordingly.

The credit guidelines and lending principles of NORD/LB specify which fundamental types of security and collateral should be used and the maximum amount (lending limit) which may be lent against the collateral. Sureties, credit securities similar to sureties, assignments of receivables and other rights, chattle mortgages, property, receivables and other rights and collateral assignment of chattel are accepted as credit security. Other securities can be contracted with the borrower, but these do not reduce the unsecured portion of the exposure.

The legal portfolio of collateral is maintained in the dedicated Collateral Management System; this also forms the basis for the inclusion of collateral when ascertaining minimum capital requirements and for regulatory reports.

In order to ensure the legal validity and enforceability of collateral, standard contracts are mainly used. In addition to this, external legal opinions are obtained and the preparation of contracts is assigned to authorised law firms. At the same time the relevant legislation is monitored continually. For foreign collateral, monitoring is performed by international law firms.

Credit Risk – Control and Monitoring
In order to assess credit risks at NORD/LB, each borrower is rated within the framework of an initial or annual credit rating process and a cause-related rating or credit rating category is also determined for each borrower. The rating modules employed were either developed in various cooperation projects conducted by the savings bank financial group or the Landesbanks or they were developed internally by NORD/LB.

A specific limit is stipulated for each borrower at individual transaction level within the scope of operational limiting in order to manage risks; this has the character of an upper limit. The significant parameters applied for deriving this limit are a borrower's creditworthiness, expressed as a rating, and the funds that are available at the borrower's free disposal for making principal payments when servicing a loan.

Risk concentrations and correlations at portfolio level are shown by quantifying the credit risk potential in the credit risk model. Risk concentrations are also limited by country and industry limits at portfolio level as well as by the Large Exposure Management model for borrower entities. The latter defines a loss-at-default limit which is dependent on the rating on the basis of which a Group exposure for the categories corporates, financial institutes, special finance and foreign regional authorities is classified as being normal, as having risk concentration or having strong risk concentration. The exposure limits are based on the risk-bearing capacity of the NORD/LB Group.

Credit Risk – Securitisation
Securitisation is a further instrument available to NORD/LB to control credit risks. The aim of these securitisation activities is to optimise the yield/risk profile of the loan portfolio and to ease regulatory equity requirements.

In order to diversify the loan portfolio, credit risks in the bank's own books can transferred to other market participants (NORD/LB as an originator) or additional credit risks are taken (NORD/LB as an investor or sponsor). NORD/LB also conducts securitisation activities as an arranger of structured transactions in the interest of customers.

Synthetic securitisations using various hedging instruments are available for risk control. As a sponsor, NORD/LB makes liquidity facilities available in order to improve the credit quality of the institute's own asset-backed commercial paper (ABCP) conduit programmes.

Securitisation transactions are all subject to a strict process of approval and monitoring, so that potential risks before and after the conclusion of a contract can be identified and regulated. NORD/LB uses a rating system authorised by the regulatory authorities in accordance with the German Solvency Regulation Internal Assessment Approach as well as other approaches to assess the risk of securitisation transactions.

In the period under review institute loans were securitised by NORD/LB in a synthetic securitisation transaction. The transaction reduced both the credit risk by means of a mezzanine guarantee provided by a third party investor and the regulatory equity requirement for the securitised portfolio. NORD/LB pursues a conservative exposure strategy in its role as investor and sponsor. Securitisation positions held by NORD/LB mainly comprise tranches with a low risk weighting and generally declined in the period under review.

Credit Risk – Assessment
The key risk indicators of expected loss and unexpected loss are applied in order to quantify counterparty risk (credit risk and investment risk). Expected loss is determined on the basis of probability of default taking into account recovery rates. The risk premium, which must be collected in order to cover expected loss, is calculated using the same methods throughout the Group.

Unexpected loss for credit risk is quantified with the help of an economic credit risk model for four different confidence levels and a time frame of one year. The credit risk model used by NORD/LB includes correlations and concentrations in the risk assessment and is subject to an annual review and validation.

The credit risk model calculates the unexpected losses at the level of the overall portfolio. The model used is based on CreditRisk+ model. Using correlated sector variables, systematic industry effects are represented in the loss distribution. The estimated probability of default (PD) is based on the internal rating method. The loss given default (LGD) is determined on a transaction-specific basis.

The credit risk model works with a simulation method which also takes into account specific interdependencies of borrowers, e.g. on the basis of group structures. In addition to default losses, losses that might be caused by rating migrations are also considered.

In order to calculate equity capital required for credit risks, NORD/LB uses the Internal Ratings Based Approach (IRBA). This does not apply to a few portfolios, for which the Credit Risk Standard Approach (CRSA) applies. NORD/LB has the relevant authorisation for its rating systems, for the Internal Assessment Approach (IAA) for securitisations and for the use of credit risk mitigation techniques. Further portfolios are to be gradually migrated from the CRSA to the IRBA.

Credit Risk – Reporting

NORD/LB's Finance and Risk Control Division draws up among other things a Credit Portfolio Report which shows and analyses all the significant structural features and parameters required for controlling the credit portfolio of NORD/LB. The Credit Portfolio Report complements the Risk-Bearing Capacity report and includes in-depth analyses and stress scenarios relating to the credit portfolio. It is submitted to the Managing Board on a quarterly basis and is further specified for individual sub-segments by Industry Portfolio Reports from the Credit Risk Management Division.

The Managing Board of NORD/LB also receives from the CRM Division further regular reports and reports as and when required on the credit portfolio of NORD/LB, e.g. on risk concentrations with borrower entities, country and industry concentrations and commitments which need to be monitored (credit watchlist).

Credit Risk – Development in 2012

The term total exposure plays a significant role in the context of credit risk control. The calculation of the total exposure is based on utilisation (in the case of guarantees the nominal value and in the case of securities the carrying amount) and the credit equivalents resulting from derivatives (including add-ons and in consideration of netting). Irrevocable and revocable credit commitments are included in the total exposure, while securities against NORD/LB are ignored. Also included in the total exposure are investments.

Analysis of the total exposure

NORD/LB's credit exposure as at 31 December 2012 amounts to € 151 billion and has therefore fallen compared to the previous year's value by 2 per cent. The reduction in the volume is above all the result of the reduced total exposure in the areas of foreign banks and shipping. Most of the total exposure continues to lie in the very good to good rating classes.

The classification is based on the standard IFD rating scale which the banks, savings banks and associations in the "Initiative Finanzstandort Deutschland" (IFD, initiative for Germany as a financial location) have agreed on in order to improve comparability between the rating levels of the individual credit institutes. The rating classes of the 18-step DSGV rating master scale used in NORD/LB can be transferred directly into the IFD classes.

The Rating Structure table shows the breakdown of the total exposure in NORD/LB (existing and new business) by IFD rating class and product type.

Rating structure [1) 2)] (in € million)	Loans [3)] 31 Dec. 2012	Securities [4)] 31 Dec. 2012	Derivatives [5)] 31 Dec. 2012	Other [6)] 31 Dec. 2012	Total exposure 31 Dec. 2012	Total exposure 31 Dec. 2011
Very good to good	72 909	28 707	7 330	8 066	117 012	119 119
Good/satisfactory	7 648	570	487	848	9 552	10 655
Reasonable/ satisfactory	5 864	346	150	418	6 778	9 681
Increased risk	6 796	22	268	214	7 300	5 128
High risk	3 125	27	37	35	3 224	2 972
Very high risk	3 137	24	66	29	3 257	2 952
Default (=NPL)	3 419	20	55	16	3 510	3 867
Total	102 898	29 716	8 393	9 626	150 633	154 373

1) Allocated in accordance with IFD rating categories.
2) Total differences are rounding differences.
3) Includes loans taken up or loan commitments, guarantees and other non-derivative, off-balance sheet assets. As in the internal reporting, irrevocable loan commitments are normally included at 45 per cent (60 per cent) and revocable loan commitments at 25 per cent (10 per cent).
4) Includes the own stocks of securities issued by third parties (banking 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 loans administered for third-party account.

The quality of NORD/LB's credit portfolio remained fairly constant in the year under review. The fall in total exposure was accompanied by a 2 per cent fall in items in the rating class very good to good in the year under review. The very high share of this best rating category in the total exposure of 78 per cent (77 per cent) is explained by the great importance of business with public authorities and financing institutes with a good credit rating and therefore at the same time reflects the conservative risk policy of NORD/LB.

The exposure in rating categories with a high to very high risk rose significantly at the expense of the good to satisfactory rating categories; the share of non-performing loans (NPL) fell though from 2.5 per cent to 2.3 per cent. The reason for the increase in rating categories with high to very high risk lies primarily with the shipping customer segment.

The breakdown of total exposure by industry group shows that business conducted with financing institutes and with public administrations, which basically remains low risk, accounts for 65 per cent (64 per cent) and still constitutes a considerable share of the total exposure.

Industries [1] [2] (in € million)	Loans [3] 31 Dec. 2012	Securities [4] 31 Dec. 2012	Derivatives [5] 31 Dec. 2012	Other [6] 31 Dec. 2012	Total exposure 31 Dec. 2012	Total exposure 31 Dec. 2011
Financing institutes / insurance companies	36 164	18 144	5 148	6 421	65 876	67 069
Service industries / other	34 438	10 437	1 259	1 148	47 283	47 701
– of which: Land, housing	6 563	–	510	301	7 374	7 118
– of which: Public administration	20 826	10 011	472	29	31 339	31 818
Transport / communications	20 746	340	675	89	21 850	23 346
– of which: Shipping	11 064	–	261	11	11 336	12 392
– of which: Aviation	7 619	–	165	0	7 785	8 113
Manufacturing industry	3 644	395	562	133	4 735	5 677
Energy, water and mining	4 473	291	528	995	6 287	6 091
Trade, maintenance and repairs	1 562	33	73	108	1 776	1 575
Agriculture, forestry and fishing	633	28	5	715	1 381	1 335
Construction	1 238	49	142	16	1 445	1 578
Total	102 898	29 716	8 393	9 626	150 633	154 373

[1] Allocated in alignment with the internal reporting in accordance with economic criteria.
[2] to [6] See the previous chart on the rating structure.

The breakdown of the total exposure into regions shows that the eurozone accounts for a high share of 84 per cent (82 per cent) of total exposure and remains by far the most important business region of NORD/LB. Germany's share rose from 70 per cent to 72 per cent.

Regions [1] [2] (in € million)	Loans [3] 31 Dec. 2012	Securities [4] 31 Dec. 2012	Derivatives [5] 31 Dec. 2012	Other [6] 31 Dec. 2012	Total exposure 31 Dec. 2012	Total exposure 31 Dec. 2011
Euro countries	84 897	27 313	5 455	9 595	127 260	126 498
– of which: Germany	72 700	22 154	4 069	8 948	107 871	108 023
Other Europe	5 577	958	1 879	13	8 427	8 798
North America	5 463	766	907	7	7 143	9 383
Middle and South America	2 646	204	20	0	2 870	3 042
Middle East / Africa	1 010	20	1	0	1 031	1 044
Asia / Australia	3 306	456	130	11	3 903	5 609
Total	102 898	29 716	8 393	9 626	150 633	154 373

[1] Allocated in alignment with the internal reporting in accordance with the borrower's jurisdiction.
[2] to [6] See the previous chart on the rating structure.

Overall the exposure in Greece, Ireland, Italy, Portugal and Spain fell by 20 per cent to € 4.4 billion. Their share in the total exposure is only 3 per cent. The share of receivables owed by the respective countries, regional governments and municipalities also fell to 0.1 per cent of the total exposure and is € 209 million.

Exposure in selected countries[1) 2)] (in € million)	Greece		Ireland		Italy		Portugal		Spain		Total	
	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31.12. 2011	31 Dec. 2012	31.12. 2011	31 Dec. 2012	31 Dec. 2011
Sovereign Exposure	–	129	105	105	–	–	46	46	58	80	209	360
– of which CDS	–	35	–	–	–	–	–	–	–	–	–	35
Financing institutions/ insurance companies	–	25	421	708	753	1 054	76	98	183	521	1 433	2 406
Corporates/ Other	242	353	2 124	1 835	136	149	126	137	175	284	2 802	2 758
Total	242	506	2 650	2 649	888	1 202	247	281	416	885	4 444	5 524

1) Allocated in alignment with the internal reporting in accordance with the borrower's jurisdiction.
2) Total differences are rounding differences.

The sovereign exposure to Greece had already reduced significantly as a result of the exchange in March 2012 of Greek government bonds and the maturity of the credit default swaps (CDS) settled in cash. By the middle of the year the sovereign exposure and the exposure to Greek financing institutes were reduced completely.

NORD/LB is also closely monitoring and analysing developments in the other countries mentioned. However, the Group does not consider it necessary to make any further provisions at this stage. The majority of the exposures in the five countries mentioned are in the rating class Very good to good.

In addition to direct exposure, the reported exposure also comprises indirect exposure (primarily credit default swaps). Sovereign exposure also comprises exposure to regional governments, municipalities and state-related public-sector companies with government guarantees.

Non-Performing Loans

For acute default risks relating to lending business reported in the balance sheet, if there are objective indications of a permanent loss in value the NORD/LB Group makes specific valuation allowances and lumpsum specific loan loss provisions. A need for loan loss provisions is based on a present value consideration of anticipated interest and redemption payments which are still expected as well as on other earnings, in particular from the realisation of collateral.

NORD/LB takes account of latent counterparty risk relating to transactions with non-banks for which no specific valuation allowances have been made by making general loan loss provisions. Risks relating to off-balance sheet transactions (guarantees, endorsement liabilities and loan commitments) are accounted for by a loan loss provision.

Irrecoverable loans of up to € 10 000 for which there is no specific valuation allowance are written off immediately. Payments received for written-off loans and advances are recognised in profit or loss.

The total loan loss provision (specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business, national valuation allowances and general loan loss provisions) rose in the year under review by € 194 million. The ratio of total loan loss provision to total exposure rose in the period under review from 0.64 per cent to 0.79 per cent. The reason for this is primarily the continuation of the shipping crisis, which resulted in this sector in a notable increase in loan loss provisions.

Loan loss provisions 1 Jan. 2012 – 31 Dec. 2012 (in € 000)	Specific valuation allowances (lumpsum specific loan loss provisions, provisions for lending business)	National valuation allowances	General loan loss provisions
Opening balance	831 901	274	160 181
+ New provision/increase	674 241	15	–
– Disposal	– 417 755	– 9	– 51 769
of which: debt losses (consumption)	– 123 046	–	–
of which: reductions	– 294 709	– 9	– 51 769
+/– Transfer	– 290	–	–
+/– Currency conversion	– 9 886	–	– 181
= Closing balance	1 078 211	280	108 231

The non-performing loans portfolio of € 3.5 billion is primarily secured by standard bank collateral and other credit enhancements valued on the basis of lending principles. The NPL exposure is covered 34 per cent (26 per cent) by loan loss provisions before the inclusion of collateral.

The share of total NPLs in the total exposure fell in the period under review and is as at 31 December 2012 2.3 per cent (2.5 per cent). In addition to the impaired receivables, these NPLs also include all of the receivables of rating notes 16 to 18 (IFD risk category default (NPL)).

Industries[1) 2)] (in € 000)	Total exposure of impaired receivables 31 Dec. 2012	Total exposure of impaired receivables 31 Dec. 2011	Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2012	Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2011
Financing institutes/insurance companies	281 485	181 126	127 216	103 518
Service industries/other	841 296	688 865	319 810	264 935
Transport/communications	1 279 739	1 082 979	439 103	262 089
Manufacturing industry	254 919	212 489	105 999	100 691
Energy, water and mining	69 620	115 842	24 835	32 363
Trade, maintenance and repairs	10 016	18 900	5 524	9 468
Agriculture, forestry and fishing	10 274	9 883	4 736	4 374
Construction	87 094	64 909	50 988	54 464
Total	2 834 441	2 374 993	1 078 211	831 901

1) Allocated in alignment with the internal reporting in accordance with the borrower's jurisdiction.
2) Total differences are rounding differences.

Regions [1) 2)] (in € 000)	Total exposure of impaired receivables 31 Dec. 2012	Total exposure of impaired receivables 31 Dec. 2011	Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2012	Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2011
Euro countries	2 480 698	1 961 829	934 268	725 511
Other Europe	237 388	196 639	95 098	28 055
North America	116 222	199 558	38 774	44 629
Middle and South America	–	–	–	24 554
Middle East/Africa	–	–	–	–
Asia / Australia	134	16 966	10 071	9 153
Total	2 834 441	2 374 993	1 078 211	831 901

1) Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria.
2) Total differences are rounding differences.

Credit Risk – Outlook

Against the background of the continuing debt crisis in several EU countries and the associated market uncertainty, NORD/LB expects that loan loss provisions will again be significant in 2013, though less than in 2012. NORD/LB is expecting difficult market conditions in particular for ship financing. NORD/LB will continue to monitor developments closely and where necessary proceed with the measures to strengthen the risk quotas.

In 2013 measures to further optimise the model for quantifying and controlling credit and investment risk are planned. In addition to developing the economic credit risk model, the collection of loss data to validate the LGD components and Credit Conversion Factor (CCF) will be expanded.

Investment Risk

Investment risk is another component of counterparty risk and defines the risk of incurring losses when making equity available to third parties. A potential loss due to other financial liabilities is also a component of investment risk, unless it was considered in the other risks.

In addition to the original investment risk, cross-border capital transfer services involve country risk (transfer risk).

Investment Risk – Management

Strategy

Securing and improving the bank's own market position is the primary motive behind the investment policy of NORD/LB. Generally investments serve to effectively consolidate the universal activities of the bank and to fulfil joint responsibilities resulting from the function as a state bank and a central bank for the savings banks. In order to support the NORD/LB Group's business model there is a deliberate focus on credit institutes and financial companies.

The strategic objective of significant investments is to establish closer ties to support the customer-oriented business model of the NORD/LB Group. With all other investments, however, the general objective is to systematically reduce these where this makes sense from an economic and business point of view.

Group interests are maintained in relation to investments primarily by centrally specifying key business ratios or specific tasks. The aim is to ensure that the Group is effectively managed and that transparency is guaranteed for third parties.

Structure and Organisation

Risks resulting from investments at various levels in the Group are managed by NORD/LB's Investment Management in close cooperation with other divisions, in particular the Finance and Risk Control Division and the Finance/Tax Division. Domestic and foreign investments are all supervised centrally by the Investment Management unit or by the corresponding units in the subsidiaries. Minor exposures are controlled and supervised by the divisions initiating the exposure in each case due to the close factual connection. This is done in close cooperation with Investment Management. Regulatory reports and the management of the investment-specific database are the responsibility of the group Investment Data and Equity Management.

In the previous year an investment analysis was developed and implemented by NORD/LB's Investment Management as an integral part of the measurement of investment risk and to determine the significance of investments. Based on the analysis, which also expressly considers risks beyond the carrying amount, investments are classified consistently across all divisions as significant, important and other investments. The review considers both quantitative and qualitative criteria.

The result of the significance analysis determines how closely the risks are monitored in all divisions of NORD/LB. A further differentiation is made from a risk point of view for the treatment of significant investments. The significant investments based on quantitative criteria of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB (referred to as significant investments from a risk point of view in the risk report) are considered in the internal reporting of the NORD/LB Group at the level of individual risk type. The significant investments based on qualitative reasons of the NORD/LB Asset Management Group (consisting of NORD/LB Asset Management Holding GmbH, Hanover, NORD/LB Capital Management GmbH, Hanover, and NORD/LB Kapitalanlagegesellschaft AG, Hanover) and the Öffentliche Versicherungen Braunschweig Group are reported together with the important and other investments as investment risk, but are subjected to closer analysis by the divisions included in Investment Management. At individual institute level the significant direct investments based on quantitative criteria are reported in investment risk.

In the year under review an IT application which simplifies processes in Investment Management and makes it easier to exchange data was used for the first time in the investment analysis.

Investment Risk – Control and Monitoring

Investments are regularly monitored by analysing reports drawn up during the year, intermediate and annual reports and audit reports drawn up by the auditors. Control is carried out by NORD/LB representatives or the supervising subsidiaries in the supervisory boards, advisory boards, shareholders' meetings, annual general meetings and owners' meetings as well as by means of holding operative mandates in the companies.

Generally all investments are monitored centrally by Investment Management. However, Bremer Landesbank in particular has its own Investment Management department.

Generally the Erweiterter Konzernvorstand and the Konzernsteuerungskreise control all significant strategic investments.

Investment Risk – Assessment

The method for measuring investment risk also considers risks beyond the carrying amount, e.g. additional contributions and letters of comfort. In the category of investment risk, the risk potential is quantified for different confidence levels and a time horizon of one year using a risk model; the parameters that are used generally focus on loss events relating to investments. The further calculation is based on the Gordy model, which is used by the Basel Bank Supervisory Committee for aligning equity requirements within the framework of Basel II.

The model used calculates contributions made by individual investments towards expected and unexpected loss at portfolio level, which together add up to the risk potential for the full portfolio.

When calculating the minimum capital requirements, NORD/LB currently treats investments which are not subject to capital deduction fully in accordance with the transition rules and exceptions defined in the German Solvency Regulation. However, it is planned that the IRBA will be used.

Investment Risk – Reporting

The reporting of investment risk was revised completely in the year under review. Investment Management reports to the Managing Board and the supervisory bodies twice a year on the investment portfolio. The report includes among other things an analysis of the current development and the strengths and weaknesses of the investments.

In addition to this, realised or anticipated income from investments is reported on a monthly basis to the Finance/Taxes Division. The Finance and Risk Control Division also submits a report on the income and profitability of the NORD/LB Group's largest investments consolidated under commercial law to NORD/LB's Managing Board.

Information on the risk situation of the investments is considered on a quarterly basis within the scope of the RBC report by NORD/LB's Finance and Risk Control Division. Within this framework, Investment Management also reports on the profitability of the significant and important investments and on the risk situation on a portfolio basis.

Investment Risk – Development in 2012
In order to enhance earnings potential and reduce capital tied and potential risk relating to investments the NORD/LB Group has, on the basis of a critical review of the investment portfolio, disposed of a range of participating interests since 2005. This strategy was continued in the year under review. In addition to the complete sale of a few smaller investments, the share of 40 per cent in NORD Holding Unternehmensbeteiligungsgesellschaft mbH, Hanover, was reduced to 5 per cent.

Among other things the risk potential has been reduced significantly due to these sales and valuation adjustments in the year under review. The risk potential reported in the going concern fell in the year under review by € 169 million to € 172 million.

The ownership structure of Bremer Landesbank also changed in the year under review as a result of the conversion of previously silent participations into share capital. The share held by NORD/LB fell accordingly from 92.5 per cent to 54.83 per cent.

Investment Risk – Outlook
Significant tasks for 2013 will be the further systematic reduction of investments which are not relevant for NORD/LB's business model and the further development of stringent controls for investments in relation to the risk-return ratio, the further development of investment analysis and closer ties with Deutsche Hypo.

Market-Price Risk

Market-price risk is defined as the potential losses which may be incurred as a result of changes in market parameters. With market-price risk a distinction is made between Interest-rate risk, currency risk, share-price risk, fund-price risk, volatility risk, credit-spread risk in the banking book and commodity risk.

- Interest-rate risk always occurs when the value of an item or a portfolio reacts to changes to one or several interest rates or to changes in full yield curves and when these changes may consequently impair the item. This also includes the credit-spread risk in the trading book and the liquidity reserve in accordance with the German Commercial Code.

- Credit-spread risk in the banking book defines potential changes in value which would result in the banking book if the credit spread applicable for the respective issuer, borrower or reference entity used for the market value of the item changed.

- Other partial risks relevant for NORD/LB include the risk that the value of an item reacts to changes in one or more currency exchange rates (currency risk), share prices or share indexes (share-price risk), fund prices (fund-price risk) or volatilities applied for valuing options (volatility risk) and the changes result in a reduction in the item's value.

Market-Price Risk – Management
Strategy
The activities of NORD/LB associated with market-price risks are concentrated on selected markets, customers and product segments. Their positioning on money, currency and capital markets should be in line with the significance and dimension of the bank and is primarily geared towards the needs of customers and supporting the control measures of the bank as a whole. NORD/LB does not take up any positions on an opportunistic basis.

Trading activities relating to customer business focus on interest products. Credit investments in securities and credit derivatives result in significant credit-spread risks in the banking book. NORD/LB generally aims to use the credit spreads to maturity and to gradually reduce the amount of these credit investments by trimming down the portfolio.

Structure and Organisation
The trading divisions Treasury, Markets and Bank-Assets Allocation are responsible for controlling market-price risks in NORD/LB. Within the scope of their Global Head function, the trading divisions are also responsible for trading activities conducted at the foreign branches in London, New York, Singapore and Shanghai. Trade transactions are processed and controlled in separate divisions.

The strategic control of market-price risks is supported by the Asset Liability Committee (ALCO). The ALCO is an advisory body that meets on a monthly basis. It supports the strategic control of market-price risk positions, liquidity positions and the investment portfolio with the aim of optimising the profitability of the risk capital tied up in the positions. For this purpose recommendations for actions are developed as a basis for decision-making for the Financial Markets Director. The members of the ALCO with voting rights are the Managing Director and the heads of the trading divisions. Representatives of the Finance and Risk Control Division, the Credit Risk Management Division, the Research/Economy Division, the Finance/Taxes Division and the director responsible for the Finance and Risk Control Division also take part. The measures are implemented by the Bank-Assets Allocation Division and the Treasury Division.

Risks are monitored by the Risk Control Department in the Finance and Risk Control Division, which in accordance with the Minimum Requirements for Risk Management operates independently of divisions responsible for market-price risk control in terms of both function and organisation and performs comprehensive monitoring, limiting and reporting activities for NORD/LB. This also includes calculating amounts eligible based on the internal risk model for the quarterly reports to the Deutsche Bundesbank in accordance with the German Solvency Regulation. The responsibility for the development and validation of the risk model also lies with the Risk Control Department.

Market-Price Risk – Control and Monitoring

For the internal control and monitoring and limiting of market-price risks, Value-at-Risk (VaR) methods are generally employed for all significant portfolios. The VaR limit for market-price risks is derived from the RBC model, allocated by Managing Board resolution to the Director who is responsible for Financial Markets and who delegates to the subordinate organisational units.

Compliance with the limits is monitored by the Risk Control units. Any losses are immediately added to the loss limits, hence resulting in a reduction in VaR limits in accordance with the principle of self-absorption. Correlation effects between the portfolios are included in calculating VaR and in the delegation of sub-limits.

In some areas specific sensitivity limits are added to the VaR limits. Credit-spread risks in the banking book are currently not controlled by VaR limits; instead they are limited separately by a scenario analysis.

Market-Price Risk – Assessment

The VaR ratios are calculated daily using the historical simulation method. In the process a unilateral confidence level of 95 per cent and a holding period of one trading day are used. At the end of each quarter NORD/LB also prepares a VaR calculation when calculating the risk-bearing capacity.

The VaR calculation is based on historical changes to risk factors over the previous twelve months. The models take account of correlation effects between risk factors and sub-portfolios. Credit-spread risks in the banking book are currently not controlled with the help of a VaR method, but by a scenario analysis.

VaR models are particularly suitable for measuring market-price risks under normal conditions. The historical simulation method used is based on data relating to the past and is in this respect dependent on the reliability of the time series used. The VaR is calculated on the basis of the balances entered at the end of the day and does not therefore show any possible changes in items during the course of the day.

The prediction quality of the VaR model is verified with comprehensive back-testing analyses. This involves a comparison of the daily change in value of the respective portfolio with the VaR of the previous day. A back-testing exception exists if a negative change in value observed exceeds the VaR.

The number of back-testing exceptions fell during the course of the year under review but was still red at NORD/LB as at the reporting date according to the Basel traffic light approach. This increased number results from the positions in the banking book, in large part due to the national debt crisis in Europe and the associated market fluctuations in the interest and credit markets. It was also partly the result of basis risks in the banking book, i.e. distortions between the various interest markets. The VaR values of the trading section concerned are increased accordingly by additions from back-testing until these effects are corrected.

In addition to the VaR method, the effects of extreme market changes on the risk position of NORD/LB are examined in daily stress test analyses. Various stress scenarios were defined for each of the types of market-price risk, namely Interest-rate, currency, share-price, fund-price and volatility risk, and these approximately reflect the average of the highest changes seen in the respective risk factors and are combined with scenarios spanning the types of market-price risk. In addition to this, a stress test analysis of the credit-spread risks is conducted on a weekly basis for the banking book. The risk factors observed were selected in such a manner that material risks relating to the entire portfolio of NORD/LB and to the individual sub-portfolios of the trading divisions are covered.

In addition, other stress test analyses are conducted at least once a month, including strategy-related stress tests for selected trading items and specific stress scenarios for spread and basis risks in the banking book. Further general stress tests for all risk types are conducted on a quarterly basis within the context of reporting on risk-bearing capacity. The stress test parameters are reviewed on at least an annual basis and adjusted to changes in the market situation as and when required.

NORD/LB also uses the VaR model for calculating equity capital required for general interest-rate risks and for general and special share-price risks in accordance with the German Solvency Regulation at all relevant locations. With effect of 30 June 2012 NORD/LB obtained the authorisation to calculate the equity capital required for currency risks with the VaR model. For the remaining risk types from a regulatory point of view, in particular special interest-rate risk, the standard method is applied.

Market-Price Risk – Reporting

In compliance with the Minimum Requirements for Risk Management, the Risk Control Department, which is independent of the divisions responsible for the positions, reports daily on market-price risks to the respective Director. The Directors are therefore also informed about the effects of the stress scenarios beyond the scope of VaR scenarios. A weekly report is also provided on the credit-spread risks in the banking book. The entire Managing Board is informed in detail on a monthly basis about NORD/LB's market-price risks and earnings position.

Market-Price Risk – Development in 2012

NORD/LB's market-price risk developed at a moderate level in the year under review relative to the allocated economic capital and the limits derived from this.

The development of the VaR ratio was influenced significantly in 2012 by the measures taken by the Treasury Division and in particular by the effects of strategic interest measures taken by the Asset Liability Committee in the banking book. The fall in the VaR at the end of the year is also attributable to the market environment stabilising.

Value-at-Risk (95 per cent, 1 day)
(in € million)

The average NORD/LB utilisation of market-price risk limits for the year was 49 per cent (24 per cent), with maximum utilisation amounting to 68 per cent (35 per cent) and minimum utilisation at 27 per cent (16 per cent).

During the course of 2012, the daily VaR (confidence level of 95 per cent and holding period of one day) fluctuated between € 8 million and € 20 million, with an average value of € 15 million. As at 31 December 2012, a VaR of € 13 million was calculated for NORD/LB, representing a rise of 22 per cent compared to the previous year (€ 11 million).

The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 69 million in NORD/LB on 31 December 2012 (€ 65 million). These figures also include, unlike the regulatory reporting, the interest-rate, share-price and currency risks in the banking book.

Market-price risks (in € 000)	Maximum 1 Jan.– 31 Dec. 2012	Maximum 1 Jan.– 31 Dec. 2011	Average 1 Jan.– 31 Dec. 2012	Average 1 Jan.– 31 Dec. 2011	Minimum 1 Jan.– 31 Dec. 2012	Minimum 1 Jan.– 31 Dec. 2011	End-of-year risk 31 Dec. 2012	End-of-year risk 31 Dec. 2011
Interest-rate risk (VaR 95 per cent, 1 day)	19 840	10 651	14 620	7 570	7 849	4 901	12 563	10 651
Currency risk (VaR 95 per cent, 1 day)	1 091	975	547	654	241	236	363	846
Share-price and fund-price risk (VaR 95 per cent, 1 day)	926	2 119	524	947	109	420	924	639
Volatility risk (VaR 95 per cent, 1 day)	895	521	424	265	142	124	628	254
Other add-ons	171	127	73	51	19	10	42	46
Total	20 262	10 611	14 585	7 525	8 119	5 084	12 926	10 611

Unlike the credit-spread risks for the liquidity reserve, the credit-spread risks for credit investments recognised as fixed assets are not included in the VaR for market-price risks, but are measured for operational control with scenario analyses and limited separately.

Overall the volume of credit investment portfolios was reduced further in the year under review due to the continuing slimming down of the overall portfolio and active sales in the ABS portfolio. At the same time, unlike in the previous year, targeted new investments in corporate bonds and credit default swaps were made on a limited scale for portfolio management.

The effects of a standardised interest-rate shock in the banking book are also analysed in accordance with German Solvency Regulation requirements. The result for NORD/LB as at 31 December 2012 is at 7 per cent well below the regulatory threshold which provides for a maximum share of 20 per cent of authorised equity capital.

Market-Price Risk – Outlook

NORD/LB will continue to closely monitor all relevant asset categories in 2013 as short-term, volatile market fluctuations can be expected further on. Based on the conservative risk policy, the gradual improvements to the risk models, the risk control process and focused trading strategies, NORD/LB believes though that it is also well prepared for turbulent market phases.

With regard to the methods used, for 2013 it is planned that, with the integration of the credit-spread risks in the banking bank into the VaR model, the risk measures used in the continual monitoring will be standardised.

Liquidity Risk

Liquidity risks are risks which may result from malfunctions in the liquidity of individual market segments, unexpected events in lending, investment or new issue business or deterioration in the bank's own refinancing conditions. NORD/LB understands placement risk to be a component of liquidity risk. It describes the risk of own issues not being placed in the market or only placed at poorer conditions. Liquidity risks are broken down into traditional liquidity risk, refinancing risk and market liquidity risk:

- Traditional liquidity risk is the risk that payment obligations cannot be met or cannot be met on time. Potential causes can be a general disruption in the liquidity of money markets which affects individual institutes or the entire financial market. Market disruptions may in particular result in significant asset classes not being available for use as collateral. Alternatively unexpected events in the bank's own lending, deposit or new issue business may also result in liquidity shortages. The focus of the NORD/LB consideration is on the respective coming twelve months.

- Funding risk constitutes potential declines in earnings resulting from a deterioration in the bank's own funding conditions on the money market or capital market. The most significant cause in this case is a change in the assessment of the bank's credit rating by other market participants. The focus of consideration here is on the entire range of terms to maturity. By considering the individual currencies, spread risks from cross-currency swaps will also be considered.

- Market liquidity risk defines potential losses to be borne if transactions need to be concluded at conditions which are not in line with the fair market value due to a lack of liquidity in individual market segments. Market liquidity risks may primarily result from security items in the trading and banking books.

Liquidity Risk – Management

Strategy

Securing perpetual liquidity for NORD/LB is strategically essential. While traditional liquidity risk is principally hedged by maintaining a sufficient supply of liquid assets (in particular central bank eligible securities), refinancing risks are allowed to be taken with a structural transformation of liquidity terms. Risks are constrained with suitable limits in both cases.

The limit for traditional liquidity risk serves to secure the ability to make payment even in a conservative stress scenario, while the limit for the funding strategy is derived from the risk strategy and the risk-bearing capacity of NORD/LB and allows term transformation to contribute to earnings.

In order to limit market liquidity risk the NORD/LB primarily makes securities transactions in markets which have proven themselves to be sufficiently liquid even when they are under pressure.

In the Global Group Liquidity Policy the business policies for liquidity risk management in the NORD/LB Group are specified. NORD/LB also has institute-specific liquidity control policies which define the basic strategic guidelines for ensuring a sufficient supply of liquidity. Liquidity management measures in cases of emergency and in crisis situations are specified in contingency plans.

Risk concentrations on the liabilities side are prevented by a diversified investor base and product range. The focus is on institutional and municipal investors, which is in line with the risk-based orientation of NORD/LB. The diversification of refinancing sources is also strengthened by covered bond issues and retail deposits.

Structure and Organisation

In addition to the Treasury division, the global trading divisions Markets and Bank-Assets Allocation and the Finance and Risk Control Division are included in the process of liquidity risk management at NORD/LB.

Treasury is responsible controlling items bearing liquidity risks and producing profits and losses resulting from changes in the liquidity situation (in general or specific to NORD/LB).

The Treasury Division also presents the liquidity maturity balance sheet to the Asset Liability Committee. It also reports to this committee on refinancing risk and makes recommendations for action concerning the future approach towards strategic planning if necessary.

The Risk Control Department of the Finance and Risk Control Division is in charge of the implementation and development of internal procedures for measuring, limiting and monitoring liquidity risks. The Risk Control Department also ascertains and monitors traditional liquidity risk and monitors refinancing risk. The Finance and Risk Control Division also ascertains and monitors regulatory indicators in accordance with the German Liquidity Regulation.

A Global Liquidity Management crisis team is available in the event of a liquidity crisis and assumes responsibility for liquidity management in close cooperation with the Managing Board.

Liquidity Risk – Control and Monitoring

The refinancing risk of NORD/LB is limited by the present value limits and the volume structure limits for various maturity bands that are derived from the risk-bearing capacity. The liquidity progress is also considered separately by currency.

Traditional liquidity risk is primarily limited by analysing a dynamic stress scenario. The scenario describes the most likely crisis situation as at the reporting date a market environment which is characterised by economic problems in the periphery countries of the EU and a continuing loss of confidence in financial markets. Analysis is based on liquidity cash flows and covers the coming twelve months on a daily basis. For products without fixed liquidity flows, optional components (e.g. from irrevocable credit commitments), planned new business and refinancing opportunities, assumptions are made in accordance with the market situation which are subject to regular validation.

With the help of the limit system it is ensured that in the event of a stress case, surplus liquidity is available for at least three months. This means that securing the ability to make payment at any time in this maturity band is given preference over possible opportunities to generate profits. The aim is to ensure a liquidity surplus for at least six months in the dynamic stress scenario taking into account profitability aspects.

The dynamic stress scenario is supplemented by other statistical stress tests. These tests cover a scenario specific to NORD/LB and also the alternative scenario of a comprehensive liquidity crisis as well as a short-term scenario for a market-wide liquidity disruption.

Market liquidity risks are implicitly accounted for by means of classifying securities in the liquidity progress review in accordance with their market liquidity. Securities are allocated on the basis of a detailed security category concept to one of eleven main categories with one to eight subcategories (e.g. by central bank eligibility and rating). The liquidity maturity balance sheet is presented by liquidity category, with the maturities ranging from payable on demand to final maturity.

When classifying the securities in the liquidity categories, in addition to the tradability, in particular the usability of the collateral is of key importance, i.e. the suitability of the securities as collateral in repo transactions, with central banks or as cover for covered bonds.

Liquidity Risk – Assessment

NORD/LB calculates the utilisation of volume structure limits for the various maturity bands on the basis of a liquidity progress review of the entire item, which essentially reflects the standard case. Liquidity risk is quantified in the risk-bearing capacity concept by a present-value consideration refinancing risk.

Calculation of dynamic and static stress scenarios for modelling traditional liquidity risk is based on current liquidity progress reviews. These are stressed until they reflect a crisis. For example, a reduced amount of accounting liquidity and an increased utilisation of credit commitments is presumed. The stress scenarios can be used to show the effect of unexpected events on the liquidity situation of the Group, enabling it to plan for the future and to be well prepared for cases of emergency.

The analysis of stress scenarios takes into consideration the overriding significance of the market liquidity of all of the securities in the portfolio. In addition, the credit-spread risks for all securities are considered when calculating market-price risks. Since the spreads observed on the market reflect both the credit rating of an issuer and the market liquidity of the securities, the risk report also indirectly takes into account the market liquidity of the securities. No separate risk dimension is applied for market liquidity risks.

Liquidity Risk – Reporting

The Risk Control Department provides the responsible divisional heads every day with the data on the dynamic stress test scenarios for NORD/LB's traditional liquidity risk.

In addition to this the NORD/LB's biggest investors in new business are monitored regularly. The responsible divisional and departmental heads are informed of liquidity concentrations in the concentration risk report.

The Managing Board is informed in detail in the monthly report on market and liquidity risks of the liquidity risk situation. Information is also provided on a quarterly basis in the report on risk-bearing capacity.

The monthly refinancing risk reports are prepared in euro and in the most important foreign currencies. The maturity balance sheets upon which the refinancing risk is based are also presented together with the stress tests to the Asset Liability Committee which meets on a monthly basis.

The liquidity ratios calculated in accordance with the German Liquidity Regulation can be calculated daily and submitted to the Treasury Division for the purpose of controlling liquidity risk. The report in accordance with the German Liquidity Regulation for the entire bank and each location is submitted to the Bundesbank, the control divisions and to the Managing Board of NORD/LB once a month.

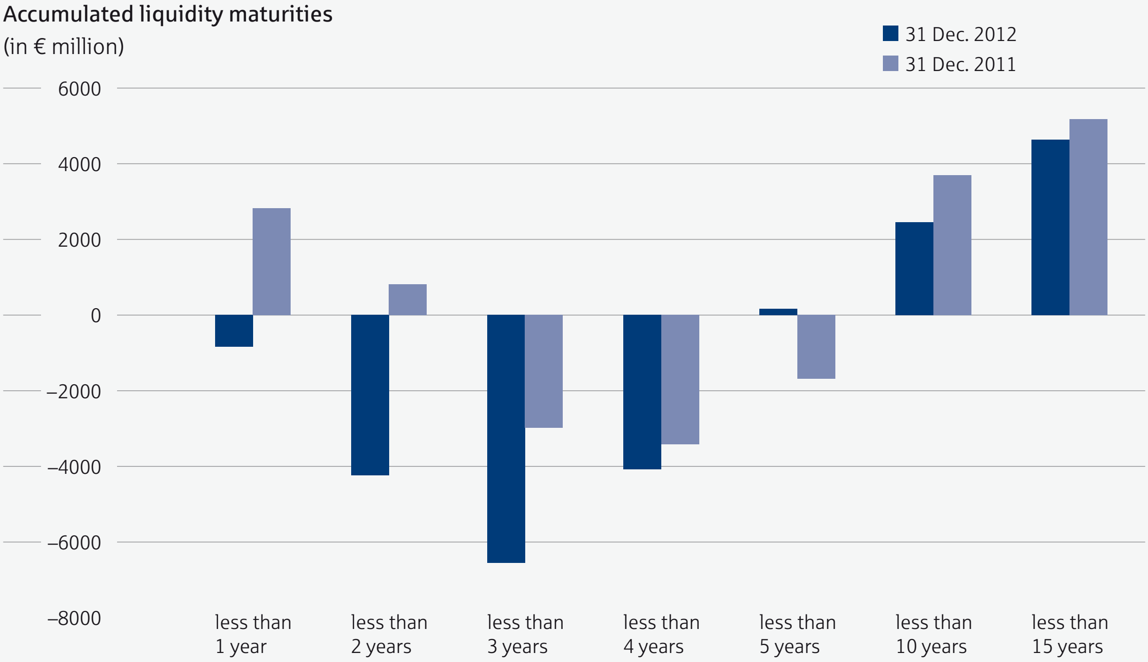
Liquidity Risk – Development in 2012

The liquidity situation in the markets stabilised in 2012 due to the measures of the European Central Bank, but is still characterised by uncertainty with regard to the possible impact of the national debt crisis on the EU periphery countries in the medium to long term.

In spite of this, NORD/LB had sufficient liquidity at all times in 2012. The liquidity maturity balance sheet shows liquidity surpluses in the long-term maturity bands. In the short and medium-term maturity bands it shows greater use of the liquidity within the allocated limits.

In order to broaden its refinancing instruments, in the year under review NORD/LB became the first issuer worldwide of an aircraft Pfandbrief (covered bond) with a volume of over € 500 million. In October of 2012 NORD/LB also issued for the first time a public US dollar Pfandbrief in accordance with Rule 144A of the US Securities Act in the amount of $ 1 billion.

Accumulated liquidity maturities
(in € million)



NORD/LB operates in markets with the highest possible level of liquidity and maintains a portfolio of high-quality securities. As at the reporting date NORD/LB possesses securities in the amount of € 31 billion, 90 per cent of which for repo transactions with the European Central Bank or the US Federal Reserve.

Due to the attentive monitoring of markets and active liquidity control, it was ensured at all times in the year under review that NORD/LB had sufficient liquidity. The liquidity ratio calculated in accordance with the German Liquidity Regulation was at all times well over the minimum of 1.00 required by regulatory provisions. At the end of the year the ratio was 1.52 (1.73).

The dynamic stress tests used for internal control shows a sufficient liquidity situation for NORD/LB as at the reporting date. The liquidity buffers for one week and one month in accordance with the Minimum Requirements for Risk Management are also complied with.

Overall the measurement and control processes were extended in 2012. These include among others the differentiated reporting of irrevocable credit commitments in the liquidity risk instruments in accordance with Minimum Requirements for Risk Management.

Liquidity Risk – Outlook
Liquidity risk is not expected to increase significantly in 2013 due to the active liquidity control. Liquidity risk control will continue to be developed in the NORD/LB Group; for example greater consideration will be given to covered refinancing options by separating the liquidity maturity balance sheet into secured and unsecured amounts.

Focus will remain in 2013 on the continued implementation of the much more stringent requirements for the management and external reporting of liquidity risks announced by the international regulatory authorities in reaction to the financial market crisis. Here in particular the requirements of Basel III concerning the Liquidity Coverage Ratio (LCR) and der Net Stable Funding Ratio (NSFR) are of great importance to NORD/LB.

Operational Risk

Operational risk is defined as the risk of incurring losses as a result of the inadequacy or failure of internal procedures, employees and technology or losses which occur as a result of external influences. This definition includes legal risks and reputational risks as consequential risks. NORD/LB understands compliance risk, outsourcing risk, dilution risk and fraud risk to be components of operational risk as well.

- Legal risk defines the risk of losses occurring due to the non- or insufficient consideration of the legal framework specified by legal regulations and case law. Legal risk only exists in the bank's external relations.

- Reputational risk defines the risk of a loss occurring due to a loss of confidence among customers, business partners or owners.

- Compliance risk defines the risks of penalties being handed out by courts, authorities or disciplinary bodies as a result of improper procedures, processes and the like (due to non-compliance with laws, regulations, codes of conduct and standards) in the bank's internal relations.

- Outsourcing risk defines the risks resulting from the outsourcing of activities and processes.

- Dilution risk defines the risk relating to the balance and convertibility of a purchased receivable as a result of the borrower of the purchased receivable not being obliged to pay in full.

- Fraud risk defines the risk resulting from other criminal actions against the bank which cause a preventable loss of assets or damage to reputation.

Operational Risk – Management

Strategy

NORD/LB pursues the goal of efficient and sustainable management of operational risks, i.e. avoidance or transfer where this makes economic sense. Countermeasures are taken when necessary if the costs for the protection are not greater than the costs directly incurred as a result of the risk or if its reputation could be significantly affected. The relevant legal requirements must be met at all times.

Operational risks are considered in all business decisions. Future losses are countered by rules such as the internal control systems as well as by a solid risk culture. The raising of risk awareness among all employees and an open approach plays a key role in avoiding operational risks. Business continuation and contingency plans serve to limit damage in the case of unexpected extreme events. Very extreme, unforeseeable events are countered by a crisis management organisation. Insurance is taken out to actively protect against remaining risks.

The management of operational risks is performed largely on a decentralised basis and is supported by a central methodical framework for risk identification and assessment. Numerous sources of information such as loss events, risk indicators and scenarios are evaluated continually in order to ensure that the bank's view of the risk situation is always up to date. Appropriate countermeasures are taken by the responsible divisions as and when required. The appropriateness and effectives of the internal control system, the business continuation and contingency planning and the appropriateness of the insurance cover are reviewed at regular intervals.

Structure and Organisation

All hierarchical levels and divisions are involved in the management of operational risks. The Managing Board stipulates the basic method of handling operational risk, taking into account the risk situation at general bank level. Responsibility for the control of operational risk within the general environment specified is decentralised and lies with the individual divisions.

NORD/LB has a security strategy and uniform standards in order to efficiently and sustainably protect the bank from harm and at the same time meet legal and supervisory requirements. Contingency measures ensure appropriate operation in the event of an emergency and a return to normal operations as quickly as possible with interlinked business continuation and recovery planning which focuses on time-critical activities and processes. The higher-level contingency and crisis organisation ensures communication and decision-making capability in the event of escalating emergencies and crises.

The Finance and Risk Control Division is responsible as the central point the independent monitoring and reporting of operational risks. It is also responsible for specifying the rules for developing and implementing the instruments provided by the division to control operational risks. The strategic and conceptual responsibilities relating to security, contingency and crisis management are combined in the Group Security Division. The Compliance Department is organised as a department that is independent from the business divisions. It ensures in a process-integrated manner that the bank has appropriate policies and methods so that the requirements of the German Securities Trading Act can be met and money laundering, the financing of terrorism or other criminal acts can be prevented. Internal Audit is responsible for the process-independent audit to establish whether methods and procedures are properly implemented and carried out.

Operational Risk – Control and Monitoring

NORD/LB possesses a suitable framework in the form of technical and organisational measures, contractual provisions and rules laid out in writing to prevent operational risks from occurring in its processes as far as possible. With control and monitoring measures the bank ensures it complies with the relevant regulations and standards. If weaknesses in the organisation or in the control system are identified, appropriate countermeasures are taken immediately. It is the declared objective of the bank to give greater consideration to processes across the visions and in doing so reveal weaknesses in the control system and rectify any resulting damage at an early stage.

The internal control system (ICS) has a uniform structure in NORD/LB. The ICS framework implemented for this purpose is based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for internal controls and includes a specific operational and organisational structure. With the use of standardised methods and procedures, an appropriate and effective ICS will be ensured throughout the bank and a lasting improvement sought.

The operational structure of NORD/LB's ICS is geared towards a recurrent control cycle. The overriding goal is the bank-wide assessment of the ICS based on the consideration of the appropriateness and effectiveness of the controls implemented. The control cycle will be supported by an organisational structure optimised for this purpose. This includes roles related specifically to the ICS, the tasks, competencies and responsibilities of which are defined and distinguished from one another. The current reporting to different groups of recipients is part of this control cycle.

Based on a standard process map in the NORD/LB Group, the risk content of processes is assessed with the help of a scoring model and a detailed analysis with regard to the appropriateness and effectiveness of the ICS is undertaken.

Within the scope of a defined security process, NORD/LB actively controls its security risks. Deviations from the security standard and improvements required as a result of emergency and crisis exercises and the resulting measures are documented, assessed and monitored fully. External threats are also monitored regularly. The risks documented in the security process are routinely included in the comprehensive reporting of operational risks. In the IT Division, instructions on procedures, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Security concepts and contingency plans supplement pre-emptive measures in order to prevent loss or damage resulting from the failure or the manipulation of systems and information. The concepts are regularly tested and updated. In order to prevent the risk NORD/LB's internal computer centre failing, a second computer centre exists in a separate location.

Personnel risk is countered by an appropriate level of staff in terms of quality and quantity. Staff shortages are included in the contingency planning. Staff-related risks are reduced by a range of measures. The remuneration system comprises a performance-related component which provides incentives and at the same time supports sustainability and risk awareness in work practices. The requirements of the Institute Remuneration Act (Institutsvergütungsverordnung) are implemented in NORD/LB. The remuneration report can be found at https://www.nordlb.com/investor-relations/reports/.

A balance between work and family life should make working for the bank more enjoyable and encourage staff to remain with the bank for the long term. Maintaining the health of staff has top priority. In order to ensure that there is an appropriate level of staff, NORD/LB pays particular attention to training and further education as well as its target number of employees. The aim is to ensure that all employees have the required skills so that they can perform their tasks properly and efficiently. In order to prevent criminal acts, money laundering, the financing of terrorism and other compliance risks, the bank has established comprehensive protection and prevention measures. These are verified continually by a range of control and monitoring activities and developed continually on the basis of institute-specific risk analyses. If significant shortcomings should be revealed, corrective measures will be taken and their implementation tracked.

If there are any indications of major fraud, the further course of action is decided in an ad-hoc committee at management level. Employee awareness of risks is raised with classroom and online-based training, a regular newsletter and ad-hoc information on current risks. There is a whistleblowing system for employees and customers so that information can be passed on securely.

In order to safeguard against legal risks, the respective Legal Department is to be consulted for example when legal action is to be taken and when contracts which are not based on approved standard contracts are concluded. In order to ensure that new banking regulatory requirements are implemented correctly, the Compliance Department provides evidence across all divisions and informs the divisions concerned of the requirements for action as a result of the new regulations.

The quality of external suppliers and service companies is ensured in NORD/LB by concluding service level agreements or detailed specifications and the ongoing controlling of performance. A process for assessing service providers in terms of their significance for risk aspects was installed in order to implement Minimum Requirements for Risk Management (MaRisk) requirements concerning outsourcing. For each significant service outsourced a position is nominated which is responsible for managing services and risk relating to the business relationship. A risk assessment takes place on a quarterly basis using the method of risk indicators. An individual contingency plan is also drawn up for each significant service outsourced.

NORD/LB's insurance cover is appropriate. NORD/LB's insurance protection is analysed regularly with regard to its scope and effectiveness. Natural disasters and terrorist attacks are defined as force majeure and are countered by appropriate contingency concepts.

Operational Risk – Accounting-Related ICS

The ICS of NORD/LB also covers in relation to the accounting process all of the principles, processes and measures implemented by management which are aimed at the organisational implementation of decisions by management relating to:

- the correctness and reliability of internal and external accounting,
- compliance with legal regulations which are relevant to NORD/LB and to
- ensuring the effectiveness and efficiency of the accounting.

The accounting-related ICS is integrated into NORD/LB's overall ICS concept and consists of a hierarchy of controls and key controls which are to be carried out periodically or as and when required and the results of which are to be documented. In the year under review a comprehensive review and assessment of all controls took place.

NORD/LB's accounting process is structured decentrally. The preparation of the annual accounts and the management report for NORD/LB in compliance with legal regulations is the responsibility of the Finance / Taxes Division. Many accountable facts are already recorded in the market and back office divisions in NORD/LB's upstream systems are already subjected there to controls with regard to verification, completeness and assessment. There are also controls here with regard to the correct recording of data which control the reporting of facts and the preparation of the disclosures in the notes.

The accounting processes of NORD/LB and its foreign branches are basically structured independently and they have their own accounting-related control processes.

The closing entries of the German head office and the foreign branches are provided online and consolidated for NORD/LB's financial statements via a SAP module. The consolidation process is subject to a documented catalogue of controls. Manual processes are subject to the four-eyes principle.

In selected accounting-relevant areas, in particular relating to the calculation of liabilities to employees, NORD/LB uses external service providers.

The accounting process is monitored in the Finance / Taxes Division by a central, intranet-based management application. This application allows all activities and milestones relevant to the financial statements to be tracked in relation to their respective completion dates and their processing status, so that in the event of delays immediate action can be taken.

NORD/LB's Internal Audit conducts a process-independent audit to ensure compliance with the ICS. The ICS and risk management system are also the subject of an annual audit by the auditor. The results are reported to the Audit Committee.

The efficiency of the accounting process will continue to be ensured by continual improvements in the future.

Operational Risk – Assessment

NORD/LB collects data on losses from operational risks in a loss event database. As at the reporting date there was no minimum limit; however there is a simplified reporting process for gross losses of less than € 2 500. Data in the loss database provides the basis for analyses in support of risk management and is an important element of the statistical / mathematical risk model developed by the bank.

The loss events collected are exchanged in anonymous form in the Data Consortium of Operational Risks (DakOR) with other banks. The consortium data extends the data basis which is used for the internal model. In addition information contained in the Public Loss Events Op Risk (ÖffSchOR) database is available in which press releases on major losses resulting from operational risk are collected, structured and processed. The two sources of data are used for scenario analyses and for regular benchmarking.

A record of data concerning past losses is supplemented with future components with the help of the self-assessment method. Expert appraisals on the impact of specific scenarios provide a detailed insight into the risk situation of the individual bank divisions so that relevant measures can be derived if necessary. The scenarios and areas where data is gathered are selected on a risk-oriented basis and on the basis of an analysis of various data sources (e.g. loss events and audit reports). The results are included in the internal model and as a result improve the measurement accuracy.

In order to identify potential risks early on and to take countermeasures, risk indicators are used in NORD/LB. The selection of indicators takes place on a risk-oriented basis and is regularly reviewed for its appropriateness. Causes of risk should also be identified and concentrations of risk prevented with the continual and comparative analysis of loss events, risk indicators and scenarios.

The NORD/LB Group has an internal model to measure operational risk. For this purpose a loss distribution approach is used in which elements of the extreme value theory are considered. The distribution parameters are calculated based on internal data, scenario analyses and external data from the DakOR consortium. Correlation effects are modelled with the help of a Gaussian copula. Risk indicators in the warning area impact on the models. The VaR calculated by the model is used as a control variable for operational risks in the RBC model.

An allocation process which combines size indicators with risk-sensitive elements is used to distribute the model results to the individual institutes. The model's parameters are regularly subjected to a comprehensive validation and stress tests.

The methods and procedures implemented in NORD/LB meet the requirements of § 272 of the German Solvency Regulation concerning the use of the standard approach for operational risk. The amount allowable for operational risk was calculated in the year under review using this approach. The methods used in overall bank management and to calculate the risk-bearing capacity largely meet the requirements of the German Solvency Regulation for an advanced measurement approach.

Operational Risk – Reporting

Within the framework of a continuous risk management process, results from the collection of loss events, risk assessment, risk indicators and internal model are analysed and communicated to the Managing Board on a quarterly basis and the responsible divisions as and when required but at least once a year. The results are included in the quarterly RBC reporting.

The Managing Board and Supervisory Board are informed at least once a year of the major results concerning the appropriateness and effectiveness of the internal control system and the analyses of the Compliance Department.

Operational Risk – Development in 2012

In the year under review NORD/LB started to take a more integrated approach to the management of operational risks (e.g. compliance, fraud prevention, IT risk management, contingency planning, ICS and risk control). Against this background, as a first step a risk matrix which standardises the risk assessment method used across the bank was developed. It serves as a forerunner for similar data collections and the standard risk reporting planned as the second step. In addition to this, in a third step valuation dimensions that apply across the bank will in future facilitate the networked storage of data.

In order to improve the risk monitoring, changes were made in NORD/LB's internal reporting processes in 2012 with individual risk indicators being revised. Additionally, the regular monitoring for the early detection of security risks (threat radar) was extended and included in the regular reporting. The risk control for major outsourcing service providers was revised and improved in 2012.

The method for ascertaining and assessing money laundering and fraud risks was completely revised and applied for the first time in the year under review. The risk situation of NORD/LB in respect of fraud is in line with expectations, including compared to similar institutes. There are no significant threats.

The ICS framework was updated in the year under review. In addition to this, the foreign branches were fully integrated into the technical platform showing ICS procedures, significantly improving the control assessment process in the foreign branches.

As part of the contingency planning, time-critical processes were routinely revalidated in the second quarter of 2012. For those processes and activities that are identified as time critical, contingency plans are reviewed for currentness and where applicable updated. The effectiveness of the contingency plans was also checked for a range of scenarios with various emergency exercises. At the end of the year under review NORD/LB started an analysis on contingency-plan-relevant scenarios. The aim is to estimate the occurrence of various extreme scenarios in order to review the focus of the contingency concept and emergency capacity. The results will be available at the start of 2013.

In order to intensify preventive risk management, during the course of the year various awareness-raising and training measures were implemented in NORD/LB. For example, the web-based training for fraud and capital market compliance was revised and completed by all employees.

The operational risk potential as at 31 December 2012 based on the internal model is, with a confidence level of 95 per cent and a holding period of one year, € 55 million. There are no significant legal risks as at the reporting date that would put the existence of the bank at risk. Potential risks from claims for damages and compensation relating to the brokering and sale of closed investment products are monitored regularly.

Operational Risk – Outlook
In 2013 we will continue to take a more integrated approach to the management of operational risks. The main aim of this is to revise the current reporting channels and formats and to make them interlink more. The risk matrix that was developed in the year under review will be a central control and reporting instrument here.

Regarding the methods used, various efficiency improvement measures are planned. For the recording of loss events, a minimum limit of € 1 000 will be introduced on 1 January 2013. In addition to this, the risk assessment will be revised so that significant events can be analysed in more detail than before and the results can be linked more closely to other bank control data and information.

In security and contingency management the consistent implementation of the guidelines and active risk control in the event of any possible deviations will continue to be enforced. Potential deviations from the security guidelines will be recorded, documented and assessed for risk using a standard model in a structured process and be reported in the integrated reporting channels.

The rollout of the revised risk analysis methods for money laundering and fraud should be completed in 2013. Following the inclusion of the compliance module in the Minimum Requirements for Risk Management, the current information and advisory role of the Regulatory Compliance Unit will be extended to the effect that Audit, the Managing Board and the Supervisory Board will be informed of the appropriateness and effectiveness of those rules and guidelines which have been identified as significant taking into account risk aspects.

Summary

NORD/LB has taken account of all the risks known to the bank by employing precautionary measures. Suitable instruments have been implemented for the purpose of recognising risks early.

Quotients determined in the risk-bearing capacity model show that risks were covered at all times during the period under review. NORD/LB does not believe that there are any risks at present that would put the existence of the bank at risk.

NORD/LB complied with the applicable regulatory provisions concerning equity capital and liquidity throughout 2012. It also took due account of the regulations relating to large credits limits in accordance with § 13a of the German Banking Act.

NORD/LB's development currently depends above all on the economic situation in Germany, developments in the shipping markets and the development of the euro countries. In addition to this, the high degree of market volatility, in particular for interest rates and credit spreads, against the joint background of the continuing discussions concerning the euro periphery countries, also affects future developments. The development of the US dollar exchange rate will, via its effect on the RWA, also have an influence on NORD/LB's risk-bearing capacity. However, NORD/LB considers these effects to be manageable and will continue to monitor and analyse developments closely.

In supplement to the risk report, the forecast report presents the opportunities and risks relating to the future development of NORD/LB.

Statements Relating to the Future

This report contains statements relating to the future. They can be recognised in terms such as “expect”, “intend”, “plan”, “endeavour” and “estimate” and are based on our current plans and estimations. These statements contain uncertainties since a number of factors which affect our business are beyond the sphere of influence of NORD/LB. These factors notably include developments in the financial markets and changes in interest rates and market prices. Actual results and developments may deviate considerably from current assumptions. NORD/LB does not assume any responsibility and nor does it intend to update these statements relating to the future or to adjust them in the event of developments which deviate from those that had been anticipated.

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Content

Assets

Norddeutsche Landesbank Girozentrale

	€	€	€	31 Dec. 2011 € 000
1. Cash reserve				
a) Cash on hand		68 936 961.54		55 152
b) Balances with central banks		273 932 459.33		110 003
of which: with the "Deutsche Bundesbank" € 0.00				(97 172)
			342 869 420.87	165 155
2. Claims on banks				
a) mortgage loans		44 172 680.54		43 065
b) municipal loans		14 924 230 169.99		15 306 738
b) Other claims		19 736 398 350.48		15 361 229
			34 704 801 201.01	30 711 032
of which: Due on demand € 4 458 103 835.85				(3 935 597)
against securities lending € 0.00				(0)
3. Claims on customers				
a) mortgage loans		4 835 250 443.60		5 182 112
b) municipal loans		24 234 981 148.93		23 569 309
c) Other claims		34 970 129 262.76		36 853 636
of which: against securities lending € 0.00			64 040 360 855.29	65 605 057 (0)
4. Debt securities and other fixed-interest securities				
a) Money-market instruments				
aa) Issued by public sector borrowers	106 498 333.89			31 551
of which: eligible as collateral for "Deutsche Bundesbank" advances € 0.00				(25 020)
ab) Issued by other borrowers	53 771 505.01			23 213
		160 269 838.90		54 764
of which: eligible as collateral for "Deutsche Bundesbank" advances € 31 027 644.17				(0)
b) Bonds and debt securities				
ba) Issued by public sector borrowers	9 897 537 329.60			10 519 913
of which: eligible as collateral for "Deutsche Bundesbank" advances € 9 716 817 444.98				(10 386 961)
bb) Issued by other borrowers	18 469 037 275.70			20 320 817
		28 366 574 605.30		30 840 730
of which: eligible as collateral for "Deutsche Bundesbank" advances € 15 178 820 988.30				(15 608 477)
c) Debt securities, issued by the institution itself		482 520 262.44		354 550
Nominal amount € 477 620 000.00				(355 020)
			29 009 364 706.64	31 250 044
Amount carried forward			128 097 396 183.81	127 731 288

Balance Sheet NORD/LB Bank as at 31 December 2012

Assets

	€	€	€	31 Dec. 2011 € 000
Amount carried forward			128 097 396 183.81	127 731 288
5. Shares and other variable-yield securities			1 200 972 570.32	1 201 796
5a. Trading portfolio			9 520 523 967.76	9 347 717
6. Participating interests			110 754 553.38	141 075
of which: in banks €	4 197 333.41			(4 197)
in financial institutions €	1 983 523.31			(1 984)
7. Shares in affiliated companies			1 966 728 330.84	2 033 941
of which: in banks €	1 407 729 003.38			(1 468 608)
in financial institutions €	0.00			(0)
8. Assets held in trust			4 546 438 037.33	4 433 657
of which: loans on a trust basis €	4 546 438 037.33			(4 433 657)
9. Intangible assets				
a) internally generated industrial property rights and similar rights and values		56 287 630.16		60 324
b) Concessions, industrial property rights and similar rights and values including its licences against payment		17 299 141.91		9 306
c) Goodwill		0.00		0
d) Advance payments made		57 881.46	73 644 653.53	0 69 630
10. Tangible assets			212 900 828.83	224 670
11. Capital called but not paid			0.00	278 501
12. Other assets			1 962 118 071.69	1 856 047
13. Prepaid expenses				
a) from new issue and lending business		524 966 947.00		472 050
b) other		629 878 132.89	1 154 845 079.89	517 503 989 553
Total assets			148 846 322 277.38	148 307 875

Liabilities

Norddeutsche Landesbank Girozentrale

	€	€	€	31 Dec. 2011 € 000
1. Liabilities to banks				
a) issued registered mortgage covered bonds		25 310 182.19		179 757
b) issued registered public sector covered bonds		1 795 129 462.35		2 271 089
c) other liabilities		44 853 235 104.93		37 490 567
			46 673 674 749.47	39 941 413
of which: Due on demand € 6 891 043 249.04				(3 353 361)
ensuring loans taken up				
registered mortgage covered bonds transferred to lender € 0.00				(0)
and registered public sector covered bonds € 710 558 379.75				(1 068 078)
2. Liabilities to customers				
a) issued registered mortgage covered bonds		401 117 870.00		500 882
b) issued registered public sector covered bonds		10 691 486 382.65		11 322 919
c) Savings deposits				
ca) with an agreed notice period of three months	750 718 064.65			809 849
cb) with an agreed notice period more than three months	394 510 375.05	1 145 228 439.70		473 967
d) Other liabilities		24 702 121 519.34		26 978 312
			36 939 954 211.69	40 085 929
of which: Due on demand € 11 180 159 227.98				(9 477 492)
ensuring loans taken up				
registered mortgage covered bonds transferred to lender € 0.00				(0)
and registered public sector covered bonds € 95 892.79				(5 393)
3. Securitised liabilities				
a) Issued debt securities				
aa) mortgage covered bonds	2 104 136 700.46			1 411 153
ab) public sector covered bonds	10 833 267 058.41			12 774 520
ac) other debentures	27 659 846 708.98	40 597 250 467.85		29 349 078
b) Other securitised liabilities		320 569 275.25		539 204
			40 917 819 743.10	44 073 955
of which: money-market instruments € 124 826 908.98				(453 247)
3a. Trading portfolio			4 568 551 275.58	4 020 331
4. Liabilities held in trust			4 546 438 037.33	4 433 657
of which: loans on a trust basis € 4 546 438 037.33				(4 433 657)
5. Other liabilities			2 366 327 276.30	3 241 428
Amount carried forward			136 012 765 293.47	135 796 713

Balance Sheet NORD/LB Bank as at 31 December 2012

Liabilities

	€	€	€	31 Dec. 2011 € 000
Amount carried forward			136 012 765 293.47	135 796 713
6. Deferred income				
a) from new issue and lending business		397 793 984.27		312 189
b) other		491 407 370.02		451 657
			889 201 354.29	763 846
7. Provisions				
a) Provisions for pensions and similar obligations		761 295 037.11		659 312
b) Tax provisions		154 643 005.14		142 781
c) Other provisions		415 681 321.25		411 159
			1 331 619 363.50	1 213 252
8. Subordinated liabilities			2 525 938 167.50	2 697 203
9. Participatory capital			115 000 000.00	120 000
of which: thereof falling due in less than two years €	20 000 000.00			(0)
10. Funds for general banking risks			927 632 805.66	927 633
of which: special item for general banking risks in accordance with § 340e, para.4 of the German Commercial Code €	75 000 000.00			(75 000)
11. Equity				
a) Subscribed capital				
aa) Share capital	1 607 257 810.00			1 493 896
ab) Capital contribution as per §15 para. 1 State treaty	0.00			0
ac) Other Capital contributions	1 351 422 676.14	2 958 680 486.14		1 569 224
b) Capital reserves				
ba) Contribution as per §15 para. 1 State treaty	0.00			0
bb) other reserves	3 324 313 451.76	3 324 313 451.76		3 037 675
c) Retained earnings		687 502 357.24		577 502
d) Profit shown on the balance sheet after appropriation to or transfer from reserves		73 668 997.82		110 931
			7 044 165 292.96	6 789 228
Total liabilities			148 846 322 277.38	148 307 875
1. Contingent liabilities				
a) Contingent liabilities under rediscounted bills of exchange		0.00		0
b) Liabilities from guarantees and other indemnity agreements		5 839 988 400.11		8 465 879
c) Liabilities from assets pledged as collateral for third-party liabilities		0.00		0
			5 839 988 400.11	8 465 879
2. Other obligations				
a) Repurchase obligations from non-genuine partial repurchase agreements		0.00		0
b) Placement and underwriting obligations		0.00		0
c) Irrevocable credit commitments		7 009 802 235.62		6 849 020
			7 009 802 235.62	6 849 020

Norddeutsche Landesbank Girozentrale

	€	€	€	2011 € 000
1. Interest income from				
a) Lending and money market transactions	3 073 918 799.94			3 232 826
b) Fixed-income and book entry securities	697 639 363.45			909 621
c) current income from trading portfolio	1 499 510 202.95	5 271 068 366.34		1 931 811
2. Interest expense		4 067 329 721.37		4 918 569
			1 203 738 644.97	1 155 689
3. Current income from				
a) Shares and other variable-yield securities		15 458 787.45		24 429
b) Participating interests		19 217 891.08		22 698
c) Shares in affiliated companies		79 221 811.28		82 989
			113 898 489.81	130 116
4. Income from profit pooling, profit transfer and partial profit transfer agreements			7 227 380.09	15 875
5. Commission income		219 102 764.00		232 760
6. Commission expense		67 896 376.00		65 406
			151 206 388.00	167 354
7. Net income/net expense deriving from trading business			88 171 169.84	– 23 319
8. Other operating income			93 714 413.99	63 131
9. General administrative expenses				
a) Staff expenses				
aa) Wages and salaries	294 143 085.15			281 965
ab) Social security contributions and expenses for pension provision and other employee benefits	135 676 585.58	429 819 670.73		71 989
of which: for pensions € 76 266 159.43				(14 954)
b) Other administrative expenses		352 319 684.65		343 167
			782 139 355.38	697 121
10. Amortisation and write-downs of intangible assets			38 184 566.88	33 117
11. Other operating expenses			188 584 397.19	184 129
12. Write-downs of and value adjustments to claims and certain securities and allocations to provisions for lending business			351 339 358.22	0
13. Earnings from write-ups to claims and certain securities and allocations to provisions for lending business			0.00	80 322
Amount carried forward			297 708 809.03	674 801

Income Statement for the reporting period from 1 January 2012 to 31 December 2012

				2011
	€	€	€	€ 000
Amount carried forward			297 708 809.03	674 801
14. Write-downs of and value adjustments to investments, shares in affiliated companies and securities treated as fixed assets			18 042 089.54	223 769
15. Expenses on assumption of losses			9 973 837.71	41 282
16. Transfer to the funds for general banking risks			0.00	100 333
of which: Allocation to special item acc.to § 340e, para. 4 German Commercial Code ________ €	0.00			(0)
17. Profit on ordinary activities			269 692 881.78	309 417
18. Extraordinary income		0.00		0
19. Extraordinary expense		42 034 828.55		18 649
20. Extraordinary result			– 42 034 828.55	– 18 649
21. Refund from income taxes		55 928 060.33		21 084
22. Refund from other taxes not show under item 11		1 651 022.94		943
			57 579 083.27	22 027
23. Income from profit pooling, profit transfer and partial profit transfer agreements			97 341 059.14	160 179
24. Profit for the year			72 737 910.82	108 562
25. Earnings brought forward from the previous year			931 087.00	2 369
26. Profit shown on the balance sheet after appropriation to or transfer from reserves			73 668 997.82	110 931

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Content

I. Information on the Accounting Policies and Principles for Currency Translation

(Previous year figures for the 2012 accounting period or as at 31 December 2011 are shown in brackets.)

Principles for the Preparation of the Annual Financial Statements

The annual financial statements of Norddeutsche Landesbank Girozentrale Hannover, Braunschweig, Magdeburg, (NORD/LB) as at 31 December 2012 were prepared in accordance with the regulations of the German Commercial Code (HGB), the German Accounting Regulation for Credit and Financial Services Institutions (RechKredV) and the Covered Bond Act (PfandBG).

The layout of the balance sheet and the income statement is based on the RechKredV.

The balance sheet has been prepared in accordance with § 268 para. 1 of the German Commercial Code taking into account partial appropriation of the annual profit.

Against the background of the European Banking Authority's (EBA) tighter requirements concerning minimum core capital for banks and the future Basel III requirements, NORD/LB has agreed a capital-boosting programme with its owners. Significant components of this capital-boosting programme in 2012 were the limiting of risk-weighted assets, the retention of profits, the sale of investments and several measures to optimise the equity structure. The optimisation measures include the restructuring of silent participations held by the owners in NORD/LB into share capital recognised by the EBA as core tier 1 capital plus a premium and a guarantee by the states of Lower Saxony and Saxony-Anhalt for the mezzanine tranch of a credit portfolio of NORD/LB brought into a securitisation structure. The guarantee will be paid for by NORD/LB in the form of a premium to be reported under commission expenses. The EU Commission's conditions for the approval of aid also have an effect on the annual financial statements for 2012. These include in particular the requirement that the profits for 2012 and 2013 be retained and an efficiency improvement programme to reduce future operating costs and for which costs were incurred in 2012.

Adjustment of figures for the previous year and reporting changes

The figures for the previous were adjusted as follows:

Unlike in the reference year, business relations with institutions that conduct banking business in terms of § 1 of the German Banking Act are no longer reported as loans and advances or liabilities to customers, but as loans and advances or liabilities to banks.

Furthermore, under loans and advances to banks, loans and advances to legal persons under private law with a majority public shareholding reported in the previous year under municipal loans have been reclassified as other loans and advances; only loans and advances to legal persons under public law and loans and advances guaranteed by a legal person under public law are to be reported as municipal loans.

The following reclassifications were made on the assets side of the balance sheet as at 31 December 2011:

(in € 000)	Prior to adjustment	Adjustment	After Adjustment
2. Claims on banks			
a) mortgage loans	0	43 065[1)]	43 065
b) municipal loans	16 570 474	– 1 263 736[2)]	15 306 738
c) Other claims	12 388 564	1 708 929[1)] 1 263 736[2)]	15 361 229
of which: Due on demand	2 524 004	1 355 292[1)] 56 301[2)]	3 935 597
3. Claims on customers			
a) mortgage loans	5 225 177	– 43 065[1)]	5 182 112
b) Other claims	38 562 565	– 1 708 929[1)]	36 853 636

1) Change in presentation of business relations to institutions conducting the banking business acc. to § 1 German Banking Act (KWG).
2) Change in presentation of legal persons in private law with a majority public participation.

The following reclassifications were made on the liabilities side of the balance sheet as at 31 December 2011:

(in € 000)	Prior to adjustment	Adjustment	After Adjustment
1. Liabilities to banks			
c) other liabilities	34 813 619	2 676 948 [1]	37 490 567
of which: Due on demand	2 918 963	434 398 [1]	3 353 361
2. Liabilities to customers			
d) other liabilities	29 655 260	– 2 676 948 [1]	26 978 312
of which: Due on demand	9 911 890	– 434 398 [1]	9 477 492

[1] Change in presentation of business relations to institutions conducting the banking business acc. to § 1 German Banking Act (KWG).

Proceeds from the resale of purchased services, which were reported in the reference period under other operating income and other operating expenses, are netted in the year under review due to their commission character and reported under commission income.

In addition, NORD/LB no longer reports proceeds realised from the redemption of liability business as in the previous year under "income from write-ups of receivables and certain securities and loan loss provisions", but under other operating income or other operating expenses. The previous year's figures were adjusted accordingly.

The following reclassifications were made in the income statement for 2011:

(in € 000)	Prior to adjustment	Adjustment	After Adjustment
5. Commission income	233 050	– 290 [1]	232 760
8. Other operating income	58 206	– 6 751 [1] 11 676 [2]	63 131
11. Other operating expenses	123 514	– 7 041 [1] 67 656 [2]	184 129
13. Earnings from write-ups to claims and certain securities and allocations to provisions for lending business	24 342	55 980 [2]	80 322

[1] Change in presentation of income from the resale of purchased services.
[2] Presentation of proceeds realised from the redemption of liability business.

Overall the adjustment of figures for the previous year does not affect the total assets and profit as the adjustments only involve transfers between items.

Accounting Policies – Trading Portfolio

Financial instruments in the trading portfolio are valued in accordance with § 340e para. 3 clause 1 of the German Commercial Code at fair value less a risk premium. The change in fair value compared to the previous balance sheet date or compared to the acquisition cost, the valuation result, is recorded under the item net income or net expenses of the trading portfolio. Expenses relating to the allocation to the special item in accordance with § 340e para. 4 of the German Commercial Code are not reported under net income or net expenses of the trading portfolio, but under the item “expenses relating to the allocation to the fund for general banking risks”. As regards the calculation of the fair values, the chapter “Calculation of fair values” is referred to.

The current interest income and expenses relating to trading transactions are shown under interest income. Dividend income from trading transactions is recorded under the item “current income from shares and other variable-yield securities”.

As there is currently no difference in terms of balance between the trading portfolio reported in the balance sheet and the regulatory trading book, NORD/LB has used the Value-at-Risk (VaR) calculated for regulatory purposes directly as a risk premium in terms of § 340e para. 3 clause 1 of the German Commercial Code, i.e. it has deducted the VAR value calculated for regulatory purposes from trading assets. The method used to calculate the VAR is the historical simulation method.

The VAR parameters used in accordance with banking regulations, and which are therefore also relevant for reporting in accordance with commercial law, are:

- Use of an uncorrelated VaR, i.e. addition of VaR for the following risk types:
  - General interest-rate risk,
  - Specific interest-rate risk (issuer-specific risk),
  - Currency risk,
  - Share-price risk,
  - Option-price risk,
- Confidence level: 99 %,
- Holding period: 10 days,
- Monitoring period: 1 year.

The average rate is used for the valuation of the trading portfolio. The effects of the inclusion of counterparty-specific default risks for OTC derivatives are also reported. The bank has also switched to OIS discounting for the valuation of secured OTC derivatives where OIS discounting has developed at the current market standard.

Accounting Policies – Non-Trading Portfolio (Banking Book)

Loans and advances to customers and banks are reported at nominal value or at acquisition cost. If there are differences between the nominal values and the amounts paid out for mortgage loans and other loans and advances which are of an interest nature, the items are reported at nominal value in accordance with § 340e para. 2 of the German Commercial Code. The differences are reported under prepaid expenses and are liquidated in a scheduled write-back.

Sufficient consideration is given to identifiable risks in lending business by making specific valuation allowances and loan loss provisions. The provisions for country risks were calculated based on principles which have not changed. Appropriate lumpsum loan loss provisions have been made for other general credit risks. Lumpsum loan loss provisions are still calculated in accordance with the communiqués of the BFA 1/1990 and the BMF of 10 January 1994. The reference period relevant for calculating the default rate was changed from eight to five years. NORD/LB has therefore taken into account its consistent business and risk policy. This change has resulted in lumpsum loan loss provisions being reduced by € 22.6 million.

Securities in the liquidity reserve are valued in accordance with the strict lower-of-cost-or-market principle. Securities in fixed assets are valued at acquisition cost in accordance with the mitigated lower-of-cost-or-market principle provided that they are not the subject of a likely permanent loss in value.

With the acceptance of the exchange offer for Greek government bonds in March 2012, NORD/LB AöR forewent 53.5 per cent of the nominal amount of their receivables in the amount of € 80 million. The disposal of the bonds had a positive effect of € 2.2 million in the financial year 2012. The acquisition costs of the new bonds resulting from the exchange total € 18.9 million. As at 31 December 2012 all of the bonds received as part of the exchange have been sold.

Structured products are broken down into their components (basic instrument and embedded derivatives) in accordance with IDW RS HFA 22 and reported separately. The relevant accounting methods are applied for the components. The separate derivatives are considered in the loss-free valuation of the banking book or included in valuation units. Structured products that are valued at fair value or in accordance with the strict lower-of-cost-or-market principle are not reported separately.

Option premiums and future-margin payments relating to transactions not yet due and pro-rata interest relating to interest-rate swap transactions are reported under other assets or other liabilities; amounts relating to interest-rate caps which have not yet been amortised and up-front amounts relating to interest-rate swap transactions are included under prepaid expenses.

Credit default swaps (CDS) where the bank is the provider of security are treated in the balance sheet using the same procedure as for contingent assets and liabilities relating to sureties and guarantees. If it is expected that a CDS will be used, a provision is made. Earnings components relating to CDS where the bank is the provider of security are reported under commission income. If CDS were transacted to hedge securities (the bank is the provider of security), the hedge effect of the CDS is considered when assessing the write-down requirement for the security. The risk of a doubtful credit rating for the provider of security (the counterparty in the CDS contract) is to be considered separately; this is done using the same procedure as for a guarantee. Earnings components relating to CDS where the bank is the recipient of security are reported under interest income.

In case of transferring risks from the non-trading portfolio to the trading portfolio, internal transactions are recognised under German commercial law in line with the deputisation principle according to external transactions.

Investments and shares in affiliated companies are reported at acquisition cost or at the lower fair value in the case of permanent impairment.

The Öffentliche Versicherung Braunschweig (ÖVBS) dividend concerns the constant payment of interest on the respective guarantor capital which is only slightly dependent on the business performance of ÖVBS. This fact is taken into account by the change in the valuation method in the form of the underlying discounting factor.

Property and equipment are reported at acquisition cost and, if they have a finite useful life, are subject to scheduled depreciation. The useful life is based on the tax options. There was no unscheduled depreciation in accordance with § 253 para. 2 clause 3 of the German Commercial Code in the year under review. Fixed assets with an acquisition cost of between € 150 and € 1,000 are capitalised under a collective item and depreciated at a flat rate of 20 per cent per annum over five years. Low-value fixed assets with an acquisition cost of up to € 150 are written off completely in the year of acquisition.

NORD/LB has made use of the option in accordance with § 248 para. 2 of the German Commercial Code and reported self-made intangible fixed assets. Here the external costs incurred during the development phase and internal development services are recognised. The useful life of self-made software is set at five years for the sake of simplicity.

Liabilities to customers and banks are reported at their settlement values. The differences between borrowing and repayment amounts of an interest nature are reported under prepaid expenses and are liquidated according to schedule.

Zero bonds are reported at their market price when issued plus a mark-up for interest in line with the yield on newly issued bonds.

Provisions are valued at the necessary settlement value based on reasonable commercial assessment. Provisions with a term of more than one year are discounted using the average market interest rate relevant for the residual term calculated and published by the Deutsche Bundesbank in accordance with the Provisions Discounting Regulation (RückAbzinsV). Income and expenses from the discounting of provisions are reported under other operating expenses resp. income.

Calculation of Fair Values

Fair values have to be calculated on the one hand for accounting purposes (valuation of derivative and non-derivative financial instruments in the trading portfolio at fair value) and on the other hand for disclosure purposes (disclosure of the fair value for derivative financial instruments in the banking book). For both purposes the fair values are calculated in the same way as follows.

For financial instruments traded on an active market the fair value corresponds directly to the stock-exchange or market price, i.e. in this case no adjustments or present value calculations are made to calculate the fair value. If publicly-listed stock-exchange prices are available, these are used; otherwise other price sources are used (e.g. prices quoted by market makers). Examples of financial instruments traded on an active market at NORD/LB are securities, options and futures traded on the stock exchange.

In all other cases the fair value is calculated using generally accepted valuation methods. The generally accepted valuation methods used by NORD/LB include in the area of derivative and non-derivative trading transactions the following methods:

Valuation method	Application	Significant input parameters
Discounted Cash Flow Method	Illiquid interest-bearing securities	Swap curves, credit rating information
	Credit Default Swaps	Swap curves, credit-spreads and where applicable credit rating information
	Interest-rate swaps, FRAs	Swap curves
	Securities forward contracts	Contract data, specific securities forward prices, swap curves
	Interest-rate currency swaps, forward exchange contracts	Swap curves in the currencies exchanged; basic swap spreads; exchange rate
Hull & White Model for Options	Bermudan swaptions	Volatility of the underlying market price, risk-free interest rate, swap rate, mean reversion
Black-Scholes Model	FX options	Exchange rates volatility of the underlying market price, risk-free interest rate for both currencies
	OTC share options (European)	Volatility of the underlying market price, risk-free interest rate, underlying (share), dividends
Barone-Adesi, Whaley-Model	OTC share options (American)	Volatility of the underlying market price, risk-free interest rate, underlying (share), dividends
Black-76 Model	Caps and floors Swaptions Bond options	Exchange rates volatility of the underlying market price, risk-free interest rate

The significant input parameters were reliably established for all of the trading transactions valued using the above-mentioned valuation methods; there were no cases at NORD/LB where it was not possible to calculate the fair value.

Accounting of Securities Lending

NORD/LB assigns the beneficial ownership in securities lending to the lender. The consequence of this is that lent securities remain in the balance sheet of NORD/LB and are valued in accordance with the valuation rules of the respective security category (they often concern securities in the trading portfolio). If NORD/LB borrows securities, the securities are not reported by NORD/LB as the economic benefit has not been assigned to it.

Pension Obligations

NORD/LB’s pension obligations have been valued in accordance with the projected unit credit method since the German Accounting Law Modernisation Act (BilMoG) came into effect. Using this method current pensions as at the balance sheet date and the part apportioned to the period of employment served to date, the defined benefit obligation, are valued. Increases which are expected in the future due to increases in salary or pension adjustments which are apportionable here are also considered. The defined benefit obligation is calculated by the expected future benefit (the settlement value in terms of § 253 para. 1 clause 2 of the German Commercial Code) being discounted in accordance with § 253 para. 2 of the German Commercial Code with the average market interest rate for the previous seven years. In the process the simplification rule in accordance with § 253 para. 2 clause 2 of the German Commercial Code is used and the interest rate is set at a flat rate for a remaining term of 15 years.

As at 1 January 2012 the present value of pension obligations in accordance with the German Accounting Law Modernisation Act (BilMoG) was € 916 366 thousand. Using the simplification rule in accordance with art. 67 para.1 clause 1 Introductory Act of the German Commercial Code (EGHGB), the allocation will be spread over 15 years. The value in 2012, after taking into account repayments, was € 18 648 thousand and was shown under extraordinary expenses.

The provision as at 31 December 2012 was € 761 295 thousand, whereby an obligation of € 238 666 thousand is not shown in the balance sheet.

When calculating the pension obligations the following assumptions were used for the bank in Germany:

	31 Dec. 2012	31 Dec. 2011
Interest rate	5.04 %*)	5.14 %
Salary increases	2.00 % p.a.	2.00 % p.a.
Pension increases	2.75 %/2.87 %/1.00 %	2.75 %/2.87 %/1.00 %
Fluctuation	3.00 %	3.00 %

*) A portion in the amount of € 53 054 thousand was calculated with an interest rate of 5.07 per cent.

NORD/LB's pension obligation was valued based on the "Richttafeln 2005 G" mortality tables published by Dr. Klaus Heubeck.

For the branch in New York, the bank has offset the cover assets against the related pension obligations in accordance with § 246 para. 2 of the German Commercial Code (new version). The settlement value of the pension obligation (converted into euros) as at the balance sheet date was € 4 509 thousand. This is seen alongside the fair value of the cover assets as at 31 December 2012 in the amount of € 3 249 thousand. Acquisition costs amount to € 2 443 thousand.

The allocation to the pension obligation for 2012 was € 334 thousand. This is seen alongside income generated from the cover assets in the amount of € 389 thousand.

For the indirect pension obligations of the London branch there was a shortfall as at 31 December 2012 of € 3 867 thousand.

Based on a service agreement, the employees of NORD/LB have the option of placing the credit balance of time credits and deferred remuneration in long-term working time credit accounts which are invested in a special fund by a trustee.

This is a securities-linked commitment, so that in accordance with § 253 para. 1 of the German Commercial Code the relevant provision is to be set in the amount of the fair value of the fund assets and netted with the cover assets.

As at 31 December 2012 the fair value of the special fund is € 2.8 million against an acquisition cost of € 2.9 million.

The expenses and income from the cover assets and the corresponding provisions are offset under other operating profit/loss.

The intention is to hold the shares long term. Write-downs are only to be made if there is a likely permanent loss in value. There were no reasons for a write-down to lower fair value as at the balance sheet date.

Currency Translation

The currency translation takes place in the non-trading portfolio in accordance with the principles of § 256a in conjunction with § 340h of the German Commercial Code ("special cover") and the statement made by the "Bankenfachausschuss" (Banking Committee) of the "Institut der Wirtschaftsprüfer" (Institute of Public Auditors in Germany) (IDW RS BFA 4), as the bank controls currency risk via separate currency positions and carries the individual currency items in the currency positions. The special cover comprises all assets, liabilities and pending transactions which are not allocated to the trading portfolio, are financial instruments and are in a foreign currency.

The conversation of assets and liabilities and the valuation of forward foreign exchange transactions and spot exchange transactions which have not yet been completed are translated using the average spot exchange rate (ECB reference exchange rate) or rates from other reliable sources on the balance sheet date.

For futures transactions in the non-trading portfolio, the pro-rata, swap mark-ups/mark-downs which have not yet been amortised are valued at the current swap rates for the remaining term of the transactions.

The results from the valuation of the remaining positions are added by currency; losses are deducted. Any remaining positive results, such as unrealised profits from open items, are not considered.

For financial instruments in the trading portfolio the currency translation takes place in accordance with the relevant accounting policies. The results of the currency translations are reported under the item net income or net expenses of the trading portfolio.

Overall the value of NORD/LB's assets and liabilities in foreign currencies totals € 44 834 million (€ 48 117 million) and € 44 784 million (€ 49 273 million) respectively. Due to the change in method used to calculate cross currency swaps and forward foreign exchange transactions, the figures for the previous year were adjusted.

Formation and Accounting of Valuation Units

At NORD/LB in the following cases economic hedging relationships are shown in the balance sheet by forming valuation units:

- Individual-transaction-specific interest hedges of fixed-interest securities in the liquidity reserve with interest-rate swaps (as at 31 December 2011: € 64 500 thousand; previous year € 87 210 thousand);

- Individual-transaction-specific hedges of the underlying share-price or currency exchange rate risks of certain structured issues with share-price or currency-exchange-rate-specific derivatives (€ 625 694 thousand; previous year: € 692 897 thousand);

- Individual-transaction-specific hedge of the currency risk of the highly likely repayment of a hybrid capital bond issued in USD with a currency swap (€ 378 960 thousand; previous year: € 386 429 thousand);

- Individual-transaction-specific passing on of inflation risk hedged against customers to the market (€ 152 488 thousand; previous year: € 0 thousand).

In addition to the above-mentioned hedging relationships shown as valuation units, there are the following economic hedging relationships which are not shown in the balance sheet by forming valuation units, but by the measures below:

- Currency hedges in the banking book. The economic hedging relationship is presented in the balance sheet by the translation of the foreign-currency assets, foreign-currency liabilities and pending currency transactions in accordance with § 256a in conjunction with § 340h of the German Commercial Code.

- Hedging of general Interest-rate risk in the banking book within the scope of asset/liability management (Overall Bank Management). The economic control relationship is taken into account when assessing whether the requirements for loss-free valuation in the banking book have been complied with by considering all of the interest-bearing banking book assets and liabilities and all interest derivatives in the banking book.

- Hedging of the default risk relating to banking book assets with CDS contracts. The economic hedging relationship is presented in the balance sheet by the hedge effect of the CDS contracts being considered in the calculation of the revaluation requirement for the hedged assets like a loan security.

Where valuation units are formed, at NORD/LB the net hedge presentation method and the gross hedge presentation method are used. The gross hedge presentation method is used for valuation units for hybrid capital, while the net hedge presentation method is used for asset swap packages for the liquidity reserve and valuation units for structured issues.

Loss-free Valuation of Interest-rate-based Transactions in the Banking Book (Interest Book)

Interest-rate-based financial instruments in the banking book (interest book) are subject to a loss-free valuation in accordance with IDW RS BFA 3. If the value of the payment obligation from the interest-bearing transaction is greater than the value of the counterperformance, a provision for anticipated loss in the amount of the net liability is to be made.

In the present value approach, NORD/LB compares the cash flows, discounted as at the balance sheet date, of all on-balance-sheet and off-balance-sheet interest-rate-based financial instruments not in the trading portfolio with their carrying amounts taking into account the expected refinancing, risk and administrative expenses. As at the balance sheet date there is no net liability.

II. Disclosures and Notes to the Balance Sheet and Income Statement

The notes below concerning the individual items of the balance sheet and income statement appear in the order that the items are reported:

Notes to the Balance Sheet

Assets

(in € 000)	31 Dec. 2012	31 Dec. 2011
2. Claims on banks		
a) with a residual term of		
Due on demand	4 471 295	5 719 664
less than 3 months	5 768 531	5 317 069
more than 3 months but less than 1 year	6 419 067	3 655 310
more than 1 year less than 5 years	9 391 618	8 691 179
more than 5 years	8 654 290	7 327 810
Balance sheet value	34 704 801	30 711 032
of which		
Claims on affiliated companies	8 946 318	7 044 644
Claims on companies in which an equity investment exists	1 397 556	1 229 477
Subordinated receivables	878 837	350 109
Used to cover old stock	2 713 822	2 869 684
The full amount of receivables from banks includes:		
Claims on affiliated savings banks	6 474 586	7 635 054
3. Claims on customers		
a) with a residual term of		
less than 3 months	8 943 966	5 891 900
more than 3 months but less than 1 year	1 377 654	5 364 339
more than 1 year less than 5 years	17 483 790	24 211 469
more than 5 years	36 234 951	30 137 349
Balance sheet value	64 040 361	65 605 057
of which		
Claims on affiliated companies	660 567	689 891
Claims on companies in which an equity investment exists	190 488	171 373
Subordinated receivables	33 476	24 244
Used to cover old stock	5 055 543	6 548 505
With an indefinite term	1 607 181	1 199 620
4. Debt securities and other fixed-interest securities		
a) Money-market instruments		
aa) Issued by public sector borrowers		
Balance sheet value	106 498	31 551
of which		
due in the following year	106 498	31 551
marketable and listed money-market instruments	–	31 551
marketable and unlisted money-market instruments	106 498	–

Assets

(in € 000)	31 Dec. 2012	31 Dec. 2011
ab) Issued by other borrowers		
Balance sheet value	53 772	23 213
of which		
due in the following year	53 772	23 213
marketable and listed money-market instruments	53 772	–
b) Bonds and debt securities		
ba) Issued by public sector borrowers		
Balance sheet value	9 897 537	10 519 913
of which		
due in the following year	2 559 487	1 946 044
marketable and listed money-market instruments	9 586 836	10 454 327
marketable and unlisted money-market instruments	310 701	65 586
Used to cover old stock	413 373	421 169
bb) Issued by other borrowers		
Balance sheet value	18 469 037	20 320 817
of which		
due in the following year	3 402 492	4 560 845
marketable and listed money-market instruments	17 524 282	18 918 546
marketable and unlisted money-market instruments	944 755	1 402 271
Affiliated company securities	3 075 975	2 635
Subordinated debt securities	1 340 385	56 109
c) Debt securities, issued by the institution itself		
Balance sheet value	482 520	354 550
of which		
due in the following year	176 791	84 154
marketable and listed money-market instruments	482 520	347 102
marketable and unlisted money-market instruments	–	7 449
5. Shares and other variable-yield securities		
Balance sheet value	1 200 973	1 201 796
of which		
marketable and listed shares and other variable-yield securities	1 710	5 585
marketable and unlisted shares and other variable-yield securities	–	82 707
5a. Trading portfolio		
Balance sheet value	9 520 524	9 347 717
of which		
Derivative financial instruments	4 534 425	4 300 598
Claims	1 902 454	2 350 738
Debt securities and other fixed-interest securities	2 994 305	2 664 679
Shares and other variable-yield securities	97 506	42 491
Risk discount	8 166	10 790

Assets

(in € 000)	31 Dec. 2012	31 Dec. 2011
6. Participating interests		
Balance sheet value	110 755	141 075
of which		
Marketable unlisted shares	13 994	13 994
The equity holding is shown in III. Paragraph 9.		
7. Shares in affiliated companies		
Balance sheet value	1 966 728	2 033 941
of which		
Marketable unlisted shares	930 011	982 035
The equity holding is shown in III. Paragraph 9.		
8. Assets held in trust		
Balance sheet value	4 546 438	4 433 657
of which		
Claims on banks	522 855	434 700
Claims on customers	4 023 583	3 998 957
9. Intangible assets		
Balance sheet value	73 645	69 630
of which		
internally generated software	56 288	60 324
Research and development costs in the year under review totalled € 93 million (€ 111 million), with self-made intangible assets accounting for € 10 million of this (€ 27 million).		
10. Tangible assets		
Balance sheet value	212 901	224 670
of which		
for own activities	158 036	162 432
Operating and office equipment	54 865	62 237
11. Capital called but not paid		
Balance sheet value	–	278 501
12. Other assets		
Balance sheet value	1 962 118	1 856 047
of which		
The following are reported as significant items:		
Interest and interest due from interest-rate swaps	901 438	1 063 622
Pro rata interest claims from flat-traded securities of the trading portfolio	10 196	–
Option premiums and margins	886 352	540 303
Tax refunds	12 523	22 200
Outstanding items on interim accounts, not classified	139 366	215 872
13. Deferred expenses and accrued income		
Balance sheet value	1 154 845	989 553
of which		
deferred premiums in accordance with § 340e Paragraph 2 HGB	397 251	360 307
discounts and maturing premiums	127 716	111 742

Assets

The table below shows the changes to fixed assets:

(in € 000)	Aquisition/ manufac-turing cost	Additions	Disposals	Accumulative depreciation	Balance sheet value 31 Dec. 2012	Balance sheet value 31 Dec. 2011	Depreciation for the accounting-period
Participating interests	135 379	23 604	1 118	84 220	73 645	69 630	19 317
Shares in affiliated companies	451 649	11 086	8 401	241 433	212 901	224 670	18 867
Investment securities		Change [1]					
Intangible assets		– 30 320			110 755	141 075	
Tangible assets		– 67 213			1 966 728	2 033 941	
Securities in fixed assets		– 3 468 515			13 664 401	17 132 916	

[1] The possibility of a summary according to § 34, para. 3 RechKredV was used.

Liabilities and Equity

(in € 000)	31 Dec. 2012	31 Dec. 2011
1. Liabilities to banks		
a) Due on demand		
Balance sheet value	6 891 043	3 353 361
of which		
Liabilities to affiliated companies	42 519	7 625
Liabilities to companies in which an equity investment exists	–	–
b) With an agreed term or notice period		
of which with a residual term of		
less than 3 months	18 467 756	12 205 710
more than 3 months but less than 1 year	5 457 345	7 623 283
more than 1 year but less than 5 years	5 085 545	10 159 855
more than 5 years	10 771 986	6 599 204
Balance sheet value	39 782 632	36 588 052
of which		
Liabilities to affiliated companies	677 173	929 296
Liabilities to companies in which an equity investment exists	481 002	706 987
Assets pledged as collateral	4 907 741	6 497 142
Credit claims submitted to the Bundesbank at nominal value	1 614 307	1 486 108
The full amount of bank loans and overdrafts includes:		
Liabilities to affiliated savings banks	3 448 073	2 756 168
2. Liabilities to customers		
a) Savings deposits		
aa) with an agreed notice period of three months		
Balance sheet value	750 718	809 849
ab) Savings deposits with an agreed notice period of more than three months		
of which with a residual term of		
less than 3 months	48 987	65 793
more than 3 months but less than 1 year	40 666	64 916
more than 1 year but less than 5 years	303 882	342 324
more than 5 years	975	934
Balance sheet value	394 510	473 967

Liabilities and Equity

(in € 000)	31 Dec. 2012	31 Dec. 2011
b) Other liabilities		
ba) Due on demand		
Balance sheet value	11 180 159	9 477 492
of which		
Liabilities to affiliated companies	69 504	69 603
Liabilities to companies in which an equity investment exists	84 499	57 056
bb) With an agreed term or notice period		
of which with a residual term of		
less than 3 months	5 805 950	8 344 992
more than 3 months but less than 1 year	1 179 056	2 395 253
more than 1 year but less than 5 years	5 119 083	6 152 043
more than 5 years	12 510 478	12 432 333
Balance sheet value	24 614 567	29 324 621
of which		
Liabilities to affiliated companies	154 860	120 674
Liabilities to companies in which an equity investment exists	157 215	174 128
3. Securitised liabilities		
a) Issued debt securities		
Balance sheet value	40 597 250	43 534 751
of which		
Due in the following year	10 860 191	8 554 562
Liabilities to affiliated companies	537 743	4 539 185
Liabilities to companies in which an equity investment exists	198 723	107 820
b) Other securitised liabilities		
of which with a residual term of		
less than 3 months	–	349 981
more than 3 months but less than 1 year	126 575	109 660
more than 1 year but less than 5 years	121 082	6 651
more than 5 years	72 912	72 912
Balance sheet value	320 569	539 204
3a. Trading portfolio		
Balance sheet value	4 568 551	4 020 331
of which		
Derivative financial instruments	4 354 550	3 841 797
Liabilities (for short-term securities)	214 001	178 534
4. Liabilities held in trust		
Balance sheet value	4 546 438	4 433 657
of which		
Liabilities to banks [1]	1 622 932	1 529 323
Liabilities to customers	2 923 506	2 904 334

[1] Investitionsbank Sachsen-Anhalt equity to the amount of € 134.5 million is included in the figures and for the Group.

Liabilities and Equity

(in € 000)	31 Dec. 2012	31 Dec. 2011
5. Other liabilities		
Balance sheet value	2 366 327	3 241 428
of which		
reported as significant items:		
Interest payable and accrued interest from swaps	417 623	498 375
Countervalues for outstanding securities purchases	606 443	497 513
Interest payable from profit participation rights, subordinated liabilities and capital contributions	137 093	212 643
Outstanding items on interim accounts, not classified	149 748	275 380
Temporal posting differences relating to German Central Bank items	6 443	127 813
Adjustment item from currency valuation	1 005 223	1 595 886
6. Deferred income		
Balance sheet value	889 201	763 846
of which		
deferred discounts in accordance with § 340e Paragraph 2 HGB	38 774	48 806
7. Provisions NORD/LB forms provisions for pensions and similar duties, tax provisions and other provisions for uncertain liabilities.		
Basically the following items are shown under other provisions:		
Provisions for uncertain liabilities		
Staff expenses – other	196 307	187 726
Risks from lending business	103 887	117 389
Legal risks	28 142	24 904
Staff expenses – reorganisation provisions (efficiency improvement programme)	22 709	–
Other	64 636	81 140
	415 681	411 159

8. Subordinated liabilities

NORD/LB spent € 123 657 thousand (€ 135 094 thousand) on the liabilities reported.
Borrowings which exceed 10% of the total amount respectively are defined as follows:

Currency amount	Interest rate	Due on
580 million €	5.75 % p.a.	1 Dec. 2015
350 million €	6.00 % p.a.	29 Jun. 2020

Obligation to make premature repayment could only arise if a change in taxation results in additional payments to a purchaser.
Subordination of these funds is in compliance with the Banking Act. Conversion of these funds into capital or into any other form of debt has neither been agreed on nor provided for.

Liabilities and Equity

(in € 000)	31 Dec. 2012	31 Dec. 2011
11. Equity Previous year's earnings are included in the balance sheet profit amounting € 931 087,00. Of the silent participations in NORD/LB's portfolio, as at 31 December 2012 participations in the nominal amount of € 55.1 million have been cancelled. As part of the scope of the capital-boosting measures, NORD/LB acquired capital notes in the amount of € 400 million held indirectly by the state of Lower Saxony in the past financial year. The acquired securities are reported on the assets side under debt securities. The capital notes were issued by special purpose entities based in Fürstenberg to refinance their silent participations in NORD/LB. The state of Lower Saxony used the proceeds from the sale to increase NORD/LB's share capital. As a result of the transaction, the bank's subscribed capital under commercial law increased by € 113.4 million and capital reserves by € 286.6 million. Under regulatory law, the subscribed capital and open reserves increased by € 400 million, while the value of silent participations recognised under regulatory law fell by € 400 million.		
1. Contingent liabilities Under contingent liabilities there are as at 31 December 2012 nine significant liabilities relating to sureties and guarantees. The individual values range from € 61.0 million to € 308.3 million. NORD/LB ensures that the following companies are able to meet their obligations: Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover, Nieba GmbH, Hanover, Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel/Luxembourg, NORD/LB Asset Management Holding GmbH, Hanover, NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel/Luxembourg, Skandifinanz AG, Zurich/Switzerland The risk of the contingent liabilities being used is considered to be low as the liabilities are arranged and monitored on a credit-related basis. A risk provision in the amount of € 63.8 million (€ 64.0 million) has been allocated.		
2. Other obligations The irrevocable credit commitments in the reporting period 2012 are broken down as follows: Commercial enterprises 5 342 995 Private customers 61 146 Banks 336 114 Public households 1 269 547		

Notes to the Income Statement

The total balance of the income statement items 1, 3, 5, 7 and 8 is spread across the following regions:

(in € 000)	Federal Republic of Germany	Europe (excl. of Federal Republic of Germany)	North America	Asia	Total
1. Net interest income	4 842 067 (5 580 019)	131 043 (157 194)	164 689 (178 588)	133 269 (158 458)	5 271 068 (6 074 258)
3. Current income	113 898 (130 116)	– (–)	– (–)	– (–)	113 898 (130 116)
5. Net commision income	173 498 (175 251)	12 125 (15 640)	23 794 (33 054)	9 686 (9 105)	219 103 (233 050)
7. Net profit/loss of trading portfolio	106 658 (– 12 516)	257 (389)	– 19 471 (– 11 048)	727 (– 145)	88 171 (– 23 319)
8. Other operating income	92 331 (57 147)	481 (106)	554 (328)	349 (625)	93 715 (58 206)
Income statement items	5 328 452 (5 930 017)	143 906 (173 328)	169 566 (200 923)	144 031 (168 043)	5 785 955 (6 472 311)

(in € 000)	2012	2011
7. Net profit/loss of trading portfolio		
The following are reported as material items:		
Profit from securities	111 154	52 602
Profit from loans and advances (registered bonds)	77 995	107 478
Loss from derivatives	121 242	205 174
The following are reported as material items:	2 624	5 920
Reversal of special item according to § 340 e, para. 4, sec. 2, no. 1 HGB	–	25 000
8. Other operating income		
The following are reported as material items:		
Book profits from disposal of property and equipment	21 709	142
Income from the resale of hardware, software and services	16 868	11 321
Profit from hedge derivatives of own issues	16 740	11 676
Reversal of provisions	8 207	7 049
IT services for third parties	7 601	5 725
Income from rents	4 846	4 718
Offsetting of services with promotion institutes	3 439	2 655
Interest income from tax refunds	1 022	2 929
11. Other operating expenses		
The following are reported as material items:		
Price losses from redemption of promissory notes and registered bonds	66 895	67 656
Interest expense from the valuation of provisions	50 622	49 128
Payments to the restructuring fund for banks	25 987	28 434
Expenses for the resale of hardware, software and services purchased	17 151	9 625
Expenses for KSN services	11 229	10 463
Interest expenses for payments of tax arrears	5 435	5 621
Allocation to provisions for recourse risks	3 157	5 430
Concession fee for BLSK	1 600	1 754
Expenses for losses resulting from operational risks	1 086	368

19. Extraordinary expense
In addition to the first-time effect of the valuation of provisions at € 19 million (€ 19 million) following the implementation of the German Accounting Law Modernisation Act (BilMoG), for the first time employee expenses related to the restructuring measures to reduce the cost of materials and personnel expenses are reported in the amount of € 23 million under extraordinary expenses.

Other financial obligations

a) in accordance with § 285 no. 3 of the German Commercial Code

With regard to the security reserve for landesbanks, NORD/LB's maximum obligation to make additional contributions is € 160 million (€ 162 million). In the event of a need for support these subsequent contributions could be collected immediately.

The regional reserve fund established on 1 January 2007 was dissolved in December 2012 so that there is no further obligation to make additional payments.

NORD/LB has further obligations to make additional contributions in the amount of € 31 million (previous year € 31 million) in addition to extra joint liabilities for other partners on the part of Liquiditätskonsortialbank GmbH.

Lease agreements entered into by NORD/LB totalled € 0.38 million for IT systems.

NORD/LB's maximum liability to customers from guarantees is € 4140 million and from letters of credit € 253 million.

b) in accordance with § 285 no. 3a of the German Commercial Code

NORD/LB furthermore vouches for the obligations of the Sparkassenverband Niedersachsen (Association of the Savings Banks of Lower Saxony) resulting from its membership in the Deutscher Sparkassen- und Giroverband (German Association of Savings Banks and Girobanks) and the DekaBank Deutsche Girozentrale. In addition joint liability has been assumed for DekaBank Deutsche Girozentrale with the other shareholders of this bank within the scope of the guarantor function.

Furthermore NORD/LB is, alongside the state of Bremen, guarantor of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale -, Bremen, and, together with Sparkassenverband Niedersachsen (SVN) and Landesbank Berlin Holding AG, also acts as guarantor for LBS Norddeutsche Landesbausparkasse Berlin-Hannover.

NORD/LB has a 100 per cent holding in Deutsche Hypothekenbank (Actien-Gesellschaft). It is obliged to reimburse Deutscher Sparkassen- and Giroverband e.V. as the guarantor of the security reserve for landesbanks and giro centres all expenditure including interest and interest lost for supporting measures which cannot be paid from the fund established for Deutsche Hypothekenbank in accordance with the agreement concluded between Deutscher Sparkassen- und Giroverband e.V. and Deutsche Hypothekenbank AG on 19 December 2008.

NORD/LB had undertaken to release the Bundesverband deutscher Banken e.V. (Association of German Banks) from all losses which were a result of the measures in accordance with § 2 paragraph 2 of the statute of the "Einlagensicherungsfond" (deposit protection fund) for the Deutsche Hypothekenbank (Actien-Gesellschaft). The participation of Deutsche Hypothekenbank (Actien-Gesellschaft) in the German banks' deposit protection fund was terminated as at 31 December 2008. In accordance with § 6 no. 8 of the statute of the deposit protection fund NORD/LB may still be liable for commitments previously entered into by Deutsche Hypothekenbank (Actien-Gesellschaft).

With regard to NORD KB Beteiligungsgesellschaft mbH and NORD KB Dachfonds II Beteiligungsgesellschaft mbH, NORD/LB has an obligation to grant partnership loans totalling approximately € 11 million (€ 14 million).

NORD/LB also holds an interest with other limited partners in Immobilien Development und Beteiligungsgesellschaft Niedersachsen mbH IDB & Co. – Objekt Zietenterrassen – KG. One limited partner has indemnified the general partner from liability. In the internal relationship NORD/LB assumes 50 per cent of the possible obligations from this declaration of liability.

NORD/LB has released the personally liable partners of a real estate investment fund from their statutory liability.

Furthermore NORD/LB indemnifies a director of a limited company from all costs, and claims for liability and damages which arise in relation to his activities as a director. NORD/LB has, together with the other limited partner Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, indemnified the general partner from liability.

In connection with the sale of companies in the NILEG sub-group, NORD/LB guarantees the purchaser that taxes for periods for which tax audits had not yet been conducted have been fully paid or adequate provisions have been set up. In this respect NORD/LB is liable for any additional back taxes if the value exceeds € 0.5 million.

With regard to the inclusion of the shares in FinanzIT GmbH, the withdrawing partners NORD/LB, Bremer Landesbank and Landesbank Saar have committed, together with the remaining partners of FinanzIT, to bear the risks of the company from the time up to their withdrawal, provided they have actually occurred and are not already covered by provisions which have already been made.

Concerning the disposal of the shareholding in LHI Leasing GmbH, Munich, NORD/LB guarantees the purchaser that any taxes and corresponding liabilities due on and before 31 December 2005 have been paid and provisions for any taxes over and above this amount have been carried in the financial statements for the periods ending on or before 31 December 2005. In this respect NORD/LB is liable for any additional back taxes if the value exceeds € 0.1 million.

Call-in obligations for shares and other interests amounted to € 13 million at year-end (€ 14 million).

In the course of normal business activities NORD/LB has provided security in the nominal amount of € 2 779 million in the form of securities.

In connection with the measures to boost the amount of NORD/LB's regulatory capital by converting silent participations into equity capital and reserves, NORD/LB has made a commitment to the other owners of Bremer Landesbank that in the event of a further retention of profits and until a distribution takes place, to finance it in advance with the funds it requires at terms that are still to be negotiated.

NORD/LB has obligations from long-term rental and lease agreements to 2024 in the nominal amount of € 375 million, € 418 million of which towards affiliated companies.

Obligations relating to existing rental, lease, guarantee and other similar agreements are within the scope of standard business.

III. Other Disclosures

1. Members of the Managing Board

Dr. Gunter Dunkel
(Chairman)

Dr. Johannes-Jörg Riegler
(Deputy Chairman since 10 December 2012)

Ulrike Brouzi

Eckhard Forst

Dr. Hinrich Holm

Christoph Schulz

2. Members of the Supervisory Board

Hartmut Möllring
(Chairman)
Minister of Finance, State of Lower Saxony

Thomas Mang
(First Deputy Chairman)
President, Association of Savings Bank in Lower Saxony

Jens Bullerjahn
(Second Deputy Chairman)
Minister of Finance, State of Saxony-Anhalt

Frank Berg
Chairman of the Managing Board
OstseeSparkasse Rostock

Hermann Bröring
(until 15 March 2012)

Norbert Dierkes
Chairman of the Managing Board
Sparkasse Jerichower Land (since 1 February 2012)

Edda Döpke
Bank employee, NORD/LB Hannover

Ralf Dörries
Senior Vice President, NORD/LB Hannover

Hans-Heinrich Hahne
Chairman of the Managing Board
Sparkasse Schaumburg (since 1 January 2012)

Frank Hildebrandt
Bank employee, NORD/LB Braunschweig

Dr. Gert Hoffmann
Mayor, City of Braunschweig
(until 31 May 2012)

Martin Kind
Managing Director
KIND Hörgeräte GmbH & Co. KG

Walter Kleine
Chairman of the Managing Board, Sparkasse Hannover
(until 31 May 2012)

Frank Klingebiel
Mayor, City of Salzgitter
(since 1 June 2012)

Manfred Köhler
(until 31 January 2012)

Ulrich Mädge
Mayor, City of Hansestadt Lüneburg
(since 22 March 2012)

Heinrich v. Nathusius
Managing Director, IFA Group

August Nöltker
Union Secretary (until 31 May 2012)

Freddy Pedersen
ver.di Vereinte Dienstleistungsgewerkschaft

Jörg Reinbrecht
ver.di Vereinte Dienstleistungsgewerkschaft
(since 1 June 2012)

Ilse Thonagel
Bank employee
Landesförderinstitut Mecklenburg-Western Pomerania

Mirja Viertelhaus-Koschig
Deputy Chairman of the Managing Board
VIEROL AG

Klaus-Peter Wennemann
Management consultant (since 1 June 2012)

3. Disclosures concerning Mandates

As at 31 December 2012 the following mandates where held in accordance with § 340a para. 4 no. 1 HGB by members of NORD/LB:

Managing Board

Name	Company*)
Dr. Gunter Dunkel	Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Continental AG, Hanover Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel (since 1 April 2012) Skandifinanz AG, Zurich (vormals Skandifinanz Bank AG, Zurich) (until 1 May 2012)
Dr. Johannes-Jörg Riegler	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel (since 1 April 2012)
Ulrike Brouzi	NORD/LB Capital Management GmbH, Hanover Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel NORD/LB Kapitalanlagegesellschaft AG, Hanover
Eckhard Forst	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover
Dr. Hinrich Holm	Lotto-Toto GmbH Sachsen-Anhalt, Magdeburg Investitionsbank Sachsen-Anhalt, Magdeburg LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Liquiditäts- und Konsortialbank GmbH, Frankfurt am Main (since 27 April 2012) NORD/LB Capital Management GmbH, Hanover NORD/LB Kapitalanlagegesellschaft AG, Hanover
Christoph Schulz	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel (since 1 April 2012) Totto-Lotto Niedersachsen GmbH, Hanover

*) Banks and large corporate entities are on equal terms

Other employees

Name	Company*)
Dr. Rüdiger Fuhrmann	Niedersächsische Landgesellschaft mbH, Hanover
Martin Hartmann	LHI Leasing GmbH, Pullach
Dr. Michael Lange	Toto-Lotto Niedersachsen GmbH, Hanover
Ingo Wünsche	Niedersächsische Bürgschaftsbank (NBB) GmbH
Berit Zimmermann	Bürgschaftsbank Sachsen-Anhalt GmbH
Jörn Zimmermann	Bürgschaftsbank Mecklenburg-Vorpommern GmbH

*) Banks and large corporate entities are on equal terms

4. Remuneration and Loans to Governing Bodies

(in € 000)	2012	2011
Emoluments paid to active members of executive bodies		
Board of Management	3 757	2 012
Supervisory Board	361	371 [1]
	4 118	2 383
Emoluments paid to former members of the executive bodies and their dependants		
Board of Management	4 146	3 932 [2]
Advances payments, loans and contingencies		
Board of Management	1 397	1 476
Supervisory Board	614	1 019

€ 32 785 thousand (€ 30 542 thousand) was put back for pension obligations towards former members of governing bodies and their surviving dependents, whereby an obligation of € 12 234 thousand (€ 11 929 thousand) nis not reported in the balance sheet.

[1] The amount for the previous year was reduced by € 39 thousand.
[2] The amount for the previous year was reduced by € 558 thousand.

5. Average Number of Employees

	Male 2012	Male 2011	Female 2012	Female 2011	Total 2012	Total 2011
Employees	2 096	2 093	2 175	2 172	4 271	4 265

Investitionsbank Sachsen-Anhalt and Landesförderinstitut Mecklenburg-Vorpommern account for an additional 608 employees (617 employees).

6. Further disclosures

Services performed for third parties
Significant services performed for third parties concern:
- the management of trust assets
- the management of custodian accounts
- the brokering building loan contracts, investment products, loans and insurance
- the brokering of foreign notes and coins and precious metals for associated savings banks
- asset management
- the brokering of loans and investment products

No write-down to lower fair value
The items "debt securities and other fixed-interest securities" and "shares and other variable-yield securities" include securities valued like fixed assets which have not been written down to their lower fair value. These concern the following securities (all book values and fair values disclosed do not include accumulated interest):

(in € 000)	Book values 31 Dec. 2012	Fair values 31 Dec. 2012	omitted depriation 31 Dec. 2012	Book values 31 Dec. 2011	Fair values 31 Dec. 2011	omitted depriation 31 Dec. 2011
Bonds and debt securities	5 685 498	5 480 818	204 680	9 188 126	8 800 403	387 723
Shares	563 014	554 307	8 707	631 164	601 075	30 089

NORD/LB assumes with all bonds and debt securities that the loss of value is not permanent as the securities are held to final maturity and the issuers are all issuers with first-class credit ratings. If as at the balance sheet date there are valuation units consisting of interest-bearing securities and interest-rate swaps, the net fair value of the security and interest-rate swap are entered in the above table as the fair value of the security.

The following securities in fixed assets include hidden reserves, i.e. the fair value is above the book value (all book values and fair values disclosed do not include accumulated interest):

(in € 000)	Book values 31 Dec. 2012	Fair values 31 Dec. 2012	Book values 31 Dec. 2011	Fair values 31 Dec. 2011
Bonds and debt securities	6 336 572	6 816 207	6 602 629	6 982 050
Shares	–	–	15 000	15 671

Marketable securities not valued at lower of cost or market
The items "debt securities and other fixed-interest securities" and "shares and other variable-yield securities" include marketable securities not valued at lower of cost or market, i.e. they are treated as fixed assets (book values do not include accumulated interest).

(in € 000)	31 Dec. 2012	31 Dec. 2011
Debt securities and other fixed-interest securities	12 967 410	16 305 678
Shares and other variable-yield securities	0	82 707

The marketable securities not valued at lower of cost or market were separated from the marketable securities valued at lower of cost or market on the basis of the asset category deposited in the portfolio and the valuation method chosen.

The tables below also include the disclosures in accordance with § 36 of the RechKredV concerning the foreign currency, interest-based and other futures transactions which have not yet been completed as at the balance sheet date.

Derivatives not valued at fair value in external relations (derivatives in the non-trading portfolio)

(in € million)	Nominal values 31 Dec. 2012	Positive fair values 31 Dec. 2012	Negative fair values 31 Dec. 2012	Carrying amounts 31 Dec. 2012	Recorded in balance sheet item 31 Dec. 2012
Interest-rate risks					
Interest-rate swaps	6 574	1 764	– 196	346	Assets 13./ Liabilities 6.
FRAs	–	–	–	–	–
Interest-rate options					
purchases	5 560	1 514	– 1	512	Assets 12.
sales	2 125	–	– 1 023	– 374	Liabilities 5.
Caps, Floors	3 876	36	– 106	– 46	Assets 13./ Liabilities 6.
Stock-exchange contracts	–	–	–	–	–
Other forward interest rate transactions	1 162	0	– 232	–	–
Interest-rate risks – total –	19 297	3 314	– 1 558	438	
Currency risks					
Forward foreign exchange transactions	846	1	– 2	– 10	Liabilities 5.
Currency swaps/ interest-rate currency swaps	680	83	– 13	63	Assets 13./ Liabilities 5./ Liabilities 6.
Currency options					
purchases	–	–	–	–	–
sales	–	–	–	–	–
Currency risks – total –	1 526	84	– 15	53	
Shares and other price risks					
Share futures contracts	–	–	–	–	–
Share swaps	–	–	–	–	–
Share options					
purchases	–	–	–	–	–
sales	–	–	–	–	–
Stock-exchange contracts	3	–	–	–	–
Shares and other price risks – total –	3	–	–	–	–
Credit derivatives					
Assignor	267	2	– 1	0	Assets
Assignee	1 510	3	– 5	1	Assets
Credit derivatives – total –	1 777	5	– 6	1	
Derivatives not valued at fair value – total	22 603	3 403	– 1 579	492	

The derivatives primarily concern transactions which were completed to cover interest rate, exchange rate and other market-price risk positions in the asset portfolio.

Nominal values constitute the gross volume of all purchases and sales resp. long and short positions. With share options, to calculate the nominal value the closing rate of the underlying transaction is multiplied by the number of shares. For all contracts, fair values and book values excluding accrued interest are shown. Positive and negative fair values of contracts with the same counterparty were not offset against each other.

All of the fair values included in the above table were calculated reliably. Concerning the valuation methods used, the section “Calculation of fair values” is referred to.

Derivatives valued at fair value in external relations (derivatives in the trading portfolio)
Derivatives valued at fair value – broken down by risk type and transaction type

(in € million)	Nominal values 31 Dec. 2012
Interest-rate risks	
Interest-rate swaps	173 316
FRAs	3 985
Interest-rate options	
purchases	3 410
sales	6 433
Caps, Floors	5 143
Stock-exchange contracts	–
Other forward interest rate transactions	1 061
Interest-rate risks – total –	193 348
Currency risks	
Forward foreign exchange transactions	13 502
Currency swaps/interest-rate currency swaps	32 019
Currency options	
purchases	267
sales	272
Currency risks – total –	46 060
Shares and other price risks	
Share futures contracts	–
Share swaps	–
Share options	
purchases	40
sales	4
Stock-exchange contracts	31
Shares and other price risks – total –	75
Credit derivatives – total –	
Assignor	33
Assignee	30
Credit derivatives – total –	63

Nominal values constitute the gross volume of all purchases and sales resp. long and short positions. With share options, to calculate the nominal value the closing rate of the underlying transaction is multiplied by the number of shares.

Derivatives valued at fair value – broken down by risk type and residual term to maturity

(in € million)	Nominal values 31 Dec. 2011
Interest-rate risks	
Residual terms to maturity	
up to 3 months	17 156
up to 1 year	25 811
up to 5 years	69 400
more than 5 years	80 981
	193 348
Currency risks	
Residual terms to maturity	
up to 3 months	10 667
up to 1 year	8 211
up to 5 years	15 331
more than 5 years	11 851
	46 060
Shares and other price risks	
Residual terms to maturity	
up to 3 months	25
up to 1 year	35
up to 5 years	15
more than 5 years	–
	75
Credit derivates	
Residual terms to maturity	
up to 3 months	1
up to 1 year	3
up to 5 years	59
more than 5 years	–
	63

The maturity breakdown is based on residual terms to maturity. With interest-rate risk contracts, the term of the underlying interest-bearing transaction (e.g. futures) is used and with the remaining risks the contract term is used.

Derivatives valued at fair value – broken down by counterparty

(in € million)	Nominal values 31 Dec. 2011
Banks in the OECD	204 449
Banks outside the OECD	293
Public institutions in the OECD	7 456
Other counterparties[1)]	27 348
Total	239 546

[1)] including stock exchange contracts

Disclosures concerning valuation units

NORD/LB has included the following assets, liabilities and pending transactions as underlying transactions in valuation units (assets and liabilities disclosed at book value not including accumulated interest; pending transactions disclosed in nominal volume):

(in € 000)	31 Dec. 2012 Underlying transaction hedged against			
	Interest rate risk	Share price risk	Inflation risk	Currency risk
Assets				
Fixed-interest securities for the liquidity reserve	64 500	–	–	–
Assets – total	64 500	–	–	–
Pending transactions				
Derivatives separated from structured issues				
share-price-related derivatives	–	620 694	–	–
exchange-rate-related derivatives	–	–	–	5 000
Other	–	–	152 488	–
Pending transactions – total	–	620 694	152 488	5 000
Transactions expected with a high probability[1]				
Repayment of an issued USD hybrid capital bond	–	–	–	378 960
Transactions expected with a high probability – total	–	–	–	378 960
Valuation units – total	64 500	620 694	152 488	383 960

[1] The transaction expected with high probability concerns the repayment of a hybrid capital bond issued by NORD/LB in US dollars. The repayment of the bond will with high probability be made at the earliest possible time (30 June 2020), as otherwise the interest coupon to be paid would increase (so-called step-up).

The total of all underlying transactions included in valuation units is therefore € 837 682 thousand.

The prospective and retrospective effectiveness of all valuation units is measured using the Critical Terms Match method. Basically the final maturity of the valuation units corresponds to the final maturity of the hedging instrument. The underlying transactions will mature between 2013 and 2019.

Deferred taxes

The deferred taxes of NORD/LB in Germany are measured using the tax rate which is applicable as at the balance sheet date and also in the future of 31.5 per cent. This combined income tax rate comprises corporation tax, trade tax and the solidarity surcharge. Different tax rates apply for the foreign branches.

Deferred tax liabilities relating to the different tax approach for debt securities, intangible assets, property and equipment, the trading portfolio and other liabilities were offset with deferred tax assets against temporary differences in loans and advances to customers, pension provisions and other provisions.

The recoverable deferred tax assets were offset against deferred tax liabilities. Deferred tax assets beyond those offset are not reported in accordance with the option provided for in § 274 para. 1 clause 2 of the German Commercial Code.

Values subject to dividend payout restrictions

After the deduction of deferred tax liabilities, self-made intangible fixed assets in the amount of € 38.6 million remain. The difference between present value and acquisition costs of the cover assets after deducting deferred tax liabilities amounts to € 0.4 million. The dividend payout restriction for such values enshrined in § 268 para. 8 of the German Commercial Code does not affect the profit for the financial year 2012 as the disposable reserves plus the profit carried forward are greater than the intangible fixed assets and the cover assets.

Repos

Repos are reported in accordance with § 340b of the German Commercial Code. Only genuine repos are completed.

Securities and other assets with a book value totalling € 12 858 million (€ 5 052 million) were committed by NORD/LB within the scope of genuine repos. The counterparty risk is manageable.

Special investment assets

Name of the special asset	NORD/LB AM 56	NORD/LB AM 65	NORD/LB AM ALCO	NORD/LB AM LZWK Fonds
Former	NORDCON-Fonds SP 56	NORDCON-Fonds SP 56	–	–
Type of special asset	Special asset	Special asset	Special asset	Special asset
Investment objective	The investment objective of the fund is to participate in market returns in North American bond and share markets.	The objective of the fund is diversified investment in asset-backed securities. The asset-backed securities of the fund are part of the ABS-Workout portfolio of NORD/LB AöR.	The fund is part of the ALCO-porfolio and thus part of the strategic investments.	Investment objective of the NORD/LB AM LZWK fund is a long-term and steady added value for monetary assets for guaranteed paid leave from work of NORD/LB's employees.
Reporting date	31 Dec. 2012	31 Dec. 2012	31 Dec. 2012	31 Dec. 2012
Special assets (in € 000)	377 670	554 347	267 037	3 724
Shares – total	3 683 108	5 839 116	2 641 220	37 760
Currency of shares	EUR	EUR	EUR	EUR
Shares of NORD/LB as at the reporting date	3 683 108	5 839 116	2 641 220	8 908
Values of the shares according to §26 of the German Investment Act (InvG) as at reporting date	102.54	94.93	101.10	98.63
Carrying amount (in € 000)	371 796	563 014	264 452	879
Difference between fair value and carrying amount (in € 000)	5 870	– 8 707	2 575	–
Dividends paid out in the final year acc. to shares of NORD/LB (gross in € 000)	10 000	–	–	32
Reporting year of NORD/LB	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.
Reporting year of the special asset	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.	1 Jan. – 31 Dec.
Restrictions in the possibility of daily return	None	None	None	None
Reasons for no write-down § 253 para. 3 clause 4 of the German Commercial Code	–	Loss of value is not likely to be permanent	–	–
Pointers for the loss of value not being permanent	–	Assets held in the fund are likely to cover the carrying amount upon repayment	–	–

7. Cover Statement

(Old portfolio/issues before 19 July 2005)

(in € 000)	31 Dec. 2012	31 Dec. 2011
Mortgage bond coverage		
Liabilities requiring cover		
Mortgage bonds	1 027 000	1 270 000
discharged and cancelled items	–	–
Registered debentures (as security on loans taken up)	–	–
	1 027 000	1 270 000
Covering assets		
Loans to customers secured by mortgages	1 033 226	1 348 529
Public issuer securities	200 000	–
Substitute credit institution cover	130 000	60 000
	1 363 226	1 408 529
Surplus cover	336 226	138 529
Municipal cover		
Liabilities requiring cover		
Municipal debentures	4 776 820	6 016 717
discharged and cancelled items	–	–
Registered municipal debentures (to secure loans taken up)	664 027	1 009 323
	5 440 847	7 026 040
Covering assets		
Municipal loans		
to financial institutions	1 773 714	2 528 658
to customers	4 022 317	5 199 976
Public issuer securities	413 373	421 169
Fixed deposits from public-sector banks	–	1 454
Substitute credit institution cover	810 108	279 572
	7 019 512	8 430 829
Surplus cover	1 578 665	1 404 789

This old portfolio (cover and in circulation) was encapsulated in accordance with § 51 of the Covered Bond Act and is held separately from the new cover in accordance with the regulations applicable up until the Covered Bond Act came into effect.

8. Cover statement for NORD/LB in accordance with § 28 of the Pfandbriefgesetz (Covered Bond Act)

Pfandbriefe (Covered bonds) in circulation and cover pools

(in € million)	Nominal	Cash value	Risk cash asset + 250 bp	Risk cash asset – 250 bp	Risk cash asset of currency
Mortgage Pfandbriefe					
Total circulation	755	839	780	864	780
	(768)	(839)	(774)	(896)	(774)
Guarantee fund total [1]	2 235	2 459	2 309	2 517	2 280
	(2 114)	(2 280)	(2 145)	(2 394)	(2 145)
Excess coverage	1 480	1 620	1 529	1 653	1 500
	(1 346)	(1 441)	(1 371)	(1 498)	(1 371)
Excess coverage in %	196	193	196	191	192
	(175)	(172)	(177)	(167)	(177)
Public-sector Pfandbriefe					
Total circulation	18 080	20 784	18 360	22 609	18 756
	(19 811)	(22 153)	(19 861)	(24 788)	(20 190)
Guarantee fund total [2]	25 397	28 730	25 723	30 928	25 817
	(27 334)	(29 886)	(27 044)	(33 117)	(27 112)
Excess coverage	7 317	7 946	7 363	8 319	7 061
	(7 523)	(7 733)	(7 183)	(8 329)	(6 922)
Excess coverage in %	40	38	40	37	38
	(38)	(35)	(36)	(34)	(34)
Ship Pfandbriefe					
Total circulation	200	201	191	205	191
	(10)	(10)	(9)	(11)	(9)
Guarantee fund total [3]	435	450	429	455	375
	(575)	(595)	(553)	(615)	(460)
Excess coverage	235	249	238	250	184
	(565)	(585)	(544)	(604)	(451)
Excess coverage in %	118	124	125	122	96
	(5 650)	(5 850)	(6 044)	(5 491)	(5 011)
Aircraft Pfandbriefe					
Total circulation	506	530	476	547	476
	(–)	(–)	(–)	(–)	(–)
Guarantee fund total [4]	927	1 042	951	1 086	806
	(–)	(–)	(–)	(–)	(–)
Excess coverage	421	511	475	539	330
	(–)	(–)	(–)	(–)	(–)
Excess coverage in %	83	97	100	99	70
	(–)	(–)	(–)	(–)	(–)

[1] Amounts acc. to § 19, para. 1, no. 2 and 3 are not included in the cover pool.
[2] Amounts acc. to § 20, para. 2, no. 2 are included in the cover pool in the amount of € 811 million (€ 1 116 million).
[3] Amounts acc. to § 26, para. 1, no. 3 and 4 are not included in the cover pool.
[4] Amounts acc. to § 26f, para. 1, no. 3 and 4 are not included in the cover pool.

Derivatives acc. to § 19, para 1, no. 4 in connection with § 20, para. 2, no. 3 and § 26, para. 1, no. 5 are not included in the cover pool.

Maturity structure of the Pfandbriefe in circulation, fixed interest periods and cover pools:

(in € million)	less than 1 year	more than 1 year but less than 2 years	more than 2 years but less than 3 years	more than 3 years but less than 4 years	more than 4 years but less than 5 years	more than 5 years but less than 10 years	more than 10 years
Mortgage Pfandbriefe	204	50	63	257	–	131	50
	(139)	(103)	(50)	(63)	(255)	(108)	(50)
Guarantee fund total	424	265	278	291	219	744	14
	(476)	(209)	(265)	(247)	(268)	(551)	(98)
Public-sector Pfandbriefe	2 833	2 047	1 953	2 129	899	4 583	3 636
	(4 247)	(2 464)	(1 967)	(1 135)	(2 164)	(4 208)	(3 626)
Guarantee fund total	2 433	3 006	4 479	2 038	2 247	6 747	4 447
	(2 499)	(2 506)	(2 961)	(6 068)	(1 863)	(7 255)	(4 182)
Ship Pfandbriefe	110	10	–	–	50	30	–
	(–)	(–)	(10)	(–)	(–)	(–)	(–)
Guarantee fund total	195	72	54	47	30	37	–
	(129)	(116)	(80)	(83)	(60)	(101)	(6)
Aircraft Pfandbriefe	–	–	–	–	501	5	–
	(–)	(–)	(–)	(–)	(–)	(–)	(–)
Guarantee fund total	124	188	88	109	90	287	41
	(–)	(–)	(–)	(–)	(–)	(–)	(–)

Receivables used to cover Pfandbriefe by size:

(in € million)	Covering assets	Over-collater-alisation	Securing liquidity	Total
Mortgage Pfandbriefe				
Less than € 0.3 million	973	–	–	973
	(869)	(–)	(–)	(869)
More than € 0.3 million and less than € 5 million	480	–	–	480
	(440)	(–)	(–)	(440)
More than € 5 million	632	40	110	782
	(671)	(40)	(94)	(805)
	2 085	40	110	2 235
	(1 980)	(40)	(94)	(2 114)
Ship Pfandbriefe (ocean-going vessels only)				
Less than € 0.5 million	1	–	–	1
	(–)	(–)	(–)	(–)
More than € 0.5 million and less than € 5 million	180[1]	5	5	190
	(126)	(–)	(4)	(130)
More than € 5 million	137[1]	8	100	245
	(430)	(15)	(–)	(445)
	318	13	105	436
	(556)	(15)	(4)	(575)
Aircraft Pfandbriefe				
Less than € 0.5 million	–	–	–	–
	(–)	(–)	(–)	(–)
More than € 0.5 million and less than € 5 million	94	–	–	94
	(–)	(–)	(–)	(–)
More than € 5 million	814	20	–	834
	(–)	(–)	(–)	(–)
	908	20	–	928
	(–)	(–)	(–)	(–)

[1] The allocation is based on individual accounts. In contrast to that, we allocated on total loan exposure before.

Receivables used to cover mortgage Pfandbriefe by country in which the land securities are located and by type of use:

(in € million)	Germany	Luxembourg	Netherlands	Austria	Poland	USA	Total
Covering assets commercial							
Office Buildings	252	117	0	0	23	164	556
	(352)	(119)	(20)	(–)	(23)	(–)	(514)
Nonresidential Building	130	0	0	9	0	0	139
	(66)	(–)	(–)	(9)	(–)	(–)	(75)
Industrial Building	5	0	0	0	0	0	5
	(2)	(–)	(–)	(–)	(–)	(–)	(2)
Other commercial real estate	180	0	0	0	0	0	180
	(254)	(–)	(–)	(–)	(–)	(–)	(254)
Unfinished and Non-Productive New Buildings	0	0	0	0	0	0	0
	(–)	(–)	(–)	(–)	(–)	(–)	(–)
Building sites	0	0	0	0	0	0	0
	(–)	(–)	(–)	(–)	(–)	(–)	(–)
Covering assets residential							
Condominiums	175	0	0	0	0	0	175
	(163)	(–)	(–)	(–)	(–)	(–)	(163)
One- and Two-family houses	621	0	0	0	0	0	621
	(525)	(–)	(–)	(–)	(–)	(–)	(525)
Apartment Buildings	409	0	0	0	0	0	409
	(445)	(–)	(–)	(–)	(–)	(–)	(445)
Unfinished and Non-Productive New Buildings	0	0	0	0	0	0	0
	(1)	(–)	(–)	(–)	(–)	(–)	(1)
Building sites	0	0	0	0	0	0	0
	(1)	(–)	(–)	(–)	(–)	(–)	(1)
Subtotal	1 772	117	0	9	23	164	2 085
	(1 809)	(119)	(20)	(9)	(23)	(–)	(1 980)
Over-collateralisation	40	0	0	0	0	0	40
	(40)	(–)	(–)	(–)	(–)	(–)	(40)
Securing liquidity	110	0	0	0	0	0	110
	(94)	(–)	(–)	(–)	(–)	(–)	(94)
Total	1 922	117	0	9	23	164	2 235
	(1 943)	(119)	(20)	(9)	(23)	(–)	(2 114)

The value of receivables used to cover mortgage Pfandbriefe which were outstanding by at least 90 days was € 8 thousand (€ 19 thousand) for land securities in Germany.

There were no cases of forced sale, forced receivership or takeovers of land to prevent losses. The total arrears on interest to be paid by mortgage debtors were € 3 thousand (€ 1 thousand) for commercial property and € 111 thousand (€ 376 thousand) for residential property.

Receivables used to cover public sector Pfandbriefe by type of debtor or granting authority and their location:

(in € million)	Country	Regional local authorities	Public local authorities	Other debtors [2]	Total
Germany	1 288	7 227	4 982	9 269	22 766
	(868)	(7 088)	(4 906)	(13 674)	(26 536)
Belgium	– [1]	–	–	–	–
	(–)	(–)	(–)	(–)	(–)
Great Britain	63	–	–	–	63
	(70)	(–)	(–)	(–)	(70)
Finnland	62	–	–	–	62
	(30)	(–)	(–)	(–)	(30)
Latvia	–	–	45	–	45
	(–)	(–)	(32)	(–)	(32)
Luxembourg	–	–	–	106	106
	(–)	(–)	(–)	(116)	(116)
Austria	157	–	–	258	415
	(138) [3]	(–)	(–)	(412) [3]	(550)
Switzerland	5	–	–	–	5
	(–)	(–)	(–)	(–)	(–)
USA	483	–	–	–	483
	(–)	(–)	(–)	(–)	(–)

[1] Receivable in the amount of € 146 thousand (€ 248 thousand)
[2] The additional coverage in accordance with § 20, sec. 2, No. 2, the over-collateralisation acc. to § 4, No. 1 and the securing liquidity acc. to § 4, sec. 1a PfandBG are not taken into account any longer.
[3] One loan of € 50 million was shown under „other debtors“ last year and is now shown in the category „country“.

As in the previous year, no receivables were used to cover Public-sector Pfandbriefe which were outstanding by 90 days or more.

Receivables used to cover ship Pfandbriefe by country in which the ships and shipbuilding yards lent against are registered, broken down by ship type:

	Covering assets					
(in € million)	Maritime navigation 31 Dec. 2012	Maritime navigation 31 Dec. 2011	Inland shipping navigation 31 Dec. 2012	Inland shipping navigation 31 Dec. 2011	Other 31 Dec. 2012	Other 31 Dec. 2011
Germany	254	430	–	–	118	19
Cyprus	63	126	–	–	–	–

There were no cases of forced sale, forced receivership or takeovers of ships or shipbuilding to prevent losses. The total arrears on interest to be paid by loan debtors were € 0 thousand (€ 3 thousand) for ocean-going ships and € 0 thousand (€ 0 thousand) for inland ships.

Receivables used to cover aircraft Pfandbriefe by country in which the aircraft are registered:

(in € million)	Covering assets Airplain 31 Dec. 2012	Airplain 31 Dec. 2011	Other 31 Dec. 2012	Other 31 Dec. 2011
Germany	163	–	20	–
France	120	–	–	–
Great Britain	246	–	–	–
Ireland	114	–	–	–
Norway	35	–	–	–
USA	229	–	–	–

9. List of equity holdings

The list below contains the equity holdings in accordance with § 285 no. 11 and 11a of the German Commercial Code and investments in terms of § 340a para. 4 no. 2 of the German Commercial Code. Included are all companies in which there is an equity holding of 20 per cent or more, unless they are of minor significance for the presentation of the assets, financial and earnings position, and investments in large corporations which exceed 5 per cent of the voting rights.

No.	Name / registered office	Share of capital held (in %)	Equity (in € 000)	Profit / Loss (in € 000)
Verbundene Unternehmen				
1	BGG Bremen GmbH & Co. KG, Bremen [1) 9)]	100.00	150	– 271
2	BGG Oldenburg GmbH & Co. KG, Bremen [1) 9)]	100.00	8 115	– 6
3	BLB Immobilien GmbH, Bremen [1) 9)]	100.00	25 386	0
4	BLB Leasing GmbH, Oldenburg [1) 9)]	100.00	511	0
5	BLBI Beteiligungs-GmbH, Bremen [1) 9)]	100.00	59	7
6	Braunschweig Advisors GmbH, Braunschweig [1) 8)]	100.00	45	19
7	Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [3) 9)]	100.00	30 626	0
8	Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig [2) 8)]	100.00	388	13
9	Braunschweig Grundstücksentwicklungsgesellschaft mbH, Braunschweig [1) 8)]	100.00	29	1
10	Braunschweig-Beteiligungsgesellschaft mbH, Braunschweig [1) 8)]	100.00	8 597	0
11	Braunschweig-Informationstechnologie-GmbH, Braunschweig [1) 9)]	100.00	3 160	0
12	Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – , Bremen [9) 11)]	54.83	1 306 795	31 000
13	Bremische Grundstücks-GmbH, Bremen [1) 9)]	100.00	56 441	2 016
14	Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen [1) 9)]	100.00	3 400	787
15	Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn, Bremen [1) 9)]	100.00	150	73
16	City Center Magdeburg Hasselbach-Passage Grundstücksgesellschaft mbH, Hanover [8)]	100.00	0	0
17	Deutsche Hypo Delaware Blocker Inc., Wilmington, USA [1) 8)]	100.00	8 524	– 2 193
18	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover [9) 11)]	100.00	913 172	15 222
19	FL FINANZ-LEASING GmbH, Wiesbaden [2) 8)]	58.00	207	– 82
20	Flying Sun Shipping Ltd., Valletta, Malta [1) 15)]	100.00	n/a	n/a
21	HERMA Verwaltungs- und Beteiligungsgesellschaft mit beschränkter Haftung, Hanover [1) 8)]	100.00	549	3
22	IRC Verwaltung GmbH & Co. Objekt Nienburg KG, Pullach i. Isartal [1) 5)]	98.00	25	– 1
23	IRC Verwaltung GmbH & Co. Objekt Unterföhring KG, Pullach i. Isartal [1) 5)]	98.00	24	– 1
24	KreditServices Nord GmbH, Braunschweig [3) 9)]	100.00	581	0
25	LBT Holding Corporation Inc., Wilmington, USA [8) 12)]	100.00	– 370	– 554
26	LHI Leasing GmbH & Co. Immobilien KG, Pullach i. Isartal [2) 8)]	90.00	995	21
27	MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Pullach i. Isartal [9)]	77.81	8 087	714
28	NBN Grundstücks- und Verwaltungs-GmbH, Hanover [1) 8)]	100.00	730	– 3
29	NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover [2) 8)]	90.00	1 003	– 79
30	Nieba GmbH, Hanover [3) 9)]	100.00	162 700	0
31	NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover [8)]	100.00	40	– 1
32	NORD/FM Norddeutsche Facility Management GmbH, Hanover [3) 9)]	100.00	636	0
33	NORD/LB Asset Management Holding GmbH, Hanover [9)]	100.00	6 688	– 15
34	NORD/LB Beteiligungsgesellschaft in Mecklenburg-Vorpommern und Sachsen-Anhalt mbH, Hanover [3) 9)]	100.00	513	0
35	NORD/LB Capital Management GmbH, Hanover [1) 9)]	100.00	2 141	532

No.	Name/registered office	Share of capital held (in %)	Equity (in € 000)	Profit/Loss (in € 000)
36	NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel, Luxembourg [1) 9) 10) 11)]	100.00	67 600	617
37	NORD/LB G-MTN S.A., Luxembourg-Findel, Luxembourg [9) 10)]	100.00	31	0
38	NORD/LB Informationstechnologie GmbH, Hanover [3) 9)]	100.00	25	0
39	NORD/LB Kapitalanlagegesellschaft AG, Hanover [1) 9) 11)]	100.00	3 991	– 419
40	NORD/LB Project Holding Ltd., London, Great Britain [8)]	100.00	1 281	834
41	NORD/LB RP Investments LLC, Wilmington, USA [8)]	100.00	3 317	1 926
42	Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hanover [8)]	100.00	15 267	77
43	Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel, Luxembourg [9) 10) 11)]	100.00	674 455	34 380
44	Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover [3) 9)]	100.00	289 520	0
45	NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen [1) 9)]	100.00	4 528	4 193
46	NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen [1) 9)]	100.00	1 107	453
47	Öffentliche Facility Management GmbH, Braunschweig [1) 9)]	100.00	25	0
48	Öffentliche Facility Management Leben GmbH & Co. KG, Braunschweig [1) 9)]	100.00	19 465	435
49	Öffentliche Facility Management Sach GmbH & Co. KG, Braunschweig [1) 9)]	100.00	16 066	189
50	Öffentliche Lebensversicherung Braunschweig, Braunschweig [9)]	75.00	32 810	668
51	Öffentliche Sachversicherung Braunschweig, Braunschweig [9)]	75.00	273 076	10 091
52	PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hanover [8)]	100.00	30	– 2
53	Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [1) 3) 9)]	98.00	3 088	0
54	RAINBOW LS SHIPPING Ltd., Valletta, Malta [1) 15)]	100.00	n/a	n/a
55	Ricklinger Kreisel Beteiligungs GmbH, Hanover [1) 8)]	100.00	32	– 6
56	Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen [1) 8)]	100.00	1 095	13
57	SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main [8)]	100.00	1 052	– 1 900
58	Skandifinanz AG, Zurich, Switzerland [1) 9) 10)]	100.00	26 833	– 128
59	TANGENS Grundstücksverwaltung GmbH & Co. Vermietungs-KG, Pullach i. Isartal [8)]	100.00	22	– 1
60	Terra Grundbesitzgesellschaft am Aegi mbH, Hanover [1) 8)]	100.00	346	– 1 910
61	Themis 1 Inc., Wilmington, USA [8)]	100.00	7 356	4 671
62	Themis 3 LLC, Wilmington, USA [1) 15)]	100.00	n/a	n/a
63	Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [1) 8)]	100.00	35 106	4 426
64	Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hanover [8) 12)]	72.70	– 3 709	483
65	Vermögensverwaltungsgesellschaft Thiede GmbH u. Co. Grundschulen-Vermietungs-KG, Hannover [8) 12)]	79.80	– 6	– 11
66	Vermögensverwaltungsgesellschaft Thiede GmbH u. Co. Tiefgarage Stade Vermietungs KG, Hanover [8) 12)]	90.00	– 2 852	14
67	Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [1) 3) 9)]	100.00	1 278	0

No.	Name / registered office	Share of capital held (in %)	Equity (in € 000)	Profit / Loss (in € 000)
Other companies of min. 20 per cent share				
1	Adler Funding LLC, Dover, USA [1) 8) 12)]	21.88	– 4 183	– 4 421
2	Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede [1) 8)]	32.26	28 811	1 230
3	BREBAU GmbH, Bremen [1) 8) 11)]	48.84	48 964	5 271
4	Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [1) 5) 13)]	49.00	–	–
5	Bremer Toto und Lotto Gesellschaft mit beschränkter Haftung, Bremen [1) 8)]	33.33	4 283	3
6	Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [8)]	50.00	4 800	392
7	Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [8) 11)]	20.89	15 295	329
8	Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [8) 11)]	20.44	11 865	503
9	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co., Bremen [1) 8) 11)]	27.50	85 369	22 200
10	Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [1) 8)]	20.46	10 237	705
11	GSG Oldenburg Bau- und Wohngesellschaft mit beschränkter Haftung, Oldenburg [1) 8) 11)]	22.22	79 816	17 559
12	Grundstücksgemeinschaft Escherweg 5 GbR, Bremen [1) 9)]	50.00	– 1 941	– 377
13	Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. – Objekt Zietenterrassen – KG, Göttingen [2) 8)]	52.56	2 727	– 444
14	INI International Neuroscience Institute Hannover GmbH, Hanover [1) 4)]	22.70	– 11 131	– 1 066
15	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover [1) 8) 11)]	44.00	297 458	0
16	LHI Leasing GmbH, Pullach i. Isartal [2) 9) 11)]	49.00	48 750	6 058
17	LINOVO Productions GmbH & Co. KG, Pöcking [8) 12)]	45.17	– 44 628	3 457
18	Medical Park Hannover GmbH, Hanover [1) 8)]	50.00	2 251	410
19	Medicis Nexus GmbH & Co. KG, Icking [8)]	66.01	9 224	720
20	Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [8)]	26.00	10 204	1 022
21	Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover [8)]	39.82	9 667	1 577
22	NBV Beteiligungs-GmbH, Hamburg [2) 8)]	28.57	19 493	3 784
23	NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hanover [8)]	28.66	4 122	3 396
24	Öffentliche Versicherung Bremen, Bremen [1) 8)]	20.00	6 020	60
25	SALEG Sachsen-Anhaltinische-Landesentwicklungsgesellschaft mbH, Magdeburg [8)]	56.61	14 008	471
26	Toto-Lotto Niedersachsen GmbH, Hanover [8) 11)]	49.85	33 864	23 636
27	USPF III Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf [1) 7)]	42.86	2 894	569
28	Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [1) 8)]	21.72	18 523	376
NORD/LB is a partner with unlimited liability in the following company (§ 285 no. 11 a HGB)				
1	GLB GmbH & Co. OHG, Frankfurt am Main			
Investments in terms of § 340a para. 4 no. 2 of the German Commercial Code, unless reported as an affiliated company or other shareholding				
1	HCI HAMMONIA SHIPPING AG, Hamburg			
2	Niedersächsische Bürgschaftsbank (NBB) Gesellschaft mit beschränkter Haftung, Hanover			

1) Held indirectly.
2) Including shares held indirectly.
3) Letter of comfort exists.
4) Data as at 31 Dec. 2009 is available.
5) Es liegen Daten nur zum 31. 12. 2010 vor.
6) Data as at 30 Jun. 2011 is available (different financial year).
7) Data as at 30 Sep 2011 is available (different financial year).
8) Data as at 31 Dec. 2011 is available.
9) Preliminary data as at 31 Dec. 2012.
10) Values in the financial statements in accordance with IAS / IFRS.
11) Disclosure also in accordance with § 340a para. 4 no. 2 of the German Commercial Code (banks are interpreted as large corporate entities).
12) The company is not actually overindebted.
13) No disclosure in accordance with § 286 para. 3 clause 2 of the German Commercial Code.
14) Equidity as defined in §§ 266 and 272 HGB of the German Commercial Code less outstanding contributions.

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Content

Declaration by legal representatives

We declare that to the best of our knowledge and in accordance with accounting principles applicable, the annual financial statements provide a true and fair view of the net assets, the financial position and the results of operations of Norddeutsche Landesbank Girozentrale and that the management report presents a true and fair view of the development of business including the operating result and the state of the landesbank and also describes the crucial risks and rewards of the probable development of the landesbank.

Hanover / Braunschweig / Magdeburg
19 February 2013

Norddeutsche Landesbank Girozentrale

The Managing Board

Dr. Dunkel	Schulz	Dr. Holm
Forst	Brouzi	Dr. Riegler

Auditor's Report

The following is an English translation of the auditor's report, which has been prepared on the basis of the German language version of the Financial Statements and the Management Report.

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Norddeutsche Landesbank Girozentrale, Hannover, Braunschweig and Magdeburg, for the fiscal year from 1 January to 31 December 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB [„Handelsgesetzbuch": „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accountingrelated internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our report, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary articles of bylaws and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Hanover, 22 February 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer
Wirtschaftsprüfer
[German Public Auditor]

Leitz
Wirtschaftsprüfer
[German Public Auditor]

Report of the Supervisory Board

The Managing Board of the bank regularly informed the Supervisory Board and the committees set up by the Supervisory Board on business developments and on the position of the bank during the year under report. The Supervisory Board and its committees adopted resolutions on business matters presented to them and on further issues requiring decisions by these executive bodies in accordance with the statues pertaining to these articles. Fundamental issues relating to the business strategy and to operational areas were discussed in detail during several meetings.

Furthermore the Supervisory Board concentrated on NORD/LB AöR's business and risk strategy. Questions of principle according to the business policy and business areas were intensively discussed in several meetings. In addition the Supervisory Board dealt with the development and outlook for the Braunschweigische Landessparkasse as well as the bank's medium-term plan.

The annual financial statements of NORD/LB for the 2012 accounting period were audited by KPMG AG Wirtschaftsprüfungsgesellschaft who issued joint and unqualified auditors' certification. The auditors also took part in the meeting of the Supervisory Board to discuss the annual financial statements, which was held on 15 March 2013, and reported on the results of their audit.

The Supervisory Board has approved the results of the audit carried out by the auditors; the results of a conclusive examination carried out by the Supervisory Board did not give any cause for objections.

In its meeting on 15 March 2013 the Supervisory Board approved the management report and the financial statements as at 31 December 2012 and proposed the appropriation of the profit for the year to the owner's meeting.

The Supervisory Board follows the proposal of the Managing Board how to appropriate the profit of the year of NORD/LB AöR.

The following left the Supervisory Board:
as at 31 January 2012 Mr. Manfred Köhler
as at 15 March 2012 Mr. Hermann Bröring
as at 31 May 2012 Mr. Dr. Gert Hoffmann
as at 31 May 2012 Mr. Walter Kleine
as at 31 May 2012 Mr. August Nöltker

The following were appointed to the Supervisory Board:
as at 1 January 2012 Mr. Heinrich Hahne
as at 1 February 2012 Mr. Norbert Dierkes
as at 22 March 2012 Mr. Ulrich Mädge
as at 1 June 2012 Mr. Frank Klingebiel
as at 1 June 2012 Mr. Jörg Reinbrecht
as at 1 June 2012 Mr. Klaus-Peter Wennemann

The Supervisory Board thanks the Managing Board for a trustful cooperation and the bank's employees for the work they have performed.

Hanover / Braunschweig / Magdeburg
March 2013

Peter-Jürgen Schneider
Minister of Finance
State of Lower Saxony

Report of the Owners' Meeting

In the year under review the Owners' Meeting performed the duties assigned to it by the state treaty and by the statutes. The Owners' Meeting agreed the appropriation of the profit for the year as proposed by the Supervisory Board.

Furthermore the Owner's Meeting decided on the capital measures concerning the requirements of the European Banking Authority in its meetings in 2012.

The following left the Owners' Meeting:
as at 31 May 2012 Mr. Peter Siebken
as at 27 December 2012 Mr. Dr. Heiko Geue

The following were appointed to the Owners' Meeting:
as at 1 January 2012 Mr. Ludwig Momann
as at 1 June 2012 Mr. Frank Berg
as at 28 December 2012 Mr. Michael Richter

The Owners' Meeting thanks the Supervisory Board, the Managing Board and the bank's employees for the work.

Hanover / Braunschweig / Magdeburg
March 2013

Thomas Mang
President
Association of Savings Banks in Lower Saxony

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