NORD/LB

Die norddeutsche Art.

Annual Report 2012

OUR PROXIMITY / YOUR STRENGTH

Close to people. Straight to the point.
A bank anchored in its region.

Finanzgruppe

KEY FIGURES

	1 Jan.– 31 Dec. 2012	1 Jan.– 31 Dec. 2011 [1]	Change (in %)
Income statement – in € million			
Net interest income	1 957	1 762	11
Loan loss provisions	– 598	– 197	> 100
Net commission income	168	166	1
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	– 122	69	> 100
Profit/loss from financial assets	– 5	– 48	– 90
Profit/loss from investments accounted for using the equity method	– 14	–	–
Administrative expenses	1 158	1091	6
Other operating profit/loss	– 99	69	> 100
Earnings before reorganisation and taxes	129	730	– 82
Reorganisation expenses	– 34	–	–
Expenses for Public Guarantees related to Reorganisation	– 19	–	–
Earnings before taxes	**76**	**730**	**– 90**
Income taxes	– 4	194	> 100
Consolidated profit	**80**	**536**	**– 85**
Key figures in %			
Cost-Income-Ratio (CIR)	61.2	52.8	
Return-on-Equity (RoE)	1.0	11.1	

	31 Dec. 2012	31 Dec. 2011 [1]	Change (in %)
Balance sheet – in € million			
Total assets	225 550	227 633	– 1
Customer deposits	55 951	60 645	– 8
Customer loans	114 577	114 652	–
Equity	7 700	6 546	18
Regulatory key figures			
Core capital for solvency reasons in € million	8 451	8 005	6
Regulatory equity in € million	10 776	10 727	–
Risk-weighted assets in € million	77 863	84 800	– 8
Total capital ratio in %	13.84	12.65	
Core capital ratio in %	10.85	9.44	

[1] Some previous year's figures were adjusted as you can see at note (2) adjustment of figures for the previous year.

NORD/LB ratings
(long-term/short-term/individual)

Rating agency	Rating	Date of rating
Moody's	A3/P–2/D	10 January 2013
Fitch Ratings	A/F1/bbb–	31 January 2013

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

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WHO WE ARE AND WHAT SERVICES WE PROVIDE

As a **commercial bank**, NORD/LB offers a comprehensive range of attractive financial services to private, commercial and institutional customers and the public sector in Northern Germany and well beyond this core region. It is involved in structured financing for international projects – particularly in the areas of energy, infrastructure, ships, aircraft and real estate. Together with the services provided by Braunschweigische Landessparkasse, NORD/LB thus offers private and commercial customers the best of two worlds.

In the federal states of Lower Saxony and Saxony-Anhalt, NORD/LB acts as a **Landesbank,** supporting the states in their banking business and remaining available to them in regional economic development. It also advises customers in Mecklenburg-Western Pomerania and Saxony-Anhalt on current investment and development programmes.

In Mecklenburg-Western Pomerania, Saxony-Anhalt and Lower Saxony, NORD/LB is also a partner to all savings banks in its role as the **central savings bank.** In addition, it acts as a service provider to other savings banks, for example, in Schleswig-Holstein.

As a **clearing bank** (Girozentrale), NORD/LB offers all the services that savings banks require for their activities. The NORD/LB Group's national and international networks enable optimum solutions to be created for customers in the savings bank financial group.

The NORD/LB Group encompasses all of these areas. It acts as the **parent company,** managing all parts of the Group in accordance with strategic goals, generating synergies, strengthening customer divisions and pooling services.

Braunschweigische Landessparkasse
Ein Unternehmen der NORD/LB

NORD/LB Luxembourg

DEUTSCHE HYPO
Ein Unternehmen der NORD/LB

BREMER LANDESBANK

7 000
employees

750
aircraft financed

3 700
middle-market corporate customers

5 000
properties financed

5 400
wind turbines financed

1 850
ships financed

>100
sites in the Braunschweig area

OUR PROXIMITY / YOUR STRENGTH

CLOSE TO PEOPLE. STRAIGHT TO THE POINT.
A BANK ANCHORED IN ITS REGION.

If you want to get close, you need to be able to watch and listen carefully. Closeness requires trust. It is the basis of every well-functioning partnership. Our focus in the region is therefore on our local customers. Here in the heart of Northern Germany, we are close – even if you want to go abroad. With our international branches and partners, a direct connection is always ensured. Rooted in the region but part of a worldwide network.That's what makes us and our customers strong. Knowing you have a reliable partner by your side gives you the courage you need for innovation and the strength for outstanding achievements.That's how our proximity is your strength – for optimum management of future challenges.

Left to right: Dr. Johannes-Jörg Riegler, Thomas S. Bürkle, Eckhard Forst, Ulrike Brouzi, Dr. Hinrich Holm, Harry Rosenbaum, Christoph Schulz, Dr. Stephan-Andreas Kaulvers, Dr. Gunter Dunkel

EXTENEDED GROUP MANAGING BOARD

DR. GUNTER DUNKEL

Born 1953

Chairman of the Managing Board (CEO); Managing Board Office/Legal/Investments, Human Resources, Auditing, Corporate Communications and Strategy Development

DR. JOHANNES-JÖRG RIEGLER

Born 1964

Chief Risk Officer (CRO);
Financial and Risk Control, Credit Risk Management, Central Risk Management, Special Credit Management, Research/Economy and Relationship with the Savings Bank Network

ULRIKE BROUZI

Born 1965

Chief Financial Officer (CFO),
Chief Operations Officer (COO); Finance/Tax, Organisation and IT, Corporate Services, Group Security, Compliance, Landesförderinstitut and Relationship with Mecklenburg-Western Pomerania

THOMAS S. BÜRKLE

Born 1956

Chairman of the Managing Board of Deutsche Hypo

ECKHARD FORST

Born 1959

Corporate Customer Business including Housing and Agricultural Banking, Commercial Real Estate Finance, Ship and Aircraft Financing, Corporate Finance, Structured Finance and Corporate Sales

DR. HINRICH HOLM

Born 1965

Treasury, Markets, Bank Assets Allocation, Investitionsbank Sachsen-Anhalt and relationship with Saxony-Anhalt and foreign branches

DR. STEPHAN-ANDREAS KAULVERS

Born 1956

Chairman of the Managing Board of Bremer Landesbank

HARRY ROSENBAUM

Born 1958

Chairman of the Managing Board of NORD/LB Luxembourg S.A.

CHRISTOPH SCHULZ

Born 1960

Private and Commercial Customers; Chairman of the Managing Board of Braunschweigische Landessparkasse

You can get more information from our homepage www.nordlb.com/investor-relations/committees-and-executive-bodies/ or directly from the QR code opposite.

INTRODUCTION

by the Chairman of the Managing Board

2012 was a year of challenges. As the situation in the global economy remained tense, it was once again necessary to demonstrate good crisis management. NORD/LB has a special way of not only keeping itself afloat when faced with strong headwinds, but of actually progressing. This is thanks to our traditionally conservative and calm business philosophy. What was once regarded in the sector as a little boring is proving to be a recipe for success in these economically turbulent times.

High levels of national debt in many euro countries, stagnation or even a recession in the global economy, the ongoing shipping crisis – the list of difficult general conditions in banking business is long. This is compounded by the stricter requirements imposed on banks by Basel III, such as the strengthening of equity and higher demands in terms of risk and liquidity control.

NORD/LB has coped well with these challenges and is now more stable than ever before. I would like to particularly emphasise the extraordinary achievement of our employees, whose expertise and commitment guarantees us the strong position we are in today. I would like to sincerely thank our outstanding team and encourage it to continue on this path together.

NORD/LB launched a comprehensive capital-boosting programme in 2011 and 2012, thereby responding to tightened equity requirements. The European Commission has approved the capital measures involved, including a guarantee that can now be provided by NORD/LB's owners, Lower Saxony and Saxony-Anhalt, if general conditions worsen significantly. As part of this, NORD/LB has agreed with the European Commission on a catalogue of binding measures that are in line with NORD/LB's established business model and strategy.

In operational terms, we have performed very well this year, not least thanks to long-term trusting collaboration with our customers. Our expertise allows us to offer them solutions that deserve to be called "bespoke". Our regional proximity repeatedly proves to be a major competitive advantage here. For this reason, we have given this annual report the title "Our proximity – your strength". We have compiled a small selection of real-life examples on the following pages.

2012 was also a successful year for project financing. NORD/LB established itself as a worldwide leader in the areas of aircraft and renewable energy in particular, while focusing on its domestic market in business with commercial real estate. The issue in the new asset class of aircraft Pfandbriefe (mortgage covered bonds) and the first US dollar public sector Pfandbrief since 2006 underline the fact that NORD/LB is a leading issuer of covered bond.

Dr. Gunter Dunkel, Chairman of the Managing Board of NORD/LB, Hannover

"Regional proximity combined with a global vision – that's what distinguishes NORD/LB. This combination of being rooted in our native region and internationality has so far brought us safely through the highs and lows of the financial world and proved to be extremely stable. We will therefore be able to meet the coming challenges with a great deal of confidence."

Despite all our success, however, we will keep our feet on the ground. 2013 and probably also 2014 will hold many more challenges in store for us, particularly the shipping crisis and the EU measures that are still to be implemented.

Against this backdrop, business dealings today need to focus more than ever not only on the company's success, but also on the common good and thus on future generations. As a Landesbank and a public law institution (Anstalt öffentlichen Rechts), we believe this involves a particular duty, which we take seriously and which therefore also forms the system of coordinates for our company management and business model.

With our owners and partners, the federal states of Lower Saxony and Saxony-Anhalt, the savings banks in these states and in Mecklenburg-Western Pomerania and their associations, we can and will overcome the challenging tasks ahead of us.

For you, our customers and investors, we will remain a reliable partner as usual. On behalf of NORD/LB, I would like to thank you for your loyalty and trust. I look forward to a successful 2013 together.

Ihr

Dr. Gunter Dunkel

You can get more information from our homepage www.nordlb.de/Dr_Dunkel_2013 or directly from the QR code opposite.

INTRODUCTION

by the Chairman of the Supervisory Board

Peter-Jürgen Schneider
Minister of Finance, State of Lower Saxony and Chairman of the Supervisory Board of NORD/LB, Hanover

"NORD/LB's Northern German approach is also a reason why it has survived the financial crisis so well: with a conservative risk policy, a solid, tried and tested business model – and customers who remain loyal to their bank in a time when we cannot take this for granted."

Ladies and Gentlemen,

Here in the North, we are rooted to our native soil. We operate solidly and reliably, work hard and remain modest. There is no such thing as bad weather, only bad clothing. That's also how companies here keep going – in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania. This Northern German approach is also the reason why NORD/LB has survived the financial crisis so well: with a conservative risk policy, a solid, tried and tested business model – and customers who remain loyal to their bank in a time when we cannot take this for granted. With exceptional experience in its business segments, it cannot be put off its stride even in a crisis.

It is not mere coincidence that the North's special strengths are reflected in its Landesbank's business model. As the savings bank for the Braunschweiger Land area, as one of the world's leading providers of financing for ships, aircraft and renewable energies, a reliable bank for small and medium-sized enterprises, Germany's largest agricultural bank, a centre of excellence in commercial real estate financing and a trusted partner to savings banks and local authorities, NORD/LB is deeply rooted in its native Northern Germany. With its international orientation, it not only prepares the way for Northern German companies to expand abroad, but also finances global demand for Northern German products and Northern German expertise. Not all banks have such a solid basis as NORD/LB. That's why capital requirements for European banks have been tightened significantly. NORD/LB has also implemented these requirements with an intelligent programme that focuses on existing strengths rather than external help. Implementation required a huge effort from all those involved, particularly the bank's owners. However, this effort means that a healthy bank has now strengthened its defences. I would like to thank Hartmut Möllring here, who, as Minister of Finance for Lower Saxony, has acted as Chairman of the Supervisory Board of the bank for the last ten years.

With its solidity and experience, NORD/LB will remain a worthwhile investment for the people of Northern Germany. The bank is rooted in its native region and is weatherproof. That's how it should be here in the North.

Kind regards,

Peter-Jürgen Schneider
Minister of Finance for Lower Saxony
Chairman of the Supervisory Board of NORD/LB

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.

Furthermore the Supervisory Board concentrated on NORD/LB'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 and the Group 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 meetings of the Supervisory Board to discuss the annual financial statements, which were held on 15 March 2013 and on 22 April 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. On 22 April 2013 NORD/LB's IFRS annual financial statements as at 31 December 2012 were approved and it was proposed to the owner's meeting to ratify the actions of the Managing Board.

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
as at 18 February 2013	Mr. Hartmut Möllring

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
as at 19 February	Mr. Peter-Jürgen Schneider

The Supervisory Board thanks the Managing Board for a trustful cooperation and the bank's employees for the work they have performed in 2012.

Hanover / Braunschweig / Magdeburg
April 2013

Peter-Jürgen Schneider
Minister of Finance for 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
April 2013

Thomas Mang
President
Association of Savings Banks in Lower Saxony

STRENGTHENING OF EQUITY

at NORD/LB

What will Basel III mean for NORD/LB?
As a result of the financial crisis, the Basel Bank Supervisory Committee decided in 2010 to introduce stricter capital and liquidity regulations for banks. As part of these, banks will need to keep considerably more equity available and set up an additional capital buffer to ensure that they can absorb losses themselves in the event of a crisis. The aim is to prevent governments from having to intervene financially in future. Since 2007, the public sector has had to provide around € 250 billion in Germany alone in order to support German banks. However, NORD/LB overcame the crisis through its own efforts. As a profitable Landesbank, it distributed around € 1.6 billion to its public sector owners in this period, including dividends, taxes on its profits and interest on investments. To fulfil the new, tighter equity requirements, NORD/LB has initiated measures to strengthen its capital, based on its crisis-proof structure and its tried and tested business model.

Owner states provide general guarantee

NORD/LB's capital-boosting programme also includes a subsidiary guarantee provided by the federal states of Saxony-Anhalt and Lower Saxony. This is worth a total of € 700 million, of which the state of Saxony-Anhalt will provide € 500 million and the state of Lower Saxony € 200 million. NORD/LB can draw on the guarantee at any time at short notice.

Structure of the guarantee

- High-quality loans on which there has been no default are pooled in a portfolio. These remain the property of NORD/LB.
- The guarantors provide guarantees for part of this portfolio (mezzanine tranche). The first loss tranche remains with NORD/LB.
- If NORD/LB were to utilise the guarantee, its risk-weighted assets would be reduced. This would result indirectly in the release of capital, which would thus lead to an improvement in the regulatory capital ratios.
- NORD/LB will pay its owner states a standard market fee, both during the provision period and after drawing on the guarantee.

"Strengthening of capital has advantages for bank and states"

Owners of Landesbanks don't have it easy in these economically turbulent times. It is therefore all the more pleasing for us to see how well NORD/LB is coping. Few banks in Germany have overcome the financial crisis as successfully as NORD/LB.

This made our decision to help it to comply with the new European guidelines by providing a subsidiary guarantee considerably easier. Our commitment will pay off. After all, NORD/LB also helps to ensure that the economy in Saxony-Anhalt is supplied with adequate financial resources. In this way, everyone benefits: the strengthening of capital brings advantages for the bank as well as for the state of Saxony-Anhalt and its inhabitants.

Jens Bullerjahn, Minister of Finance, State of Saxony-Anhalt

In a good position to meet future challenges

Interview with Dr. Hinrich Holm, Member of the Managing Board for Capital Markets at NORD/LB

Dr. Hinrich Holm

While other banks went up and down during the financial crisis, NORD/LB has had a comparatively calm journey. Do you feel vindicated in your business philosophy?

Dr. Hinrich Holm: We have actually often been derided in the past for our decidedly conservative risk policy. In the current situation, however, our caution and reliability are regarded as exemplary. This naturally confirms our belief that we are on the right track.

Why has NORD/LB nevertheless taken measures to boost its capital?

Dr. Hinrich Holm: These measures are being implemented not out of economic necessity, but solely to comply with the new requirements imposed on banks by the EU. The European Commission has explicitly highlighted that NORD/LB does not require support and has withstood the crisis well through its own efforts. The equity restructuring that has now been carried out therefore means that we are strengthening NORD/LB financially on a more long-term basis than was the case previously.

How advanced is this process?

Dr. Hinrich Holm: All measures in our restructuring plan were approved by the EU in July 2012 and have since been implemented. Apart from the fact that part of our profit is still being added to equity, the process is thus complete. We are therefore in a good position to deal with future challenges.

You can get more information on this subject directly from the QR code opposite.

NORD/LB's capital-boosting programme in detail

Period	Increase in capital	Measure	Transaction partner
December 2011/ January 2012	521 € million	Cash injection	State of Lower Saxony, Savings Banks Holding Association in Saxony-Anhalt, Special Purpose Holding Association of Savings Banks in Mecklenburg-Western Pomerania
December 2011/ January 2012	1 146 € million	Conversion of silent participations and other capital instruments	State of Lower Saxony, savings banks of Lower Saxony
August 2012	400 € million	Cash injection from the sale of capital notes from Hannoversche Beteiligungsgesellschaft mbH to NORD/LB	State of Lower Saxony
August 2012	445 € million	Conversion of silent participations in Bremer Landesbank	State of Bremen
August 2012	47 € million	Conversion of silent participations in Bremer Landesbank	Association of Savings Banks in Lower Saxony
In addition:			
2011	354 € million	Strengthening of regulatory core capital	NORD/LB
April 2012	284 € million	Strengthening of regulatory core capital	NORD/LB

PARTNERS IN THE ASSOCIATION

As part of the savings bank finance group, NORD/LB is a reliable partner wherever it can generate added value. However, the savings banks of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania have been of enormous importance to NORD/LB since day one, as our owners, customers and strategic partners. We therefore feel that we have a special connection with these savings banks and will support them with our savings bank network.

Strategic market partner

The savings banks and NORD/LB are natural partners who can serve their market together in a coordinated and complementary way. As a team, the savings banks and NORD/LB will meet the challenges posed by competition together.

A product and process specialist

NORD/LB provides all savings banks in its region and their customers with solutions to problems. The Landesbank's product expertise thus becomes available to all institutions.

Strong together

To find the best possible solutions for our customers, we make use of our shared knowledge within the association of social structures in our core business area, our regional anchoring and identity and the resulting trust. We offer our associated savings banks all products and services that they need themselves or to complete their product range in customer business.

In a changing competitive environment, collaboration between NORD/LB and the savings banks is also subject to a dynamic process. The requirements of savings banks and thus of their customers are continuously reviewed and adjusted as necessary. In this way, we ensure that we will be able to continue operating successfully on the market in future.

/////Cooperation with our partners in the association is particularly important to us. Here, we can make the best use of our expertise and tried and tested solutions in the region, as an international bank with its roots in Northern Germany.

Dr. Johannes-Jörg Riegler,
CRO and Relationship with the Savings Bank Network

Our actions are determined by our responsibility for the region and the people who live here.

Thomas Pötsch

Heiko Nebel

"A consistent partner"

Stadtsparkasse Burgdorf is one of our partners in the association. Thomas Pötsch, Chairman of the Managing Board of Stadtsparkasse Burgdorf, and Heiko Nebel, a member of the Managing Board, explain what makes cooperation with NORD/LB special.

How would you describe Stadtsparkasse Burgdorf?

Thomas Pötsch: We are aware of our responsibility for the region and the people and companies in Burgdorf. That's a cornerstone of our business philosophy.

Heiko Nebel: We support our customers on their way to success by providing them with integrated advice and a comprehensive range of attractive products.

What part does NORD/LB play in success?

Thomas Pötsch: Stadtsparkasse Burgdorf stands for reliability – something we also expect from our partners in the association, which supplement our range of products and services. NORD/LB has proved itself to be a consistent partner in the past, particularly in economically turbulent times.

Heiko Nebel: Experience has shown that we can always rely on our contacts and on the quality of products and services from NORD/LB. We will continue to focus on this in future.

You can get more information on this subject from our homepage www.nordlb.com/financial-institutions/savings-bank-network/ or directly from the QR code opposite.

HIGHLIGHTS OF 2012

2/2012

NORD/LB finances solar park in Brandenburg

NORD/LB has taken on the project financing for the "Turnow II" solar park in the district of Turnow-Preilack near Cottbus. The photovoltaic power plant, which has a capacity of 18 megawatts, covers an area the size of 70 football pitches. The project involves an investment volume of approximately €37 million. NORD/LB co-financed the "Turnow I" solar park, which is adjacent to "Turnow II", in 2009. The two parks, which have a total output of over 70 megawatts, together form the world's largest connected thin-layer module plant. This can cover the annual consumption of more than 20,000 households.

1/2012

Coveted award for NORD/LB

It's a bit like the Oscar for project financing: in 2012, NORD/LB won the Project Finance International Award in the category of "Wind Deal of the Year". The bank received the award for its financing of the "Global Tech One" offshore wind farm. The project finance team at NORD/LB last won the coveted trophy in 2008.

5/2012

Cooperation on financing for coop eG

NORD/LB and Kieler Förde Sparkasse have structured and arranged a syndicate loan for Germany's largest food retail cooperative, Kiel-based coop eG. The total financing volume is €110 million. A long-term tranche of real estate with a ten-year term, suitable for the cover pool, and two shorter-term credit lines will secure the financing requirements of coop eG in the long term.

1/2012

Successful refinancing project in Berlin

With around 220,000 residential units under management, the Bochum-based housing company Deutsche Annington AG is one of the market leaders in Germany. NORD/LB's residential property business is refinancing the property company PRIMA, which has 4,500 apartments in Berlin, for the real estate group. NORD/LB is solely liable for the financing volume of €150 million.

5/2012

Investment in education

NORD/LB is involved in financing for the new building for Mühlenberg integrated school in Hanover. The city of Hanover sold the school to its subsidiary Gesellschaft für Bauen und Wohnen Hannover mbH (GBH) and commissioned the latter to rebuild the existing buildings. After the planned handover in 2016, the city will rent the school from GBH for a period of 30 years. Together with Sparkasse Hannover, NORD/LB will buy the portion of the rent owed to GBH by the city of Hanover that relates to cost of capital in the form of municipal forfaiting. The deal also includes interim construction financing for the period from 2012 to 2016. The total financing volume is €70.2 million, of which NORD/LB is to assume €45.2 million.

6/2012

No barriers to railway

Braunschweiger Verkehrs-AG is one of the best barrier-free companies in Germany. The entire vehicle fleet is now to be switched over to the latest type of trains. In May 2014, the first of 15 new low-floor light rail vehicles made by the company Solaris Bus & Coach S.A. in Poznan, Poland, will start running on the network of Braunschweiger Verkehrs-AG. As the Landessparkasse, NORD/LB will be responsible for € 19 million of financing for this project. The remaining sum of € 14 million will come from public funding.

7/2012

World premiere for aircraft Pfandbriefe

NORD/LB issued the world's first aircraft Pfandbrief – with an impressive response. After just under two hours, the order book was already more than double the benchmark volume of € 500 million. The originally planned price of 60 basis points above the mid-swap rate was thus reduced to 55 basis points above the mid-swap rate. The final order book for the aircraft Pfandbrief included over 60 subscriptions with individual tranches of between € 1 million and € 100 million. As expected, 95 per cent of the volume was placed with insurance companies, savings banks, asset managers, funds and pension funds in Germany.

10/2012

NORD/LB issues first public sector Pfandbrief in US dollars

The Pfandbrief has a volume of USD 1 billion; the spread is 50 basis points above the USD reference swap rate. The issue is placed worldwide under the management of a consortium. In accordance with the provisions of Rule 144a of the US Securities Act, the Pfandbrief can also be purchased directly by qualified institutional investors in the USA.

After just three hours, the order book for the Pfandbrief was several times as high as the benchmark volume of USD 1 billion, at over USD 3 billion. As expected, approximately 60 per cent of the volume was placed with qualified institutional investors in the USA. Rating agencies Moody's and Fitch awarded their top ratings of "Aaa" and "AAA" to the issue.

11/2012

NORD/LB has been a partner to the economy in Saxony-Anhalt for 20 years

After NORD/LB opened its first representative office in Magdeburg in 1990, the state treaty on the assumption of the function of a Landesbank came into effect in Saxony-Anhalt in February 1992. Since then, the bank has had registered offices in Magdeburg as well as Hanover and Braunschweig. Today, the state of Saxony-Anhalt owns a stake of 5.57 per cent in NORD/LB, while the Savings Banks Holding Association of Saxony-Anhalt owns 5.28 per cent. NORD/LB's total financing volume in Saxony-Anhalt is around € 4.5 billion. The nationwide housing business is operated from the Magdeburg site, with a total volume of approximately € 3 billion.

You can get more information on this subject from our homepage www.nordlb.com/about-us/landesbank-for-saxony-anhalt/ or directly from the QR code opposite.

11/2012

Tulips auction makes NORD/LB cultural foundation bloom

The Jeff Koons sculpture "Tulips" from NORD/LB's art collection sold for USD 33.7 million (€ 26.3 million) at auction house Christie's in New York. This means that the sale price is ten times higher than the price paid by NORD/LB in 2002. All of the net proceeds of around USD 30 million (€ 21 million) from this auction will go to a foundation set up by NORD/LB to support art and cultural projects in the area where it operates.

OUR / NATURE

///// Northern German through and through, I feel strongly connected to the region. I might be a banker now, but I grew up with agriculture and still enjoy lending a hand at home on the farm in my free time. So naturally I’m particularly interested in the projects that are being financed in the food sector. I know what it’s like when the weather suddenly changes at the critical moment and the harvest is at risk, I know the cycles and specifics of the commodities and agricultural markets. That’s what my work is about. It’s not just facts and figures: true value can often be found in something solid like a good German potato!

Hubertus Flor,
Corporate Customer Adviser

sful as a team: rtner for SMEs

nall and medium-sized combine many different ound on the market and istomers. This is possible eam, a first-class product of knowledge and a clear LB works out together with best achieve their business opportunities and risks with ways on the optimum capital ecure the company's financial ity in the long term. In the end, cing concept that is individually he company's needs and future development.

GROUND / BREAKING

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///// Successful as a team: a partner for SMEs

A modern bank for small and medium-sized enterprises today needs to combine many different qualities in order to hold its ground on the market and work successfully for its customers. This is possible only with an experienced team, a first-class product portfolio, a strong network of knowledge and a clear philosophy. NORD/LB works out together with customers how they can best achieve their business goals and weighs up opportunities and risks with them. The focus is always on the optimum capital structure that will secure the company's financial strength and liquidity in the long term. In the end, we have a financing concept that is individually tailored to the company's needs and future development.

HEALTHY / GROWTH

Customers always feel that they are in the best hands wherever their language is spoken. NORD/LB achieves this in its corporate customer business with a clear strategic focus on larger SMEs and direct dialogue with decision-makers at the companies, which are often owner-managed. This involves having a general overview of the market and implementing practice-oriented solutions with concrete financing concepts.

1

Changes in the market and competitive situation, e.g.:

- Changes in demand in central sales markets
- Increasing importance of exports
- Growing awareness of health and nutrition among consumers

2

Increasing market volatility

3

Increased difficulties in price and risk management

4

Increase in price of important raw materials

Customised advice is based on sound knowledge of the market

Germany's food industry is in the top division. In terms of sales and workforce, it is the fourth-largest branch of industry, with a corresponding importance to the German economy. The sector is also in motion: having recorded constant growth in recent years, it is now faced with a variety of current and future challenges.

That's enough of a reason for NORD/LB to analyse developments and opportunities in the food industry more closely. The study "Strategic challenges in the manufacturing food industry", conducted by experts at NORD/LB Corporate Finance, provides an informative overview of trends and their main effects on the sector.

Concepts from the experts

Most companies need a strategy that enables them to adapt to changes in conditions through their own efforts. Whether they want to grow through diversification, enter new markets or focus on their core business, the path to success is individual and depends to a large extent on the company's financial situation.

NORD/LB Corporate Finance has become a specialist in developing suitable solutions for sustainable strategies together with corporate customer advisers. The team makes use of a wide range of innovative financing components, such as promissory notes, syndicated loans and working capital management.

STRUCTURED PURCHASE FINANCING FOR

/20 € MILLION

Facing all challenges together: Emsland Group and NORD/LB

At Emsland Group, it's all about potatoes. They are the core raw material from which the SME obtains starch, derivatives and high-quality processed products. Its products are in demand all over the world. The company, which is headquartered in Emlichheim, Lower Saxony, has an export ratio of 80 per cent. In a constantly changing market, its motto is to stay flexible. Emsland Group itself describes its future orientation as follows: "Our aim is to develop the group consistently, maintain our market positions and expand them through innovation, invest in new areas of business and establish new raw materials."

To generate the necessary funding internally, Emsland Group called once again on its main bank. For a good reason, as the two institutions have been linked by decades of trusting collaboration since the company was founded. NORD/LB supported the company in the 1980s and 1990s with investment financing and payment transactions. The bank later advised Emsland Group on foreign business, financing joint ventures and two syndicated loans, among other things.

For Emsland Group's latest challenge, working capital management proved to be the financing instrument of first choice. The solution found after intensive advice sessions will release capital and open up more financial scope.

> ///// Think regionally and act globally – that's our business principle. We took the same approach to structuring the financing for our purchases and, with NORD/LB, we found a local partner with vision. Advice sessions as partners and well thought-out solutions have led to a result that puts us in the best possible position to deal with tomorrow's challenges.
>
> Michael Schonert, Manager, Emsland Group

Components of the transaction

- The purchasing activities of the two companies Emsland-Stärke GmbH and Emsland Food GmbH were bundled within a newly founded purchasing company.
- Servicing for the purchasing company will be taken over by Emsland-Stärke GmbH, in order not to disrupt longstanding supplier relations.
- The period for creditors has been extended from 30 to 120 days, generating additional liquidity and improving the balance sheet structure.

OUR / BASIS

///// My workplace is right in the heart of Saxony-Anhalt, in Magdeburg. From here I manage various customers in the real estate sector. One of my customers of day one is Bauverein Halle & Leuna. My work gives me particular pleasure when I can see that the customer is satisfied and will work with us in the long term. And because the construction company is one of the biggest landlords in Saxony-Anhalt, it also benefits a lot of tenants if our customer is financially sound and well advised.

Mandy Fricke,
Adviser for Social Housing


TRAPPEN HALL
BADKAMER 1

ABSOLUTE SOLIDITY

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customer is satisf
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is financially sound

///// Real estate expertise for customised solutions

NORD/LB has been a successful adviser, provider of financing and partner to housing companies for over 20 years and is now among the top 10 providers of financing to the sector in Germany. Thanks to our detailed knowledge of the market and many years of expertise in the analysis of housing companies, we are able to develop innovative made-to-measure financial solutions. As well as our involvement in the housing sector, we also finance large commercial real estate projects. Our subsidiary Deutsche Hypo supports us in this with its international presence and substantial expertise.


TRAPPEN HALL
BADKAMER 1

SOUND / ADVICE

NORD/LB operates its nationwide social housing business from the Magdeburg site, with considerable success. The volume of financing has risen steadily over the last few years, making NORD/LB one of the top 10 providers of financing to the sector in Germany. As the interests of many different parties always need to be taken into account in this area, the intensive advice sessions call for tact as much as comprehensive financing expertise.

More information about Corporate Customers can be found on our homepage at www.nordlb.com/corporate-customers/housing/ or directly with the QR code to the left.

Michael Gohr, Customer Adviser for Corporate Customers in the area of Social Housing

A competent partner to the housing sector

NORD/LB's specialist areas include intelligent solutions for housing companies in the structuring of housing portfolios and the optimisation of creditor and collateral positions to ensure the long-term profitability of companies. Long-term collaboration guarantees that the concepts drawn up together are sustainable. The cooperation with Bauverein Halle & Leuna is an example of a case where this has been successful. Michael Gohr, the customer adviser responsible in the area of residential housing for corporate customers at NORD/LB in Magdeburg, explains the details of the project.

"More security in planning and more profitability"

How did the cooperation with Bauverein Halle & Leuna eG come about?

Michael Gohr: Bauverein Halle & Leuna and NORD/LB have been partners for many years. We rescheduled a portfolio together in 2007. According to our analysis of the situation, it was clear that the existing leasing model was proving problematic for the construction company. Progressive lease payments, together with stagnating

Michael Schunke und Guido Schwarzendahl
Managing Directors of Bauverein Halle & Leuna eG

Bauverein Halle & Leuna

The merger of the two cooperatives WG Leuna and Bauverein Halle eG led to the creation of Bauverein Halle & Leuna eG in December 2006. With over 8,800 properties, it is one of Saxony-Anhalt's biggest landlords. Bauverein Halle & Leuna traditionally stands for safe, comfortable and affordable housing. The two cooperatives embarked on an extensive and ambitious restoration and modernisation programme in the 1990s. Changes in general conditions in the real estate sector, such as demographic change, place particular demands on the scope and flexibility of measures.

rents and rising maintenance costs, are making the leasing portfolio unprofitable and having a negative impact on the core business. The construction company's leasing model is proving problematic. Progressive lease payments, together with stagnating rents and rising maintenance costs, are making the leasing portfolio unprofitable and having a negative impact on the core business.

What does NORD/LB's solution involve?

Michael Gohr: It essentially means that the construction company will buy back the real estate portfolio and that a complicated leasehold structure will be eliminated, while the leasing model will be discontinued. The purchase has been financed by social housing loans, making use of lending reserves in the existing portfolio. Current market conditions with low interest rates had a very favourable effect. The end result is that charges will be reduced while rates will stay the same until 2018 and 2021.

What advantages will this have for the construction company?

Michael Gohr: The construction company will have more planning certainty, while its portfolio will be profitable again. As the construction company is the owner of the properties again, it will be free to do as it wants with them and will not be restricted in its decisions, for example, when it comes to modernisation. There will no longer be an outflow of liquidity from the core business to close gaps in the leasing portfolio. And because all this creates more freedom for development in city accommodation, there are also significant advantages for tenants.

What stage is the project currently at?

Michael Gohr: Following the project phase from February 2011 to January 2012, all measures have now been implemented and the loan liabilities are being paid back as scheduled. The current status is therefore that everyone involved is highly satisfied, particularly the customer.

And what do the tenants say?

"We really appreciate having a landlord who is here for us locally."

Erhard Berlet

"As a landlord, a financially sound company gives the city and above all the tenants a high level of security."

Edelgard Schöpke

"It's nice to see the dynamic change happening in our part of the city. Particularly when you can still rely on reasonably priced homes being available."

Sabine Mistygatz

OUR / FLIGHT LEVEL

///// It’s prettiest above the clouds, but for our financing projects we need to keep both feet on the ground. So it’s good to know we have a lot of experience and expertise on our side. My many years working as a project manager certainly help me to negotiate solid financing structures with our customers and thus to ensure our portfolio’s high quality, but only the experience gained by all those involved over more than 25 years secures our place among the top providers of aircraft financing.

Tammo Reimann, Senior Vice President
Aircraft Financing

OUR

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///// Top-level project financing

With a successful market presence for over 25 years and a financing volume of approximately € 8 billion, NORD/LB is one of the world's leading providers of commercial aircraft financing. A conservative approach has been taken in putting together its portfolio, which includes over 750 aircraft, with a focus on the latest generation of marketable aircraft with state-of-the-art technology. Backed up by this expertise, NORD/LB issued the world's first aircraft mortgage covered bond with a volume of € 500 million in 2012. This was so successful that the order book had already reached more than double the target volume after just under two hours.

SETTING / STANDARDS

INVESTING / BETTER

The aircraft Pfandbrief issued by NORD/LB shows how a good idea will take off in the truest sense of the word. Developing the product called for a combination of pioneering spirit, experience and expertise. The result is an enormously successful addition to the existing range of Pfandbrief products.

Market innovation: NORD/LB is the first bank to use aircraft as collateral from its financing business to issue Pfandbriefe.

CLASS: Bearer debenture
RATING: A2 (Moody's)
DATE OF ISSUE: 10 July 2012
MATURITY: 17 July 2017
INTEREST PAID: annually on 17 July
COUPON: 1.625 % p. a.
ISSUE PRICE / EFFECTIVE INTEREST RATE: 99.738 % / 1.68 %
REPAYMENT PRICE: 100 %
MINIMUM DENOMINATION: € 1 000

Stable long-term value

Shipping and aircraft financing are one of the mainstays of NORD/LB's business model. Aircraft in particular have proved to be a lucrative area of business over the last three decades, withstanding the crisis, achieving high growth and maintaining a consistently high value. NORD/LB's aircraft portfolio now has a volume of almost € 8 billion. Following its first successful issue in 2012, NORD/LB plans to place aircraft mortgage covered bonds regularly. Aircraft mortgage covered bonds will thus become an important component in the bank's strategy for diversifying sources of refinancing for its aircraft portfolio.

From the idea to the issue

"Ready for take-off" was the message for the world's first aircraft mortgage covered bond on 12 July 2012. The issue date had been preceded by careful preparation since 2005. That was when the idea first arose of establishing such a product as an additional asset class alongside the usual mortgage, ship and public sector Pfandbriefe. From the beginning, the aim was to expand the range of refinancing instruments available and give NORD/LB another competitive advantage in international financing business. Once the concept had been incorporated into the existing Covered Bond Act (Pfandbriefgesetz), the internal development process began. NORD/LB established a process for ensuring technical implementation and risk monitoring in 2008. When the project was launched in 2010, the project management group set up for this purpose also began work – and in mid-2012 it achieved its goal of successfully placing NORD/LB's innovation on the market.

You can get more information on this subject from our homepage www.nordlb.com/structured-finance/aircraft/ or directly from the QR code opposite.

///// The new aircraft Pfandbrief is an example of our good position on the market as a Pfandbrief bank and our reputation as a stronghold of stability.

Carsten Tegtmeier, Head of Primary Products, Markets, at NORD/LB

The bank as a service provider

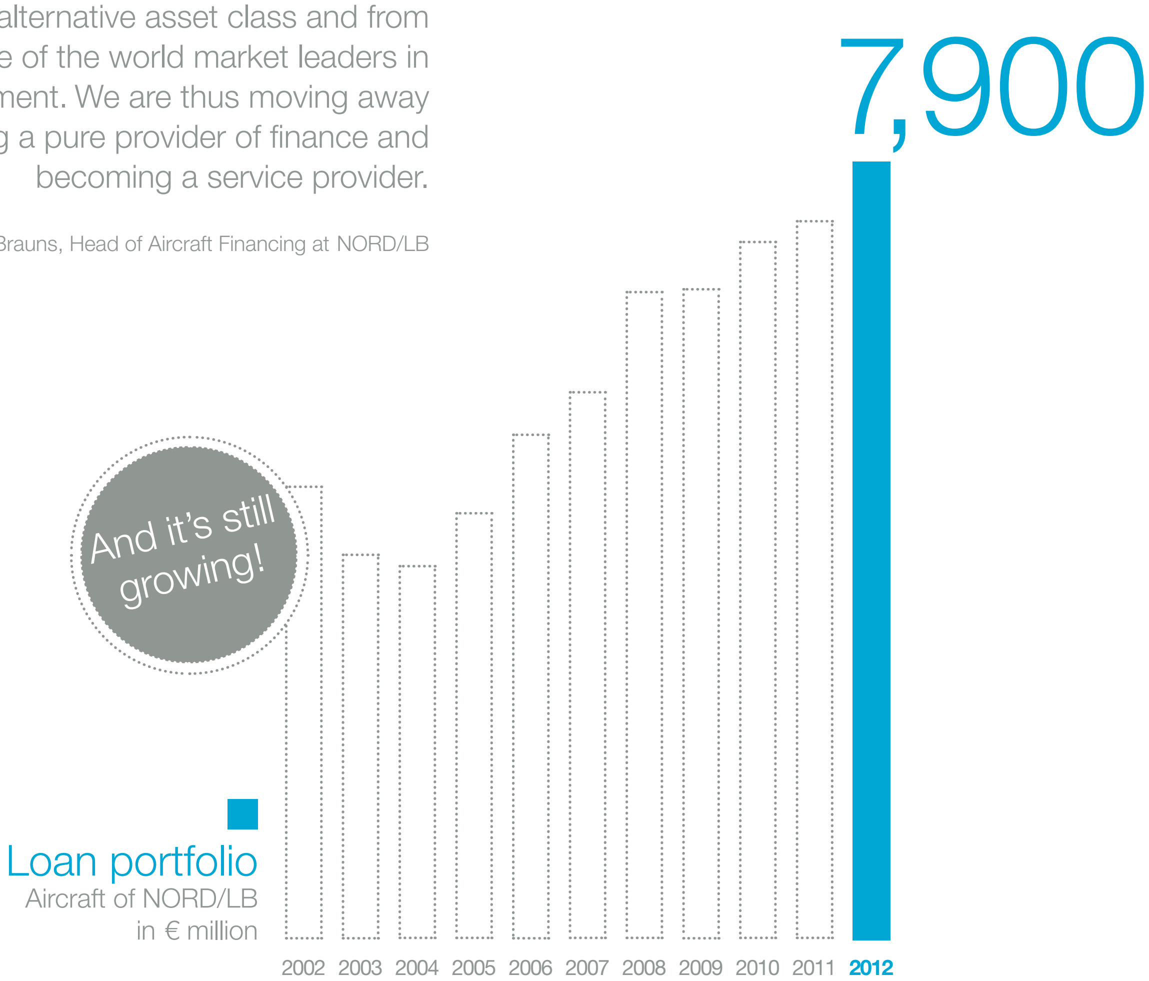
Investors are increasingly able to make use of the expertise of NORD/LB's aircraft financing specialists, which has been built up over decades, in this segment. The business we obtain and manage here is available to institutional investors for investment as part of tailor-made products. This includes the aircraft Pfandbrief and aircraft financing that will be securitised in future, which can be offered to investors as securities. As we are sometimes able to take on more business than our balance sheet can carry, securitisation and placement offers NORD/LB the advantage that the volume of financing and thus the profitability of this area of business can be expanded significantly. The investor benefits from an opportunity to invest in a highly attractive alternative asset class and from the expertise of the world market leaders in this segment. We are thus moving away from being a pure provider of finance and becoming a service provider.

Harald Brauns, Head of Aircraft Financing at NORD/LB

Aviation: a crisis-resistant growth sector

What exactly makes aviation an interesting investment? In general, the sector is characterised by growth which is stronger than GDP and by quick recoveries following cyclical setbacks. At the same time, prospects in global competition are promising, owing to the growing demand for air travel. Around 33 500 aircraft with a market value of approximately USD 4 000 billion are expected to be delivered worldwide within the next 20 years. Demand for financing will continue to rise sharply in connection with this.

Incorporating significant technological advances, aircraft themselves are collateral with a high value compared with other assets. Standard modern types can be used for decades, are highly sought-after on the secondary market and are also in constant demand for resale. NORD/LB entered this attractive market at an early stage and today is enjoying a disproportionately high share of growth in the aviation industry, as one of the largest financing providers in this segment worldwide.



OUR / DRIVE

///// Moving something big, even when things get a bit stormy, is a challenge I'm happy to take on. The projects involving ships therefore particularly appealed to me. And if you gain experience in an area over the years and get a feel for the market, it's fun to prove to your colleagues that good business can still be done with "tubs" even in difficult times.

Jessica Waßmann,
Ship Financing Manager and
Banking Economist

///// Staying on course – even in troubled times

As one of the world's leading providers of financing for ships and with over 45 years of experience in this sector, NORD/LB is well acquainted with its characteristic ups and downs. The market is influenced by global competition and an extraordinarily high level of cyclicality. Projects are particularly capital-intensive. The challenges in the sector require a willingness to constantly adapt and innovate on the financing side. NORD/LB's many years of experience and its motivation to look at new financing methods with customers represent the crucial difference here.

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NEW ENERGY

ON COURSE / FOR THE FUTURE

NORD/LB has a tradition of providing financing for ships that goes back decades. This experience provides the ideal basis for making this area of business fit for the future. NORD/LB is combining its success in the financing of ships with the expansion of its involvement in renewable energies.

The energy transition: ground-breaking projects

NORD/LB's investment in the "VIDAR", a ship involved in the construction of wind farms, fits in very well with its plans to provide more support for renewable energy projects. As well as financing for German solar parks and wind farms in the UK, NORD/LB invested in the "Global Tech I" wind farm in the North Sea together with other European banks in 2011. The total financing volume is around € 1 billion and NORD/LB's investment is € 50 million. The wind farm off the coast of Bremerhaven is to be completed in 2013 and will then deliver 1.4 billion kilowatt hours of environmentally friendly electricity each year.

Global expertise

NORD/LB is a market leader for ship financing. Decades of experience and expertise allow the bank to offer integrated services in this specialist area. With its solution-oriented thinking and actions and its outstanding knowledge of the sector, NORD/LB builds up long-term business relationships. Reliability and foresight are highly valued qualities. Shipping is influenced by tough competition and cyclical changes more than almost any other sector.

Financing for wind farm construction ship

One current example of the financing provided by NORD/LB shows that the bank is already working on the trends and developments of the future. Hopes have been pinned on offshore wind farms for the energy transition, as their potential output is enormous. Constructing them is a technical and logistical challenge. Construction ships that can transport wind turbines and anchor them deep in the seabed are indispensable for this. NORD/LB is now to be involved in the financing of one of these construction ships for the first time. The jack-up vessel "VIDAR" is being built on behalf of the international construction service provider HOCHTIEF. It is to be used for the assembly of offshore wind farms from 2013 onwards. NORD/LB helped to structure the transaction as part of a club deal, taking on the role of the paying agent. It is also providing one third of the volume of external financing.

With a total financing volume of over 18 billion, NORD/LB is underlining its leading position in the ship financing segment.

New paths

NORD/LB is responding to changes in requirements with flexible financing concepts.

Intelligent structuring: NORD/LB takes state export credit insurance on board in ship financing.

Bulk freighters

The three bulk freighters with a transport capacity of 400 000 dwt (dead weight tonnage) are shipping iron ore to China. The total financing volume is around USD 247 million.

PCTCs

This type of ship is built specially for the transportation of vehicles. The two PCTCs financed by NORD/LB each have a cargo capacity of 6 700 passenger cars and are thus among the largest ships of this kind. The total volume of financing is USD 86 million, with a term of eight years.

Watertight deals in Asia

NORD/LB's Singapore branch is financing two projects for STX Pan Ocean, one of Korea's leading shipping companies: the construction of three bulk freighters and two PCTCs (Pure Car and Truck Carriers). NORD/LB has included export insurers in the financing for both transactions. The bank will receive a guarantee for 95 per cent of the amount of the loan plus interest from the Chinese and Korean state export insurers "China Export & Credit Insurance Corp. (Sinosure)", Beijing, and "Korea Trade Insurance Corp. (k-Sure)", Seoul. In this way, the financing is protected by the good credit ratings of the borrower and the states of South Korea and China, and only a little of NORD/LB's equity is tied up.

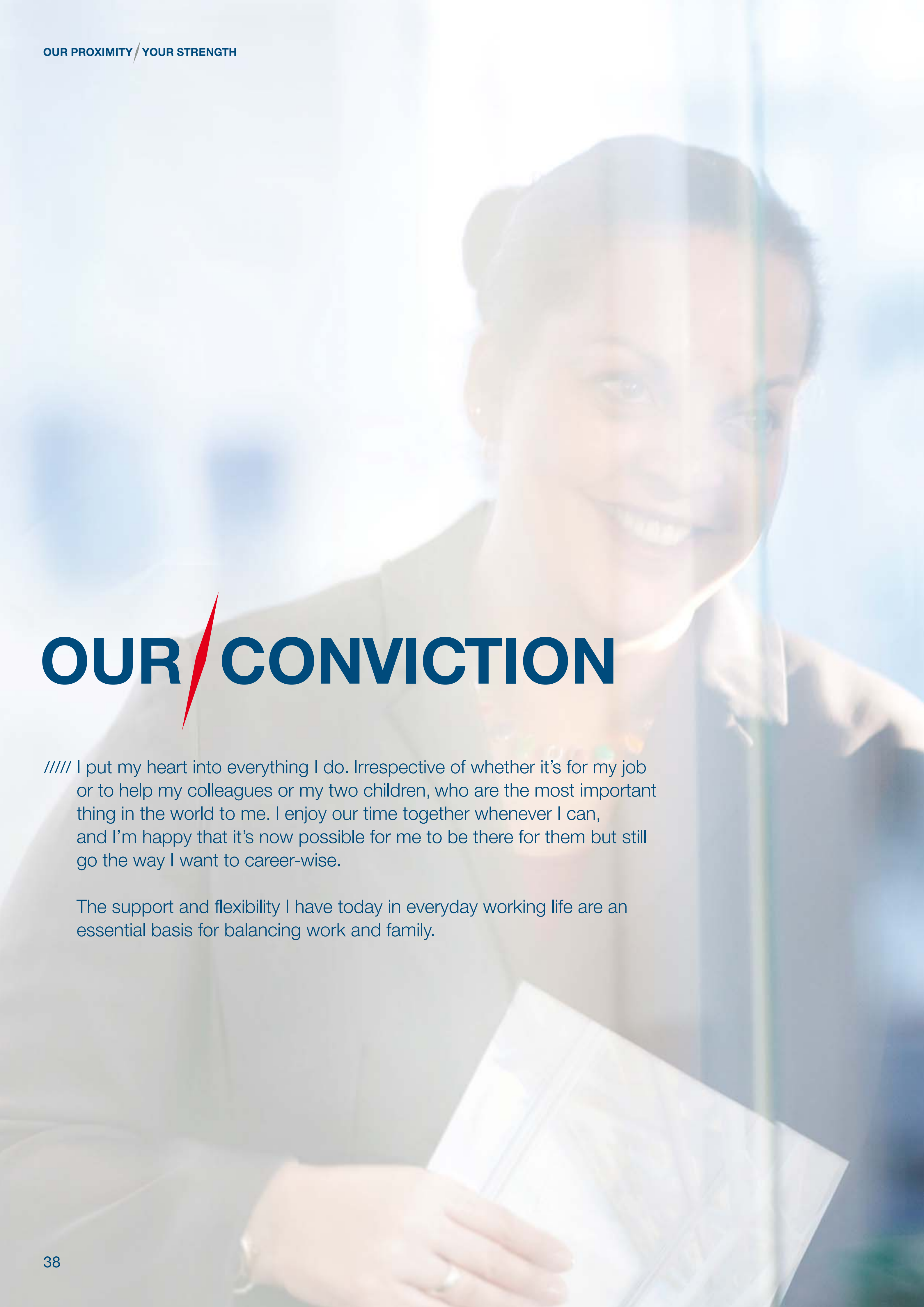
These two transactions are the result of our expertise in international solutions. By selecting and involving the right partners, we can successfully provide financing for our customers even in difficult markets.

Oliver Faak,
Head of Ship Financing at NORD/LB

EXPORT CREDIT AGENCIES (ECAs)

ECAs are private or state-owned credit insurers who work on behalf of the exporting country. The export credit guarantees provided by ECAs constitute insurance policies for export transactions, in which a payment default for economic or political reasons is covered. NORD/LB has many years of experience with the relevant export insurers in the traditional shipbuilding nations and provides support with obtaining, applying for and processing export cover.

You can get more information on corporate from our homepage www.nordlb.com/structured-finance/ships/ or directly from the QR code opposite.



OUR / CONVICTION

///// I put my heart into everything I do. Irrespective of whether it's for my job or to help my colleagues or my two children, who are the most important thing in the world to me. I enjoy our time together whenever I can, and I'm happy that it's now possible for me to be there for them but still go the way I want to career-wise.

The support and flexibility I have today in everyday working life are an essential basis for balancing work and family.

Frédérique Anthierens,
Mother and Head of Business Development
in Ship and Aircraft Financing

OUR / O

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or to help my colleagues
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and I'm happy that it's now
go the way I want to career

The support and flexibility I h
essential basis for balancing

SECURING THE FUTURE

///// Acting sustainably and with foresight: company management with awareness of responsibility

NORD/LB's orientation is also intended to serve future generations. Our actions have therefore always been aimed at making developments in the company sustainable in the long term. For us, sustainability therefore also means operating responsibly in order to ensure that the world is ecologically intact and economically and socially stable. We are committed to this – as a user of resources and energy, a provider of products and services, an employer and a corporate citizen in society. Our employees are our future. We therefore feel that we have a key responsibility to create the conditions that will let them develop their full potential.

SECURING / THE FUTURE MEANS …

… Taking sustainability seriously. Because lasting corporate success can be achieved only in an intact environment and a fair, socially stable society. To shape the future together at the NORD/LB Group, we focus on four main areas: customers, employees, society and the environment.

Culture of cooperation:
NORD/LB fulfils its responsibility to customers, employees, society and the environment.

NORD/LB has integrated sustainability and responsibility into its mission statement as key values. These are made more specific in the sustainability strategy and the associated company programme. We have integrated sustainability into our management processes since 2006. Other companies that belong to the NORD/LB Group have gradually followed this example. Bremer Landesbank decided in mid-2012 on its own principles and began developing a catalogue of measures, while Deutsche Hypothekenbank AG carried out an internal review in 2012. Together with NORD/LB, the two companies mentioned above represent 82 per cent of employees at the NORD/LB Group.

Integrity and fairness

Integral and fair behaviour towards our customers and other market operators forms the basis for our corporate culture. What we expect from our employees here, beyond regulatory requirements, is documented in our ethical principles. These contain clear, binding rules – for example on dealing with conflicts of interest or confidential information, protecting against discrimination and giving and receiving benefits, gifts and invitations. The bank has also put in place a whistle-blower system that enables all employees and our customers to report any criminal activities anonymously to an external ombudsman.

You can get more information on our sustainability activities from our homepage www.nordlb.com/sustainability/governance/ or directly from the QR code opposite.

Care as a business principle

To identify risks to our business and reputation at an early stage, we assess commitments according to ecological, social and ethical criteria. We have drawn up financing guidelines for sectors that harbour a certain amount of risk potential. Based on these, we exclude any direct investments that could serve the manufacture of and trading in pornography and "controversial weapons" such as atomic, biological and chemical weapons, mines, uranium ammunition, cluster bombs and cluster munitions. In principle, we allow transactions in the area of weapons and armaments only with restrictions.

Employees who become aware of risks can report them to Compliance. If, after an initial investigation, it is suspected that they could exceed a certain risk threshold, Compliance calls a meeting of the NORD/LB "RepRisk Committee", which assesses the risks and develops measures to deal with them if necessary. In our direct financing activities in the energy sector, we have focused since the early 1990s on renewable energies and in principle will not invest in nuclear energy projects or projects that harm the environment.

For over 20 years

we have financed renewable energies for different customer groups.

Responsibility to customers and markets

Compliance ensures that all applicable guidelines and standards are implemented appropriately, thereby playing an important part in protecting NORD/LB against risks that could threaten its survival and reducing personal risks to our employees. We expanded our monitoring of capital market transactions in 2011 to include "regulatory compliance". It identifies all regulations of relevance to banks in Germany and abroad and analyses information from law firms, auditors and associations. The affected divisions of the bank are provided with regular updates regarding legislative procedures. We adapted existing provisions – for example, for identifying actions that may be used to manipulate the market or unauthorised short-selling or for dealing with insider information and the monitoring of this – to changes in general conditions. These include the new proposals of the European Commission for financial market guidelines and the prevention of market abuse.

> Integrity is a fundamental value at our bank for responsible business dealings. Compliance is therefore of special importance across all divisions and levels at NORD/LB.
>
> Stefan Vinson, Head of Compliance at the NORD/LB Group

We guarantee our customers and investors that trading transactions of NORD/LB will be concluded under conditions in line with the market. We extended our test of market conformity beyond the legal requirements in 2011, and also apply it to our own issues. This increases security for investors and protects NORD/LB against damage to its reputation from mispriced issues. The monitoring of margins by Compliance also serves to protect long-term business relationships from the negative effects of possible concerns regarding short-term profit.

82 %

of employees at the Group are covered by sustainability activities

Transparency is the key to quality and success – that applies both in dealings with customers and in teamwork within NORD/LB.

Preventing criminal offences

We have extended our decisive approach to dealing with money laundering, the financing of terrorism and fraudulent activities to include a comprehensive analysis of the threat for all types of economic crime, and have defined appropriate preventative measures within the framework of our existing risk management. Our business- and customer-related protection systems are designed to prevent the entry into or continuation of business relationships that serve the purposes of economic crime or that facilitate anonymous transactions. A requirement for a business relationship is that customer data must have been identified in full. If we are ever informed of any suspicious transactions, we will consistently report them. We regularly raise awareness of this concern among employees through web-based learning programmes, face-to-face instruction and newsletters.

Assessment of our performance with regard to sustainability

Independent sustainability rating agencies regularly scrutinise what we do to ensure sustainability in our business. According to the assessments that form a measure of our performance in our capacity as a Landesbank and are carried out by the rating agencies oekom research AG in Munich, Sustainalytics GmbH in Frankfurt and imug in Hanover, we are one of the best providers in this sector, due to our above-average involvement in areas such as the environment and social care. This also makes us a key player for sustainably oriented institutional investors in their portfolio of sustainable investments.

You can get more information on our sustainability performance from our homepage www.nordlb.com/fileadmin/redaktion/branchen/nachhaltigkeit/pdf/Sustainability_rating.pdf or directly from the QR code opposite.

... BEING A RELIABLE PARTNER TO CUSTOMERS

We can create benefits with our services only if they are understood by our customers and if they match the customers' needs. That means that we only do business we understand ourselves with customers who we know. Our promise to our customers is: local and always close by. An integrated approach to all financial matters.

This principle plays a part in ensuring that we are always among the best in independent tests. We provide comprehensive advice before every investment and are constantly improving our services. For example, with the free advice sessions we offer our customers with the "S-Finance Check": around 160 000 customers have now taken advantage of this service at Braunschweigische Landessparkasse alone.

100 € million

NORD/LB provides in funding from NRW Bank for companies based in North Rhine-Westphalia or wishing to invest there.

You can get more information on corporate customers from our homepage www.nordlb.com/corporate-customers/ or directly from the QR code opposite.

Identifying customers' needs

The financial crisis and its diverse effects have redefined the issue of safeguarding the future viability of companies and regional authorities. We are supporting the necessary processes of adaptation as a leading bank for SMEs in Northern Germany, and in most cases a longstanding partner, through individually tailored services, making use of regional development programmes. Through two framework agreements on global loans concluded with NRW Bank in 2012, we can make available a total of € 100 million in funding to companies whose headquarters are in North Rhine-Westphalia or that want to invest there. In addition, our various solutions in receivables management offer companies the option to cover their requirements for liquid funds while reducing the risks associated with outstanding receivables.

The Regional Economy unit at NORD/LB will focus more strongly than before on analysing the economy and the sectors that are important to the area in which it operates. The aim of realignment in 2012 is to develop strategies to strengthen the knowledge base of regions, provide our customers with valuable information about economic opportunities and risks and offer them perfectly tailored financing solutions together with our partners in the association, the savings banks. An example of our themed activities is the "Schaufenster Elektromobilität" (showcase electric mobility) project in the metropolitan area of Hannover–Braunschweig–Göttingen–Wolfsburg, in which the Regional Economy unit actively participates. We have also analysed the new health markets emerging as a result of demographic change, which offer both risks and opportunities for individual economic regions.

6.8 € billion

The NORD/LB Group's total credit portfolio for renewable energies is worth.

You can get more information on agricultural banking from our homepage www.nordlb.com/corporate-customers/agricultural-banking/ or directly from the QR code opposite.

The future belongs to renewable energies – and NORD/LB helps to shape them as one of the leading providers of financing in this area in Germany. Our expertise in important parts of the value-creation chain makes us a preferred contact.

Christoph Trestler,
Head of Structured Finance at NORD/LB

You can get more information on renewable energies from our homepage www.nordlb.com/structured-finance/energy/expertise/ or directly from the QR code opposite.

Renewable energies as core business

Despite all the challenges and difficult markets, the NORD/LB Group was able to maintain its position as one of the leading providers of financing for renewable energies in Germany, Europe and the USA. The total volume of credit we provide in this area is € 6.8 billion. We do not restrict ourselves to the provision of finance for projects, but integrate the entire value-creation chain into our range of services, supporting the mainly small and medium-sized companies in the sector with cooperation agreements and mergers.

Our investments in renewable energies are used to build up a sustainable energy supply, as well as providing support with structural change in rural areas: this opens up an additional source of income for the agricultural businesses that we support as a financing specialist. Although the new regulations in the German Renewable Energy Sources Act led in 2012 to a decline in the number of new biogas plants constructed in agricultural areas to 20, the capacity of existing plants was also significantly expanded. The volume of new business with agricultural companies in renewable energy amounted to approximately € 150 million, including the financing of around 10 wind turbines. This led to the creation of around 100 megawatts of additional production capacity. Financing for photovoltaic plants is also at a high level.

We are also focusing on international project financing, with which we support customers based in our native region in putting their products to use in worldwide projects. This form of project financing is thus an area of business that we have consistently expanded from a regional division into an area of expertise at NORD/LB that is in demand internationally. At the same time, we have prepared for rapid development in a truly future-oriented sector. As a top arranger, the NORD/LB Group currently offers structuring and financing solutions for projects on the entire European market and the North American market through a team of specialists distributed across several sites. The focus is on supporting German customers on their domestic market and abroad. Our in-house "Renewables" sector research team analyses investment opportunities and risks. Our involvement in ongoing project financing for renewable energies currently totals around € 6 billion, about 60 per cent of our project financing business. In the 2012 financial year alone, we signed new financing agreements with a volume of approximately € 2 billion.

Examples of financing provided in 2012

- NORD/LB has structured and financed one of Europe's largest solar parks in Brandenburg, with an output of 90 megawatts. The park was designed and supplied by a German manufacturer of modules.

- NORD/LB has structured and financed another wind power project in the UK for Bremen-based developer Energiekontor. Its special features include an electricity purchasing structure that has been drawn up jointly, which allows electricity to be sold directly to a large industrial end customer and thus opens up a new sales channel for renewable electricity.

- In windy Ireland, NORD/LB structured and arranged a wind project in 2012 in which German wind turbines were used.

- NORD/LB has developed a made-to-measure financing concept for the simultaneous construction and sale of several wind power projects with German turbine technology in France.

- NORD/LB was the mandated lead arranger for a wind project involving 112 turbines (265 MW) in California (USA), in which only turbines from Siemens were used. Even with smaller projects (e.g. 138 MW in Idaho), the focus is on supporting German companies, with funding for the export of 60 Siemens turbines.

310 megawatts

of the biogas plants financed by us have a total output

Wind power makes the biggest contribution in Germany to the generation of electricity from renewable sources. NORD/LB is taking advantage of its potential for further expansion.

You can get more information on residential property from our homepage www.nordlb.com/corporate-customers/housing/ or directly from the QR code opposite.

Benefiting from demographic change

By supporting local authorities and companies in the areas of residential property and social housing, we can combine business success and a community focus. In Halberstadt at the edge of the Harz Mountains, we provided support with the residential property aspects of a complex renovation project in the city centre. With the aim of preserving an extraordinary collection of city centre buildings, 102 vacant apartments were modernised. They now have few barriers, in some cases are even barrier-free, and are wheelchair-accessible. The planning of a cross-generational housing project, which combines quality of life with innovative energy supply concepts, has been made possible through the partnership with church-based welfare groups and energy providers.

> Thinking about the future today is a principle that NORD/LB takes to heart. We take into account trends in society, such as demographic developments, at an early stage in our planning and support associated financing projects. This benefits us and society in equal measure.
>
> Jürgen Machalett, Head of Corporate Customer Business at NORD/LB

Bremer Landesbank has been financing the construction of social housing since the 1980s, with a focus on care homes and old people's homes, forms of sheltered housing and rehabilitation facilities. The financing portfolio of Bremer Landesbank currently has a volume of around € 1.1 billion and comprises approximately 340 properties. Bremer Landesbank is thus one of Germany's leading providers of financing for social housing, as well as a Group-wide centre of excellence in this field.

You can get more information on social housing from our homepage www.bremerlandesbank.de/en/corporate-customers/health-care-facilities/ or directly from the QR code opposite.

Earning money with sustainable investments

Over **75** € million

in assets makes the Global Challenges Index Fund one of the largest public sustainability funds in Germany.

Sustainable investments are an important driver of sustainable development, as they encourage the companies that organise their economic success in a way that has minimal impact on the natural and cultural environment. To create new incentives, we helped the Hanover Stock Exchange to set up the Global Challenges Index (GCX). It was the first stock exchange in Germany to compile a sustainability index that focuses on addressing global ecological and social challenges. These include protecting our climate, supplying drinking water, protecting forests and biodiversity, dealing with demographic change and combating poverty. The NORD/LB AM Global Challenge Index Fund, which was set up five years ago for institutional investors, allows investors with a focus on sustainability, such as church institutions and foundations, to participate in the performance of companies listed on the GCX. Not only the fund's sustainability approach has proved convincing, but also its good performance. With over € 75 million in assets, the fund is one of Germany's biggest public sustainability funds.

… BEING A GOOD EMPLOYER FOR OUR EMPLOYEES

We have a special responsibility towards our employees in economically challenging times. We are improving opportunities to identify, encourage and develop their potential. In doing this, we hope to shape our joint future at a company we enjoy working for.

We ensure responsible management through clear management principles, which were expanded in 2012, and through our performance management system, which rewards achievements. This applies to all areas of the company and all hierarchical levels: in annual appraisals, performance is assessed, development targets are discussed and individual targets are agreed for the new financial year.

You can get more information on careers from our homepage www.nordlb.com/career/ or directly from the QR code opposite.

///// By training and supporting junior staff, we secure the future of NORD/LB. As a responsible employer, we offer them attractive prospects, enabling us to gain talent for our company.

Karsten Hohensee,
Head of HR Partners at NORD/LB

Attracting new junior staff

Our human resources concept, which was revised in 2011, focused more strongly last year on the bank's internal concerns. In order to remain attractive as an employer, we began to design an employer brand. Our efforts to attract new blood are not limited to recruitment fairs and special events. They also include information days in schools, attendance at university fairs and university events, along with opportunities to get to know NORD/LB in work placements. In 2012 we offered 93 students a work placement, while nine pupils received an insight into the various occupations involved at NORD/LB. As a member of the "Fair Company" initiative, we guarantee placement students adequate pay and promise not to use them to fill full-time positions.

"BOBS – Berufsorientierung Braunschweig" ("Career Guidance Braunschweig") is a regional career guidance project launched in Lower Saxony in 2011, which is supported by Braunschweigische Landessparkasse and used to attract new junior staff. It provides capacity for a three-week profile work placement and replaces the work placements previously offered to pupils in Braunschweig. 20 pupils are already looking forward to finding out about a career as a "Banker". A further 20 work placements are also offered in these regions.

As a premium member of Hannover Center of Finance e.V., in 2012 we remained committed to strengthening financial market research in Hanover and preparing junior staff for increasing technical requirements in the financial sector. We acted as a close partner to students, attending the "Master Thesis Meeting".

92

young people started their careers as apprentices or trainees at the NORD/LB Group in 2012

Braunschweigische Landessparkasse once again awarded the “Löwenpreis der Landessparkasse” prize to the best graduate of the Bachelor of Arts degree course in business studies at the Welfenakademie vocational academy. Our cooperation with Leuphana University Lüneburg for long-term scholarship programmes developed well: the programme entered its third year in 2012, while NORD/LB also increased the number of scholarship holders to 16 and for the first time transferred scholarship holders to the trainee programme.

In 2012, we took on 92 per cent of those completing apprenticeship with us and 27 trainees, while 92 young people also began working here: 73 as apprentices in one of the seven professions offered and 19 as trainees.

Identifying and encouraging potential

Our personnel development programme creates a framework that allows employees to fully develop their potential. It encompasses the three areas of managers, experts and project/programme managers. The project/programme manager scheme, which was offered for the first time in 2011, was so successful that further qualification programmes tailored to different divisions were designed and implemented in 2012. Around 4,646 participants attended a total of 999 seminars in 2012. Owing to the realignment of NORD/LB and new requirements, some of which are legal requirements, we now need to implement a large number of further qualification measures. These include training for employees involved in investment advice, to ensure that high quality is maintained in the long term in the expert advice provided. Proof of this must be provided to the Federal Financial Supervisory Authority by May 2013; appropriate measures are being planned. Our structured 12-month mentoring programmes are an important tool in qualification management and a key component in career development for women. A new programme started in 2012 with ten participants.

Personnel development at NORD/LB means identifying and encouraging the strengths of each individual.

We launched the 24-month development programme “Go on” for the development of young junior staff in 2012. This includes seminars that allow them to obtain key qualifications, regular feedback and meetings for participants in Hanover or Braunschweig. To make sure that employees with potential are familiar with the principles of company management with a focus on sustainability, we launched two long-term projects for management trainees, graduates with bachelor’s degrees and scholarship holders as part of sustainability management in early 2012. There, they will learn what sustainability in business means and will be able to develop new ideas for sustainable products and dialogue with stakeholders.

Staying healthy and productive

Health and wellbeing are essential requirements for performance. Our health management was awarded the distinction “Corporate Health Award 2010”. It supplements classic occupational health and safety measures and helps to improve quality of life in the workplace. Our employees can keep fit with 24 different types of sport at around 40 company sports groups. Courses ranging from yoga to back fitness and initiatives such as the “Football Cup”, “Cycle to Work” and the “TUIfly Marathon Hanover” round off the range of sports available. “Time Out”, which was introduced in 2011, gives all employees an opportunity to counteract mental stresses with a short, supervised break. Special health seminars for managers help them to set an example by adopting healthy habits. Training in coping with stress was also offered for the first time in 2012.

Key employee figures for NORD/LB Bank in Germany [1)]

	31 Dec. 2012	31 Dec. 2011	31 Dec. 2010
Employees (number)	4 280	4 258	4 211
Employee structure			
Proportion of female employees:			
Total (in %)	51.7	51.7	51.2
In management positions (in %)	23.3	20.3	19.8
Proportion of part-time employees (in %)	19.7	19.6	18.6
Working standards			
Proportion of employees with full freedom of association (in %)	100	100	100
Staff development			
Proportion of employees with the opportunity for professional development (in %)	100	100	100
Training hours per employee	12.6 [2)]	39.4	25.1
Proportion of trainees (in %)	5.4	5.2	4.4
Expenditure on staff development activities (in € million)	4.4 [2)]	5.7	7.1
Illness and fluctuation			
Illness rate (in %)	5.2	4.8	4.4
Fluctuation rate (in %)	3.8	3.7	2.1

[1)] Comprises 56.8 per cent of the employees of the NORD/LB Group.
[2)] Owing to concentration on core activities as part of the efficiency improvement programme

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company sports groups offering 24 different sports keep our employees fit.

With our company integration management system, which was revised in 2012, we support employees after recurrent or long-term illness and prevent them from becoming unfit for work again. Our company doctors offer blood pressure measurement and influenza vaccinations, among other services. We also give health tips and provide information on company health promotion services on the employee portal and in the employee magazine. Our social counselling service helps employees experiencing professional or personal crises.

Supporting work-life balance

We demonstrated how important it is for us to ensure our employees can combine work and family by successfully completing the “berufundfamilie” (work and family) audit. We are planning to obtain recertification in 2013.
Last year, we expanded the range of different working time models available as well as increasing flexible working hours, the number of jobs that allow staff to work from home and the number of day nursery places. We also pay allowances for childcare places and support employees with the search for child-minders and day care places near where they live. In collaboration with an external provider, we have also set up emergency care for children up to 14 years of age. At our Braunschweig and Hanover sites, we are meeting growing demand for care for schoolchildren during the holidays. We also offer professional help with caring for relatives, in cooperation with an external service provider.

… PAYING ATTENTION TO EFFICIENCY AND PROTECTION OF THE / ENVIRONMENT

The economical use of energy, water and paper conserves natural resources while saving costs at the same time. It is therefore a key lever and goal of our resource management, a core activity of our company's environmental protection programme. NORD/LB is committed to protecting the environment not only within the company itself, but also in its dealings and cooperation with other companies. It has been a member of Climate Alliance Hannover 2020 and of Verein für Umweltschutz und Nachhaltigkeit in Finanzinstituten e.V. (Association for the protection of the environment and sustainability in financial institutions) for many years.

Over 58 %

of our waste is recycled

Conscious thinking is the way to ensure economical use of resources in everyday working life.

Saving resources

Although new legal requirements have led to a change in general business conditions and the need for additional documentation in customer meetings, our paper consumption has been reduced by 3.1 per cent to 245 000 kg. Consumption per employee has been cut to 57.33 kg. At the same time, the proportion of recycled paper used has fallen to below 23 per cent. Our total paper consumption comprises printer and copy paper, paper used for confidential data and letter-headed stationery. For paper made from new fibres, we use only paper from sustainable forests with the seal of the Forest Stewardship Council (FSC). The volume of waste increased by 1.7 per cent to 773 000 kg, a smaller increase than in previous years. Over 58 per cent of our total volume of waste is recycled.

Awareness in procurement

Sustainability begins in the supply chain. To avoid waste, close material cycles and protect human rights, we have integrated ecological and social aspects into our purchasing standards. We insist that our service providers and suppliers comply with our principles and check this regularly through spot checks. We admonish any non-compliance with this. At the beginning of 2013, we will integrate a catalogue of sustainable office products into the purchasing area of our intranet, to give a stronger focus to products that have been manufactured in a fair and environmentally friendly way.

You can get more information on environmental protection from our homepage www.nordlb.com/sustainability/bank-operations/ or directly from the QR code opposite.

Every drop is precious, every kilowatt hour that is saved is a success: energy efficiency is of high importance at NORD/LB.

By deciding to obtain all of our electricity needs from renewable sources from 2012, we cut our carbon footprint by around 75 per cent (9 600 tonnes). With new multifunction devices that replace the old photocopiers, printers, scanners and fax machines, we save electricity and toner. We return all toner cartridges to the suppliers for recycling after use. We serve guests coffee with the fair trade seal. Our catering services use mainly seasonal products from regional companies run in accordance with organic principles and purchase fish products only from sustainable fisheries.

///// Conserving resources affects all of us. NORD/LB not only raises awareness of this issue among staff, but also reduces its energy consumption through technical measures and optimised processes. Since 2012, all of our electricity has come from renewable sources.

Manfred Dlugosch,
Head of Operations Management at NORD/LB

Improving our energy efficiency

The efficient management of energy consumption in the heating and supply of power to our buildings was once again high on the agenda in the 2012 financial year. We see the greatest potential for reducing CO_2 emissions further here. Our company environmental management programme implemented many more improvements in the period under review by making adjustments to technology at our facilities, reducing energy loss and switching to LED technology, including for outdoor advertising. Despite more intensive use of space, our consumption of energy for heating and electricity remained virtually unchanged year-on-year in 2012. As a secondary effect of the further expansion of building automation and building management systems and of monitoring the limit values for electricity, heating energy and water consumption, we were able to reduce our water consumption by 17 per cent compared with the previous year.

We used 17 %

less water in 2012.

Enabling flexibility: smartphones, laptops etc. are turning cafés into mobile offices

Obtaining 100 %

of our electricity from renewable sources saves 9 600 tonnes of CO_2 per year..

Saving electricity through IT

Our electricity consumption and the resulting impact on costs and the environment are key factors in the alignment of our IT activities. We reduced the number of data centres from three to two in the year under review. The latest generation of energy- and resource-efficient hardware technology is also being used both in our data centres and at work stations. We carried out an inventory of all our servers and switched off hardware that was no longer needed. All of the printers and multifunction devices used are set to double-sided printing and, like the monitors, will switch to the energy-saving mode shortly after use. We replaced printers, scanners, fax machines and photocopiers with efficient multifunction devices wherever necessary and possible in 2012. Due to technical problems, we were unable to complete the planned replacement of central network components.

Shaping mobility

The total distance travelled for business trips rose by 1.1 per cent year-on-year to 16 527 000 km in 2012. Air travel increased by 7.4 per cent to 5 539 000 km. Rail travel fell by 6 per cent to 3 347 000 km. Business travel by car remained almost unchanged and continues to account for the highest proportion of all travel, at 46.2 per cent.

We pursue our aim of significantly reducing the company's CO_2 emissions at many different levels – in efficient management of energy consumption, the use of resources and business travel.

Jörg Abramowsky,
Coordinator for Company Environmental Protection at NORD/LB

Environmental balance sheet data for NORD/LB Bank in Germany[1] at a glance

	Absolute 31 Dec. 2012	Absolute 31 Dec. 2011	Absolute 31 Dec. 2010	Per employee 31 Dec. 2012	Per employee 31 Dec. 2011	Per employee 31 Dec. 2010
Volume of waste (in kg)	**773 289**	**760 590**	**741 339**	**180.68**	**178.63**	**176.04**
Paper (in kg)	387 857	390 798	369 652	90.62	91.78	87.78
Remaining waste (in kg)	322 066	295 780	290 899	75.25	69.46	69.08
Hazardous waste (in kg)	12 154	16 741	8 845	2.84	3.93	2.10
Recyclable materials excluding paper (in kg)	51 212	57 271	71 943	11.97	13.45	17.08
Consumption						
Water consumption (in m^3)	51 998	62 795	55 220	12.15	14.75	13.11
Paper consumption [2] (in kg)	208 031	214 013	217 038	48.61	50.26	51.54
Paper consumption [3] (in kg)	245 370	253 099	263 581	57.33	59.44	62.59
Energy consumption (in kWh)	**38 001 097**	**37 681 763**	**40 223 290**	**8 878.76**	**8 849.64**	**9 551.96**
Heating (in kWh)	17 919 017	17 456 600	19 366 867	4 186.69	4 099.72	4 599.11
Electricity (in kWh)	20 082 080	20 225 163	20 856 423	4 692.07	4 749.92	4 952.84
Business travel (in km)	**16 527 533**	**16 343 678**	**15,316,537**	**3 861.57**	**3 838.35**	**3 637.27**
Air (in km)	5 539 898	5 158 524	4 970 801	1 294.37	1 211.49	1 180.43
Rail (in km)	3 347 201	3 562 653	3 565 199	782.06	836.70	846.64
Car (in km)	7 640 434	7 622 501	6 780 537	1 785.15	1 790.16	1 610.20
CO_2 emissions (in t CO_2)	**5 668**	**15 236**	**15 629**	**1.32**	**3.58**	**3.71**
from energy consumption (in t CO_2)	3 266 [4]	12 861	13 390			
from business travel (in t CO_2)	2 402	2 375	2 239			

[1] Comprises 56.8 per cent of the employees of the NORD/LB Group.
[2] Printer and copier paper.
[3] Including letter-headed stationery.
[4] Influenced by the use of green electricity since 2012.

… SUPPORTING DEVELOPMENT / IN SOCIETY

The development of our regional environment is particularly important to us. This is where many of our customers and most of our employees live and where we find a large proportion of our new junior staff. It therefore goes without saying that we want to make a significant contribution to regional infrastructure.

We are committed to this as a partner to the economy and local authorities, as a patron of art, culture and science, as a supporter of social projects, as a donor, sponsor and benefactor and through the voluntary activities carried out by our employees.

You can find out more about our commitment at www.nordlb.com/our-commitment/ or directly from the QR code opposite.

230 € million

in funds from the savings bank lottery of Lower Saxony has been used for cultural and charitable purposes.

As a patron of the arts, culture and science

In our promotion of culture, we focus on the major music festivals in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania, as well as sponsoring music, cabaret and cultural festivals in Braunschweig und Holzminden. Braunschweigische Landessparkasse also supports the state theatre of Braunschweig with its “Theaterfieber” (“Theatre fever”) project, which aims to interest young audiences in theatre. In addition, we support museums and art societies such as the Kestnergesellschaft art gallery, the Lower Saxony State Museum and the Sprengel Museum in Hanover – both directly and through support for exhibition projects. Exhibition programmes on our own premises give up-and-coming artists the opportunity to present their work.

Our science activities focus on the next generation: we award specific scholarships and support scientific work and research projects. Braunschweigische Landessparkasse provides exclusive support for the children’s university at the Braunschweig University of Technology. With its third “Science November”, NORD/LB sponsored a programme of around 150 events at scientific organisations and universities in Hanover together with the savings bank financial group in 2012. Furthermore, NORD/LB and the Landessparkasse have for a quarter of a century been sponsors of the “Jugend forscht” [“Young Researchers”] competition for south-eastern Lower Saxony. The annual donation to the Braunschweig university association primarily benefits student activities at the Braunschweig University of Technology and the “Green School” project of the Institute of Biology Didactics.

As a member of the advisory council for wind energy studies at the centre for wind energy research of the universities of Oldenburg and Hanover and the wind energy agency of Bremen/Bremerhaven, Bremer Landesbank supports the development of wind energy expertise in North-Western Germany. It also campaigns for a forward-looking energy supply as a member of the federal wind energy association.

21 € million

in endowment capital has been made available for a new foundation of NORD/LB for supporting the arts and culture.

We are committed to ensuring a future worth living through a variety of activities in the region.

As a supporter of social projects

We want to allow young people to look forward to a stable future. We therefore support institutions and organisations that aim to offer everyone the same chances of receiving a good education. These include children's day nurseries and schools in socially deprived urban areas, projects run by charitable organisations such as the Workers' Welfare Association and church-based welfare organisations and other initiatives such as lunches for socially underprivileged children, young people and the homeless. In addition, we have provided support for the work of the diagnostics and treatment centre for abused children (KID) in Hanover since 2008 and for the Kindertraum (Children's dream) campaign, which helps children with speech, visual and hearing impairments, since 2011. Braunschweigische Landessparkasse is involved in the Zukunft Wald (Future of forests) foundation and the "Triathlon macht Schule" project. It is also taking part in the "Sei Dein eigener Held" (Be your own hero) project, which aims to encourage young people to get involved in voluntary activities.

Braunschweigische Landessparkasse's Laufsparbuch (running savings book) has become a popular tool: at a large number of running events in the region, participating members of the public can enter credits in their savings book for the kilometres they have run, which the Landessparkasse then converts into donations for those in need. Each year, the Landessparkasse supports the Braunschweig "City cleaning day", rewarding children and pupils who get involved with € 1 each for their respective kindergarten or school. Together with the volunteer agency for Braunschweig-Wolfenbüttel, Braunschweigische Landessparkasse also organises the "Geldspeicher" ("Money bin") project, to teach pupils how to handle money.

We motivate the many employees of the NORD/LB Group who get involved in voluntary activities with the campaign "Sie engagieren sich … wir unterstützen Sie" (You give your time – we will support you). This allows them to apply for funding for the organisations they are involved in. We support outstanding commitment to social causes directly with additional specific funding.

As a benefactor creating benefits for society

The STIFTUNG NORD/LB · ÖFFENTLICHE, a foundation launched jointly by NORD/LB and Öffentliche Versicherung Braunschweig in 1994, is now one of the largest regional foundations in Lower Saxony. Its work is concentrated within the Braunschweig area, where in 2012 it paid out more than € 1 million in support for over 55 individual projects in areas such as art and culture, science, research and transfer and sport.

To provide endowment capital for a new foundation of NORD/LB that is to support art and cultural projects, the Jeff Koons sculpture "Tulips" from the art collection of NORD/LB Norddeutsche Landesbank was sold at auction for € 26.5 million in November 2012. The net proceeds of € 21 million provided capital for the foundation.

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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 issued 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 Norddeutsche Landesbank Girozentrale, and through Landesförderinstitut Mecklenburg-Vorpommern (LFI), a division of Norddeutsche Landesbank Girozentrale.

NORD/LB is the parent company of a group (NORD/LB 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 to the consolidated financial statements.

Control systems

The control of profitability, productivity and the NORD/LB Group's risk profile is 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 Group is primarily focussed 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 CIR 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 RoE 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 period 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 in the NORD/LB Group 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 the NORD/LB Group'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.

Extensive capital measures in 2011 were the first key component of the NORD/LB Group's capital-boosting programme in preparation for the future Basel III minimum capital requirements.

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 year under review 2012 NORD/LB retained its entire profit from 2011, continued the sale of investments and restructured other silent participations in the Group into core tier 1 capital instruments.

For example, silent participations in NORD/LB and structure-congruent bonds of several special purpose entities were converted. As a result of the restructuring 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.

On the other hand, in August 2012 silent participations of the state of Bremen, the Association of the Savings Banks of Lower Saxony and NORD/LB itself in the subsidiary Bremer Landesbank in the total amount € 492 million were converted into issued capital plus premium of Bremer Landesbank. In addition to an optimised capital structure at the level of Bremer Landesbank as a separate institute, this conversion with the consolidation of Bremer Landesbank at NORD/LB Group level resulted in a proportionate increase in core tier 1 capital. The conversion of the silent participations in Bremer Landesbank NORD/LB's share in the issued capital of Bremer Landesbank from 92.5 per cent to 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.

Other capital measures in 2012: restructuring of silent participations, sale of a shareholding and guarantee from the owner states.

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 the two guarantors a fee.

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

In these consolidated financial statements the capital measures implemented in 2012 are reported as follows: The restructuring of silent participations in NORD/LB of € 400 million less the aforementioned repayment of silent participations reported as capital reserves of approx. € 128 million result in a net increase in the NORD/LB Group's issued capital and capital reserves of approx. € 270 million. The conversion of silent participations in Bremer Landesbank in the amount of approx. € 492 million result due to the proportionately low participation of NORD/LB in an increase in non-controlling interests of € 652 million and a reduction in retained earnings of € 160 million. The capital measures also resulted in the end of an obligation of NORD/LB relating to the purchase of equity instruments; this increased retained earnings by € 60 million.

EU process: restructuring plan and commitments made by the NORD/LB Group

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.

In July 2012 the EU Commission approved all of the capital measures for 2011 and 2012.

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 the Group 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.

NORD/LB also made a commitment not to make any dividend payments to its 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 report 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 Group. 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.

NORD/LB can continue to focus on its business model with the commitments made to the EU Commission.

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. In order to achieve this goal, NORD/LB launched an efficiency improvement programme in March 2011 to reduce both material costs and staff expenses. In 2012 provisions for contractual agreements concerning the termination of contracts of employment were made in the amount of € 27 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 European debt crisis 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.

Slowdown of the global economy during the course 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

The crisis in Southern Europe dragged the entire eurozone into recession in 2012.

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 (GDP) 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, at – 0.5 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 European 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. In the final quarter GDP fell again; the fall was even greater than 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. – 1.4 per cent and – 2.4 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 German economy has been comparatively robust, but the rate of growth has slowed continually.

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 to 2012, economic growth slowed continually in Germany during the rest of the year. According to the Federal Statistical Office, in the fourth quarter the German economy shrank compared to the previous quarter for the first time in a year by around – 0.6 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 economic 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 2.2 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 European 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, 4.8 per cent less was invested in plant and equipment than in the previous year. Construction investment also fell slightly overall by – 1.5 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.

The economy in the USA developed much better than the eurozone in 2012 with moderate growth of over two per cent.

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 7.8 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 European 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 took decisive action following speculation surrounding the euro and helped to stabilise the financial markets.

The European Central Bank again showed itself to be an 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 trillion. 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 European 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 European Central Bank 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 of 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 German share index (DAX) rose significantly during the course of the year, although German government bonds remained sought-after as a safe haven.

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 full allocation policy, the three-month Euribor was well below the tender rate, falling below 0.2 per cent for the first time at the end of 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 transport increased in 2012.

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.

Global air freight fell 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.

The airlines' profit situation in 2012 was better than had been expected at the start of the year.

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.

Order activity of aircraft manufacturers remained high, with a record level of deliveries.

Ships

The shipping sector was again in crisis mode in 2012.

The cruise industry and offshore segments faired more positively than the main segments.

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 European 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 remained low to 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 again.

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

Dynamic end to the year recorded in the 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.

2012 was the third best year for transactions in the German commercial real estate market with high growth in the housing market.

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 was a further good letting year for the retail real estate market. The volume of space let was, at 590,000 m², slightly below the previous year's figure (–13 per cent); however, the number of completions rose from 980 to 989. The lack of attractive space in prime 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 UK, 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.

UK, Germany and France were again the "safest havens" in Europe.

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 and non-euro countries such as Sweden and Switzerland are among the "safe havens" in Europe.

REPORT ON THE EARNINGS, ASSETS AND FINANCIAL POSITION

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

Earnings Position

Despite a difficult market environment, NORD/LB achieved earnings before taxes of € 80 million.

The earnings position of the NORD/LB Group was mainly affected by the development of the European economies in the year under review 2012, with the German economy remaining stable. The continuing and worsening crisis in the shipping sector and the fall in interest rates in the money and capital markets are reflected in the results, as are the slight slowdown in financial markets and the associated fall in credit spreads. Reflected in the earnings position of the NORD/LB Group in 2012 are the following significant effects of 2011: Interest income was affected positively by the increase in earnings in commercial lending business. The increase in loan loss provisions reflects the increased need for loan loss provisions in the areas of ship finance, corporate customers and real estate. The profit/loss from financial instruments at fair value including hedge accounting fell due in particular to valuation losses in the fair value option due to the improvement in NORD/LB's own credit spreads. Other operating profit/loss in 2012 is affected by the unscheduled redemption of own promissory notes, registered bonds and the unscheduled depreciation of ships.

The financial year 2012 closed with earnings of € 80 million.

The figures for the income statement are summarised as follows:

	1 Jan.–31 Dec. 2012 (in € million)	1 Jan.–31 Dec. 2011[1] (in € million)	Change[2] (in € million)
Net interest income	1 957	1 762	195
Net commission income	– 598	– 197	– 401
Net commission income	168	166	2
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	– 122	69	– 191
Profit/loss from financial assets	– 5	– 48	43
Profit/loss from investments accounted for using the equity method	– 14	–	– 14
Administrative expenses	1 158	1 091	67
Other operating profit/loss	– 99	69	– 168
Earnings before reorganisation and taxes	**129**	**730**	**– 601**
Reorganisation expenses	– 34	–	– 34
Expenses for public guarantees related to reorganisation	– 19	–	– 19
Earnings before income taxes	**76**	**730**	**– 654**
Income taxes	– 4	194	198
Consolidated profit	**80**	**536**	**– 456**

[1] Some previous year's figures were adjusted as you can see at note (2) adjustment of figures for the previous year.
[2] The preceding sign in the change column indicates the effect on profits or losses .

The individual income items are shown as follows:

Net interest income

(in € million)	2012	2011[1]	Change[2]
Interest income	12 278	12 993	– 715
Interest expense	10 321	11 231	910
Net interest income	**1 957**	**1 762**	**195**

[1] Some previous year's figures were adjusted as you can see at note (2) adjustment of figures for the previous year.
[2] The preceding sign in the change column indicates the effect on profits or losses.

Net interest income rose compared to the same period of the previous year by € 195 million. In the period under review the net interest income in customer business for the financing of ships and aircraft increased due to a positive development in interest rates and margins. However, given the adequate liquidity resources, the result of the interest rate change risk control initiative is below expectations due to the lack of good investment opportunities with manageable risk. Compared to the previous year, expenditure on securitised liabilities fell by € 293 million due to a reduced portfolio and a lower volume of new issues. As a result of the restructuring of capital instruments, expenditure on subordinated capital fell by € 86 million. Net interest income is also affected by a fall in income from securities transactions as a result of the reduction in risk-weighted assets (RWA).

Net interest income increased due to a positive development in interest rates and margins.

Expenses related to **loan loss provisions** increased by € 401 million compared to the same period of the previous year. This is primarily due to the net allocation to specific valuation allowances in the amount of € 639 million, compared to a much lower allocation of € 287 million in the same period of the previous year. Net allocations in the period under review primarily concern the areas of ship finance, corporate customers and real estate. An increase in the net reversal of general loan loss provisions of € 42 million had the opposite effect.

Loan loss provisions greatly affected by specific valuation allowances in the areas of ship finance, corporate customers and real estate.

Net commission Income

(in € million)	2012	2011	Change[1]
Commission income	277	302	– 25
Commission expense	109	136	27
Net commission income	**168**	**166**	**2**

[1] The preceding sign in the change column indicates the effect on profits or losses.

Net commission income is at € 168 million slightly above the level of the same period of the previous year. On the whole, commission income and expenses fell slightly.

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

(in € million)	2012	2011	Change[1]
Profit / loss from debt securities and other fixed-interest securities	123	59	64
Profit / loss from shares and other variable-yield securities	2	– 19	21
Profit / loss from derivatives	304	143	161
Profit / loss from receivables held for trading	78	100	– 22
Profit / loss from foreign exchange and other results	10	4	6
Profit / loss from fair value option	– 640	– 348	– 292
Profit / loss from hedge accounting	1	130	– 129
Profit / loss from financial instruments at fair value through profit or loss including hedge accounting	**–122**	**69**	**– 191**

[1] The preceding sign in the change column indicates the effect on profits or losses.

Profit / loss from financial instruments at fair value through profit or loss including hedge accounting affected by valuation losses from the fair value option.

The **profit / loss from financial instruments at fair value through profit or loss including hedge accounting** is at € –122 million well below the previous year's level. As a result of the reduction of credit spreads, gains were achieved from fixed-interest securities and promissory notes. The valuation gains for credit derivatives due to the reduction of the relevant credit spreads and share derivatives as a result of positive market developments had a positive effect. Interest derivatives also had a positive effect. The profit / loss is also affected by the increase in valuation losses relating to currency derivatives as a result of the convergence of the EUR/USD base spreads. The development of NORD/LB's own credit spreads also resulted in valuation effects of structured liabilities that are recognised as an expense in the fair value option. The development of profit / loss from hedge accounting is primarily attributable to the improvement in the method in portfolio hedge accounting for selecting suitable hedging transactions.

The **profit / loss from financial assets** is € –5 million and is therefore € 43 million above the previous year's figure. While the previous year's profit / loss was affected significantly by impairments to Greek government bonds, in the year under review Italian government securities have been written down. In the year under review profit / loss has also been affected in particular by the change in the value of a financial obligation arising from an agreement with a minority shareholder to buy own equity instruments. Profits realised from the sale of debt securities on the other hand had a positive effect on the profit / loss.

At € –14 million, the **profit / loss from investments accounted for using the equity method** was € 14 million below the figure recorded in the same period of the previous year. The fall is mainly the result of the write-down of an affiliated company made in the year under review.

Administrative expenses

(in € million)	2012	2011	Change[1]
Wages and salaries	492	454	– 38
Social contributions and expenditure on pension schemes	111	106	– 5
Staff expenses	**603**	**560**	**– 43**
Other administrative expenses	466	444	– 22
Depreciation and impairments	89	87	– 2
Administrative expenses	**1 158**	**1 091**	**– 67**

[1] The preceding sign in the change column indicates the effect on profits or losses.

Administrative expenses are, at € 1,158 million, € 67 million above the previous year's level. The increase in staff expenses, which is primarily due to negotiated wage increases, was not fully compensated for by the fall in other administrative expenses, which is attributable to a fall in office and building expenses as well as a fall in expenses for external services. The expenditure related to the sale of the "Tulips" sculpture in NORD/LB's Culture Foundation is included as a one-time effect in the amount of € 21 million.

Administrative expenses slightly above the previous year's level.

The fall in **other operating profit/loss** of € 168 million to € – 99 million is primarily attributable to losses from the redemption of own promissory notes, registered bonds and the sale of collateralised loan obligations. Payments related to the bank levy resulted in an expense of € 39 million (€ 37 million). Also included is unscheduled depreciation on the value of ships in the amount of € 44 million. This was partly compensated for by the proceeds from the sale of the "Tulips" sculpture in the amount of € 21 million.

The **reorganisation expenses** of € – 34 million are attributable in the amount of € 27 million to allocations made to restructuring provisions as part of the efficiency improvement programme for contracted agreements already concluded as at the balance sheet date concerning the termination of contracts of employment. Expenditure on other restructuring measures accounted for a further € 5 million.

Expenses for public guarantees in conjunction with restructuring relate entirely to guarantee measures of the federal states of Lower Saxony and Saxony-Anhalt as part of the capital-boosting programme.

Income taxes

(in € million)	2012	2011[1)]	Change[1)]
Current taxes on income and earnings	103	76	27
Deferred taxes	– 107	118	– 225
Income taxes	**– 4**	**194**	**– 198**

[1)] The preceding sign in the change column indicates the effect on profits or losses.

The positive profit/loss from **income taxes** is primarily due to the estimate for tax losses carried forward and to taxes for previous years.

Assets and Financial Position

	31 Dec. 2012 (in € million)	31 Dec. 2011[1] (in € million)	Change (in € million)
Loans and advances to banks	34 378	34 654	– 276
Loans and advances to customers	114 577	114 652	– 75
Loan loss provisions	– 1 949	– 1 767	– 182
Financial assets at fair value through profit or loss	17 920	18 644	– 724
Positive fair values from hedge accounting derivatives	4 924	3 289	1 635
Financial assets	52 423	54 510	– 2 087
Investments accounted for using the equity method	318	387	– 69
Other assets	2 959	3 264	– 305
Total assets	**225 550**	**227 633**	**– 2 083**
Liabilities to banks	65 079	59 260	5 819
Liabilities to customers	55 951	60 645	– 4 694
Securitised liabilities	60 619	66 076	– 5 457
Financial liabilities at fair value through profit or loss	20 724	20 529	195
Negative fair values from hedge accounting derivatives	4 908	3 422	1 486
Provisions	4 137	3 414	723
Other liabilities	1 599	1 655	– 56
Subordinated capital	4 833	6 086	– 1 253
Reported equity including minority interests	7 700	6 546	1 154
Total liabilities and equity	**225 550**	**227 633**	**– 2 083**

[1] Some previous year's figures were adjusted as you can see at note (2) adjustment of figures for the previous year.

Total assets have reduced by € 2 billion.

Total assets fell slightly compared to 31 December 2011 by € 2.1 billion to € 225.6 billion. On the assets side this fall is primarily recorded in financial assets and financial assets at fair value through profit or loss. This was partly compensated for by the increase in the positive fair values of hedge accounting derivatives. On the liabilities side, the reduction in securitised liabilities, liabilities to customers and subordinated capital was partly compensated for by the increase in reported equity including non-controlling interests. In addition to this, liabilities to banks, the negative fair values of hedge accounting derivatives and provisions increased.

Loans and advances to customers are still the largest balance sheet item at 51 per cent (51 per cent), followed by financial assets at 23 per cent (24 per cent).

Loan loss provisions increased compared to the previous year by € 182 million to € 1,949 million. The increase is mainly attributable to the increase in specific valuation allowances in the areas of ship finance, corporate customers and real estate. General loan loss provisions and lumpsum specific loan loss provisions on the other hand were reduced.

Financial assets at fair value through profit or loss comprise trading assets and financial assets designated at fair value and are € 724 million below the previous year's level. The increase in the fair values from derivatives is seen alongside a fall in receivables from the trading portfolio and financial assets designated at fair value.

The increase in **positive fair values from hedge accounting derivatives** is attributable to an increase in transactions designated as hedge accounting. This also applies to the **negative fair values from hedge accounting derivatives** on the liabilities side.

Financial assets have reduced as a result of the reduction in the portfolio of Available for Sale financial assets (AfS financial assets) compared to the previous year by € 2,087 million.

The reduction in liabilities from money market transactions to domestic customers on the other hand has contributed significantly to the fall in **liabilities to customers**, whereas **liabilities to banks** rose due to the increase in liabilities from money market transactions to domestic banks. The fall in **securitised liabilities** is primarily attributable to the expiry of municipal bonds and a low volume of new issues.

The increase in **provisions** compared to the previous year is due to the negative development in interest rate used to calculate pensions and similar obligations. Provisions for insurance contracts have increased compared to the previous year due to an increase in the actuarial reserve for a pension product. Restructuring provisions were made for the first time in 2012 in the amount of € 27 million for contract agreements covered by the efficiency improvement programme.

Provisions greatly affected by the fall in the interest rate used to calculate pension provisions.

Liabilities at fair value through profit or loss comprise trading liabilities and financial liabilities designated at fair value. Compared to the previous year they have risen by € 195 million. This is largely due to the change in financial liabilities designated at fair value.

The fall in **subordinated capital** is attributable to measures relating to the capital-boosting programme and results in an increase in **reported equity including non-controlling interests.** In addition, the reported equity is positively influenced by an increase in the revaluation reserve due to an increase in the fair value of AfS financial instruments.

DEVELOPMENT OF THE BUSINESS SEGMENTS

Organisational Changes

The NORD/LB Group revised its business model in 2012 against the background of changes in general and market conditions and to sharpen its focus on customer potential. This resulted in changes in the structure and in the number of business segments. The individual divisions of the Savings Bank Network and Financial Markets segments were integrated into the new "Corporate Customers & Markets" and "Group Controlling/Others" segments.

NORD/LB COVERED FINANCE BANK (NORD/LB CFB) was largely integrated in 2012 as a legally independent subsidiary into the organisational structure and completely under the control of NORD/LB Luxembourg. The structural changes resulting from this are included in the notes below on business segments.

Private and Commercial Customers

NORD/LB

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 a major 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 "Geburtstagskreditkampagne" (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 Öffentliche Versicherung Braunschweig (ÖVBS).

Increase in new business volume for real estate finance.

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 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.

Customers targeted with multi-stage mailshots in asset management.

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 wealth 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.

Fuchs-Briefe: 3rd place for service to 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.

The product range in Braunschweigische Landessparkasse's corporate customer business was extended by the BusinessKapital 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.

Increase in deposit business of Braunschweigische Landessparkasse's Corporate Customers division due to innovative products.

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.

Bremer Landesbank

The global financial market crisis continues to have a noticeable effect on Bremer Landesbank's private customer business. The discussion concerning the debt situation in eurozone countries, together with the anomaly of interest rate changes, resulted in a sustained high level of uncertainty among private investors. As a result customers have a greater need for information, which Bremer Landesbank actively meets with its professional customer management. This continual customer care results in on the whole stable customer relations, which was confirmed to the bank with the test buy consultations it initiated.

Increase in deposit business of Braunschweigische Landessparkasse's Corporate Customers division due to innovative products.

The business strategy of Bremer Landesbank aims to position the bank as a premium provider for all private customer groups. Here the bank also focuses on the customer group of freelancers. The aim is to consolidate and extend its market shares in the Private Banking segment. The awards received in 2012 underline the top quality of Private Banking, particularly in the bank's core competence of providing comprehensive advice. Bremer Landesbank has once again been awarded the sought-after "Summa Cum Laude" by the Elite-Report from Munich and Handelsblatt; it is one of the top five asset managers in the German-speaking area. It was awarded fourth place in Germany by Fuchs-Briefe. In the Fuchs-Brief Report's "all-time" best list Bremer Landesbank achieved ninth place. Bremer Landesbank's Private Banking has therefore again proven its capability at a time of financial market crisis.

The systematic implementation of a comprehensive advisory approach is a key element for these positive results. This is ensured in Private Banking by a strictly defined advisory process that is the subject of continual quality assurance and methodically supported by an asset concept that takes into account financial planning. In addition to their private life situation, the business situation of entrepreneurs is also taken into account as part of the comprehensive advice. Here the Private and Commercial Customers segment cooperates closely with the bank's other market divisions. As a result, the bank's business banking, i.e. its advisory approach for entrepreneurs, has expanded and Bremer Landesbank's existing customer relations have been strengthened.

With its Asset and Portfolio Management unit, Bremer Landesbank has a competence centre for professional asset management. The results of the SIP® investment process developed here are having an impact in particular on asset management, the SIP® fund family and on the advisory process. The risk averse investment strategy from the resultant SIP® investment process has been particularly impressive this year and resulted in a significant increase in volumes in the target segments.

The extensive statutory consumer protection requirements increased in 2012 with for example the introduction of the German Investor Protection and Function Improvement Act (Anlegerschutz- und Funktionsverbesserungsgesetz; AnSFuG). Considerable efforts and the employment of significant resources at the expense of sales ensured that the legal requirements were met on time.

NORD/LB Luxembourg

2012 was characterised by significant risk aversion in NORD/LB Luxembourg's Private Banking.

The Private Banking Division at NORD/LB Luxembourg (including NORD/LB CFB) offers customers interested in international investments a comprehensive service. In addition to its advisory advice, which is traditionally geared to the needs of customers (in respect of investment style, risk preference and time frame), various asset management concepts can be used. Customer relations are always based on close, partnership-like cooperation and focusing on the differing needs of customers.

Within the scope of asset management, which can look back on 10 years of success, investors choose between the individual asset management concepts tailored for different customer preferences. NORD/LB Luxembourg also operates as an approved insurance broker in Luxembourg. In this context Private Banking arranges insurance contracts, with the investment and risk mentality of the customers being taking into account with the cover assets. The services provided by the bank also include the design, issuing and management of public funds for the bank's own Private Banking customers, the customers of other Private Banking units in the Group and for external interested parties. The first public fund successfully issued in 2009, in which the bank acted at the same time as the initiator and fund manager, was followed in January 2012 by a further fund. The fund is sold by all of the Private Banking units in the Group.

On the customer side, the year under review was characterised by a much higher level of risk aversion compared to the previous year. The uncertainty concerning economic development in the eurozone and the USA and the ongoing discussion about the development of pensions markets, and in particular the market for government bonds, have resulted in cautious investment behaviour among customers. The search for secure and profitable investments resulted in customer security deposits in a further reduction in risk appetite in favour of near money market investments.

A distance reluctance of customers to buy is currently noticeable in the area of certificates and pensions. In pension business the very low level of interest rates is playing a major role here.

Öffentliche Versicherung Braunschweig

Premium income of Öffentliche Versicherung Braunschweig higher than in the previous year.

Öffentliche Sachversicherung Braunschweig's premium income in the year under review was higher than in the previous year.

Due to the change in car insurance at the end of the year, Öffentliche Sachversicherung Braunschweig was again able to achieve growth in motor insurance. In order to consolidate the success achieved in the previous year, the no-claims scale which had become established in the market was introduced. Premium income rose by well above the market average in 2012. The respected map-Report again awarded Öffentliche Versicherung Braunschweig's motor insurance the top rating of "mmm".

The amount of damage being caused by natural disasters has been increasing for years. In order to protect against this, Öffentliche Versicherung Braunschweig provides its customers in the region with the opportunity to add insurance against damage caused by natural forces to their existing building or household contents insurance. In this way the owners and/or tenants are also insured against damage caused by floods, heavy rainfall, landslides or avalanches. Around 2,500 new customers opted for this important insurance protection in 2012 and as a result over 20,000 customers have now taken precautions against the consequences of damage caused by natural forces.

Stiftung Warentest: Private third-party insurance rated "very good" (1.0).

In the summer of 2012 Stiftung Warentest tested over 250 private third-party insurance policies offered by 72 third-party insurers. Their rating considered the criteria of value for money and the scope of the insurance cover. Öffentliche Versicherung Braunschweig's private third-party insurance was rated "very good" (1.0). The results of the test were published in the September edition of the journal Finanztest.

Öffentliche Sachversicherung Braunschweig has redesigned its accident insurance in order to meet the increasing and ever more individual needs of its customers. These needs are met by a new two-product strategy (Security & Special). In the Special package, for example, the so-called dismemberment schedule was improved; furthermore, accidents as a result of heart attacks, strokes, allergic reactions to insect bites and psychological reactions and costs of caring for surviving dependents in the event of death are insured. Öffentliche Versicherung Braunschweig has revised its calculations so that in future men and women are no longer treated differently.

Since July 2012 Öffentliche Sachversicherung Braunschweig has offered a new tariff for householder's insurance. The scope of the insurance was extended greatly to take into account developments in the market. Owners of buildings that are less than ten years old benefit not only from extended insurance cover, but also from reduced insurance tariffs.

In 2012 around 86,000 damage events reported by customers were assessed and processed. Around 55 per cent of all damage events involved vehicle damage, around 34 per cent of all damage reported involved buildings and household contents insurance and approx. 10 per cent of all damage reported involved third-party insurance.

Öffentliche Sachversicherung Braunschweig's premium income in the year under review was much higher than in 2011 due to one-time premium income.

Following a ruling by the European Court of Justice, since 21 December 2012 insurance based on gender-based calculations may no longer be offered. As a result of this ruling, unisex tariffs were introduced with the tariffs for 2013. In order to make it more attractive for customers to take out a policy before then, Öffentliche Lebensversicherung introduced interesting options in pension insurance. The agreement of the "Unisex Tariff Conversion Option" allows the target group of women who will be better off with the unisex tariffs from 2013 to switch to lower tariff from the beginning. An increase option for the target group of men allows them to keep the original gender-specific calculation base with increased current premiums.

The Top Interest Vault issued in the autumn of 2012 is a single-premium deferred annuity. In an acquisition period of just two months, our customers invested around € 50 million in this new product, € 10 million of which will be effective in 2013. In 2012 Öffentliche Lebensversicherung's income from single premiums totalled € 100 million. In the previous year this figure was around € 70 million.

The age limit for the statutory pension insurance is being gradually increased to 67. In order to provide our customers with even greater flexibility regarding the payout of products with a flexible collection period, since the summer of 2012 customers have been able to flexibly arrange for the start of the collection period to be between the age of 62 and 67 when taking out the policy.

The earnings of Öffentliche Lebensversicherung have been negatively affected in particular by the increase in premium refunds and an increase in allocations to provisions for premium refunds and provisions for insurance coverage.

Fall in earnings in the Private and Commercial Customers segment due to a fall in net interest income and net commission income.

Earnings development in the private and commercial customers segment

The contribution of the Private and Commercial Customers segment to earnings before taxes has fallen by € 52 million to € 17 million. This was largely due to a fall in net interest income, a fall in net commission income and a fall in other operating profit / loss.

The fall in net interest income from € 276 million to € 256 million 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 by € 7 million to € 25 million. This was largely due to turbulence in the capital markets, which put off in particular many small investors from investing in securities.

A positive development was recorded in the profit / loss from financial assets, which was largely influenced by the special fund. Earnings improved from € –3 million in the previous year to € 10 million. Loan loss provisions in private customer business have been reduced significantly. The loan loss provisions requirement was reduced by € 8 million to € 1 million.

Administrative expenses rose due to an increase in staff expenses in Öffentliche Versicherung Braunschweig and NORD/LB. Additional costs were also incurred as a result of internal cost reallocations at Bremer Landesbank and NORD/LB, with the result that administrative expenses rose by a total of € 7 million to € 294 million.

Other operating profit / loss includes major elements of Öffentliche Versicherung Braunschweig's insurance business. This has reduced significantly in the year under review from € 49 million to € 9 million primarily due to higher damage expenses in the area of property insurance and higher allocations to provisions for insurance coverage, provisions for premium refunds and allocations to deferred provisions for premium refunds.

With an increase in the calculated capital requirements and significant fall in earnings, the segment's RoRaC fell to 4 per cent. The CIR rose due to the overall fall in income and higher administrative expenses to 97 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

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). Furthermore 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.

Corporate Customers segment on course for further growth.

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 also 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 promissory notes very successfully in the capital market for its customers in 2012. Promissory notes 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 businesses 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 loan 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.

Bremer Landesbank

Corporate Customers segment on course for further growth – in the North West region as well.

The Corporate Customers segment of Bremer Landesbank focuses on business with companies in the North West region and is a reliable and innovative financial services partner to its customers. Bremer Landesbank sees itself as a leading bank in the corporate customers sector in the region and intends to increase its presence in the market.

In 2012 its sales activities remained at a high level and its lending volume was extended. Economic conditions were friendly in the first half of the year, although development in the second half was affected by the expected slowdown in the economy. Lending business was the driver of positive developments, significant volume increases were achieved using public lending programmes and working capital loans. However, a valuation allowance for an exposure in the solar industry resulted in an increase in loan loss provisions in 2012.

NORD/LB Luxembourg

The falling trend in lending business in NORD/LB Luxembourg was reversed in 2012.

The cooperation lending business is at the heart of NORD/LB Luxembourg's lending business. Its most important cooperation partners are the Corporate Customers and Energy and Infrastructure Customers divisions of NORD/LB and Deutsche Hypothekenbank. The falling trend seen in recent years in cooperation lending business was reversed in 2012. The lending volume was extended slightly and new business development continues to be positive. Clear allocation criteria newly agreed with NORD/LB's cooperation partners in 2012 helped business development.

NORD/LB CFB's business activities focus on lending business with municipal companies in Germany. NORD/LB Luxembourg is the competence centre for this business and actively helps to shape customer relations and the respective transactions. The business is managed in close cooperation with the respective corporate customer adviser in the NORD/LB Group. The aim is to use the loan receivables created in this way to issue Pfandbriefe (covered bonds) under Luxembourg law (lettres de gage), issued by NORD/LB CFB. This reduces the cost of refinancing these loans and allows competitive conditions for customers in this segment. In 2012 earnings were affected by the increased quality requirements of rating agencies concerning the cover pool. NORD/LB CFB's Pfandbriefe have been given an AAA rating by Fitch Ratings and an AA+ rating (stable outlook) by Standard & Poors.

The savings bank network business is a traditional niche business for NORD/LB Luxembourg and comprises the issue of foreign currency loans to savings bank customers. The loan transactions arranged and guaranteed by the savings bank include short-term loans with a minimum value of € 100,000 (or countervalue) and long-term loans with a minimum value of € 250,000 (or countervalue). The loans are issued with interest terms of between one month and ten years. Direct contact with customers remains with the savings bank. In 2012 business was affected by the negative market environment due to low interest rates which made products less attractive.

Markets sub-segment

NORD/LB

The Markets sub-segment is responsible for providing the other business segments with advice and sales for 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 bond 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 worldwide and in so doing successfully paved the way for a new Pfandbrief 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.

Successful first issue worldwide of an aircraft mortgage covered bond.

On 17 July 2012 NORD/LB successfully placed its second benchmark bond of 2012 on the market following its aircraft Pfandbrief with a 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 Pfandbriefe 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"/"AAA" rating by Moody's and Fitch.

First issue of a US dollar public sector covered bond.

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 € 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.

Bremer Landesbank

Positive development for sales and trading activities despite difficult market environment.

The Financial Markets division of Bremer Landesbank provides access to national and international financial markets for private and institutional customers. The operational capital market business was conducted in a market environment that was again largely characterised in 2012 by the European debt crisis and the international and inter-institutional efforts to limit the consequences in the financial and real markets. The results of the trading and sales activities of the Markets units were pleasing despite the difficult market environment. Trading focused on providing the aforementioned customer groups and money and capital market products.

The sales units saw continuous demand for advice and support in all money, currency and derivative products in 2012 with a slight fall in sales due to the state of the economy.

The savings bank network business of Bremer Landesbank saw the successful continuation of its comprehensive support for associated savings banks in 2012. Earnings have again been maintained in a difficult economic environment with distinctly competitive structures.

In the syndicated business with corporate customers of associated savings banks, the focus of sales in 2012 was again on interest rate and currency management as well as documentary foreign business, in addition to classical financing business. Bremer Landesbank also allowed the associated savings banks to share in its successful special and project financing business with syndications.

Business activities in the Savings Bank Network also focused on refinancing in the public-sector. In addition to their own financing of local authorities, sales activities also comprised providing support to associated savings banks in their financing of the public sector.

NORD/LB asset management

Increase in managed assets.

Asset Management is conducted in the NORD/LB Group by NORD/LB Asset Management Holding GmbH (NORD/LB AM), which draws on the operational companies NORD/LB Kapitalanlagegesellschaft AG (NORD/LB KAG) and NORD/LB Capital Management GmbH (NORD/LB CM).

The companies are focused on the requirements of medium-sized and large institutional investors. The customer groups in Asset Management include in particular insurance companies, banks (in particular savings banks), pension funds, churches, foundations and statutory social security institutions.

In the year under review the Asset Management division performed positively. Commission income increased again compared to the previous year. This is attributable to the pleasing and dynamic performance of managed assets. Assets under administration (95 special assets) increased by approx. € 1.8 billion to € 13.4 billion and assets under management (115 portfolio mandates) were increased by € 0.6 billion to € 8.9 billion.

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.

Earnings development in the corporate customers & markets segment

The Corporate Customers & Markets segment's contribution to earnings before taxes improved compared to 2011 by € 76 million to € 376 million. This is primarily attributable to the recovery of financial markets, which allowed the markets divisions in the Group to increase their net interest income and trading profit/loss by a total of € 141 million in 2012 compared to the previous year. The Corporate Customers division also contributed to the segment's positive result with an increase in net interest income (€ +18 million), with the Corporate Customers division of NORD/LB contributing (€ +16 million). The net commission income of the segment was maintained at the previous year's level (€ 79 million), whereby the lower net commission income in the Markets division in 2012 was compensated for by the net commission income in the Corporate Customers division.

Significant improvement in Corporate Customers & Markets' contribution to earnings before taxes.

This is countered by an increase in loan loss provisions (€ +60 million); this is primarily due to an increase in loan loss provisions in the Corporate Customers division of Bremer Landesbank (€ +27 million) and NORD/LB (€ +33 million). Earnings are also affected by an increase in administrative expenses (€ +26 million), staff expenses and cost of materials. The reasons for this were the investments in this segment and the securitisation and structuring activities.

Other operating profit/loss rose in 2012 by € 4 million to € 7 million.

Overall, the segment's CIR was reduced by 5 percentage points compared to the previous year to 32 per cent due to the very good income situation. The RoRaC was reduced due to the increased equity requirements from 31 per cent to 28 per cent.

Energy and Infrastructure Customers

NORD/LB

In the Energy and Infrastructure Customers segment of NORD/LB 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.

Many years of expertise in renewable energies.

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 European debt 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 loan portfolio of 20 different British infrastructure projects was placed with an institutional investor (see "Blue Rock"), which shows the great interest that capital market investors have in the asset class of infrastructure.

Bremer Landesbank

Competence centre for financing middle-market leasing companies.

In the area of renewable energies at Bremer Landesbank, the sub-segments of Wind Power Germany (onshore) including increasing repowering and Photovoltaics were the main drivers behind the high level of new business that exceeded expectations.

Wind Power remains the most important sub-segment in the area of financing renewable energies, with strong growth in recent years. The general conditions for wind power finance remain attractive and reliable due to the amendment of the Renewable Energies Act (EEG) of 1 January 2012. The risks for wind park project finance are currently manageable. There have been no specific valuation allowances and loan loss provisions for wind park project finance.

Bremer Landesbank acts as the NORD/LB Group's competence centre for biogas and photovoltaics in Germany. Experienced customers are also supported selectively as they expand into Europe.

With the refinancing of companies leasing movable assets Bremer Landesbank maintained its position as a leading financer of middle-market leasing companies in 2012. While new business was in line with expectations, income was better than forecasted. The competence centre function within the NORD/LB Group and the broad customer based provide further potential for growth here – also as a reliable partner for bank-related leasing companies. The portfolio is rounded off by the refinancing of factoring companies.

Earnings development in the energy and infrastructure customers segment

Overall, the segment's contribution to earnings before taxes is at € 123 million below the previous year's figure by € 5 million.

Net interest income fell due to reduced margins by € 5 million to € 148 million, but this was largely compensated for by a further increase in net commission income from € 47 million to € 51 million.

Loan loss provisions are, at € 30 million, € 3 million above the previous year's figure, but are still well below the long-term average for this segment. The increase in operating costs in this segment of € 4 million to € 53 million is the result of staff expenses (in particular collective salary increases and allocation to pension provisions) and an increase in expenses related to internal cost reallocations, the cost of materials fell.

Other operating profit/loss increased compared to the previous year by € 4 million. This development is attributable to an increase in income from the reallocation of costs and the non-recurrence of an increase in costs for a provision made in the previous year for legal costs.

The overall development of the income items and the higher imputed capital adequacy requirement resulted in the RoRac falling compared to the previous year to 19 per cent (24 per cent). The CIR rose to 26 per cent (24 per cent), but remains at a low level.

Ship and Aircraft Customers

Ship customers sub-segment

NORD/LB

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.

NORD/LB shipping finance holds its own in rough seas.

2012 marked the fourth year of crisis in a row in the shipping sector. Unlike had been hoped 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 European 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 the year under review 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.

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 restructuring programmes were also supported, which had the effect of reducing the risk level.

In the limited and selective new business the focus was increasingly on equity-friendly forms of finance, finance covered by Export Credit Agencies (ECA), 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 conclud-ing 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.

Bremer Landesbank

The Ships sub-segment of Bremer Landesbank is also in the fourth year of crisis and faces the problem of charter income not being enough to service capital. Historically low ship values also resulted in a deterioration of the portfolio across all major ship types. However, the close support given to customers is proving to be prudent and sustainable; new business will only be taken on very selectively against the background of crisis management. A noticeable market recovery is not expected to 2015. The surplus of shipping tonnage is likely to last until the medium term.

Earnings development in the ship customers sub-segment

The structure of the ship portfolio (internal Exposure at Default € 17.1 billion; previous year € 18.3 billion) is broken down as at 31 December 2012 as follows:

EXPOSURE BY SHIP TYPE (in %)

31 Dec. 2012	
Container	34 %
Bulker	12 %
Tanker	14 %
Multipurpose	16 %
Others	24 %

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 (€ + 33 million). The profit / loss from services was again very pleasing and improved in particular due to earnings from restructuring (€ + 10 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 € 327 million to € 498 million.

NORD/LB aircraft finance remains on course without any turbulence.

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 International Air Transport Association (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.

Earnings development in the aircraft customers sub-segment

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 lending 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. Due to the focus on RWA-friendly transactions, the profit/loss from services fell due to comparatively low loan arrangement and loan processing fees from € 20 million to € 16 million, but is still above expectations. Trading profit/loss improved due to higher margins from interest derivatives by approx. € 2 million.

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.

Earnings from aircraft financing increased by a total of € 9 million.

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.

Earnings development in the ship and aircraft customers segment

Overall the Ship and Aircraft Customers segment was not able to maintain the previous year's result at Group level; its contribution to earnings before taxes in the year under review 2012 is negative at € –46 million. This equates to a fall in earnings of € 289 million compared to the previous year. The fall in earnings is due entirely to the increase in loan loss provisions in the area ship financing in the amount of € 327 million. Net interest income improved due in particular to increased margins by € 47 million to € 448 million. Net commission income rose by € 6 million to € 57 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 the still low level of 12 per cent (11 per cent).

Real Estate Banking Customers

The NORD/LB Group concentrates its commercial real estate business in the wholly-owned subsidiary Deutsche Hypothekenbank (Actien-Gesellschaft). It acts within the Group as a competence centre and offers all of the advantages of an efficient specialised bank together with the additional know-how of a strong parent company. Due to its independent market presence, Deutsche Hypo has a clear profile in the real estate banking market.

Pooling of commercial real estate finance in Deutsche Hypo.

NORD/LB

Since 2009 the existing business of NORD/LB 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.

Deutsche Hypothekenbank

In the area of commercial real estate finance, Deutsche Hypo focuses its financing on the asset classes of office and retail properties, multi-storey residential properties, hotels and logistics properties. The bank sees itself as a German real estate bank with a European focus. Its strategic target markets are Germany, UK, France, Belgium, the Netherlands, Luxembourg and Poland. The real estate finance portfolio in the USA and Spain is being phased out. No new business will be taken on there. Deutsche Hypo operates primarily in the domestic market, with approximately two thirds of its business being conducted in Germany and one third abroad.

In the year under review Deutsche Hypo achieved new business in commercial real estate finance in the amount of € 2.5 billion (€ 2.8 billion). Examples include the financing of an office building for the French Gecina Group in Paris in the amount of € 104 million and the Romeo & Julia multi-storey office building in Frankfurt am Main in the amount of € 56 million. New business therefore remained at a high level. Project developments account for around one third of this.

Bremer Landesbank

At Bremer Landesbank the focus in real estate banking lies in the financing of community interest properties and in particular in the financing of nursing homes, for which the bank now acts as a competence centre in the NORD/LB Group. Despite the subdued level of new business in 2012, the forecasted level of income was achieved, and the bank is expecting the demand for loans to pick up again. Demographic trends and the growing need for in-patient nursing highlight the strategic importance of this area.

Earnings development in the real estate banking customers segment

Compared to the previous year the Real Estate Banking Customers segment's earnings before taxes have fallen significantly to € 73 million (€ 118 million). This development is primarily attributable to higher loan loss provisions for the NORD/LB Group.

In total, the earnings NORD/LB's Real Estate Banking Customers segment totalled € 260 million (€ 263 million). Due to the asset transfer from NORD/LB to Deutsche Hypo and the portfolio reduction in NORD/LB, a shift in earnings has been recorded in this segment. Overall the earnings of Deutsche Hypo total € 175 million (€ 155 million) make the largest contribution to the overall result.

Net interest income in the Real Estate Banking Customers segment is € 243 million (€ 245 million) and, due to higher margins and special effects (in particular the collection of prepayment penalties) despite the lower level of new business activity, was almost at the same level as the previous year. The profit/loss from services is at € 13 million, like the profit/loss from financial instruments at fair value through profit or loss at € 4 million, at the same level as the previous year.

The increased loan loss provisions in the year under review of € 132 million (€ 91 million) are primarily attributable to specific valuation allowances relating to two existing exposures in NORD/LB as part of the restructuring. Deutsche Hypo accounts for allocations to loan loss provisions in the amount of € 65 million (€ 78 million); these are primarily for its foreign business.

Administrative expenses remain stable. As is the case with income, as a result of the asset transfer there has been a shift in operating costs from NORD/LB to Deutsche Hypo.

The CIR is a low 21 per cent. Despite the reduced equity commitment, the RoRaC has fallen due to the higher loan loss provisions and is 6 per cent (11 per cent).

Group Controlling/Others

All of the components subsumed here are directly related to the operational business. Staff divisions, Group divisions not included in the above-mentioned segmentation and consolidations are pooled in "Group Controlling/Others".

Sources of revenue for the entire bank and Treasury activities.

In detail, these concern in particular sources of revenue for the entire bank which are not possible to influence and therefore are not allocated to the profit centres, such as investment/financing revenue (among others, revenue from participating interests and from investments of capital), general loan loss provisions, non-allocated service centre items (overhead costs), projects covering the entire bank, the profit/loss from other financial instruments (in particular from central valuation effects), from financial assets, hedge accounting, other investments and consolidation items.

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.

NORD/LB

As the key division responsible for controlling interest, exchange-rate and liquidity risks, NORD/LB's Treasury Division was again affected by the impact of the financial market crisis in the financial year 2012.

Due to the very successful issues of the aircraft Pfandbrief and the USD public sector Pfandbrief, 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.

NORD/LB's 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.

Both groups made a positive contribution to the bank's net interest income and profit / loss from financial instruments at fair value through profit or loss. In particular the corporate bond positions and the credit derivatives benefited from credit spread reductions and reversals of impairments over time (pull-to-par effect). Due to the conservative investment policy, the division continues to be affected to a comparatively low degree by the debt crisis.

Bremer Landesbank

The Treasury Division of Bremer Landesbank provides the Bremer Landesbank with access to national and international finance markets and carries out its long and short-term refinancing measures. For the short-term refinancing and liquidity control, in 2012 Bremer Landesbank again continually used the various instruments of the European Central Bank in addition to the interbank market and the repo market. Activities focused on controlling liquidity and interest-rate risks and securing the continuous liquidity of the bank. Due to the difficult market environment and the high liquidity costs, the Treasury activities in the year under review resulted in a negative contribution to earnings.

The very positive development of the fair value valuation in the credit derivatives portfolio more than compensated for the Treasury's negative impact on earnings.

Deutsche Hypothekenbank

In reaction to the European debt crisis, in its capital market business Deutsche Hypo is pursuing a strategy of gradual portfolio reduction in order to reduce associated risks. It has greatly reduced its level of new international business. Deutsche Hypo has in the year under review only invested in receivables that serve to control liquidity and cover pools.

Deutsche Hypo's issues were continuously met by strong demand, with the result that the bank's liquidity was ensured at all times. In the year under review the bank issued two benchmark bonds. These were one five and one seven-year mortgage Pfandbrief each in the volume of € 500 million. The first bond was met with such high demand, that just two months after the original issue a further issue of € 250 million took place at more favourable conditions for the bank. Benchmark issues therefore remain an importance source of refinance for Deutsche Hypo.

NORD/LB Luxembourg

Customer-oriented services, funding and bank control are the main characteristics of NORD/LB Luxembourg's financial market activities. With the Client Relationship Management, Corporate Sales and Risk Distribution & Solutions sales initiatives launched in 2011, the bank placed increasing focus on its customer-oriented business. In 2012 Bank Sales and Institutional Investor Sales were added.

Traditional internal, trading-related service functions are now consolidated in the Asset Liability Management/ Treasury. This line-up was added to in 2012 by Cover Pool Management, which is responsible for the new issue business of Luxembourg cover bonds via NORD/LB CFB and therefore represent a refinancing alternative for the Group.

Earnings development in the group controlling / others segment

Earnings after taxes in Group Controlling / Others fell by € 465 million to € –455 million. The profit / loss from financial instruments at fair value had at € –172 million the greatest negative effect due to the reduction of the EUR/USD base spread and the improvement in NORD/LB's own credit spread; credit-spread-induced write-ups of credit derivatives had a positive effect. Other operating profit / loss fell by € 168 million with the proceeds from the sale of the "Tulips" sculpture not being able to compensate for the losses from the redemption of the bank's own issues and the unscheduled depreciation of ships. The profit / loss from hedge accounting also fell due to the reduction in ineffective hedge relationships (€ –120 million). Administrative expenses rose primarily due to the donation to the NORD/LB Culture Foundation following the sale of the "Tulips" sculpture by € 21 million. The profit / loss from investments accounted for using the equity method fell due to valuation adjustments in the at equity investment portfolio by € 14 million.

In addition to this, in 2012 reorganisation expenses (€ 34 million) and expenses related to public guarantees for reorganisation (€ 19 million) were incurred. Positive effects were recorded in net interest income (€ 46 million) due in particular to reduced expenses for subordinated capital, in loan loss provisions due to the reversal of general loan loss provisions and consolidation effects in the ship portfolio (€ –29 million in total) and in the profit/loss from financial assets due to disposals (€ 22 million).

Reconciliation

Components of comprehensive income presented differently in internal accounting and in the external income statement are separated in the reconciliation statement. The reasons for this reconciliation item are among others the reporting in different profit and loss items in internal and external accounting and the allocation of revenues and expenses to different accounting periods. Also included here are residual values which cannot or only with unreasonable cost and effort be differentiated and allocated to the operational segments.

SUMMARY

The performance of the business for 2012 is again viewed as satisfactory in view of the difficult conditions. The statement of comprehensive income has at € 333 million developed very positively compared to the previous year (€ –81 million) due to write-ups of financial instruments. In addition to this, Group equity was increased as a result of the capital measures that have been implemented, with a much-improved core capital ratio of 10.85 per cent.

PERSONNEL REPORT

As at 31 December 2012 a total of 7,539 people were employed by the NORD/LB Group. Therefore the number of people employed in all Group divisions has only risen slightly compared to the previous year by 76 or 1.0 per cent. The number of apprentices in the Group has risen by an above-average rate of 3.8 per cent to 385.

Reporting date	31 Dec. 2012	31 Dec. 2011[1]	Change absolute terms	Change percentage
NORD/LB	4 534	4 523	11	–
Bremer Landesbank sub-group	1 184	1 154	30	3
NORD/LB Luxembourg sub-group	228	218	10	5
ÖVBS sub-group	822	824	– 2	–
NORD/LB Asset Management	73	64	9	14
Deutsche Hypo	440	443	– 3	– 1
NORD/FM	72	67	5	7
KreditServices Nord	186	170	16	–
	7 539	**7 463**	**76**	**1**

[1] For some items the previous year's figures were adjusted.

SUPPLEMENTARY REPORT

No events that are of relevance for the financial year 2012 have taken place after the reporting date of 31 December 2012.

FORECASTS AND OTHER INFORMATION ON ANTICIPATED DEVELOPMENTS

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 market 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 a gradual recovery is expected, although the situation in the eurozone will remain difficult for the time being.

For 2013 the NORD/LB Group is expecting gross domestic product (GDP) in the USA to grow by a good two per cent. This, though, is based on the assumption that the politicians in Washington reach a compromise for the budget dispute (fiscal cliff), so that only part of the tax increases and spending cuts in the amount of around $ 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 European 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 European Economic Area and 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 European debt crisis, the focus of the markets 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.

For the German economy GDP growth of 0.8 per cent is expected in 2013, while GDP in the eurozone is expected at best to stagnate.

The outlook for the German economy is mixed. After the painful economic downturn in the winter half of the year, the NORD/LB Group 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 is too early to state that the trend has been reversed, however, the development in the order situation is likely to have 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.

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

Due to continuing uncertainty, yields in Germany and the USA are expected to only rise moderately as the monetary policy will remain expansive.

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 no longer be 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 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 applies equally for the German banking market.

Banking market continues to face challenges.

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 European 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 the NORD/LB Group 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 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.

Increased fleet expected in the container segment in 2013, particularly in the TEU classes.

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. The NORD/LB Group therefore expects this market to recover from 2015.

Positives (product tankers) and negatives (crude tankers) in the tanker segment.

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.

China remains the driving force in the bulker segment.

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 will be able to absorb the impending level of cruise ship newbuilds.

Cruise industry remains optimistic.

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, 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 International Air Transport Association (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.

Further growth in air transport expected for 2013.

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 737 MAX. As both Boeing and Airbus expanded their production capacity in 2012, the number of new aircraft deliveries will continue to rise in 2013.

Lower order activity and higher number of deliveries expected for 2013.

Real estate

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

Slight increase in global investment volume in commercial real estate expected for 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.

Recovery of the US real estate market continues.

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.

Mixed picture for Europe's real estate markets.

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.

Positive outlook for the German real estate market.

NORD/LB Strategic Development

Based on the conditions of the national economy, the NORD/LB Group will continue to pursue its proven customer-oriented business model and its risk-conscious business policy. The essence of the NORD/LB Group's business model is to focus business activities closely on customer needs and to continually improve its risk-adjusted profitability. In the process it will focus in particular on increasingly separating earnings growth from 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 is concentrating increasingly on its regional activities and target customers.

The NORD/LB Group expects that it will continue in future 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 very 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 of the NORD/LB Group. 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.

The NORD/LB Group is seeking, by pushing RWA-friendly transactions, to change the earnings structure in its core business with a view to increasing net commission income. 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 European Commission agreed a catalogue of commitments for the development of the NORD/LB Group in the next few years. The commitments endorse the path that the NORD/LB Group has already taken.

Planning for 2013 and Outlook for 2014

For 2013 the NORD/LB Group 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 European Union (EU), the shipping crisis and the European debt crisis. Overall though, the NORD/LB Group will continue on a cautious upward development path, but a rise in earnings is only expected in the medium term.

The NORD/LB Group is expecting a further increase in earnings.

On the income side the NORD/LB Group is expecting a rise in income in 2013. In net interest income the NORD/LB Group is planning to sustain the whole good operating results of the previous year; however, special effects recognised in the previous year are not included in the plan for 2013. In lending business lower contributions than in the previous year are anticipated. 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. Net commission income is expected to be well above the previous year's level due to higher income in customer business. In the profit / loss from financial instruments at fair value positive earnings from customer business are planned for the current year; negative special effects in the previous year such as from the EUR/USD base spread for currency derivatives and the NORD/LB's own credit spread in the fair value option are not considered in the plan for 2013. In addition to this, in the current year 2013 lower profit / loss from financial assets (no realisations estimated) and higher contributions from at equity earnings (no write-down requirement planned for 2013) are expected.

Following the high loan loss provisions in the previous year, the NORD/LB Group is planning lower loan loss provisions overall in its ship financing, corporate customer 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 NORD/LB Group is expecting administrative expenses to be on the whole at the same level as the previous year. A slight increase in staff expenses due to a collective salary increase will be seen alongside lower other administrative expenses and depreciation.

Other operating profit / loss, which includes the bank levy, is expected to be better in 2013 than in the previous year due to the non-recurrence of unplanned expenses related to the redemption of the bank's own issues and the unscheduled depreciation of ships.

Reorganisation expenses also include commission expenses for state guarantees, which will be included in full in profit / loss for the first time in 2013. The level of reorganisation expenses is directly dependent on the number of employees who leave the bank as part of the reorganisation. 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.

Earnings above taxes for 2013 planned to be well above the previous year's level.

The NORD/LB Group's planned earnings before taxes for 2013 are well above the previous year's level, with a corresponding development in RoE. The CIR will improve due to an increase in income while administrative expenses remain constant. Income and administrative expenses are expected to be roughly stable in 2014 due to a fall in loan loss provisions and a further improvement in earnings before taxes.

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

The NORD/LB Group expects the next two years to be a challenging period characterised by the risks of the shipping and European 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, the NORD/LB Group 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, the NORD/LB Group will meet these capital requirements in full.

Segment Planning for 2013 and Outlook for 2014

Private and commercial customers

NORD/LB

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 by NORD/LB 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 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.

Special product combination planned on the deposits side.

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.

Quality leadership targeted in Private Banking.

In NORD/LB's 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.

Bremer Landesbank

Against the background of the economic developments and the limited supply of supposedly secure investments, Bremer Landesbank is expecting conditions to remain difficult in this segment. Nonetheless a more optimistic plan has been agreed for 2013 with slightly higher margins in lending business and lower margins and increased volumes in deposit business.

NORD/LB Luxembourg

The Private Banking segment of NORD/LB Luxembourg is planning to grow strongly in the next few years, in terms of both volume and income. In lending business an increase in interest margins is assumed, as banks will have to comply with increasingly demanding regulatory requirements. Investors are increasingly demanding Lombard loans, which is due not only to increased use by existing customers, but also to the acquisition of new Lombard customers through promotional measures. It is also expected that alternative investments such as precious metals and non-European currencies will be in increasing demand from customers. This will result in an increase in fixed-term deposits in foreign currencies. Overall the above expectations and the acquisition of additional customer assets from the development of a backer network in the planning period will result in an increase in overall volume. A further reduction in the bank's own high-margin fund products (ProFunds) is planned by 2015. The reduction is attributable to the loss of smaller customers who are relatively active in these products. The planned increase in asset management with existing customers and with newly acquired volumes should, though, result in an increase in income from asset management in the next few years.

Öffentliche Versicherung Braunschweig (ÖVBS)

Öffentliche Sachversicherung Braunschweig is expecting, based on the strong year of 2012, premium growth to be slightly below the level of the market in 2013. The increase in motor insurance policies seen in the last two years should continue in 2013. In the years that follow further premium growth, in particular in the area or motor and accident insurance, is expected.

Increase in premium income in Öffentliche Sachversicherung Braunschweig.

Öffentliche Lebensversicherung Braunschweig is planning for a slight fall in current premium income in 2013. Based on the good level of premium income in 2012, it is expected that one-time premium income will fall significantly back to a normal level in 2013. Insurance payments will increase again in the years that follow.

The cost reduction programme has already resulted in a fall in administrative expenses in 2012 and will continue to have an impact in 2013. Öffentliche Versicherung Braunschweig's other operating profit/loss is expected to be back at the long-term level in the plan for 2013 and therefore well above the previous year's figure, which was negatively affected by an increase in premium refunds, an increase in allocations to provisions for premium refunds and provisions for insurance coverage.

Earnings plan in the private and commercial customers segment

Net interest income and net commission income expected to increase.

Interest income in the Private and Commercial Customers segment 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).

After minimal 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 planned increase in administrative expenses is spread fairly evenly across staff expenses and cost of materials. Higher staff expenses in ÖVBS and NORD/LB Luxembourg will not be able to be compensated in full by the other units and will result in a slight increase in administrative expenses. An increase in cost of materials is also planned in this segment. The reasons for this are the direct allocation of association fees to the German Association of Savings Banks and Girobanks and the Association of the Savings Banks of Lower Saxony to the segment and the non-recurrence of a one-time tax refund, which was received in 2012.

The expected increase in earnings in deposit and commission business may more than compensate for the increase in loan loss provisions and the increase in administrative expenses 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 same level as the previous year.

In 2014 the segment's income will be increased by a rise in net interest income and net commission income.

A further fall in interest rates and an increase in volumes transferred to competitors 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.

NORD/LB

The economy is continuing to prove to be very robust and NORD/LB'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 licence for the Chinese market (RMB licence) in Shanghai should be used to establish or intensify business relations with German companies with Chinese locations.

The growth strategy of Corporate Customers will also define the coming year.

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.

NORD/LB's 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 loans 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.

Balance sheet turnover should be increased by the expansion of securitisation business.

Bremer Landesbank

Bremer Landesbank is generally expecting earnings to develop positively in this segment in 2013. For this case it is important that there is not a significant downturn in the economy and that the demand for loans remains high. It remains the long-term goal of the Corporate Customers segment to be the leading bank in corporate customers business in the Bremen region and for this to be supported by a continual increase in market share. Bremer Landesbank traditionally has the reputation of being a stable and reliable partner in the region. During the financial market crisis this trust was expanded. Bremer Landesbank sees in this a good basis for acquiring new customers and expanding its house bank role for major companies.

NORD/LB Luxembourg

The cooperation business of NORD/LB Luxembourg lives off the backers of the NORD/LB Group. The Corporate Customers segment is the driver of growth in this year's plan. A further driver of business will be Working Capital Management and in particular the purchase of receivables. In the Corporate Sales group a moderate increase in income is expected for the coming year with products in interest and currency management. The Client Relationship Management group will in future sell products to institutional customers, focusing on business in the German-speaking area. The savings bank guaranteed business in Luxemburg will be reduced significantly. A major factor for this is the negative development of the market with falling interest rates. As a result it is becoming less beneficial for customers to take out loans in foreign currencies.

Earnings plan in the corporate customers & markets segment

Due to investment in this segment, earnings should remain at a high level. The very good earnings of the previous year will not be able to be repeated in the next years. Despite the expansion of its securitisation business and increase in net commission income, a significant fall in income is expected in the Markets segments of Bremer Landesbank and NORD/LB. Growth in the Corporate Customers segment, particularly in NORD/LB, will not be able to compensate for this.

In the Corporate Customers segment lower loan loss provisions will be made in 2013 compared to the previous year due to the high level of specific valuation allowances in 2012.

Investments in the Corporate Customers segment will result in an increase in both staff expenses and cost of materials, with the result that higher administrative expenses are expected in this segment.

Overall a fall in the contribution to earnings compared to the previous year is planned due to the lower earnings and the increase in administrative expenses. From 2014 income is expected to grow again with a slight increase in costs, and as a result an increase in earnings is expected.

Higher equity requirements are expected due to the implementation of Basel III.

Due to the increased equity requirement associated with the implementation of Basel III, in the coming year it is expected that RWA will increase, and that these will remain fairly stable in the next few years. Based on the fall in contribution to earnings and the increased equity commitment, the RoRaC will fall, while the CIR will increase as a result of the fall in income.

Challenges will arise due to numerous regulatory issues.

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 to improve the good market position by increasing business with German corporate customers.

Energy and infrastructure customers

NORD/LB

The NORD/LB Group is expecting to continue to benefit from growth in the market.

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 slightly 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 European debt 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 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 core business. This high level of profitability will also be ensured in future by a good market position and a slight rise in deal flow, and in the medium term higher commission income per transaction should be achieved.

Bremer Landesbank

At Bremer Landesbank business is expected to grow against the background of the change in energy policy. Wind Power Germany Onshore will remain the main driver with an increasing share for repowering. Next to this, Photovoltaics and Biogas will remain the most important sources of income. The amendment of the Renewable Energies Act (EEG) will, however, result in a fall in demand for Photovoltaics finance in 2013. Wind Power Offshore is currently of minor importance for the plan, but has potential for the future. The integration of promotional loans will allow a further reduction of costs in the refinancing base. In addition to this, existing customers and experienced new customers will be accompanied in selectively defined European markets, particularly in France. The syndication activities will be expanded.

The competence centre role of Bremer Landesbank's movable assets leasing business in the NORD/LB Group will be extended and its market leadership in the relevant market will be secured. In addition to the targeted expansion of business with all leasing customer segments, the strategy of developing and expanding the refinancing of bank and manufacturer-independent factoring companies will also be pursued. The very diversified and granular portfolio will, on the basis of very good ratings, also have a low equity requirement in future and offers potential for growth.

Earnings plan in the energy and infrastructure customers segment

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 will result with stable margins 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.

Greater migration effects due to the high diversification of the portfolio are not envisaged. Accordingly the loan loss provisions calculated on the basis of an expected-loss estimate have been used in the planning. Due to the reversal of specific valuation allowances made in the previous year, a slight increase is planned in 2013. Over time it is expected that the loan loss provisions will fall as the credit rating of the credit portfolio improves.

For the current year staff 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. On the other hand, investment in IT systems and higher cost of materials for legal and marketing are planned, with the result of an increase in other administrative expenses.

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/Export Credit Agencies (ECA) covered (project) finance will provide relief here on RWA. Further placement transactions will also be sought.

The portfolio will be increased in a resource-friendly manner.

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 CIR will remain virtually unchanged with a slight rise in income and costs. The growth in business and reduction in the medium term in loan loss provisions will result from 2014 in an increase in the contribution to earnings before taxes.

The NORD/LB Group 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 will mainly be in the future development of margins and commission.

Ship and aircraft customers

NORD/LB's ship finance remains in rough waters.

The ship finance market in which the Ship and Aircraft Customers segment of the NORD/LB Group operates has been in crisis for four years. The anticipated market development has been considered in the planning for 2013 and 2014. The recalibration of the rating tool in 2012 and 2013 will for the time being result in the downgrading of ratings. A market recovery is only expected in the medium term, and this will then result in a gradual improvement in ratings. Loan loss provisions in the area of ship finance will continue to play a crucial role for the meeting of targets. Due to the NORD/LB Group's conservative approach to loan loss provisions, net allocation to 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.

NORD/LB

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). 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 competition.

NORD/LB's aircraft finance will remain on it successful course.

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 loan 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.

Bremer Landesbank

In the plan Bremer Landesbank will reduce its shipping exposure, which will also result in a corresponding reduction in income. RWA and loan loss provisions will reach a peak level in the portfolio in 2013. However, we must remain a reliable partner for our customers in this time of crisis. The competence centre areas of container box finance and river cruise ships will remain with Bremer Landesbank.

Earnings plan in the ship and aircraft customers segment

It is expected that the Ship and Aircraft Customers segment's net interest income will fall slightly 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.

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.

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.

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

Despite a fall in volume in ship finance RWA are expected to continue to rise and peak in 2013. 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

In Deutsche Hypo new business activity is conducted in commercial real estate finance. In the coming years it is expected that new business volume will be at least at the level of the previous year. Its strategic target markets are Germany, UK, France, Belgium, the Netherlands, Luxembourg and Poland. The real estate finance portfolio in the USA and Spain is being phased out. No new business will be taken on there. In accordance with its business strategy, Deutsche Hypo operates primarily in the domestic market, with approximately two thirds of its business being conducted in Germany and one third abroad.

Deutsche Hypo the competence centre for commercial real estate finance.

NORD/LB

In NORD/LB the transfer of portfolio commitments to Deutsche Hypo and repayments in the portfolio will result in a further reduction of the portfolio.

Bremer Landesbank

At Bremer Landesbank the social housing division acts as the competence centre in the NORD/LB Group for finance for nursing homes. Attractive business potential is expected in the nursing home market due to the demographic situation. The covering of real estate and the increased use of relevant KfW funding programmes should help to ensure that competitive pressures will be met by appropriate pricing and that business potential will be able to be realised. The gradual increase in portfolio financing strategies and the increase in syndication activities will be further factors for success.

Earnings plan in the real estate banking customers segment

In the Real Estate Banking segment, due to positive special effects in 2012 (the collection of prepayment penalties), net interest income in 2013 is expected to be slightly below the previous year's level. Higher margins in the real estate banking will result in an increase in income in the planning period.

For 2013 a high level of loan loss provisions is planned, although these will be less than in the previous year. Due to the improved portfolio structure, the risk ratio will gradually approach the historic average in the next few years.

Administrative expenses will fall in the medium term due to the portfolio reduction in NORD/LB and increased efficiencies in Deutsche Hypo.

Overall, earnings in the Real Estate Banking segment in 2013 are expected to be above the contribution to earnings in the past financial year. This development is attributable in particular to the reduction in loan loss provisions. In the next few years the contribution to earnings will increase significantly due to an increase in income, a fall in costs and a further reduction in loan loss provisions.

As a result of the improved portfolio structure, the average RWA commitment will fall. In the medium term a rise in the RoRaC and a fall in the CIR are planned.

Group controlling/others/reconciliation

In this segment the central sources of revenue for the entire bank are reported.

This segment covers all units that have no direct contact with customers, as in NORD/LB's Treasury and Bank Asset 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 the expenses related to public guarantees for reorganisation includes the expenses for the guarantee provided by the states. Reported separately are the reorganisation expenses for efficiency measures in the efficiency improvement programme.

NORD/LB

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.

In this segment all of the Treasury activities are reported.

For the coming financial year the Treasury division is expecting a high level of market volatility due to the continuing uncertainty regarding the European debt crisis. The continuing financial market crisis and its systemic effects required 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 the 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.).

Bremer Landesbank

The Financial Markets division of Bremer Landesbank is, due to its many years of market experience and established customer relations, well positioned to support bank control and provide customers with long-term support. The result of the strategic measures will have a major influence on the overall result of the division due to the reported expenses related to Bremer Landesbank's liquidity reserve.

NORD/LB Luxembourg

Liquidity control in Luxembourg takes into account the new regulatory requirements (Basel III LCR/NSFR from 2015), as a result of which earnings potential will be reduced beyond the planning horizon due to the transformation of liquidity terms in the short term. Under the planning assumption that new business will be refinanced in due course, due to the transformation of liquidity terms income will therefore only come from existing items, which will reduce steadily over time as they mature. In order to optimise the refinancing in money market terms, collateral will be used intensively in repo business. However, the resulting earnings potential will be reduced beyond the planning horizon due to flatter interest rate curves. It is assumed that beyond the planning horizon the volume of NORD/LB CFB's fiduciary deposits will be virtually unchanged.

Deutsche Hypo

In the context of the business strategy, the capital market portfolio of Deutsche Hypo consisting primarily of European government bonds will be gradually reduced in order to achieve further reductions of hidden liabilities and credit-spread risks. Furthermore, only selective new business which serves primarily to control liquidity and the cover pool will be conducted.

Earnings plan in the group controlling / others / reconciliation segment

Overall it is expected that income will increase in this segment. Negative central valuation effects like those in the previous year (due among other things to the reduction of the EUR/USD base spread and NORD/LB's own credit spread) have not been considered for the planning period. However, in the Financial Markets divisions of this segment a fall in income at Group level is planned; this will be mainly attributable to the fall in the profit / loss from financial instruments at fair value. In the previous year the divisions benefited from credit spread reductions and high reversals of impairments (pull-to-par effects). For 2013 it is expected that valuation gains will be low; these will primarily result from NORD/LB and Bremer Landesbank. In addition to this, the planned portfolio reduction in all Group units will result in the medium term in a fall in interest income, which will not be able to be compensated for by the improved earnings from transformations of the Treasury divisions of NORD/LB and Bremer Landesbank. The Markets divisions reported here have planned an increase in impairments in the profit / loss from financial assets for 2013.

For 2013 reversals of general loan loss provisions are planned in this segment in particular in NORD/LB due to the high level of specific valuation allowances in the previous year; however, in the planning these are lower than in the previous year.

The NORD/LB Group expects administrative expenses to be much lower in this segment in 2013 than in the previous year. In staff expenses, collective salary increases can be compensated for by the efficiency improvement programme. Other administrative expenses are also lower in the plan for 2013 due primarily to the efficiency improvement programme in the corporate and service centres and due to a special effect in the previous year (donation to the NORD/LB Culture Foundation from the proceeds of the sale of the "Tulips" sculpture).

Other operating profit / loss, which includes the bank levy, will be better in 2013 due to the special effects in the previous year. Included in the expenses related to public guarantees for restructuring are the expenses for the guarantee provided by the states for 2013 with the full amount for the year.

The increase in income and the lower administrative expenses can compensate for the higher loan loss provisions and result overall in an improved contribution to earnings before taxes in the Group Controlling / Others / Reconciliation segment in 2013. Due to a lower reversal of loan loss provisions, earnings in this segment in 2014 are planned lower than in 2013, but better than in 2012.

Overall a slight fall in RWA is expected in this segment in 2013. 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.

Risks may arise from rating-induced sale transactions and impairments in financial assets with a negative effect on earnings. Opportunities and risks for the Treasury divisions 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

The NORD/LB Group will continue to pursue its customer-oriented business model.

The NORD/LB Group 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, the NORD/LB Group 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 the NORD/LB Group 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 in NORD/LB to IT roadmap issues (e.g. Loan IT, optimisation projects) and projects required for regulatory reasons (e.g. reporting system, valuation of derivatives). IT costs are controlled in NORD/LB 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 European Banking Authority (EBA) are of key importance for the NORD/LB Group. The NORD/LB Group 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, the NORD/LB Group 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 the NORD/LB Group 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 earnings before taxes, accompanied by a corresponding improvement in key figures.

RISK REPORT

The risk report of the NORD/LB Group as at 31 December 2012 was prepared on the basis of IFRS 7. Furthermore, the provisions of the German Commercial Code (HGB) and the more specific German Accounting Standards DRS 5 and DRS 5–10 are taken into consideration.

The Group risk report contains parts of the qualitative risk reports of the NORD/LB Group according to § 26 of the German Banking Act insofar as they supplement requirements under commercial law. More detailed regulatory reporting is in a separate disclosure report which is published on the NORD/LB website at www.nordlb.com/investor-relations/reports/

Application

The risk report covers all the companies included in the basis of consolidation under commercial law in accordance with IFRSs and also includes special purpose entities (SPEs) in accordance with SIC-12.

Compliance with the principle of materiality results in a deviating scope of application. The group of significant companies included in the quantitative risk reporting is defined in a multi-stage process which is described in the section "Investment Risk – Management". In the NORD/LB Group, quantitative risk reporting on the basis of individual risks is based on the significant Group companies from a risk point of view. As was the case as at 31 December 2011, these include

- the parent company NORD/LB

and the subsidiaries

- Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – (Bremer Landesbank),
- Norddeutsche Landesbank Luxembourg S.A. (NORD/LB Luxembourg),
- Deutsche Hypothekenbank (Actien-Gesellschaft) (Deutsche Hypo) and
- NORD/LB COVERED FINANCE BANK S.A. (NORD/LB CFB).

Five significant Group companies from a risk point of view.

Based on the total of the financial instruments in the Group, these five companies (significant Group companies from risk point of view) account at the time of the audit for a share of more than 95 per cent. From the point of view of the entire Group, the contribution of the other companies to specific risks is insignificant. Risks concerning these companies are treated as investment risk and explained by a qualitative report on investment risk.

The audit of the significant Group companies from a risk point of view considers both the consolidated companies in accordance with IFRS and the companies included in the regulatory basis of consolidation. "Group" is the term used below to describe both the group in accordance with IFRSs and the regulatory group.

In general the management approach is applied for risk reporting: internal and external risk reports are always based on the same terms, methods and data.

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 the NORD/LB Group.

From a business point of view, the NORD/LB Group 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.

The NORD/LB Group 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 the NORD/LB Group 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 on the achievement of the NORD/LB Group'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.

For the Luxembourgish companies of the NORD/LB Group, the corresponding regulations of the Luxembourg Financial Supervisory Authority (Commission de Surveillance du Secteur Financier (CSSF)) apply and are complied with by the institutes concerned.

Further changes in the standards of risk management are required as a result of the fourth amendment of the Minimum Requirements for Risk Management published in December 2012. An analysis of the new requirements has shown that most of these are already met in the NORD/LB Group. 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

Responsible handing of risks is the uppermost priority.

The responsible handing of risks is the uppermost priority in the business policy of the NORD/LB Group. The Group risk strategy, drafted with this in mind, overrides the risk strategies of the significant companies of the NORD/LB Group from a risk point of view and is substantiated by their risk strategies.

The risk strategies of the significant Group companies from a risk point of view are in each case defined in accordance with the business model, the business strategy and the Group risk strategy policy and are reviewed at least once a year. All risk strategies contain 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. For the NORD/LB Group 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 the NORD/LB Group'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.

Focus on customer-oriented lending business.

The Group risk strategy and the risk strategies of the significant companies from a risk point of view were reviewed and adjusted in 2012 and discussed with the Supervisory Boards after being passed by the respective Managing Board.

The risk strategies aim to achieve an optimal management of all material risk types and to achieve the transparent presentation of these risks to the management, the supervisory bodies and other third parties with a justified interest. Based on this, the significant companies of the NORD/LB Group from a risk point of view have 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 the NORD/LB Group's risk handbook and in the risk handbooks and relevant documents of the individual companies.

Furthermore, the NORD/LB Group 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 Group's risk management lies with the Managing Board of NORD/LB. The Managing Board coordinates the 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. NORD/LB CFB, as a subsidiary of NORD/LB Luxembourg, is represented by NORD/LB Luxembourg in the Erweiterter Konzernvorstand. After the Group risk strategy has been passed by the Managing Board of NORD/LB, it is 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 Group risk strategy. This includes the monitoring of material risks including the risk reporting at Group level. At individual institute level responsibility lies with the respective Managing Board member or the risk officer.

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 the NORD/LB Group and NORD/LB.

Operational risk management is performed decentrally in the significant Group companies. In order to ensure the greatest possible comparability with regard to the assessment, monitoring, controlling and reporting of all material risks, the instruments used for this purpose are agreed with the significant institutes from risk point of view.

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

- 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 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.

Risk management meets Minimum Requirements for Risk Management.

The structure and organisation of risk management at the NORD/LB Group meets 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.

On 1 July 2012 the divisions Risk Control and Controlling and the group Cost and Efficiency Management of NORD/LB were consolidated under the Finance and Risk Control Division. The formation of the new competence centre allows the control systems of the NORD/LB Group 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.

In the year under review the NORD/LB Group extended the Group-wide risk control. In future the NORD/LB Group will make more intensive use of standard methods, rules and processes (including the credit rating process for large volume exposures by authorised persons in NORD/LB).

The risk-oriented and process-independent audit of the effectiveness and adequacy of risk management is carried out by the Internal Audit Divisions of NORD/LB and the subsidiaries. As an instrument of the Managing Board, they are 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 Group audit is carried out in addition to the internal audits in the subsidiaries. The focus is on NORD/LB Group's risk strategy, Group-wide risk-bearing capacity, Group accounting and Group reporting, reporting on Group control and the reliability of the internal audits of the subsidiaries. In addition to the audits of Group audits, joint audits of the Group audit with the internal audits (cooperative Group audits) also take place. The objectives, tasks, roles and instruments of the Group audit are defined in a policy.

The treatment of new products, new markets, new sales channels, new services and their variations is regulated decentrally in the new product processes (NPP) in the significant institutes of the NORD/LB Group from a risk point of view taking into account the respective conditions. There is a close coordination between the institutes regarding the implementation of the NPP.

The essential aim of the NPP is to identify, analyse and assess all potential risks for the NORD/LB Group 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 management is provided in the sections below on structure and organisation by risk type. These sections describe the structures and processes of NORD/LB's risk control in detail. Significant deviations in the subsidiaries are then described separately.

Risk management – risk-bearing capacity model

The RBC model constitutes the methodical basis for monitoring compliance with the NORD/LB Group's risk strategies. This monitoring is carried out at Group level by NORD/LB's Finance and Risk Control Division and by the respective risk control divisions at individual institute level. 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 at both institute and Group level. The monitoring and reporting process is conducted regularly and guarantees that the responsible bodies are promptly informed about risk-bearing capacity situation of the significant companies of the NORD/LB Group from a risk point of view and the NORD/LB Group as a whole.

The NORD/LB Group 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 the NORD/LB Group's risk management and to consider changes in economic conditions and the associated higher volatility.

Improved RBC model in use since 2012.

The NORD/LB Group'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 of the individual institutes and the Group.

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 the NORD/LB Group'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 classed 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 Group's risk-bearing capacity taking into account the allocations of risk capital in the Group risk strategy 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 the NORD/LB Group. 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 the NORD/LB Group's key business areas and risks are consciously 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.

The relevant scenarios are ascertained at the level of the NORD/LB Group and are to be applied consistently in all of the individual companies in order to ensure comparability between the institutes and to ensure that the Group values can be aggregated. At individual institute level further stress tests can be determined which take account of the key business areas. All of the scenarios and parameters are reviewed regularly and if necessary updated.

The reports drawn up on risk-bearing capacity (RBC reports) constitute the main instrument for risk reporting at Group and individual institute level to the respective 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 addition to receiving the report on risk-bearing capacity, the Managing Boards of the institutes subject to the Pfandbriefgesetz (Covered Bond Act) are also informed about risks relating to Pfandbrief business on at least a quarterly basis. These reports prepared at individual institute level meet the requirements of § 27 of the Pfandbriefgesetz.

The developments in the RBC model have been considered for the first time as at the reporting date 31 March 2012; further methodological improvements were made as at 31 December 2012. The reference date 31 December 2011 has been recalculated based on the changes in method. Against the background of economic and regulatory requirements to adjust the bank's stress test instruments, in order to comply for example with the amendment to the Minimum Requirements for Risk Management (MaRisk) and the Minimum Requirements for Recovery Plans (MaSan), in 2013 the relevant procedures and processes will be reviewed and developed.

Risk management – development in 2012

Improvement in the RBC situation.

The utilisation of risk capital in the going concern improved significantly in the year under review and is 41 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 significant risk types, 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 credit and market-price risks, which is attributable in primarily to the ongoing shipping crisis and strategic interest measures. The utilisation of risk capital in the going concern for the NORD/LB Group 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	**3 388**	**100 %**	**2 215**	**100 %**
Credit risk	890	26 %	786	35 %
Investment risk	44	1 %	47	2 %
Market-price risk	354	10 %	258	12 %
Liquidity risk	114	3 %	83	4 %
Operational risk	72	2 %	66	3 %
Other[3]	– 98	– 3 %	– 81	– 4 %
Total risk potential	**1 376**		**1 158**	
Risk capital utilisation		**41 %**		**52 %**

[1] Total differences are rounding differences.
[2] The previous year's figures were recalculated based on the changes in method.
[3] Includes adjustment items for the comparison between the regulatory and economic loss expectations.

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.

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 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

Reliable universal bank focusing on lending business.

For the NORD/LB Group lending business and the management of credit risks is a core competence that is to be permanently developed and extended. The NORD/LB Group sees itself as a reliable universal bank focusing on lending 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. The NORD/LB Group also concentrates on business with borrowers of good standing in the capital market business.

The controlling of the NORD/LB Group'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.

The NORD/LB Group 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, UK and France. In accordance with the business strategy of the NORD/LB Group, the focus is on commercial shipping, aircraft, energy, automotive, real estate and on the declining portfolio of banks. Exposures are also concentrated on local authorities in Germany.

Structure and organisation

Separation of the market and back office divisions at all levels.

A risk-related organisational structure and the functions, responsibilities and authorisation of divisions involved in risk processes are clearly defined down to employee level. In accordance with the Minimum Requirements for Risk Management, processes in lending business are characterised by a clear organisational separation of the market and back office 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 the NORD/LB Group'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 exposures or exposures 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 worse 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 (ABS) 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 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.

Credit portfolio controlled by the Managing Board and the Group Risk Committee, …

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, 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.

… and from a certain volume also by the General Working and Credit Committee (AAKA).

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 the 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.

At Bremer Landesbank independent back office tasks are carried out by the back office finance department. In addition to casting a second vote, it verifies and stipulates rating levels, verifies collateral values, processes and supervises debt restructuring work-out exposures and loan loss provisions, and shapes the policies and procedures for the lending business. Exposures beyond the scope of rating categories 1 to 8 are supervised more intensively or are handed over for restructuring to the unit bearing the same name. This unit is principally responsible for deciding on how an exposure is to be monitored in future or whether it is to be cancelled and coercive measures are to be implemented by a separate back office unit. The tasks relating to independently monitoring bank’s risks at portfolio level and to independent reporting are the responsibility of the bank’s risk control group resp. the in Back Office Management.

Risk management at NORD/LB Luxembourg and NORD/LB CFB is based on the concepts of NORD/LB and is regularly improved in accordance with commercial and regulatory criteria. Credit decisions are made in accordance with the back office vote of the authorised persons in the Credit Risk Management division of NORD/LB Luxembourg. The independent monitoring of the portfolio is carried out by the Risk Control Division at NORD/LB Luxembourg. NORD/LB's SCM division and the CRM division of NORD/LB Luxembourg are responsible for monitoring loans requiring comment or debt restructuring.

The risk management of Deutsche Hypo is performed based on Group-wide standards and is the subject of continual development. The second vote for credit transactions is performed by the back office division Credit Risk Management. The exposures requiring debt restructuring are looked after by the SCM division of Deutsche Hypo, either intensively with the goal of out-of-court restructuring or with defaulting counterparties also with the goal of realising collateral. The local Risk Control Division monitors the risks of Deutsche Hypo at portfolio level.

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. The NORD/LB Group 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 the NORD/LB Group specify which fundamental types of security and the maximum amount which may be lent against the collateral (lending limit). 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 in the NORD/LB Group, 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.

Borrowers assessed in credit rating process.

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 dependant 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 the NORD/LB Group 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 be 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.

In particular 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 programme.

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 two synthetic securitisation transactions were concluded by the NORD/LB Group. In order to actively control RWA, own receivables were hedged by the cash-backed mezzanine guarantees provided by third-party investors. The transactions reduced both the credit risk and regulatory equity requirement. The NORD/LB Group pursues a conservative exposure strategy in its role as investor and sponsor. Securitisation positions held by the NORD/LB Group mainly comprise tranches with a low risk weighting and generally declined in the period under review.

Bremer Landesbank and Deutsche Hypo have in recent years no longer appeared as an investor within the scope of securitisation transactions; there is a strategy to reduce the remaining portfolio. Deutsche Hypo's securitisation exposures are measured using the ratings-based approach for securitisations, while Bremer Landesbank's are measured using the supervisory formula approach. Securitisation business has so far not been relevant for NORD/LB Luxembourg and NORD/LB CFB.

Credit risk – assessment

Credit risk is quantified with the key risk figures expected loss and unexpected loss. 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 Group-wide with the help of an economic credit risk model for different confidence levels and a time frame of one year. The credit risk model used by the NORD/LB Group includes correlations and concentrations in the risk assessment and is subject to an annual review and validation.

Assessment by economic credit risk model.

The credit risk model calculates the unexpected losses at the level of the overall portfolio. The model used is based on the 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.

The methods and procedures for risk quantification are agreed on between the risk control units in the significant Group companies from a risk point of view in order to ensure standardisation throughout the Group. Risk management is performed constantly and decentrally in the Group companies.

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.

Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB have also received authorisation for the relevant rating systems and approval to use credit risk mitigation techniques.

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 the NORD/LB Group. 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 further regular reports and reports as and when required on the credit portfolio of the NORD/LB Group and NORD/LB, e.g. on risk concentrations with borrower entities, country and industry concentrations and commitments which need to be monitored (credit watchlist).

At Bremer Landesbank the Managing Board is informed of credit risks within the scope of the credit risk report. The credit risk report is prepared on a quarterly basis and supplements the monthly RBC report. The Managing Board also receives on a monthly basis a report on an individual borrower basis on intensive and problem exposures and a report to identify and monitor risk concentrations at the level of borrower entities (large exposure management).

For NORD/LB Luxembourg and NORD/LB CFB the Financial Reporting division prepares together with the Credit Risk Management division a counterparty risk report on a quarterly basis as part of the management information system for the Managing Board and the Credit Risk Committee in order to make existing risks and risk concentrations transparent and to initiate measures where necessary.

Deutsche Hypo prepares a risk report on a quarterly basis in accordance with the Minimum Requirements for Risk Management. This report informs the Managing Board and the Supervisory Board in detail about the bank's risk situation.

Credit risk – development in 2012

The maximum default risk for on-balance-sheet and off-balance-sheet financial instruments as at the reporting date is € 237 billion and has fallen in the year under review by 1 per cent. In particular a reduction in financial assets and liabilities from guarantees and other indemnity agreements have contributed to this.

Risk-bearing financial instruments (in € million)	Maximum default risk 31 Dec. 2012	Maximum default risk 31 Dec. 2011[1)]
Loans and advances to banks	34 375	34 653
Loans and advances to customers	112 631	112 886
Adjustment item for financial instruments hedged in the fair value hedge portfolio	– 3	–
Financial assets at fair value through profit or loss	17 921	18 644
Positive fair values from hedge accounting derivatives	4 924	3 289
Financial assets	52 423	54 511
Sub-total	**222 271**	**223 983**
Liabilities from guarantees, other indemnity agreements and irrevocable credit commitments	14 559	16 341
Total	**236 830**	**240 324**

[1)] The previous year's figures were adjusted accordingly.

Compared to the tables below concerning total exposure which are based on internal data presented to management, the maximum default risk in the above table is reported at book value. The maximum default risks based on utilisation of irrevocable credit commitments and other off-balance-sheet items are the total credit lines committed.

The differences between the total exposure according to the internal reporting and the maximum default risk are due to the different scope of application, the definition of total exposure for internal purposes and different accounting policies.

The calculation of the total exposure is based on utilisation (in the case of guarantees the nominal value and in 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 the NORD/LB Group are ignored. Investments are also included in the total exposure.

Analysis of the total exposure

Total exposure reduced by 3 per cent.

The NORD/LB Group's total exposure as at 31 December 2012 amounts to € 232 billion and has therefore fallen compared to the previous year's value by 3 per cent. The reduction in the volume is above all the result of the reduced total exposure in all institutes, in particular due to the reduction in the areas of foreign financial institutes 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 the NORD/LB Group can be transferred directly into the IFD classes.

The Rating Structure table shows the breakdown of the total exposure in the NORD/LB Group (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	Derivates [5)] 31 Dec. 2012	Other [6)] 31 Dec. 2012	Total exposure 31 Dec. 2012	Total exposure 31 Dec. 2011 [7)]
very good to good	99 442	48 316	12 216	11 893	171 867	179 594
good / satisfactory	14 499	2 404	1 223	1 808	19 934	19 569
reasonable / satisfactory	11 607	1 143	306	1 260	14 315	16 782
increased risk	9 334	283	285	309	10 210	8 170
high risk	4 291	27	46	100	4 465	4 802
very high risk	4 914	77	87	49	5 127	4 758
default (=NPL)	6 213	29	70	26	6 337	5 976
Total	**150 299**	**52 279**	**14 233**	**15 445**	**232 257**	**239 651**

1) The allocation is made based on the IFD rating classes.
2) Total differences are rounding differences.
3) Includes utilised and committed loans, sureties, guarantees and other non-derivative off balance sheet assets, whereby, as in the internal reporting, the irrevocable credit commitments are generally included at 45 per cent (60 per cent) and revocable credit commitments at 25 per cent (10 per cent). The conversion factors are validated annually.
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.
7) The previous year's figures were adjusted. An exposure of € 1.3 billion incorrectly allocated to the rating class of Default is now reported under Very good to good.

74 per cent of total exposure in the best rating category.

The fall in total exposure was accompanied by a 4 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 74 per cent (75 per cent) is explained by the great importance of business with public authorities and with financing institutes with a good credit rating and therefore at the same time reflects the risk policy of the NORD/LB Group.

The exposure in rating categories with a high to very high risk rose significantly due to rating migrations. The share of non-performing loans (NPL) also rose. The reason for this is in particular the ongoing shipping crisis.

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 60 per cent (61 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	Derivates [5] 31 Dec. 2012	Other [6] 31 Dec. 2012	Total exposure 31 Dec. 2012	Total exposure 31 Dec. 2011
Financing institutes/ insurance companies	40 230	29 256	9 254	7 889	86 630	93 930
Service industries/other	61 407	21 174	2 733	2 065	87 379	85 958
– Of which: Land, housing	19 447	–	544	593	20 584	19 683
– Of which: Public administration	30 090	20 572	1 870	88	52 620	51 542
Transport/communications	28 964	628	783	192	30 566	32 278
– Of which: Shipping	17 900	0	360	56	18 316	19 603
– Of which: Aviation	7 687	–	165	0	7 853	8 188
Manufacturing industry	5 764	395	585	235	6 980	7 842
Energy, water and mining	7 637	717	592	3 822	12 768	11 974
Trade, maintenance and repairs	3 461	33	136	295	3 924	3 548
Agriculture, forestry and fishing	777	28	7	872	1 684	1 632
Construction	2 060	49	143	74	2 325	2 489
Total	**150 299**	**52 279**	**14 233**	**15 445**	**232 257**	**239 651**

[1] Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria.
[2] to [6] See the previous chart on the rating structure.

Germany resp. the eurozone the most important business region.

The breakdown of the total exposure by region shows that the eurozone accounts for a high share of 84 per cent (82 per cent) of the total exposure and remains by far the most important business region of the NORD/LB Group. Germany's share rose from 66 per cent to 69 per cent.

Regions [1] [2] (in € million)	Loans [3] 31 Dec. 2012	Securities [4] 31 Dec. 2012	Derivates [5] 31 Dec. 2012	Other [6] 31 Dec. 2012	Total exposure 31 Dec. 2012	Total exposure 31 Dec. 2011
Euro countries	125 221	44 413	9 365	15 390	194 389	195 654
– Of which: Germany	111 036	28 787	5 866	14 864	160 553	159 022
Other Europe	9 512	2 868	2 806	22	15 208	16 754
North America	7 586	3 472	1 909	21	12 987	15 703
Middle and South America	2 756	270	20	0	3 046	3 297
Middle East/Africa	1 145	20	1	1	1 167	1 262
Asia/Australia	4 080	1 237	132	12	5 460	6 982
Total	**150 299**	**52 279**	**14 233**	**15 445**	**232 257**	**239 651**

[1] Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria.
[2] to [6] See the previous chart on the rating structure.

Overall the exposure in Greece, Ireland, Italy, Portugal and Spain fell by 16 per cent to € 11.6 billion. Their share in the total exposure is only 5 per cent. The share of receivables owed by the respective countries, regional governments and municipalities also fell to € 2.9 billion and remains 1 per cent of the total exposure.

Exposure in selected European countries[1)2)] (in € million)	Greece 31 Dec. 2012	Greece 31 Dec. 2011	Ireland 31 Dec. 2012	Ireland 31 Dec. 2011	Italy 31 Dec. 2012	Italy 31 Dec. 2011	Portugal 31 Dec. 2012	Portugal 31 Dec. 2011	Spain 31 Dec. 2012	Spain 31 Dec. 2011	Total 31 Dec. 2012	Total 31 Dec. 2011
Sovereign Exposure	0	219	294	331	1 894	1 959	350	383	394	497	2 932	3 389
– Of which: CDS	–	94	189	191	76	102	194	194	–	–	459	581
Financing institutes/insurance companies	–	50	845	1 285	1 784	2 301	305	493	2 408	3 026	5 342	7 155
Corporates / Other	243	353	2 185	1 882	150	190	192	211	575	710	3 345	3 345
Total	**243**	**622**	**3 324**	**3 499**	**3 828**	**4 449**	**847**	**1 087**	**3 377**	**4 232**	**11 619**	**13 890**

1) The figures are reported, as in the internal reporting, by the country in which the borrower is legally domiciled.
2) Total differences are rounding differences.

Greek sovereign exposure reduced almost completely.

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

The NORD/LB Group is also closely monitoring and analysing developments in the other countries mentioned above. 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. Further information on business with selected European countries can be found in the notes in Note 65.

Sovereign Exposure in selected European countries by maturity[1)] (in € million)	Greece 31 Dec. 2012	Ireland 31 Dec. 2012	Italy 31 Dec. 2012	Portugal 31 Dec. 2012	Spain 31 Dec. 2012	Total 31. Dec. 2012
up to 1 year	–	–	18	–	50	**68**
more than 1 up to 5 years	–	87	279	89	306	**761**
more than 5 years	0	208	1 596	261	38	**2 103**
Total	**0**	**294**	**1 894**	**350**	**394**	**2 932**

1) The figures are allocated by residual term of the contract and, as in the internal reporting, by the country in which the borrower is legally domiciled.
2) Total differences are rounding differences.

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. Risks relating to off-balance sheet transactions (guarantees, endorsement liabilities and loan commitments) are accounted for by a loan loss provision.

The NORD/LB Group accounts for the latent counterparty risk in all unprovisioned transactions and off-balance sheet transactions by making general loan loss provisions for impairments which have already occurred but were not known on the balance sheet reporting date.

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 continuation of the shipping crisis resulted in a notable increase in impaired exposures and loan loss provisions in 2012. The balance of specific valuation allowances, lumpsum specific loan loss provisions and provisions for lending business increased in the NORD/LB Group due primarily to an increase in valuation allowances for the shipping portfolio of NORD/LB and Bremer Landesbank (see also Note 36 in the notes to the consolidated financial statements and the report on the earnings position). The ratio of specific valuation allowances, lumpsum specific loan loss provisions and provisions for lending business to total on-balance-sheet and off-balance-sheet financial instruments rose in the period under review from 0.54 per cent to 0.71 per cent.

Increase in valuation allowances for the shipping portfolio.

The overdue or impaired financial assets in the NORD/LB Group are primarily secured by standard bank collateral and other loan enhancements valued on the basis of lending principles. The gross carrying amount of NPLs requiring allowances is covered 38 per cent (37 per cent) by loan loss provisions before the inclusion of collateral.

The share of total NPLs in the total exposure rose slightly in the period under review and is as at 31 December 2012 2.7 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 class default (NPL)).

Industries [1) 2)] (in € 000)	Total exposure of impaired receivables [3)] 31 Dec. 2012	Total exposure of impaired receivables [3)] 31 Dec. 2011	Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2012	Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2011 [4)]
Financing institutes/ insurance companies	191 605	195 191	119 650	96 528
Service industries/other	1 447 913	1 382 347	523 720	474 096
Transport/communications	2 754 319	1 786 045	749 895	451 076
Manufacturing industry	271 179	218 555	115 585	125 266
Energy, water and mining	118 464	179 511	62 481	44 183
Trade, maintenance and repairs	61 821	57 167	24 004	26 743
Agriculture, forestry and fishing	12 784	14 691	7 338	7 943
Construction	141 846	117 639	81 826	85 201
Total	**4 999 930**	**3 951 147**	**1 684 499**	**1 311 036**

1) Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria
2) Total differences are rounding differences.
3) For information purposes: the gross book value of NPLs requiring allowances is € 4 425 million (€ 3 560 million).
4) Previous year's figures were adjusted.

31 Dec. 2012 **Industries**[1) 2)] (in € 000)	Total exposure of overdue, unimpaired receivables Up to 1 month	1 up to 3 months	3 up to 6 months	More than 6 months	Total	General loan loss provisions
Financing institutes/insurance companies	680 473	93 926	–	5 938	780 337	7 131
Service industries/other	204 760	122 628	19 520	90 935	437 843	108 099
Transport/communications	550 969	131 492	46 346	422 101	1 150 907	323 632
Manufacturing industry	86 455	695	955	3 701	91 807	24 280
Energy, water and mining	49 004	28 029	–	648	77 680	9 100
Trade, maintenance and repairs	64 637	1 933	12	6 329	72 911	7 241
Agriculture, forestry and fishing	27 057	322	905	4 237	32 520	4 404
Construction	6 457	536	1	1 686	8 680	6 236
Total	**1 669 812**	**379 561**	**67 738**	**535 574**	**2 652 685**	**490 123**

[1)] Allocated in accordance with the internal reporting by economic criteria.
[2)] Total differences are rounding differences.

31 Dec. 2011 **Industries**[1)] (in € 000)	Total exposure of overdue, unimpaired receivables up to 1 month	1 up to 3 months	3 up to 6 months	More than 6 months	Total	General loan loss provisions
Financing institutes/insurance companies	863 578	52 030	6	980	916 594	18 104
Service industries/other	155 365	182 476	27 174	170 149	535 163	163 640
Transport/communications	501 978	558 707	80 955	416 031	1 557 671	374 877
Manufacturing industry	79 434	15 180	187	4 404	99 206	21 442
Energy, water and mining	123 555	59 834	46	437	183 873	8 372
Trade, maintenance and repairs	54 450	1 030	13	6 175	61 667	8 714
Agriculture, forestry and fishing	21 292	59	–	1 956	23 307	8 361
Construction	3 439	22	2	2 029	5 491	14 033
Total	**1 803 090**	**869 338**	**108 383**	**602 161**	**3 382 972**	**617 541**

[1)] Allocated in accordance with the internal reporting by economic criteria.
[2)] Total differences are rounding differences.

Regions [1] [2] (in € 000)	Total exposure of impaired receivables [3] 31 Dec. 2012	Total exposure of impaired receivables [3] 31 Dec. 2011	Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2012	Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2011 [4]
Euro countries	4 203 564	3 113 083	1 440 586	1 070 919
Other Europe	435 421	354 047	158 575	99 516
North America	259 265	442 033	66 460	96 432
Middle and South America	13 383	10 533	8 750	26 940
Middle East/Africa	–	–	–	–
Asia/Australia	88 297	31 451	10 127	17 229
Total	**4 999 930**	**3 951 147**	**1 684 499**	**1 311 036**

[1] Allocated in accordance with the internal reporting by economic criteria.
[2] Total differences are rounding differences.
[3] Previous year's figures were adjusted.

31 Dec. 2012	Total exposure of overdue, unimpaired receivables					General loan loss provisions
Regions [1] [2] (in € 000)	up to 1 month	1 up to 3 months	3 up to 6 months	More than 6 months	Total	
Euro countries	1 570 485	276 266	67 738	478 014	2 392 503	429 255
Other Europe	60 055	102 165	–	2 576	164 796	13 521
North America	–	–	–	52 551	52 551	30 743
Middle and South America	–	–	–	–	–	3 512
Middle East/Africa	26 651	–	–	–	26 651	4 363
Asia/Australia	12 620	1 131	–	2 434	16 185	8 729
Total	**1 669 812**	**379 561**	**67 738**	**535 574**	**2 652 685**	**490 123**

[1] Allocated in accordance with the internal reporting by economic criteria.
[2] Total differences are rounding differences.

31 Dec. 2011	Total exposure of overdue, unimpaired receivables					General loan loss provisions
Regions [1] [2] (in € 000)	up to 1 month	1 up to 3 months	3 up to 6 months	More than 6 months	Total	
Euro countries	1 535 436	691 676	108 382	518 167	2 853 662	510 837
Other Europe	197 068	85 370	1	1 371	283 809	20 179
North America	45 225	868	–	82 623	128 716	59 418
Middle and South America	19 622	13 962	–	–	33 584	11 603
Middle East/Africa	–	–	–	–	–	4 865
Asien/Asia/Australia	5 738	77 462	–	–	83 201	10 638
Total	**1 803 090**	**869 338**	**108 383**	**602 161**	**3 382 972**	**617 541**

[1] Allocated in accordance with the internal reporting by economic criteria.
[2] Total differences are rounding differences.

The exposure of overdue, unimpaired receivables fell in all maturity bands. The reason for this is in particular a fall in the band between one and three months. Of the overdue, unimpaired receivables, only 23 per cent (21 per cent) are receivables where the agreed interest or redemption payments are overdue by more than 90 days. In the NORD/LB Group these receivables are considered to be defaults. 63 per cent (53 per cent) of the overdue, inimpaired receivables are overdue by up to one month; usually the NORD/LB Group expects these receivables to be paid.

The provisions figures presented deviate due to differences in the basis of consolidation and the treatment of general loan loss provisions for off-balance-sheet liabilities from the values presented in Note 36. The values can be reconciled as follows:

Reconciliations [1] (in € million)	Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2012	Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2011 [2]	General loan loss provisions 31 Dec. 2012	General loan loss provisions 31 Dec. 2011
Risk report	**1 684**	**1 311**	**490**	**618**
Differing basis of consolidation	– 79	– 50	– 11	1
General loan loss provisions on off-balance sheet obligations	42	38	– 42	– 38
Consolidated financial statements	**1 648**	**1 299**	**437**	**580**

[1] Total differences are rounding differences.
[2] Previous year's figures were adjusted.

Direct write-offs of loans by the significant Group companies from a risk point of view in the year under review totalled € 85 million (€ 85 million). Additions to receivables written off amounted to € 15 million (€ 17 million). For securities in the category loans and receivables (LaR) in the NORD/LB Group, direct write-ups totalled € 3 million (write-offs of € 14 million).

Due to the inclusion of collateral, the risk-weighted assets of the significant Group companies from a risk point of view were reduced as at 31 December 2012 by € 12 billion (€ 12 billion); this equates to a share of 14 per cent (13 per cent) of the total RWA credit risk. Mainly sureties and guarantees from states and banks, financial securities and mortgage liens were included.

The NORD/LB Group has not obtained any assets in the period under review by taking possession of collateral it holds as security or calling on other credit enhancements.

Credit risk – outlook

Loan loss provisions for 2013 expected to be below the current level.

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

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 strategy of the NORD/LB Group. 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.

Investments support the customer-oriented business model.

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 investment analysis was developed and implemented by NORD/LB's Investment Management as an integral part of the measurement of investment risk and 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 significence 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 companies 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 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.

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.

The concept will also be implemented in subsidiaries with own investments (Bremer Landesbank and Öffentliche Versicherungen Braunschweig). The investments of the subsidiaries of NORD/LB Luxembourg are analysed by NORD/LB's Investment Management.

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.

As a general rule the Erweiterter Konzernvorstand and the Konzernsteuerungskreise control all significant investments.

Investment risk – assessment

Risks beyond the carrying amount considered.

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.

At the level of the NORD/LB Group, all of the significant investments from a risk point of view are considered and integrated into the risk management system of the Group on the basis of quantified risk potential in accordance with the risk type.

When calculating the minimum capital requirements, the NORD/LB Group 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 of NORD/LB twice a year on the investment portfolio. The report includes among other things an analysis of 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.

In the significant subsidiaries from a risk point of view that have investments, corresponding reports are also regularly prepared on the respective investments.

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.

Reduction of the investment portfolio continued.

Among other things the risk potential reported in the going concern has been reduced significantly due to these sales and valuation adjustments in the year under review to € 44 million (€ 47 million).

The ownership structure of Bremer Landesbank 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 54.8 per cent.

Below the risk management and risk position of the significant investments based on qualitative criteria, Öffentliche Versicherungen Braunschweig and the NORD/LB Asset Management Group, are presented.

Öffentliche Versicherung Braunschweig

Risks in the companies of Öffentliche Versicherung Braunschweig (Öffentliche Lebensversicherung Braunschweig and Öffentliche Sachversicherung Braunschweig – ÖVBS) are monitored using a mature early warning system, which is an important part of its risk management system. The early warning system is regularly examined by Internal Audit and by the auditors of ÖVBS.

The risk management of ÖVBS is carried out in three dimensions. Planning, measuring, managing, controlling and reporting all focus on economic, regulatory and accounting factors.

With regard to insurance risks at Öffentliche Lebensversicherung Braunschweig, life insurance policies involve future biometric, cancellation, investment return and cost trend risks. The principles applied by the actuary responsible for calculating insurance provisions are the result of the assumption of future trends and hence allow for the risk of change. Calculations of projections form the basis for decisions on future profit shares.

Öffentliche Sachversicherung Braunschweig deals with these insurance risks by aiming to achieve a balanced insurance portfolio with the main focus on business with private customers. This primarily involves a balanced assumption strategy and comprehensive measures to regulate portfolios. Risks relating to the level of loss provisions are monitored ongoing. Risks relating to terrorist attacks have been covered with the maximum level of reinsurance available on the market.

The risks of both companies have been effectively safeguarded from a commercial point of view with differing reinsurance solutions.

The issue of risk management and the relating regulatory provisions under Solvency II are becoming increasingly significant in the insurance industry. Following the publication of the Solvency II guideline in 2009, further rules are currently still the subject of intensive discussion, including about when Solvency II will come into effect. Many provisions are already laid down in concrete terms in the Minimum Requirements for Risk Management for Insurance Companies and it has already been announced that individual elements of Solvency II will be brought forward due to the delay by national and European regulatory authorities.

In 2012 ÖVBS created the technical and procedural basis for the implementation of the quantitative provisions of Solvency II in a project across all divisions.

For 2013 further work on the Solvency II requirements is planned in the project. The aim is, building on the Minimum Requirements for Risk Management for Insurance Companies that have already been implemented, to analyse the essential qualitative components in good time so that future requirements will be met adequately.

The company also continues to ensure that only risks which can effectively be borne by the company in the event of realisation are entered into. There are no material risks that threaten the existence of the Group.

NORD/LB Asset Management Group

The NORD/LB Asset Management Group is the NORD/LB Group's central platform for asset management services. In the year under review the Group includes the non-operational NORD/LB Asset Management Holding GmbH, NORD/LB Capital Management GmbH, which is responsible for portfolio management, and NORD/LB Kapitalanlagegesellschaft AG, which performs all of the administrative services for institutional asset management in the NORD/LB Asset Management Group. On 1 January 2013 the Legal Department, Accounting/Controlling, IT Services and Secretariat were transferred from their previous companies to NORD/LB Asset Management Holding GmbH. The holding company will in future be responsible within the scope of a service contract for staff services and the provision of infrastructure for the NORD/LB Asset Management Group.

The basis of risk management in the operational companies is provided by the business and risk strategies specified by the respective management in accordance with the Minimum Requirements for Risk Management and the Minimum Requirements for Risk Management for Investment Companies. NORD/LB Capital Management GmbH and NORD/LB Kapitalanlagegesellschaft AG are integrated with regard to operational risk into the NORD/LB Group's system, i. e. they prepare a risk map on an annual basis and continually carry out scenario analyses. Coordination in the NORD/LB Group is ensured by participation in regular method boards on operational risk.

The companies also have a regular risk inventory meeting. The department heads are required to report on changes in the risk situation in the monthly meetings between management and the department heads. In this meeting possible measures for reducing risks are discussed and decided. The Risk Officer of the NORD/LB Asset Management Group is responsible for monitoring the implementation of the measures and reports on this to management in the quarterly risk report.

In the management information system established in the two operational companies, the finance and operational risks of the companies are subject to constant monitoring and control.

There are currently no material risks that threaten the existence of the Group here either.

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 the NORD/LB Group associated with market-price risks are concentrated on selected markets, customers and product segments. The 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. The NORD/LB Group does not take up any positions on an opportunistic basis.

Market activities geared towards the needs of customers.

Trading activities relating to customer business focus on interest products. Here the NORD/LB Group aims, within the scope of set market-price risk limits, to achieve earnings from term transformation or credit spreads and to participate in general market developments within the framework of these risk limits.

Credit investments in securities and credit derivatives result across the Group in significant credit-spread risks in the banking book. The NORD/LB Group 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 at the level of NORD/LB and on a quarterly basis at the level of the NORD/LB Group. 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 NORD/LB's ALCO with voting rights are the Managing Director and the heads of the trading divisions. Representatives of the Finance and Risk Control Division, the Research / Economy Division, the Finance / Taxes Division and the director responsible for the Finance and Risk Control Division also take part. The Group's ALCO also includes the representatives of the significant companies from a risk point of view. The measures passed by the Managing Board are implemented by the Bank Assets Allocation and Treasury divisions and the relevant units of the subsidiaries.

Risks are monitored by the Risk Control Department in the Finance and Risk Control Division, which in accordance with MaRisk 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 (including its foreign branches) and the NORD/LB Group. 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.

The market-price risks of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB are managed decentrally by the local trade and Treasury divisions. For the monitoring of risks, these companies have their own Risk Control units. The data is integrated into the reporting at Group level.

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 across the Group by VaR limits; instead they are limited separately by a scenario analysis.

Details on the accounting treatment of hedging instruments and the type of hedges can be found in the notes (in particular in Note 7g and Note 66).

Market-price risk – assessment

Calculated using the historical simulation method.

The VaR ratios are calculated daily using the historical simulation method. In the year under review the methodology and risk system in the NORD/LB Group were standardised. A unilateral confidence level of 95 per cent and a holding period of one trading day are used across the Group. At the end of each quarter NORD/LB also prepares a VaR calculation for the NORD/LB Group based on the above parameters 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 calculated in operational control across the Group using 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 backtesting analyses. This involves a comparison of the daily change in value of the respective portfolio with the VaR of the previous day. A backtesting 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; however as at the reporting date it was still red for NORD/LB and green for the other significant companies of the NORD/LB Group from a risk point of view. This increased number results from the positions in the banking book, in a 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 backtesting 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 and for the subsidiaries, 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 of the institutes of the NORD/LB Group. The Managing Board is informed in detail once a month about NORD/LB's and the NORD/LB Group's market-price risks and earnings position.

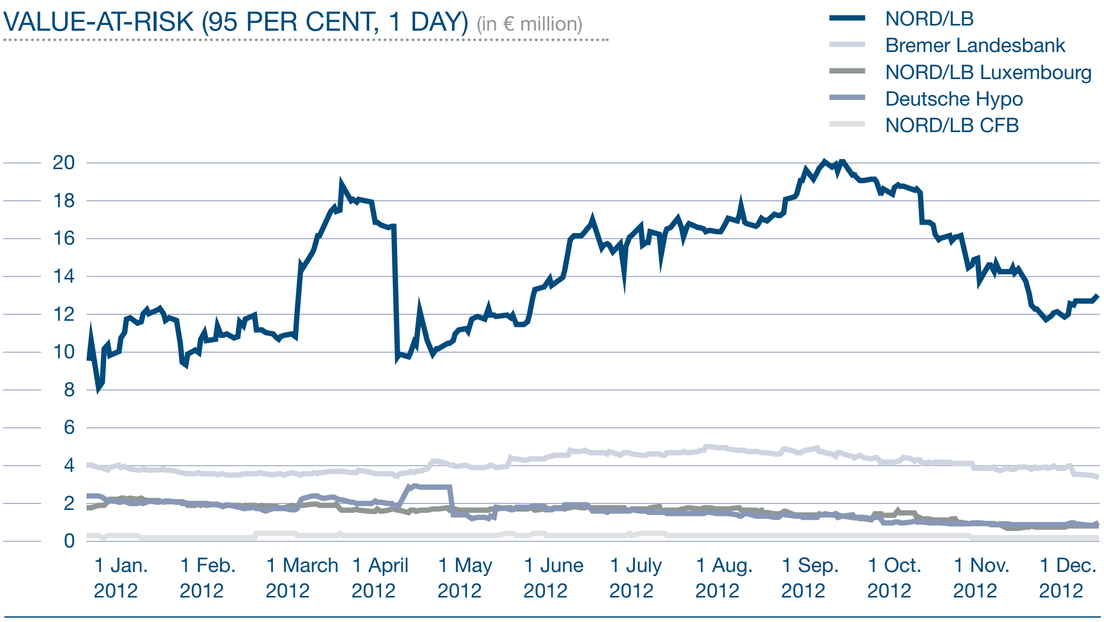
Daily reporting to the responsible directors and monthly reporting to the Managing Board also take place in the significant subsidiaries from a risk point of view.

Market-price risk – development in 2012

The NORD/LB Group'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 NORD/LB's 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). In Bremer Landesbank the average was 58 per cent (43 per cent), in NORD/LB Luxembourg 23 per cent (21 per cent), in Deutsche Hypo 30 per cent (50 per cent) and in NORD/LB CFB 43 per cent (24 per cent).

Reduced market-price risk in the NORD/LB Group.

During the course of 2012, the daily VaR calculated as the sum of the VAR values of the significant companies from a risk point of view (confidence level of 95 per cent and holding period of one day) fluctuated between € 17 million and € 28 million, with an average value of € 22 million. As at 31 December 2012 a VaR of € 16 million (€ 17 million), therefore 6 per cent less than the previous year, was calculated for the NORD/LB Group. The historical simulation method was used throughout the Group.

The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 84 million in the NORD/LB Group on 31 December 2012 (€ 88 million). These figures also include, unlike the regulatory reporting, the interest rate and share-price risks in the banking book.

Market-price risks[1)] (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 %, 1 day)	27 198	19 289	22 253	15 229	16 492	10 588	15 878	18 019
Currency risk (VaR 95 %, 1 day)	2 154	1 905	1 209	1 340	703	912	419	625
Share-price and fund-price risk (VaR 95 %, 1 day)	1 197	2 366	715	1 204	153	668	922	811
Volatility risk (VaR 95 %, 1 day)	912	521	432	265	142	124	617	257
Other add-ons	171	127	73	51	19	10	42	46
Total	**28 068**	**19 261**	**22 217**	**14 905**	**16 652**	**10 267**	**16 463**	**17 499**

1) Maximum, average and minimum risks are calculated on the basis of the VaR totals for the significant subsidiaries; end-of-year risks are consolidated figures.

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

The NORD/LB Group will continue to closely monitor all relevant asset categories in 2013 as short-term, volatile market fluctuations can be expected further on. Based on its risk policy, the gradual improvements to the risk models, the risk control process and focused trading strategies, the NORD/LB Group 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. The NORD/LB Group 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 lending, investment or new issue business may also result in liquidity shortages. The focus of the NORD/LB Group consideration is on the respective coming twelve months.

- Refinancing 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

Liquidity is assured by maintaining a sufficient supply of liquid assets.

Securing perpetual liquidity for the NORD/LB Group 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 Group 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. The individual institutes of the NORD/LB Group also have liquidity control policies which describe 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 public investors, which is in line with the risk-based orientation of the NORD/LB Group. The diversification of refinancing sources is also strengthened by Pfandbrief 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.

The liquidity risks of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB are managed decentrally by the local Treasury units and monitored by their own Risk Control units. In order to coordinate the decentralised units of the NORD/LB Group, information is regularly exchanged between the significant companies of the NORD/LB Group from a risk point of view to address both issues relevant to control in the Treasury Division and also model-relevant issues in the Risk Control Division.

Liquidity risk – control and monitoring

Liquidity risk controlled by limits and stress scenarios.

The refinancing risk of NORD/LB and the significant subsidiaries from a risk point of view 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 Pfandbriefe.

For control at Group level a Group liquidity progress review is prepared. For this purpose all of the cash flows in euro and the translated foreign currency cash flows of the significant Group companies from a risk point of view are compiled in one overview. The liquidity progress reports are also prepared in the most important foreign currencies.

Liquidity risk – assessment

The NORD/LB Group 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 a risk-bearing capacity concept resulting from a present-value consideration of the 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 the NORD/LB Group'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 NORD/LB Group's 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.

With the significant subsidiaries from a risk point of view, the relevant reports on traditional liquidity risk, refinancing risk and the liquidity situation are established in the status quo and under stress. These inform the controlling divisions, responsible directors and the Managing Board on a monthly, weekly or even daily basis.

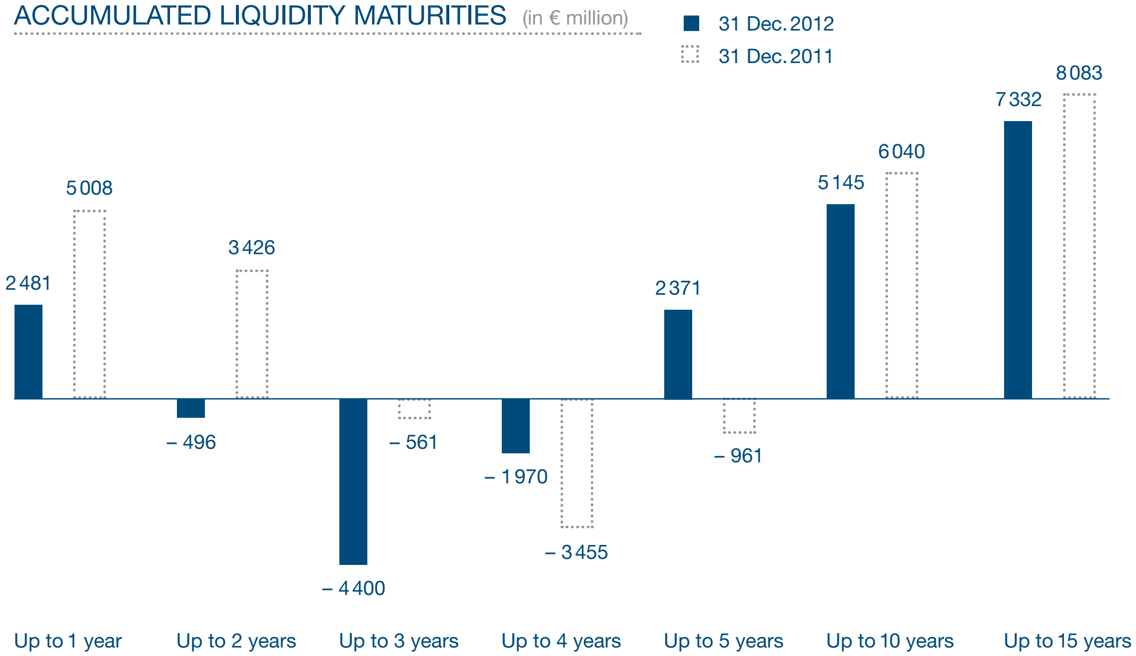
Liquidity risk – development in 2012

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, the NORD/LB Group had sufficient liquidity at all times in 2012. The liquidity maturity balance sheet shows liquidity surpluses in the short and long-term maturity bands. The liquidity risk limits derived from the risk-bearing capacity and updated in the period under review were always complied with; this applies for all currencies considered together and for the principal individual currencies.

In order to broaden its refinancing instruments, in the year under review NORD/LB became the first issuer worldwide of an aircraft Pfandbrief 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)



The NORD/LB Group has adequate liquidity even under stress.

The NORD/LB Group operates in markets with the highest possible level of liquidity and maintains a portfolio of high-quality securities. The significant companies of the NORD/LB Group from a risk point of view possess as at the reporting date securities in the amount of € 58 billion, 85 per cent of which are suitable 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 the NORD/LB Group had sufficient liquidity. The liquidity ratios calculated by the institutes subject to the German liquidity regulation (LiqV) were always well above the minimum of 1.00 required by regulatory provisions during the year.

Liquidity ratio in accordance with the LiqV [1)]	**31 Dec. 2012**	**31 Dec. 2011**
NORD/LB	1.52	1.73
Bremer Landesbank	2.01	1.74
Deutsche Hypo	1.49	2.09

1) NORD/LB Luxembourg and NORD/LB CFB are not required to determine a comparable ratio by law.

The dynamic stress tests used for internal control showed a satisfactory liquidity situation for all units of the NORD/LB Group 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.

The analysis of contractual due dates for financial liabilities can be found in Note 67.

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 the NORD/LB Group.

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. The NORD/LB Group 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 guarantors.

- 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

The NORD/LB Group 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 avoided where possible.

Operational risks are considered in all business decisions. Future losses are countered by rules and 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 across the Group 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 Group 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.

The operational risks of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB are managed decentrally. For the monitoring of risks, these companies have their own Risk Control units which coordinate closely with the Risk Control Division of NORD/LB. The methods and guidelines which apply throughout the Group are defined by the Finance Risk Control Division of NORD/LB.

Operational risk – control and monitoring

The NORD/LB Group 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 Group 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 Group to give greater consideration to processes across the visions and in so doing 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 the NORD/LB Group. 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 the NORD/LB Group. 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, the NORD/LB Group 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.

Maintaining the health of staff has top priority.

In order to prevent criminal acts, money laundering, the financing of terrorism and other compliance risks, the Group 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 the NORD/LB Group 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 in terms of risk was installed in order to meet the Minimum Requirements for Risk Management 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.

The NORD/LB Group’s insurance cover is adequate. 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. The key controls are reviewed annually with regard to their appropriateness and effectives.

The NORD/LB Group’s accounting process is structured decentrally. The preparation of the annual accounts and the management report for the NORD/LB Group in compliance with legal regulations is the responsibility of the Finance/Taxes Division of NORD/LB. Many accountable facts are already recorded in the market and back-office divisions in upstream systems of NORD/LB and its subsidiaries and 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, its foreign branches and significant subsidiaries from a risk point of view are basically structured independently and they have their own accounting-related control processes.

The closing entries of all of the companies included in the consolidation are provided online and consolidated via a SAP module for business consolidation. 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

he NORD/LB Group 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 significant companies from a risk point of view of the NORD/LB Group and the NORD/LB Asset Management Group are included in the collection of loss events.

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 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.

With the help of the risk assessment method applied in NORD/LB, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo, NORD/LB CFB and the NORD/LB Asset Management Group, the recording of data concerning past losses is supplemented with future components. 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.

Calculated using loss distribution approach.

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 the NORD/LB Group 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 the NORD/LB Group'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.

For NORD/LB and Bremer Landesbank 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 the NORD/LB Group. 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, € 72 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, as well as extend risk control in the Group. 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 is 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 extended in the Group. 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 across the Group 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

The NORD/LB Group has taken precautions to adequately account for all of the risks known to the bank. Suitable instruments have been implemented for the purpose of recognising risks early.

No risks that would put the existence of the bank at risk.

The utilisation determined in the RBC model shows that risks were covered at all times during the period under review. The NORD/LB Group does not believe that there are any risks at present that would put the existence of the bank at risk.

The NORD/LB Group and its significant subsidiaries from a risk point of view which are subject to independent reporting requirements complied with the applicable regulatory provisions concerning equity capital and liquidity throughout 2012. They also took due account of the regulations relating to large credits limits in accordance with §§ 13a and 13b of the German Banking Act and Luxembourgish law.

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, currencies 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 the risk-bearing capacity. However, the NORD/LB Group 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 the NORD/LB Group.

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INCOME STATEMENT

	Notes	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011[1] (in € million)	Change (in %)
Interest income		12 278	12 993	– 6
Interest expense		10 321	11 231	– 8
Net interest income	**21**	**1 957**	**1 762**	**11**
Loan loss provisions	22	– 598	– 197	>100
Commission income		277	302	– 8
Commission expense		109	136	– 20
Net commission income	**23**	**168**	**166**	**1**
Trading profit / loss		517	287	80
Profit / loss from the use of the fair value option		– 640	– 348	84
Profit / loss from financial instruments at fair value through profit or loss	**24**	**– 123**	**– 61**	**> 100**
Profit / loss from hedge accounting	25	1	130	– 99
Profit / loss from financial assets	26	– 5	– 48	90
Profit / loss from investments accounted for using the equity method	27	– 14	–	–
Administrative expenses	28	1 158	1 091	6
Other operating profit / loss	29	– 99	69	> 100
Earnings before reorganisation and taxes		**129**	**730**	**– 82**
Reorganisation expenses	30	– 34	–	–
Expenses for public guarantees related to reorganisation	31	– 19	–	–
Earnings before taxes		**76**	**730**	**– 90**
Income taxes	32	– 4	194	> 100
Consolidated profit		**80**	**536**	**– 85**
of which: attributable to the owners of NORD/LB		82	517	
of which: attributable to non-controlling interests		– 2	19	

[1] some previous year's figures were adjusted as you can see at note (2) adjustment of figures for the previous year.

STATEMENT OF COMPREHENSIVE INCOME

The statement of comprehensive income for the financial year 2012 (2011) comprises the income statement and the income and expense recognised in other comprehensive income (OCI):

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011[1)] (in € million)	Change (in %)
Consolidated profit	**80**	**536**	**– 85**
Increase / decrease from available for sale (AfS) financial instruments			
Unrealised profit / losses	877	– 937	> 100
Transfer due to realisation profit / loss	– 31	– 6	> 100
Changes in value investments accounted for using the equity method recognised directly in equity	40	16	> 100
Translation differences of foreign business units			
Unrealised profit / losses	– 2	13	> 100
Actuarial gains and losses for defined benefit obligations	– 500	– 41	> 100
Deferred taxes	– 131	338	> 100
Other profit / loss	**253**	**– 617**	**> 100**
Comprehensive income for the period under review	**333**	**– 81**	**> 100**
of which: attributable to the owners of NORD/LB	337	– 95	
of which: attributable to non-controlling interests	– 4	14	

[1)] some previous year's figures were adjusted as you can see at note (2) adjustment of figures for the previous year.

For the breakdown of deferred taxes into their individual components the notes to the statement of comprehensive income are referred to.

BALANCE SHEET

Assets	Notes	31 Dec. 2012 (in € million)	31 Dec. 2011[1] (in € million)	Change (in %)
Cash reserve	33	665	796	– 16
Loans and advances to banks	34	34 378	34 654	– 1
Loans and advances to customers	35	114 577	114 652	–
Loan loss provisions	36	– 1 949	– 1 767	10
Adjustment item for financial instruments hedged in the fair value hedge portfolio	37	– 3	–	–
Financial assets at fair value through profit or loss	38	17 920	18 644	– 4
Positive fair values from hedge accounting derivatives	39	4 924	3 289	50
Financial assets	40	52 423	54 510	– 4
Investments accounted for using the equity method	41	318	387	– 18
Property and equipment	42	635	688	– 8
Investment property	43	94	93	1
Intangible assets	44	142	153	– 7
Assets held for sale		–	1	– 100
Current income tax assets	45	50	60	– 17
Deferred income taxes	45	727	721	1
Other assets	46	649	752	– 14
Total assets		**225 550**	**227 633**	– 1

[1] some previous year's figures were adjusted as you can see at note (2) adjustment of figures for the previous year.

Liabilities	Notes	31 Dec. 2012 (in € million)	31 Dec. 2011[1] (in € million)	Change (in %)
Liabilities to banks	47	65 079	59 260	10
Liabilities to customers	48	55 951	60 645	– 8
Securitised liabilities	49	60 619	66 076	– 8
Adjustment item for financial instruments hedged in the fair value hedge portfolio	50	895	733	22
Financial liabilities at fair value through profit or loss	51	20 724	20 529	1
Negative fair values from hedge accounting derivatives	52	4 908	3 422	43
Provisions	53	4 137	3 414	21
Current income tax liabilities	54	162	161	1
Deferred income taxes	54	34	5	> 100
Other liabilities	55	508	756	– 33
Subordinated capital	56	4 833	6 086	– 21
Equity	57			
Issued capital		1 607	1 494	8
Capital reserves		3 332	3 175	5
Retained earnings		2 192	2 480	– 12
Revaluation reserve		– 13	– 543	– 98
Currency translation reserve		– 3	– 3	–
Equity capital attributable to the owners of NORD/LB		**7 115**	**6 603**	**8**
Equity capital attributable to non-controlling interests		585	– 57	> 100
		7 700	**6 546**	**18**
Total liabilities and equity		**225 550**	**227 633**	**– 1**

[1] some previous year's figures were adjusted as you can see at note (2) adjustment of figures for the previous year.

STATEMENT OF CHANGES IN EQUITY

The individual components of equity and their development in 2011 and 2012 are shown in the following statement of changes in equity:

(in € million)	Issued capital	Capital reserves	Retained earnings	Revaluation reserve	Currency translation reserve	Equity attributable to the owners of NORD/LB	Equity attributable to noncon-trolling interests	Consolidated equity
Equity as at 1 Jan. 2011	**1 085**	**2 597**	**2 090**	**63**	**– 8**	**5 827**	**– 26**	**5 801**
Adjustments according to IAS 8	–	–	–	–	–	–	–	–
Adjusted equity as at 1 Jan. 2011	**1 085**	**2 597**	**2 090**	**63**	**– 8**	**5 827**	**– 26**	**5 801**
Consolidated profit	–	–	517	–	–	517	19	536
Increase /decrease from available for sale (AfS) financial instruments	–	–	–	– 930	–	– 930	– 13	– 943
Changes in value invest-ments accounted for using the equity method recog-nised directly in equity	–	–	16	–	–	16	–	16
Translation differences of foreign business units	–	–	–	–	5	5	8	13
Actuarial gains and losses for pensions for defined benefit obligations	–	–	– 39	–	–	– 39	– 2	– 41
Deferred taxes	–	–	12	324	–	336	2	338
Comprehensive income for the period under preview	**–**	**–**	**506**	**– 606**	**5**	**– 95**	**14**	**– 81**
Distribution	–	–	– 127	–	–	– 127	– 3	– 130
Capital increases / decreases	409	578	–	–	–	987	– 5	982
Changes in the basis of consolidation	–	–	11	–	–	11	– 21	– 10
Consolidation effects and other changes in capital	–	–	–	–	–	–	– 16	– 16
Equity as at 31 Dec. 2011	**1 494**	**3 175**	**2 480**	**– 543**	**– 3**	**6 603**	**– 57**	**6 546**

(in € million)	Issued capital	Capital reserves	Retained earnings	Revaluation reserve	Currency translation reserve	Equity attributable to the owners of NORD/LB	Equity attributable to noncon-trolling interests	Consolidated equity
Equity as at 1 Jan. 2012	**1 494**	**3 175**	**2 480**	**– 543**	**– 3**	**6 603**	**– 57**	**6 546**
Consolidated profit	–	–	82	–	–	82	– 2	80
Increase /decrease from available for sale (AfS) financial instruments	–	–	–	805	–	805	41	846
Changes in value invest-ments accounted for using the equity method recog-nised directly in equity	–	–	40	–	–	40	–	40
Translation differences of foreign business units	–	–	–	–	–	–	– 2	– 2
Actuarial gains and losses for pensions for defined benefit obligations	–	–	– 461	–	–	– 461	– 39	– 500
Deferred taxes	–	–	144	– 273	–	– 129	– 2	– 131
Comprehensive income for the period under preview	**–**	**–**	**– 195**	**532**	**–**	**337**	**– 4**	**333**
Distribution	–	–	– 53	–	–	– 53	– 4	– 57
Capital increases / decreases	113	157	–	–	–	270	654	924
Changes in the basis of consolidation	–	–	59	– 2	–	57	– 8	49
Consolidation effects and other changes in capital	–	–	– 99	–	–	– 99	4	– 95
Equity as at 31 Dec. 2012	**1 607**	**3 332**	**2 192**	**– 13**	**– 3**	**7 115**	**585**	**7 700**

For a more detailed account, Note (57) Equity is referred to.

CASH FLOW STATEMENT

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011 (in € million)	Change (in %)
Consolidated profit for the period	**80**	**536**	**– 85**
Adjustment for non-cash items			
Depreciation, impairment and write-ups of property and equipment and financial assets	583	524	11
Increase / decrease in provisions	199	97	> 100
Gains / losses from the disposal of property and equipment and financial assets	– 32	– 39	– 18
Increase / decrease in other non-cash items	589	77	> 100
Other adjustments net	– 1 929	– 1 571	23
Sub-total	**– 510**	**– 376**	**36**
Increase / decrease in assets and liabilities from operating activities after adjustment for non-cash item			
Loans and advances to banks and customers	359	1 204	– 70
Trading assets	567	– 3 784	> 100
Other assets from operating activities	272	2 225	– 88
Liabilities to banks and customers	1 278	– 1 813	> 100
Securitised liabilities	– 5 393	– 5 119	5
Other liabilities from operating activities	1 960	5 766	– 66
Interest and dividends received	8 256	8 590	– 4
Interest paid	– 6 630	– 6 761	– 2
Income taxes paid	– 44	– 42	5
Cash flow from operating activities	**115**	**– 110**	**> 100**

	1 Jan. – 31 Dec. 2012 (in € million)	1 Jan. – 31 Dec. 2011 (in € million)	Change (in %)
Cash receipts from the disposal of			
financial assets	22	496	– 96
property and equipment	31	2	> 100
Cash payments for acquisition of			
financial assets	– 8	– 57	– 86
property and equipment	– 85	– 271	– 69
Cash receipts from the disposal of consolidated companies and other business units	25	1	> 100
Cash flow from investing activities	**– 15**	**171**	**> 100**
Cash receipts from equity contributions	893	653	37
Cash payments to owners and non-controlling interests	– 131	– 5	> 100
Increase in funds from other capital	40	–	–
Decrease in funds from other capital	– 728	– 526	38
Interest expense on subordinated capital	– 245	– 331	– 26
Dividends paid	– 57	– 130	– 56
Cash flow from financing activities	**– 228**	**– 339**	**– 33**
Cash and cash equivalents as at 1 January	**796**	**1 069**	**– 26**
Cash flow from operating activities	115	– 110	> 100
Cash flow from investing activities	– 15	171	> 100
Cash flow from financing activities	– 228	– 339	– 33
Total cash flow	**– 128**	**– 278**	**54**
Effects of changes in exchange rates and in the basis of consolidation	– 3	5	> 100
Cash and cash equivalents as at 31 December	**665**	**796**	**– 16**

With regard to cash and cash equivalents as at 31 December, Note (33) Cash reserve is referred to.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General Disclosures

(1) Principles for the preparation of the consolidated financial statements

The consolidated financial statements of Norddeutsche Landesbank Girozentrale, Hanover, Braunschweig, Magdeburg (NORD/LB) as at 31 December 2012 were prepared on the basis of Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002 (IAS Regulation) in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). Standards published at the end of the financial year and adopted by the European Union were relevant. National regulations contained in the German Commercial Code (HGB) under § 315a of the HGB were also observed. NORD/LB as a group in terms of commercial law is referred to in the following as the NORD/LB Group or the Group.

The consolidated financial statements as at 31 December 2012 comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes. The segment reporting is shown in the notes (Note (19) Segment reporting by business segment and Note (20) Breakdown by geographical regions). The reporting on the nature and scope of risks relating to financial instruments in accordance with IFRS 7 is provided mainly in a risk report within the Group Management Report.

Assets are always measured at amortised cost, apart from the financial instruments in accordance with IAS 39, which are measured at fair value. In the accounting it was assumed that the company was a going concern. Income and expenses are recognised pro rata temporis. They are recognised and reported in the period to which they relate. Significant accounting policies are described below.

Estimations and assessments required by management in accordance with IFRS are made in compliance with the respective standard and are reviewed regularly. They are based on experience and other factors, including expectations as to future events which appear reasonable under prevailing circumstances. In the process global developments and the industry-specific environment are taken into account.

Estimations and assessments are made relating in particular to the calculation of the fair value of financial assets and liabilities of Level 2 and Level 3 including the estimation of the existence of an active or inactive market, the valuation of pension provisions in terms of determining the underlying parameters (Note (14) and (53)), the assessment of loan loss provisions with regard to future cash flows (Note (8) and (36)) the calculation of deferred tax assets relating to the recoverability of tax losses not yet utilised. Where significant estimations were required, the assumptions made are presented. Regarding the effect of the assumptions on the valuation of financial instruments allocated to Level 3, the relevant disclosures concerning sensitivity in Note (58). Fair value hierarchy are referred to.

Estimations and assessments and the underlying assessment factors and methods of estimation are reviewed regularly and compared with actual events. Provided that an amendment only refers to a single period, amendments to estimations are only taken into account for this period. If an amendment refers to the current and following reporting periods it is duly observed in this period and in the following periods.

Apart from estimates, the following significant discretionary management decisions in respect of the accounting policies of the NORD/LB Group need to be mentioned: The use of the fair value option for financial instruments, the non-use of the categorisation of financial instruments as Held to Maturity (HtM) and the non-use of the reclassification provisions of IAS 39.

The reporting currency for the consolidated financial statements is the euro. All amounts are reported rounded in euro millions (€ million), unless otherwise is indicated. The previous year's figures are shown in brackets afterwards.

These consolidated financial statements were signed by the Managing Board on 18 March 2013 and approved for submission to the Supervisory Board.

(2) Adjustment of figures for the previous year

The figures for the previous year were adjusted in these consolidated financial statements on the basis of IAS 8.42 in the following area:

Since the interim consolidated financial statements as at 30 September 2012 business relations with 17 companies that conduct banking business in terms of § 1 of the German Banking Act have been reported as loans and advances to banks and liabilities to banks and the figures reported have been adjusted with retrospective efffect. In the past we were guided by the classification of the European Central Bank and did not treat these companies as banks.

The following reclassifications were therefore made in the balance sheet as at 31 December 2011:

31 Dec. 2011 (in € million)	Prior to adjustment	Adjustment	After Adjustment
Assets			
Loans and advances to banks	32 928	1 752	34 680
Loans and advances to customers	116 404	– 1 752	114 652
Liabilities			
Liabilities to banks	56 584	2 677	59 260
Liabilties to customers	63 322	– 2 677	60 645

The adjustments as at 1 January 2011 are as follows:

1 Jan. 2011 (in € million)	Prior to adjustment	Adjustment	After Adjustment
Assets			
Loans and advances to banks	36 734	1 053	37 787
Loans and advances to customers	113 605	– 1 053	112 552
Liabilities			
Liabilities to banks	60 962	1 951	62 913
Liabilties to customers	60 742	– 1 951	58 791

An adjustment was also made on the basis of IAS 8.14:

Due to a change in the interpretation of the criteria for allocation to the category loans and receivables (LaR), silent participations and participatory capital with loss sharing are no longer allocated to the category LaR, but to the category available for sale (AfS).

Due to this change in accounting method, silent participations are no longer reported at amortised cost, but at fair value and in the amount of € 146 million (€ 164 million) under other financial assets classified as AfS. Accordingly loans and advances to banks in the amount of € –26 million (€ –26 million), loan loss provisions in the amount of € 35 million (€ 18 million) and financial assets classified as LaR in the amount of € –152 million (€ –152 million) have been reduced by the carrying amount of the aforementioned components. The difference between the carrying amount and the fair value is reported in the amount of € 3 million (€ 3 million) under other comprehensive income and in the amount of € 0 million (€ 1 million) under income tax liabilities.

In the income statement, an amount of € 16 million (€ 8 million) was taken from loan loss provisions and € 0 million (€ –1 million) from interest income and reported under net valuation allowances of other financial assets classified as AfS.

We do not show the figures as at 1 January 2011, as there were no significant changes during the year 2011.

The respective adjustments were also taken into account in the following notes: (21) Net interest income, (22) Provisions for lending business, (26) Profit / loss from financial instruments at fair value, Notes to the statement of comprehensive income, (34) Loans and advances to banks, (35) Loans and advances to customers, (36) Loan loss provisions, (40) Financial assets, (47) Liabilities to banks, (48) Liabilities to customers, (54) Deferred income taxes, (58) Fair value hierarchy, (59) Carrying amounts by measurement category, (60) Net gains or losses by measurement category, (61) Impairments / reversals of impairment by measurement category, (62) Fair values of financial instruments and (67) Residual terms of financial liabilities.

(3) Adopted IFRS

In these consolidated financial statements all IFRS, interpretations and their respective amendments which have been endorsed by the EU and were relevant for the NORD/LB Group in the financial year 2012 were adopted.

Consideration has been given to the following amendment to the standards which were first applied as at 1 January 2012 for the NORD/LB Group:

In October 2010 the IASB published **amendments to IFRS 7 – Financial instruments: Disclosures – Transfers of financial assets** as part of its comprehensive review of off-balance-sheet transactions. This should make the relationship between financial assets which are not to be completely derecognised and the corresponding financial assets more clear. Furthermore, it should be easier to assess the nature and in particular the risks of a continuing exposure with derecognised financial assets.

The application of these new rules had no effect on NORD/LB's consolidated financial statements as at 31 December 2012, apart from on the reporting of repos (cf. Note (63) Transfer and derecognition of financial assets).

As is allowed, we have not yet applied the following standards and amendments to standards which did not have to be implemented for NORD/LB's consolidated financial statements prior to 31 December 2012:

- **IAS 19 (rev. 2011) – employee benefits**
  The revised IAS 19 was published in June 2011 and will come into force for reporting periods commencing on or after 1 January 2013. The regulations included in this will have an impact on the recognition and measurement of defined benefit plans and termination benefits.

With regard to defined benefit plans, for the NORD/LB Group this in particular results in effects from the change in the recognition of costs and taxes relating to benefit plans. In addition, the expected income from plan assets is to be calculated with a standard interest rate and extended disclosures are to be made in the notes. However, the first-time application is not expected to have a significant effect.

The changes relating to termination benefits concern the top-up contribution for partial retirement and are also not significant for the Group.

- **IFRS 9 – financial instruments**

  As part of the project to replace IAS 39, a revised version of IFRS 9 of November 2009 was published in October 2010. The first phase of the three phases includes regulations for the categorisation and measurement of financial assets and financial liabilities. IFRS 9 only provides two options for the categorisation of financial assets, measurement at amortised cost and measurement at fair value. The categorisation will in future be based on the reporting entity's business model and the contractually agreed cash flows of the asset. Furthermore the regulations for embedded derivatives and reclassification have also been modified. The regulations relating to financial liabilities are largely unaltered compared to IAS 39. The main difference with the previous regulation concerns the use of the fair value option. The rating-induced changes in valuation will in future be shown under other comprehensive income; the remaining changes in valuation will continue to be reported in the income statement.

  In November 2012 a draft amendment of the categorisation and valuation rules of IFRS 9 was published. The draft includes in particular the proposal of introducing a third valuation model for financial assets in the form of debt instruments and envisages these instruments being valued at fair value with the changes in valuation being reported under other comprehensive income. With regard to the other phases, publications by the IASB concerning the issues of impairment and hedge accounting are expected in the first resp. second quarter of 2013. Subject to EU endorsement, IFRS 9 will, according to the **Amendments to IFRS 9 and IFRS 7 – Mandatory effective date for IFRS 9 and transition disclosures** published in December 2011, be mandatory for financial years commencing on or after 1 January 2015.

  It is expected that IFRS 9 will have a significant impact on the accounting, valuation and reporting in future consolidated financial statements. The potential impact can only be quantified in the NORD/LB Group when the final regulations for all phases of IFRS 9 have been passed by the IASB.

- **IFRS 10 – consolidated financial statements**

  The IFRS 10 published in May 2011 changes the definition of control and creates standard rules for determining control both for subsidiaries and for structured entities (special purpose entities) which form the basis for assessing the consolidation requirement. According to this, control is given when the potential parent company has decision-making power on the basis of voting rights or other rights over the potential subsidiary, it participates in positive or negative variable flows from the potential subsidiary and these flows can be influenced by its decision-making power. The standard replaces the regulations of the former IAS 27 and SIC 12 that relate to this and will come into force after EU endorsement for reporting periods commencing on or after 1 January 2014.

  All of the companies of the NORD/LB Group that potentially need to be included in the consolidated financial statements, in particular the special purpose entities, are currently being analysed in respect of the new definition of control of IFRS 10. The extent to which there will be a change to the basis of consolidation can only be ascertained once the investigations have been concluded.

- **IFRS 11 – joint arrangements**

  IAS 31 – Interests in joint ventures will be replaced by IFRS 11, which was published in May 2011 and is applicable from 1 January 2014. This regulates the recognition of facts when an entity has joint control over a joint venture or runs a joint operation. Compared to the current standard, there are two significant changes. Firstly, for the consolidation of joint ventures the option of proportionate consolidation has been abolished, i. e. consolidation is only allowed based on the equity method as in IAS 28. Secondly, the new category of joint operations has been introduced, in which the assets and liabilities allocatable to a Group will be recognised.

  The initial application of IFRS 11 is unlikely to result in any need for adjustments to NORD/LB's consolidated financial statements.

- **IFRS 12 – disclosure of Interests in other entities**

  The new IFRS 12 condenses the disclosure requirements related to subsidiaries, joint ventures, affiliated companies and unconsolidated structured entities in one standard. The objective is the disclosure of information on the nature of control over the aforementioned companies and the associated risks and the effects resulting from the control on the balance sheet, income statement and cash flow. IFRS 12 must be applied for the first time for financial years commencing on or after 1 January 2014.

  IFRS 12 will result in extended disclosure requirements for NORD/LB's consolidated financial statements. These concern in particular the disclosures relating to unconsolidated structured entities (special purpose entities).

- **Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12)**

  In June 2012 the IASB published amendments which substantiate and clarify the transition regulations in IFRS 10 – Consolidated financial statements. In addition, some relief is granted with only the reference figures for the immediately preceding reference period having to be adjusted and the disclosure requirement of comparative information on non-consolidated special purpose entities upon initial application of IFRS 12 being struck. The amendments will, subject to their outstanding adoption into European law, come into effect for reporting periods commencing on or after 1 January 2013.

  It is expected that the transition guidance will simplify matters for the NORD/LB Group with the initial application of the new consolidation regulations.

- **IFRS 13 – fair value measurement**

  The IASB published IFRS 13 – Fair value measurement in May 2011. It is to be applied prospectively for financial years commencing on or after 1 January 2013. In IFRS 13 the different regulations for establishing fair value in the individual standards were consolidated for the first time in a single framework and at the same time modified and expanded in some areas; only IAS 17 and IFRS 2 will continue to have separate regulations.

  The specifications of IFRS 13 concern among other things the definition of fair value and level inputs, the recognition of day-one-profit / loss and the use of a bid/ask spread in the measurement of assets and liabilities.

  The implementation of IFRS 13 will affect in particular the use of the fair value hierarchy for valuation purposes, the fair value valuation at portfolio level, the identification of counterparty risk on the basis of a net risk position, the valuation of financial instruments using average rates and the determination of relevant markets for financial instruments. The disclosure requirements concerning the establishment of the fair value are also increased.

- **Amendments to IAS 1 – presentation of other comprehensive income**

  The amendments to IAS 1 published by the IASB in June 2011 as part of the Financial Statement Presentation Project provide that the items of other comprehensive income (OCI) are to be broken down by whether they can be recycled in the income statement or not. If OCI is reported before tax, deferred taxes are to be treated similarly and broken down into recyclable and non-recyclable items. The NORD/LB Group must apply this amendment for the first time on 1 January 2013.

  The amendments to IAS 1 will result in a change in presentation in the NORD/LB Group's statement of comprehensive income.

- **Amendments to IAS 32 – offsetting of financial assets and financial liabilities**

  In December 2011 the IASB clarified its requirements for the netting of financial instruments with the publication of amendments to IAS 32 – Financial instruments: Presentation. The amendments, which should eliminate the current inconsistencies in the application of offsetting criteria, explain in particular the meaning of the "current right to offset" and under which conditions systems with gross offsetting can be considered to be equivalent to net offsetting in terms of the standard. The amendments are mandatory for financial years commencing on or after 1 January 2014 with retrospective effect.

  The amendments to IAS 32 are not expected to have any significant effect on the NORD/LB Group's consolidated financial statements.

- **Amendments to IFRS 7 – offsetting of financial assets and financial liabilities**

  In association with the amendments to IAS 32 – Financial instruments: Presentation published in December 2011, an amendment was made to the disclosure requirements of IFRS 7 relating to offsetting in order to allow the readers of financial statements to assess the effects of offsetting agreements, including the rights to offset recognised financial assets and financial liabilities, on the financial position of an entity. The amendments will be applied for the NORD/LB Group for financial years commencing on or after 1 January 2013 with retrospective effect.

  The amendments will result in extended disclosure requirements which are to be disclosed for the first time as at 31 December 2013 in the NORD/LB Group's consolidated financial statements. The new disclosures will make it easier to assess the potential effects of existing netting agreements. Reference figures need to be disclosed.

In addition the following amended or new standards have not been applied early:
- IAS 27 (amended 2011) – Separate financial statements
- IAS 28 (amended 2011) – Investments in associates and joint ventures
- Amendments to IAS 12 – Deferred taxes: Recovery of underlying assets
- Improvements to IFRS (2009–2011 cycle) within the scope of the IASB's annual improvements process
- These amendments must be applied in the Group for financial years commencing on or after 1 January 2013 (amendments to IAS 12 and improvements to IFRSs) or 1 January 2014.

The amendments to IAS 12, IAS 27 and IAS 28 and the annual improvements to IFRSs (2009–2011 cycle) are not expected to have a significant impact on NORD/LB's consolidated financial statements.

IFRS 9 – Financial instruments, the amendments concerning the mandatory effective date and transition disclosures and the annual improvements to IFRSs (2009–2011 cycle) and the transition guidance for the new consolidation regulations (amendments to IFRS 10, IFRS 11 and IFRS 12) have not yet been adopted into European Law by the EU Commission.

The aforementioned amendments will be implemented at that date we are legally obliged to.

(4) Consolidation principles

NORD/LB's consolidated financial statements, prepared in accordance with uniform accounting policies throughout the Group, comprise the financial statements of the parent company (NORD/LB) and of the companies controlled by the parent company, including controlled special purpose entities (subsidiaries). Control exists as soon as a Group company has the power to determine the financial and business policies of a company so as to obtain benefits from its activities.

The purchase method of accounting is applied, i.e. assets and liabilities relating to subsidiaries were recognised at fair value on consideration of deferred taxes on the date on which a controlling interest was gained. Goodwill resulting from initial consolidation is reported under intangible assets. The value of goodwill is reviewed at least once a year and is the subject of unscheduled depreciation if necessary. Shares in the equity of subsidiaries which are not attributable to the parent company are reported as non-controlling interests in consolidated equity.

Receivables and liabilities and expenses and income generated within the Group are eliminated in the consolidation of intercompany balances and income and expenses. Intragroup profits and losses are consolidated in the elimination of intercompany profits and losses.

Results of subsidiaries included or disposed of during the course of the year are recognised in the income statement as at the effective date of acquisition or up to the effective date of disposal, respectively.

Joint ventures and associated companies are accounted for using the equity method and are reported as investments accounted for using the equity method. The cost of acquisition of investments accounted for using the equity method and the differences are determined as at the date on which significant influence is obtained. In this case the rules applied are the same as those applied for subsidiaries. Adjustments to the at equity value are recognised in profit or loss or under equity on the basis of uniform accounting policies for the Group. Losses exceeding the at equity value are not reported unless the Group has entered into legal or factual obligations or makes payments on behalf of the investment accounted for using the equity method.

For transactions between a Group company and a joint venture or an affiliated company, profits and losses are eliminated in proportion with the shareholding of the Group in the respective company.

(5) Basis of consolidation

In addition to NORD/LB as the parent company, the consolidated financial statements include 49 (49) subsidiaries (including special purpose entities in accordance with SIC-12) in which NORD/LB directly or indirectly holds more than 50 per cent of the voting rights or over which NORD/LB is in a position to exercise control in another manner. 1 (1) joint ventures and 10 (13) affiliated companies are accounted for using the equity method.

The basis of consolidation has changed as follows compared to 31 December 2011:

The two special purpose entities Fürstenberg Capital Erste GmbH and Fürstenberg Capital II. GmbH, both based in Fürstenberg/Weser, were fully consolidated for the first time as at 30 June 2012.

The partial sale of the holding in NORD Holding Unternehmensbeteiligungsgesellschaft mit beschränkter Haftung, Hanover, has resulted in this company no longer being classified as an affiliated company. For this reason the company previously reported under investments accounted for using the equity method has been deconsolidated with effect of 1 July 2012.

Due to the writing back or return of shares in June 2012, the previously fully-consolidated funds NORD/LB AM 9 and NORD/LB AM 52 and the NORD/LB AM Global Challenges Index Fund which was previously accounted for using the equity method were deconsolidated. At the same time the newly established master fund NORD/LB AM ALCO, which is wholly owned by the NORD/LB Group, was consolidated for the first time.

Following an increase in the fund volume in the third quarter of 2012, the equity holding in the NORD/LB AM Emerging Markets Bonds Fund previously accounted for using the equity method fell to below 20 per cent, and as a result it was deconsolidated with effect of 30 September 2012.

In addition, the shares in the previously fully consolidated public fund NORD/LB AM High Yield were sold in December 2012; the deconsolidation took place on 14 December 2012.

The effects resulting from the changes to the basis of consolidation have no significant impact on the Group's income, assets and financial position.

Subsidiaries, joint ventures and affiliated companies included in the consolidated financial statements are shown in Note (83) Equity holdings.

(6) Currency translation

Monetary assets and liabilities in foreign currencies and non-monetary items recognised at fair value were translated at ECB reference exchange rates as at the valuation date. Non-monetary items carried at cost are recognised at historical rates. Expenses and income in foreign currencies are translated at market exchange rates. Currency differences relating to monetary items are always shown in the income statement; non-monetary items are recognised through the profit or loss of such items under other comprehensive income or in the income statement.

The assets and liabilities of foreign subsidiaries with a currency other than the euro were translated at ECB reference exchange rates as at the valuation date. With the exception of the revaluation reserve (translated using the closing rate) and the profit for the year, equity is translated at historical currency rates. Income and expenses are translated into the Group currency at period-average exchange rates; resulting translations are reported as a separate item in OCI. On disposal, the cumulative amount of exchange differences is included in the gain or loss on disposal.

(7) Financial instruments

A financial instrument is defined as a contract which results in a financial asset for one company and a financial liability or an equity instrument for another. Financial instruments are reported accordingly in the NORD/LB Group. They are allocated to valuation categories and measured according to this classification in accordance with IAS 39 requirements.

The financial instruments contain financial guarantees in accordance with the definition of IAS 39.

a) Addition to and disposal of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when a Group becomes a party to a contract in accordance with the contractual provisions of the financial instrument. In the case of the regular cash purchases or cash sales of financial assets, the date of trade and the date of settlement generally do not fall on the same date. These regular cash purchases or cash sales bear the option of recognition as at the date of trade (trade date accounting) or as at the date of settlement (settlement date accounting). Trade date accounting applies for the recognition and disposal of all financial assets transacted by the NORD/LB Group.

IAS 39 disposal regulations comply with both the concept of risk and reward and of control; measuring risks and rewards should be given priority over measuring the transfer of control on verifying derecognition entries.

The continuing involvement approach is employed when opportunities and risks are only partly transferred and control is retained. In this case a financial asset is recognised to the extent equivalent to its continuing involvement on consideration of certain accounting policies. The extent of continuing involvement is determined by the scope in which the Group continues to bear the opportunities and risks of changes in the values of the assets transferred.

A financial liability (or part of a financial liability) is derecognised when the liability has been eliminated, i.e. when the liabilities specified in the contract have been settled or eliminated or if they have expired. The redemption of the bank's own debt instruments is also included in the derecognition of financial liabilities. Differences between the carrying amount of a liability (including premiums and discounts) and the purchase price are recognised through profit or loss; a new financial liability whose cost of acquisition is equivalent to the sales proceeds will arise in the case of resale at a later date. Differences between these new costs of acquisition and the amount repaid are spread over the remaining term of the debt instrument in accordance with the effective interest method.

b) Categorisation and measurement

Fair value is applied when financial assets and financial liabilities are recognised for the first time. The net method is applied for financial guarantees reported in the NORD/LB Group. For financial instruments in the categories loans and receivables (LaR), held to maturity (HtM), available for sale (AfS) and other liabilities (OL), transaction costs are included in the cost of acquisition if they are directly apportionable. They are accounted for in the nominal value or the repayment amount on distribution of premiums and discounts in compliance with the effective rate of interest component. Transaction costs for financial instruments in the categories financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Subsequent measurement of financial assets and financial liabilities is contingent on the IAS 39 category under which the assets or liabilities are classified on the date of acquisition:

ba) Loans and receivables (LaR)

Non-derivative financial assets involving fixed or determinable payments which are not listed in an active market are allocated to this category provided that they have not been classified as financial assets at fair value through profit or loss or available for sale. The loans and receivables category is the largest in the Group since this category essentially comprises all traditional credit and loan transactions. Subsequent measurement is at amortised cost applying the effective interest method. The recoverability of loans and receivables (LaR) is verified and they are written down if necessary on each balance sheet reporting date and in the event of indications of potential impairment losses (cf. Notes (8) Loan loss provisions and (22) Provisions for lending business and (26) Profit / loss from financial assets). Appreciations in value are recognised through profit or loss. The upper limit for appreciations in value is the amortised cost which would have resulted at the date of measurement without impairment losses.

bb) Held to maturity (HtM)

Non-derivative financial assets involving fixed or determinable payments as well as a fixed term are classified in this category in case they are intended to be held until maturity. They may be allocated if the financial instruments are not classified as financial assets at fair value through profit or loss (AFV), as available for sale (AfS) or as loans and receivables (LaR). Subsequent measurement is at amortised cost applying the effective interest method. The held to maturity category is currently not employed in the NORD/LB Group.

bc) Financial assets or financial liabilities at fair value through profit or loss (AFV)

This category is divided into two sub-categories:

i) Held for trading (HfT)

This sub-category comprises financial instruments (trading assets and trading liabilities) acquired with the intention of selling or buying these back in the short term and contains all the derivatives which do not constitute collateral instruments within the scope of hedge accounting. Trading assets essentially comprise money market instruments, bonds and debt securities and derivatives with a positive fair value. Trading liabilities mainly comprise derivatives with a negative fair value and delivery obligations resulting from futures sales. Trading assets and trading liabilities are recognised at fair value through profit or loss upon subsequent measurement. There is no amortisation at constant effective interest rates of premiums and discounts.

ii) Designated at fair value through profit or loss (DFV)

Any financial instrument can be allocated to this sub-category, known as a fair value option, provided that certain requirements are met. Exercising the fair value option means that recognition and measurement mismatches resulting from different measurement methods for financial assets and liabilities is avoided or significantly reduced (for example, by presenting economic hedges of structured bond issues and corresponding derivatives without having to fulfil the restrictive requirements of hedge accounting). Allocation to this category also meant that embedded derivatives in structured products do not need to be separated. The category was used in some cases because the management and measurement of the performance of a portfolio is at fair value. More information on the type and the scope of application of the fair value option in the Group is presented in Note (38) Financial assets at fair value through profit or loss and in Note (51) Financial liabilities at fair value through profit or loss. Financial instruments measured using the fair value option are measured at fair value through profit or loss upon subsequent measurement. There is no amortisation at constant effective interest rates of premiums and discounts.

bd) Available for sale (AfS)

Any non-derivative financial assets which have not been assigned to any of the aforementioned categories are allocated to this category. These assets are primarily bonds, debt securities, shares and investments which are not measured in accordance with IAS 27, IAS 28 or IAS 31. Subsequent measurement was at fair value. Measurement is at cost if the fair value of financial investments in equity instruments such as certain shares or investments for which no price is available on an active market (and the relating derivatives which can only be settled by way of offer) cannot be determined with sufficient reliability. The result of the measurement at fair value is reported under other comprehensive income. In the event of the sale of the financial asset, the accumulated estimated profit/loss reported in the revaluation reserve is written back and reported in the income statement.

With equity instruments differences between the cost of acquisition and repayment amounts are amortised in recognition of profit or loss on application of the effective interest method.

Impairment is only carried out in case of a rating-induced impairment. The occurrence of rating-induced impairment is examined on the basis of specific objective factors. Objective factors in this context are the trigger events listed in IAS 39, for example significant financial difficulty of the issuer or the obligor or a breach of contract or default or delay in interest or principal payments. In addition to the criteria of permanence, a measurable decrease in the fair value of equity securities to below the acquisition cost is an objective indication of impairment.

In the case of rating-induced impairments, the difference between the carrying amount and current fair value must be recognised in the income statement. Appreciations in the value of debt capital instruments are recognised in the amount of the appreciation through profit or loss in the income statement as well as in other comprehensive income. Appreciations in the value of equity instruments are recognised in other comprehensive income unless they are measured at acquisition cost.

be) Other liabilities (OL)

This category includes in particular liabilities to banks and customers, securitised liabilities and subordinated capital provided that these liabilities have not been designated at fair value under the fair value option. Subsequent measurement is at amortised cost applying the effective interest method.

The carrying amounts and gains / losses for each measurement category are presented in notes (59) and (60).

c) Reclassification

In accordance with the regulations of IAS 39, financial instruments are allowed to be reclassified from the HfT (trading assets) category to the LaR, HtM and AfS categories and from the AfS category to the LaR and HtM categories under certain circumstances. The NORD/LB Group did not make use of this right to reclassify.

d) Establishing fair value

In the NORD/LB Group the three-tier fair value hierarchy is applied with Level 1 (Mark to Market), Level 2 (Mark to Matrix) and Level 3 (Mark to Model) terminology provided for in IFRS 7.

The respective level is determined by the input data used in the measurement and reflects the market proximity of the variables included in establishing the fair value.

Under the fair value hierarchy, a financial instrument is categorised in Level 1 if it is traded on an active market and is used to establish the fair value of publicly listed market prices or prices actually traded on the over-the-counter market (OTC market). If no market prices or prices actually traded on the OTC market are available, in the Level 1 measurement the prices quoted by dealers are used for measurement purposes, with prices quoted by other banks or market makers being applied when price sources other than stock exchange quoted prices are used.

In the event that no price quotes are available, the fair value is calculated by means of recognised measurement methods or models as well as by means of external pricing services, if measurement in this case is carried out either fully or in part with spread curves (Level 2).

For the measuring of financial instruments, these methods include measurement methods which are established on the market (e.g. discounted cash flow method and the Hull-White model for options) whose calculations are always based on input parameters available on the market. A requirement here is that variables which market participants would have taken into account when specifying prices are included in the measurement process. Wherever possible, respective parameters are taken from markets on which the instruments are issued or acquired.

Measurement models are employed primarily for OTC derivatives and securities listed on inactive markets. Various parameters are applied for the models, for example market prices and other market quotations such as volatility and market liquidity. A standard market method is always applied if estimations are required in given cases, if need be when option price models are used.

Market data which forms the basis of risk controlling is applied for these Level 2 measurements. For discounted cash flow methods, all payments are discounted by the risk-free interest-rate curve adjusted for the credit spread of the counterparty. Spreads are determined on the basis of comparable financial instruments (for example on consideration of the respective market segment and the issuer's credit rating).

For financial instruments for which there was no active market on 31 December 2012 and for which measurement can no longer be based on market prices, fair value is determined for measurement purposes in accordance with a mark-to-matrix method that is based on discounted cash flows.

The financial instruments in the NORD/LB Group to be measured in this manner are ascertained on the basis of individual securities and a subsequent separation into active and inactive markets. Changed market assessments are consistently included in measurement.

In this case the measurement model for financial instruments on inactive markets is based on term-related interest rates, the credit rating of the respective issuer and an adequate return on capital employed.

Among other things the method uses the ratings of the respective counterparties as parameters. If they are taken from publicly available sources, the financial instruments measured in this way are allocated to Level 2.

Financial instruments for which there is no longer an active market and for which measurement can no longer be based completely on observable market parameters are allocated to Level 3. Accordingly financial instruments are allocated to Level 3 if the method uses the NORD/LB Group's internal ratings based on the Internal Ratings-Based Approach (in accordance with BASEL II). This is the case regardless of whether the internal data for the regulatory eligibility check was gauged using data from publicly available ratings which form the basis of pricing decisions by market participants.

In comparison and in differentiation to Level 2 measurement, this method employs models specific to the bank and also data which is not observable on the market.

The Level 3 method is essentially used to measure the Group's credit default swaps (CDS) and asset-backed securities (ABS)/mortgage-backed securities (MBS) for which the market has been classified as being inactive. In addition to this, further interest-bearing securities are allocated to Level 3 if they are measured using the approach based on internal ratings.

Individual tranches of collateralised debt obligations (CDO) are also measured in accordance with Level 3.

All measurement models applied in the Group are reviewed periodically.

In the measurement appropriate consideration is given to all relevant factors such as the bid-ask spread and counterparty risk.

For the measurement of secured OTC derivatives the NORD/LB Group has switched primarily to the current market standard of overnight index swap discounting (OIS discounting).

Further information on the fair value hierarchy and the fair values of financial instruments can be found in Notes (58) and (62).

e) Measurement of investments which do not fall under IAS 27, IAS 28 or IAS 31

Investments which do not fall under IAS 27, IAS 28 or IAS 31 are measured at fair value. If the fair value of financial investments in equity instruments which do not have a listed price on an active market cannot be reliably established, they are measured at acquisition cost (cf. Note (62) Fair value of financial instruments).

If investments are traded on an active market, the market / stock exchange price is used to determine the fair value. If it is not possible to use prices listed on active markets, the fair value is established using recognised measurement methods. In addition to the peer-group method, the NORD/LB Group also uses the income-value method. This method is allocated in the fair value hierarchy in accordance with IFRS 7 to Level 3 (cf. Note (58) Fair value hierarchy).

The fair value is calculated in the income-value method from the present value of the shareholders' future net earnings associated with the ownership of the company.

The net earnings of shareholders, which are discounted to calculate the income value, relate primarily to the distributions of financial profits generated by the company. The starting point for calculating the fair value of the participating interest is a forecast of growth in earnings for 2012, a detailed plan for 2013 and where applicable the medium-term plan for the following four years (planning phase I). For the following years beyond the planning horizon in general perpetuity of the undertaking is assumed. For this purpose a perpetual annuity is calculated which should reflect the long-term situation of the affiliated company (planning phase II). These anticipated future profits are discounted taking into account the anticipated distributions on the balance sheet date.

The discount rate used represents the yield from an adequate alternative investment in respect of maturity and risk to the investment in the affiliated company and is derived on the basis of a capital market model. The discount rate comprises the components of risk-free interest and the risk premium for future financial profits. The risk premium is the product of an average market risk premium and the beta factor which expresses the specific risk structure of the company to be valued. The beta factor describes as a relative measure to what extent the yield of the respective share in the affiliated company follows changes in the yield of the market portfolio.

In order to value investments in non-listed companies, comparison groups of similar listed titles are formed and for each individual value the beta is calculated in relation to the respective broadest national index. In brief, the beta factor of the comparison group calculated in this way is a significant multiplier used when calculating the capitalisation interest.

f) Structured products

Structured products comprise two components – a basic contract (host contract, e. g. security) and one or several embedded derivative financial instruments (embedded derivatives, e. g. swaps, futures or caps). The two components are the subject matter of a single contract relating to the structured product, i. e. these products constitute a legal unit and may not be negotiated separately due to the circumstance of a contractual unit.

In accordance with IAS 39 an embedded derivative is to be separated from the host contract and accounted for as a separate derivative provided that all of the following criteria are fulfilled:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

- A separate instrument with the same terms as the embedded derivative financial instrument would meet the definition of a derivative financial instrument.

- The structured product is not measured at fair value through profit or loss.

If separation of financial instruments is obligatory, these financial instruments are measured and recognised separately in the Group. provided they have not been classified as AFV. The host contract is accounted for in compliance with the regulations of the category to which a financial instrument is allocated and embedded derivatives are accounted for at fair value through profit or loss as part of the trading assets or trading liabilities.

g) Hedge accounting

Hedge accounting is the balance sheet presentation of hedging relationships. In this framework, hedging relationships are established between underlying items and hedging transactions. The aim is to avoid or reduce fluctuations in profits and equity resulting from differing measurements of underlying and hedging transactions.

A distinction is made between three basic forms of hedges, each needs to be handled differently in hedge accounting. The fair value hedge involves the hedging of (parts of) assets and liabilities against changes in fair value. In particular investment and lending transactions in the Group as well as the security portfolios under liquidity control, provided that the securities bear interest, are subject to this risk type in changes to value. Both individual transactions and portfolios are hedged by fair value hedges. Currently the fair value is only hedged against interest-rate risk. Changes in the fair values of assets and liabilities are hedged in single-currency portfolios in euros and US dollars. Interest rate swaps and currency swaps are mainly used to hedge these risks.

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

Only hedging relationships which have fulfilled the restrictive requirements of IAS 39 may be reported in accordance with the regulations of hedge accounting. Hedge accounting requirements, in particular evidence of the effectiveness of the hedge transaction, must be met for each hedging relationship on each balance sheet reporting date. The critical term match method, the market data shift method and the regression method are applied in the Group for the prospective conducting of effectiveness tests. The modified dollar offset method is used for retrospective effectiveness tests. This method takes account of the problem of small numbers in the case of minor changes in the value of underlying transactions and hedges by means of an additional tolerance limit.

In the fair value hedge portfolio, for the retrospective effectivity test disposals from the hedged portfolio of underlying transactions were previously dealt with using the bottom layer method.

In accordance with the fair value hedge accounting rules, derivative financial instruments used for hedging purposes are reported at fair value as positive or negative fair values from hedge accounting (Note (39) and Note (52) Positive and negative fair values from hedge accounting derivatives). The changes in valuation are recognised in the income statement (Note 25) Profit/loss from hedge accounting). Changes in fair value resulting from the hedged risk of hedged assets or hedged liabilities are also recognised through profit or loss in the profit/ loss from hedge accounting item.

When employing hedge accounting for financial instruments in the AfS category, the portion of any change in fair value relating to hedged risks is recognised in profit or loss as profit / loss from hedge accounting, while the portion of a change in fair value which is not related to the hedged risk is accounted for in the revaluation reserve.

Changes in the fair value of underlying asset and liability-side transactions related to the hedged risk are reported under the balancing item for hedged financial instruments in the fair value hedge portfolio on the assets side or liabilities side of the balance sheet. Underlying transactions relating to AfS items carried as assets continue to be reported at their full fair value under financial assets. There are currently asset and liability items in the fair value hedge portfolio.

In micro hedge accounting, financial instruments measured at amortised cost are adjusted in the balance sheet item by the change in fair value resulting from the hedge risk (hedge adjustment).

A hedge relationship is terminated when the basic transaction or the hedging transaction expires, is sold or exercised or when hedge accounting requirements are no longer fulfilled; for underlying transactions in effective hedges cf. Note (66).

h) Repos and securities lending

In the case of genuine repos, transferring the securities sold under repurchase agreements does not lead to derecognition, as the transferring entity essentially retains all the risks and rewards associated with the ownership of the repurchased securities. The asset transferred must therefore still be reported by the transferor and measured according to its respective category. Payment received is carried as a financial liability (in liabilities to banks or liabilities to customers, depending on the counterparty). Interest payments agreed are reported as interest expenses over the respective terms.

Reverse repo transactions are reported accordingly as loans and advances to banks and customers and are allocated to the loans and receivables (LaR) category. Securities for sale and repurchase which constitute the basis of the financial transaction are not reported in the balance sheet. Interest resulting from such transactions is reported as interest income over the respective term.

Security sale agreements with a repurchase option were not concluded in the Group.

Principles which apply for reporting genuine repurchase transactions also apply for securities lending transactions. Securities lent are reported as security portfolios and measured in accordance with IAS 39, while borrowed securities are not reported. Cash collateral pledged for security lending transactions is reported as a claim and cash collateral received is reported as a liability.

With regard to the scope and the volume of security sale and repurchase agreements and securities lending transactions, we refer to Note (69) Repos and securities lending.

i) Securitisations

Various financial assets relating to lending business are securitised either in synthetic securitisation using credit derivatives or by non-recourse factoring to special purpose entities (SPEs), which in turn issue securities to investors (true sale securitisation). Interest and capital repayments resulting from such securities are directly linked to the performance of the underlying claim, and not to that of the issuer.

The accounting of such transactions depends on the method of securitisation. Assets relating to synthetic securitisation remain in the balance sheet and are reported with the credit derivatives concluded in accordance with IAS 39 regulations. In the case of true sale securitisation, the assets are written off if the opportunities and risks relating to these assets have been (virtually) fully transferred to the SPE. With securitisation transactions normally (virtually) all of the opportunities and risks are transferred to the SPE or the buyer. Assets of consolidated SPEs remain in the NORD/LB Group's consolidated balance sheet.

(8) Loan loss provisions

Risks relating to lending business are accounted for by forming specific valuation allowances, lumpsum specific loan loss provisions and general loan loss provisions.

Recoverability is reviewed for all significant claims at individual transaction level. Loan loss provisions cover all recognisable credit risks in the form of specific valuation allowances. A valuation allowance is required when observable criteria indicate that it is likely that not all the interest and capital repayments or other obligations will be met on time. The essential criteria for a valuation allowance are for example the default on interest and capital payments or a delay in such payments of more than 90 days, considerable financial difficulties on the part of the debtor such as arithmetic and actual insolvency or the long-term negative consequences of a restructuring. These criteria also include concessions made by lenders such as interest exemption, write-off of debt or deferred repayment, impending insolvency and impending restructuring proceedings.

With ship financing the essential criteria for a valuation allowance are interest deferrals and/or deferred repayment, concessions such as the granting of restructuring loans to support the liquidity of borrowers or individual ships, and threatened insolvency.

The amount of the specific valuation allowance is calculated as the difference between the carrying amount and the recoverable amount as the present value of the anticipated future cash flows.

If the criteria for a valuation allowance have been met for claims which are not significant, these claims are concentrated in narrowly defined portfolios with similar risk structures, measured by a standard method and are the subject of an appropriate lumpsum specific loan loss provisions. The calculation is made on the basis of historical probabilities of default and loss rates.

To cover impairments which have occurred but have not yet been identified, general loan loss provisions are made. These are calculated on the basis of historical probabilities of default and loss rates, with the portfolio-specific LIP factor (loss identification period factor) also being considered.

The parameters employed in the lumpsum specific loan loss provisions and the general loan loss provisions derived from the Basel II system.

The total amount of loan loss provisions resulting from balance sheet business is recognised as a separate item under assets in the balance sheet.

Risks relating to off-balance sheet transactions (guarantees, endorsement liabilities and loan commitments) are accounted for by a loan loss provision.

Irrecoverable loans 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.

Financial assets classified as LaR are only written off directly.

(9) Property and equipment

Property and equipment are recognised at cost on the date of addition. Property and equipment subject to wear are reported upon subsequent measurement less scheduled straight-line depreciation charged over the useful life. Impairments are charged at the amount at which the carrying amount exceeds the higher amount of fair value less the cost of disposal and value in use of the asset. If reasons for impairment no longer exist, write-ups (appreciations in value) are carried out, but not in excess of the amount of amortised cost. Scheduled depreciation is recognised under administrative expenses and impairments and write-ups in other operating profit / loss.

Property and equipment is depreciated over the following periods:

	Property and equipment
Land and buildings	10 – 50
Operating and office equipment	3 – 25
Ships	25
Other property and equipment	3 – 25

(10) Leases

In accordance with IAS 17, leases must be classified as finance or operating leases at the inception of a lease. If significant opportunities and risks associated with ownership are transferred to the lessee, the lease is classified as a finance lease and the leased asset is accounted for by the lessee. If significant opportunities and risks associated with ownership are not transferred to the lessee, the lease is classified as an operating lease and the leased asset is accounted for by the lessor.

Finance lease

If the NORD/LB Group is considered to be the lessor, a receivable to the amount of the lessee's payment obligations resulting from the lease is reported at the inception of the lease. The receivable is reported at the net investment value (difference between the gross investment in the lease and finance income not yet realised) and is shown in other loans and advances to banks or loans and advances to customers. Any additional costs incurred are spread over the term of the contract.

Lease payments relating to a finance lease are split into a capital and an interest amount. The capital amount is deducted from loans and advances directly in equity. The interest amount is accounted for as interest income through profit or loss.

Finance lease contracts are only of minor significance for the NORD/LB Group as the lessor.

No finance lease agreements have been concluded with the NORD/LB Group as the lessee.

Operating Lease

If the Group is considered to be the lessee of an operating lease, the lease payments made are reported as an expense in other administrative expenses. Initial direct costs (for example costs for appraisers) are immediately recognised through profit or loss.

Operating lease contracts are only of minor significance for the NORD/LB Group as the lessee.

No operating lease agreements have been concluded with the NORD/LB Group as the lessee.

(11) Investment property

Investment property is considered to be land and buildings or parts of buildings held to generate rental income and/or for the purpose of capital appreciation. Properties where more than 20 per cent of the leased floor space is utilised by third parties are examined to determine whether the part used by third parties can be separated. If this is not the case then the whole property is reported in property and equipment.

Investment property is reported at cost on the date of acquisition; transaction costs are included in the initial measurement. Subsequent costs are capitalised if they result in a significant improvement in the asset and therefore increase the future economic benefit of the asset.

Scheduled straight-line depreciation is charged upon subsequent measurement of investment property. Impairments are charged at the amount at which the carrying amount exceeds the higher amount of fair value less the cost of disposal and value in use of the asset. If the reasons for impairment cease to exist, impairment losses are reversed, but not above the amortised cost. Scheduled depreciation is recognised under administrative expenses and impairments and write-ups in other operating profit/loss.

Investment property is depreciated over a period of 11 to 50 years.

The income value method is used, based on market data, to calculate the fair value of investment property. The valuation is carried out in part by independent experts.

(12) Intangible assets

Intangible assets which are acquired by the NORD/LB Group are reported at cost of acquisition and internally developed intangible assets are reported at cost of production provided that the criteria for recognition required under IAS 38 are met.

Scheduled straight-line amortisation over the useful life is charged for intangible assets with a finite useful life. Impairments are charged at the amount at which the carrying amount exceeds the higher of fair value less cost of disposal and value in use of the asset for intangible assets with a finite useful life. If the reasons for the impairment no longer exist, write-ups are carried out, but not in excess of the amortised cost. Scheduled depreciation is recognised under administrative expenses and impairments and write-ups in other operating profit/loss.

Intangible assets with a finite useful life are amortised over a period of 3 to 15 years.

Intangible assets with an indefinite useful life are tested at least once a year in the fourth quarter for their recoverability. The value of goodwill is reviewed on the basis of cash generating units (CGUs).

(13) Assets held for sale

Non-current assets or disposal groups held for sale whose carrying amounts are realised through a sale and not through operational use are recognised in separate balance sheet items. Such assets are measured at fair value less costs of disposal provided that these costs do not exceed the carrying amount. Non-current assets held for sale are no longer amortised as at the date of reclassification. Impairment losses resulting from non-current assets and disposal groups held for sale are, however, taken into account.

No entire business divisions were discontinued in 2012 or in 2011.

(14) Provisions for pensions and similar obligations

The NORD/LB Group's company pensions are based on several retirement benefit systems. On the one hand employees acquire an entitlement to a pension through a defined contribution made by the Group to an external pension fund (defined contribution plan). In this case contributions are reported as current expenses on application of IAS 19 financial reporting regulations for defined contribution plans. No pension provisions need to be made.

Employees also acquire entitlements to pensions with defined benefits, dependent on factors such as anticipated wage and salary increases, age, length of service and a forecast pension trend (defined benefit plan). These mainly concern various pension modules, with benefits for reduction in earnings capacity and dependent's pensions also being granted in addition to a retirement pension, depending on the occurrence of the insured event. There are also entitlements to allowance payments.

Different occupational pension schemes are in place in the NORD/LB Group, with commitments based on collective bargaining employment agreements or on individual contractual commitments. Significant occupational pension schemes in this case are the total benefit commitment according to German civil service law, the benefit ordinance from 1973 and the benefit ordinance from 2000. The accounting regulations according to IAS 19 for defined benefit plans are applied for these retirement benefit schemes.

The components of the provisions for pensions to be recognised through profit or loss comprise service costs and interest costs on the present value of the liability. In this case anticipated net income from the plan assets reduces the pension expenditure. Furthermore a service cost to be subsequently settled is to be recognised through profit or loss if necessary. Interest expenses and anticipated earnings from plan assets are shown in net interest income.

The NORD/LB Group reports the full amount of actuarial gains and losses in the year they occur in other comprehensive income (OCI) in order to prevent the repayment of actuarial gains or losses which have not yet been recognised in the income statement from decreasing or increasing pension expenditure. Actuarial gains accumulated in retained earnings in accordance with IAS 19.93A amount to € –128 million (€ 373 million) before deferred taxes and minority interests are taken into account. The losses in the year under review total € –500 million and result in a corresponding increase in provisions for pensions and similar obligations. The actuarial losses are almost entirely due to the change in the interest rate used to calculate the provisions compared to the previous year (–1.5 per cent). Due in particular to the unpredictable nature of the market and the associated level of volatility, it is difficult to estimate how the interest rate used in the calculation will develop, and as a result significant fluctuations in retained earnings and provisions for pensions and similar obligations may occur again in the future.

Pension obligations from defined benefit plans are calculated by independent actuaries as at the balance sheet date in accordance with the projected unit credit method. For the purpose of calculation, the discount rate for first-class industrial securities and anticipated future salary and pension increase rates are taken into account in addition to biometric assumptions.

This interest rate was calculated based on the Pension Discount Yield Curve Approach (MDPYC) with a duration of 15 years. Due to the changes in the market for high-value corporate bonds used in the calculation of the calculation interest rate, Mercer extended its underlying portfolio during the course of the financial year. Now all bonds that are rated at least AA by a rating agency are included. The minimum volume for consideration was lowered by Mercer to € 50 million and information on corporate bonds with a rating of A were also considered in the extrapolation after the deduction of the spread between AA and A.

As the calculation interest rate is no longer derived on the basis of the previous data source, the effects of this extension cannot be calculated at the end of the financial year. If the extended data source had been applied at the beginning of the financial year, the pension obligation would have been around 3 per cent higher at this point in time.

The following actuarial assumptions serve as a basis for domestic and foreign calculations:

(in %)	31 Dec. 2012	31 Dec. 2011
Domestic		
Actuarial interest rate	3.60	5.10
Increase in salaries	2.30	2.29
Increase in pensions (contingent on the occupational pension scheme)	2.86	2.75
Cost increase rate for allowance payments	–	–
Mortality, invalidity, etc.	Based on Heubeck 2005G mortality tables	Based on Heubeck 2005G mortality tables
Anticipated plan asset yield	3.45	3.45
Abroad (weighted parameters)		
Actuarial interest rate	4.49	4.77
Increase in salaries	4.08	3.87
Increase in pensions	2.82	2.81
Mortality, invalidity, etc.	USA 1994 GAM GB AxC00 and PxCA00 Luxembourg Grand Ducal regulationof 15 Jan. 2001	
Anticipated plan asset yield	5.52	5.82
Inflation	3.10	2.68

(15) Other provisions

Other provisions are established in accordance with IAS 37 and IAS 19 for uncertain liabilities to third parties and anticipated losses on pending transactions if utilisation is likely and if its amount can be reliably determined. Provisions are measured as the best estimate. This is based on the assessment of management taking into account empirical values and, if necessary, experts' reports or opinions. Risks and uncertainties are taken into account. Future events which may influence the amount required to meet an obligation are only included if there are objective indications of their occurrence. Provisions are discounted if the effect is material.

(16) Insurance contracts

Insurance contracts are recognised in current balance sheet and income statement items. Where these significant components of a balance sheet and income statement item refer to sector-specific insurance contracts, information is presented in the corresponding notes. In particular Notes (23), (29), (46), (53), (55) are referred to. Insurance company investments that fall within the scope of application of IAS 39 are recognised in accordance with accounting policies which apply for the entire Group. Investments for the account and risk of holders of life insurance policies are reported at fair value through profit or loss.

In accordance with IFRS 4.13, insurers may temporarily report insurance items in accordance with the previously applied accounting regulations. Provisions relating to insurance are therefore reported and measured in accordance with commercial law in keeping with IFRS 4.25. For consolidated insurers this law is German commercial law, and in particular §§ 341 to § 341p of the German Commercial Code (HGB), the German Law Regulating Insurance Companies (VAG) and the German Insurance Accounting Ordinance (RechVersV). Unlike under the German Commercial Code, an equalisation provision or similar provision is not allowed to be made under IFRSs.

The application of German accounting principles to measure insurance obligations in accordance with IFRS 4 also involves the principle of prudence. In this case, in the event of uncertainty concerning the amount of a value, the tendency is to include a conservative value instead of the most probable value. This ensures that when values are determined in accordance with German commercial law, liability adequacy tests in accordance with IFRS 4.14 (b) will already have been performed.

Premium surpluses for insurance contracts concluded directly have been calculated in accordance with the 360th system in accordance with the communication of the German Federal Finance Ministry of 30 April 1974. Reinsurer shares are taken from their calculation. Premium surpluses for insurance contracts taken over as reinsurance are assumed in accordance with the functions of the previous insurance company.

Actuarial reserves for insurance contracts concluded directly, including the relevant share in surpluses and the corresponding claims on policy holders, are calculated on an individual contract basis with implicitly calculated costs for each insurance contract. With the exception of unit-linked life insurance and annuity insurance policies, prospective methods are applied here. Calculations of bonus and administrative cost provisions for existing and new contracts are based on the same accounting principles as for the relevant primary insurance policy. The biometric accounting principles employed have been derived from Deutsche Aktuarvereinigung e.V. (German Association of Actuaries) and comply with requirements of the General Equal Treatment Act (AGG).

In insurance contracts directly concluded, individual provisions for unsettled insurance claims are created for each reported insurance claim and adjusted if necessary if new findings are made. Long-tail claims are reported globally on the basis of statistical measurement methods. Reinsurer shares were taken over from their calculation. A corresponding provision is established for redemptions in the case of paid-up and cancelled insurance policies. The provision for business assumed as reinsurance is reported in accordance with the functions of the previous insurance company. Some of the values stated are estimates due to the late submission of final accounts.

The provision for the reimbursement of premiums contains amounts which have been provided for future distribution to policy holders in accordance with the law or the statutes. Calculations for final surplus share funds contained in provisions for the reimbursement of insurance contributions are prospective and have all been calculated on an individual contract basis. Amounts resulting from temporary differences between conclusions according to IAS/IFRSs and those according to German commercial law are proportionately allocated to a deferred provision for the reimbursement of insurance contributions.

Insofar as the investment risk is borne by policy holders, the retrospective method is applied for calculating the value of insurance provisions in life insurance from the current investment units of the individual insurers in the corresponding item on “Investments for the account and risk of holders of life insurance policies”.

Financial assets and liabilities specific to insurance held in the Group are accounted for in accordance with IFRS 4. These are net deposit receivables and payables from lending and deposit reinsurance business, amounts receivable and amounts payable from reinsurance business and amounts receivable and amounts payable under direct insurance contracts. These items are recognised at their nominal value. Any allowances required for receivables from insurance contracts concluded directly are reported in loan loss provisions.

(17) Income taxes

Current income tax assets and tax liabilities were calculated at currently valid tax rates to the amount expected to be received from / paid to the respective tax authority or to the amount of tax refunds expected to be received from the respective tax authority.

Deferred tax assets and tax liabilities are calculated on the basis of the difference between the carrying amount of an asset or a liability in the balance sheet and the corresponding tax value. In this case, deferred tax assets and tax liabilities will probably result in effects which increase or reduce income tax in future periods due to temporary differences. They were measured on the basis of tax rates expected to be valid in the period in which an asset is realised or an obligation is met. In this case tax rates (and tax regulations) which are valid for individual companies on the balance sheet date or which have been resolved by the reporting date are applied.

Deferred tax income for carrying forward tax losses not yet utilised and tax credits not yet utilised is only reported to the extent that it is probable that taxable future income will be available for applying tax losses not yet utilised and tax credits not yet utilised.

Current income tax assets and tax liabilities as well as deferred tax assets and tax liabilities are offset when requirements for netting are met. They are not discounted. Depending on the treatment of the underlying circumstances, deferred tax assets and tax liabilities are reported either in the income statement or in other comprehensive income (OCI).

Income tax assets and income tax liabilities are shown separately in the balance sheet and separated into actual and deferred assets and liabilities for the year under review. The carrying amount of deferred tax asset is reviewed for recoverability as at every balance sheet date.

Taxes on earnings or income tax proceeds are recognised in the income tax item in the consolidated income statement.

(18) Subordinated capital

The subordinated capital item comprises secured and unsecured subordinated liabilities, participatory capital and silent participations. The NORD/LB Group's silent participations are mostly classified as debt in accordance with regulations specified in IAS 32 due to contractual cancellation rights; under the German Commercial Code silent participations always qualify as equity. For regulatory purposes in accordance with the German Banking Act, they are primarily recognised as liable equity.

Subordinated capital is reported at amortised cost. Premiums and discounts are distributed over the term in accordance with the effective interest method and are recognised through profit or loss in net interest income. Deferred interest not yet due is allocated directly to the corresponding items in subordinated capital.

Segment Reporting

The segment reporting provides information on the operational business areas of the Group. Further information on the interpretation of the figures can be found in the Group management report under "Development of the Business Segments". The segment reporting below is based on IFRS 8 "Operating segments", which follows the "management approach". The segment information is presented on the basis of internal reporting in the same way that it is reported internally on a regular basis for assessing performance and making decisions on the allocation of resources to the segments. In the segment reporting adjustments of figures for the previous year are taken into account (cf. Note (2) Adjustment of figures for the previous year). In addition to this, some of the previous year's figures have been reallocated due to the new segment distribution and the new RoE calculation (see below).

Segment reporting by business segment

The segments are defined as customer or product groups which reflect the organisational structures and therefore the internal control of the Group. Calculations are based on the internal data of Group member companies. The internal control focuses on the operational units' earnings before tax.

An important criterion for the formation of segments is the greatest possible homogeneity of the customers aggregated in the segment in relation to financing and investment requirements and the products demanded. It is not possible to recognise dependencies on individual customers. The product ranges offered in the segments are described below and the earnings generated are shown in the overview. Aggregation does not take place at product level in the Group due to the different product definitions in the Group. The product range offered comprises traditional lending business and syndicate business, savings and giro products, securities, currency and derivative transactions, complex structured financing solutions, private banking products, liquidity and risk management, mergers and acquisitions, services such as accounting management, payment transactions, securities business, brokering, documentary business, credit processing, sureties, guarantees and advisory services for asset management.

Net interest income generated by the individual segments is calculated on the basis of the market interest rate method. In the process the contribution from the interest rate conditions for each customer transaction is calculated by comparing the customer conditions with the structure-congruent market interest rate for a fictitious counter transaction applicable at the time the transaction is completed. This market interest rate is at the same time the cost value for the Treasury division's balancing provision. Therefore we do not show the gross amount of interest income and interest expenses.

Segment expenditure comprises primary expenses plus expenses allocated on the basis of cost and service allocations. Loan loss provisions are allocated to segments on the basis of actual costs incurred. Overall bank revenue, such as net interest received from equity employed, general loan loss provisions, profit / loss from hedge accounting and overhead costs, is not allocated to the operational profit centres of the bank but to the segment "Group controlling / others".

In addition to figures relating to the statement of comprehensive income, the segment report also shows risk-weighted assets (RWA) to be allocated on the basis of the regulatory provisions of Basel II including shortfall, segment assets and liabilities, committed capital, the cost income ratio (CIR) and return on equity (RoE). 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, profit / loss from hedge accounting, profit / loss from investments accounted for using the equity method and other operating profit / loss.

RoRaC (Return on Risk adjusted Capital) calculations in the segments include the contribution to income after loan loss provisions and valuation on committed capital (here 7 per cent of the higher value of the RWA limits and the amount called on).

NORD/LB changed its definition of return on equity (RoE) in 2012 against the background of the capital measures implemented since the end of 2011. Previously when calculating the RoE, the contributions from silent partners which were considered to be equity under IFRSs were eliminated as they did not represent long-term equity. As almost all of the relevant contributions form silent partners have been converted since the end of 2011 into share capital of the bank plus a premium, they no longer need to be eliminated when calculating the RoE. This change has made the definition of RoE less complex. The previous year's figure was recalculated accordingly.

In order to consider the increased equity requirements, since 2012 a capital securitisation level of 7 per cent (previous year: 5%) of risk-weighted assets applies for calculating committed capital in the segments. These are based on the provisions of the German Solvency Regulation. Capital tied up in the segments is calculated on the basis of average annual figures. The reconciliation figure for the tied-up capital reported in the segments and the long-term equity in the Group in accordance with commercial law is included in the segment reconciliation. A transfer from long-term equity under commercial law to equity reported in the balance sheet is shown separately at the end of the segment overview.

The NORD/LB Group has revised its business model against the background of changes in general and market conditions and to sharpen its focus on customer potential. As a result the structure and the number of segments which are subject to reporting have changed. The following segments are reported by business segment in the segment reporting (the previous year's figures were adjusted accordingly):

Private and Commercial Customers

As well as business with private, individual, commercial and small-business customers, this business segment includes middle-market corporate customer business in the Braunschweig region. This segment also includes the business conducted by Öffentliche Lebensversicherung Braunschweig and Öffentliche Sachversicherung Braunschweig.

The product range for the segment Private and Commercial Customers is based on the savings bank finance concept and comprises all of the usual banking services and products for account and lending business, savings and investment business and the provision of internet banking and direct brokerage. Extended services for wealthy private customers range from the integrated advisory approach of asset structure analysis, financial planning, asset succession and inheritance and foundation management. The product range also includes investment loans and start-up advice for the middle-market company business.

Corporate Customers & Markets

The new Corporate Customers & Markets segment replaces the former Savings Bank Network, Financial Markets / Institutional Customers and Corporate Customers segments. As a result bundled products and services can be offered to customers in a more customer-oriented and customer-focused manner.

The segment includes, for the Corporate Customers division, all of the NORD/LB business conducted with corporate customers in the core regions (excluding the Altes Braunschweiger Land region) and in neighbouring regions, and in particular Agricultural Banking and Residential Housing. The Markets division covers the Financial Markets activities performed in Germany, the foreign branches and in the Group companies on behalf of customers. The Savings Bank Network division covers transactions with the public sector; institutional business with associated savings banks and syndicated business transacted with associated savings banks are reported.

As a full-service provider, banking products and banking services are offered. The services include traditional transaction management, tailored business financing, management of interest and currency risk and solutions for company pension schemes. In the segment comprehensive solutions are developed for complex business financing and for the strategic positioning of corporate customers. This division also provides its customers with a professional, conceptual liquidity and risk management, measures for the structuring of equity and innovative financing instruments.

Alternative products which are detached from retail banking including derivatives are also offered, e.g. special kinds of debt securities which are not standardised in respect of their interest and repayment, but instead offer alternatives in respect of returns and the type or time of repayment (structured securities). In the secondary business all kinds of securities are sold and traded. Tailored solutions for institutional customers such as for example the structuring of special funds, pool funds solutions, portfolio management mandates and institutional public funds are also offered.

The product range also includes Private Banking products for the savings banks, such as investment products in the form of for example open or closed funds with assets in German or foreign real estate, ships or aircraft, products for individual asset management or inheritance or foundation management, which the savings banks require as direct customers for their own trading business or to complete their product range in their own business with private or corporate customers.

In the **Energy and Infrastructure Customers, Ship and Aircraft Customers and Real Estate Banking Customers** segments traditional lending products and innovative products are generally offered irrespective of the respective industry. This primarily concerns financing for specific purposes.

Energy and infrastructure Customers

This segment summarises the global business relations of the Group companies NORD/LB and Bremer Landesbank in the Infrastructure, Energy (in particular renewable energy) and Leasing divisions. Primarily project financing which is related to a specific project or asset is offered and accordingly tailored to meet the respective individual need. The structure of this financing is developed taking into account the respective political and economic risks, legal and task factors, social determinants and optimal equity structures. The aim is to tailor project requirements and cash flows to the respective customers.

Ship and Aircraft Customers

In this segment the national and international activities of NORD/LB and Bremer Landesbank in ship and aircraft financing are reported. The customers of the Ship and Aircraft Customers segment are offered short to long-term financing, such as equity pre-financing, interim finance, construction period finance (short and medium term) and financing to completion (long term). Ships or aircraft are financed by the provision of loans or guarantees on a property-related and normally property-secured basis. Products such as for example swap, option, future or forward transactions complete the product range.

Real Estate Banking Customers

Here NORD/LB and Deutsche Hypo's national and international financing of commercial real estate and Bremer Landesbank's financing of community interest properties are aggregated. This normally concerns structured financing for large-volume commercial real estate projects and portfolios in Germany and abroad. Both interim finance for new construction projects and long-term loans for existing properties are offered.

Group Controlling / Others

This segment covers all other performance data directly related to the business activity, Group companies not included in the segments, performance elements at Group level which are not allocated to the segments, costs of the corporate and service centres which have not been allocated and consolidations. Also shown here are the earnings that are not the direct result of customer business, such as interest-rate risk control, the balancing provision, liquidity management and self-induced assets. The bank levy is reported under other comprehensive income.

This segment covers all other performance data directly related to the business activity such as Group companies not included in the segments, performance elements at Group level which are not allocated to the segments such as investment and financing income (including revenue from participating interests and from capital investments), general loan loss provisions, the profit/loss from other financial instruments (in particular from central valuation effects), financial assets and hedge accounting, non-allocated costs of corporate and service centres, projects covering the entire bank and consolidation items. 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 (in particular Treasury and Bank Assets Allocation), have also been shown here.

Other operating profit/loss includes the bank levy. Earnings after taxes in Group Controlling/Others fell in 2012 to € –455 million.

Positive contributions were made by net interest income in the amount of € 312 million, and in particular approx. € 110 million from Financial Markets activities recorded here, € 26 million from other Group companies and almost € 160 million from investment and financing income from capital investments not allocated to the segments. Also reported in this segment in loan loss provisions are the reversal of general loan loss provisions in the amount of approx. € 127 million and the consolidation of valuation allowances in the amount of € 40 million; specific valuation allowances made in Treasury and Bank Assets Allocation had a negative effect.

Net commission income, in particular from other Group companies and the Financial Markets activities reported here, had a slightly negative effect in the amount of € –25 million. The greatest negative effects were the result of the profit/loss from financial instruments at fair value in the amount of € –284 million due to valuation effects and the reduction of the EUR/USD base spread for cross currency swaps and the improvement in NORD/LB's own credit spread, which resulted in valuation losses in the fair value option.

The effects from hedge accounting reported in this segment (€ 10 million), the profit/loss from financial assets (€ –16 million, in particular write-downs of government securities and the value of a financial obligation arising from an agreement with a minority shareholder to buy own equity instruments) and the profit/loss from investments accounted for using the equity method (€ –14 million, in particular the write-down of an associated company) are insignificant in terms of size. In other operating profit/loss (€ –65 million) the proceeds from the sale of the "Tulips" sculpture (€ 21 million) and the contributions from other Group companies (€ 18 million) were not enough to compensate for the losses from the redemption of the bank's own issues and (approx. € 50 million in NORD/LB), the unscheduled depreciation of ships (€ 44 million) and the bank levy (€ 39 million).

Administrative expenses rose in this segment (€ 474 million) primarily due to the donation to the NORD/LB Culture Foundation following the sale of the "Tulips" sculpture by € 21 million. Administrative expenses in this segment result in the amount of € 54 million from the Financial Markets activities reported here and € 58 million from other Group companies. Overheads including projects covering the entire bank (€ 413 million) make up the largest item under administrative expenses in this segment. This was offset in part by consolidations in the amount of approx. € –87 million.

Furthermore, in 2012 reorganisation expenses (€ 34 million) and expenses related to public guarantees for reorganisation (€ 19 million) were incurred.

Reconciliations

Here the reconciliation items from internal accounting for the consolidated figures in the income statement are shown as well as reclassifications of profit and loss items that are reported differently in the internal reporting to in the external reporting. The shortfall in the regulatory capital requirement is converted into risk-weighted assets within internal reporting and assigned to the operational units; the adjustment item resulting from the regulatory risk-weighted assets report flows into the reconciliation.

Breakdown by geographical regions

The profit, segment assets and segment liabilities are allocated regionally based on the respective location of the branch or Group company. Consolidations are shown separately.

(19) Segment reporting by business segment

1 Jan. – 31 Dec. 2012 / 31 Dec. 2012 (in € million)	Private and Commercial Customers	Corporate Customers & Markets	Energy and Infrastructure Customers	Ships and Aircraft Customers	Real Estate Banking Customers	Group Management/ Others	Reconciliations	NORD/LB Group
Net interest income before loan loss provisions	256	477	148	448	243	312	73	1 957
Loan loss provisions	1	87	30	500	132	– 153	1	598
Net interest income after loan loss provisions	**255**	**390**	**118**	**– 53**	**111**	**465**	**73**	**1 358**
Net commission income	25	79	51	57	13	– 25	– 33	168
Profit / loss from financial instruments at fair value through profit or loss	12	112	3	11	4	– 284	20	– 123
Profit / loss from hedge accounting	–	–	–	–	–	10	– 9	1
Profit / loss from financial assets	10	–	–	–	–	– 16	–	– 5
Profit / loss from investments accounted for using equity method	–	–	–	–	–	– 14	–	– 14
Administrative expenses	294	213	53	59	56	474	9	1 158
Other operating profit / loss	9	7	4	– 2	1	– 65	– 53	– 99
Profit / Loss before reorganisation and taxes	**17**	**376**	**123**	**– 46**	**73**	**– 403**	**– 11**	**129**
Reorganisation expenses	–	–	–	–	–	– 34	–	– 34
Expenses for public guarantees related to reorganisation	–	–	–	–	–	– 19	–	– 19
Earnings before taxes (EBT)	**17**	**376**	**123**	**– 46**	**73**	**– 455**	**– 11**	**76**
Taxes	–	–	–	–	–	–	– 4	– 4
Consolidated profit	**17**	**376**	**123**	**– 46**	**73**	**– 455**	**– 7**	**80**
Segment assets	11 798	65 459	14 745	27 780	18 308	88 542	– 1 082	225 550
of which: investments at equity	–	–	–	–	–	318	–	318
Segment liabilities	10 917	48 175	3 098	4 261	905	158 818	– 624	225 550
Risk-weighted assets	5 641	15 686	8 062	37 736	16 768	15 555	– 21 586	77 863
Capital employed[1]	411	1 100	564	2 642	1 174	1 071	671	7 633
CIR	97.4 %	31.5 %	25.9 %	11.5 %	21.3 %			61.2 %
RoRaC / RoE[2]	4.2 %	27.6 %	18.9 %	– 1.8 %	5.9 %			1.0 %

1 Jan.–31 Dec. 2011 / 31 Dec. 2011 (in € million)	Private and Commercial Customers	Corporate Customers & Markets	Energy and Infrastructure Customers	Ships and Aircraft Customers	Real Estate Banking Customers	Group Management/ Others	Reconciliations	NORD/LB Group
Net interest income before loan loss provisions	276	460	153	401	245	266	– 38	1 762
Loan loss provisions	9	27	27	173	91	– 123	– 8	197
Net interest income after loan loss provisions	**267**	**433**	**126**	**227**	**154**	**389**	**– 31**	**1 565**
Net commission income	32	79	47	51	14	– 16	– 42	166
Profit/loss from financial instruments at fair value through profit or loss	12	– 29	5	13	4	– 112	47	– 61
Profit/loss from hedge accounting	–	–	–	–	–	130	–	130
Profit/loss from financial assets	– 3	1	–	–	–	– 38	– 8	– 48
Profit/loss from investments accounted for using equity method	–	–	–	–	–	–	–	–
Administrative expenses	287	187	49	49	56	447	15	1 091
Other operating profit/loss	49	3	–	1	3	103	– 89	69
Profit/Loss before reorganisation and taxes	**69**	**300**	**128**	**243**	**118**	**10**	**– 138**	**730**
Reorganisation expenses	–	–	–	–	–	–	–	–
Expenses for public guarantees related to reorganisation	–	–	–	–	–	–	–	–
Earnings before taxes (EBT)	**69**	**300**	**128**	**243**	**118**	**10**	**– 138**	**730**
Taxes	–	–	–	–	–	–	194	194
Consolidated profit	**69**	**300**	**128**	**243**	**118**	**10**	**– 332**	**536**
Segment assets	11 631	66 368	14 091	27 423	20 036	92 007	– 3 921	227 633
of which: investments at equity	–	–	–	–	–	387	–	387
Segment liabilities	9 858	58 125	4 324	3 573	837	142 762	8 154	227 633
Risk-weighted assets	4 956	16 232	8 143	34 304	19 518	14 959	– 13 312	84 800
Capital employed [1]	263	812	407	1 715	976	718	1 662	6 554
CIR	77.8 %	36.5 %	24.0 %	10.6 %	21.2 %			52.8 %
RoRaC/RoE [2]	25.5 %	31.4 %	23.9 %	14.2 %	11.1 %			11.1 %

[1] Reconciliation of long-term equity under commercial law to reported equity:

(in € million)	31 Dec. 2012	31 Dec. 2011
Long-term equity under commercial law	7 633	6 554
Revaluation reserve	– 13	– 543
Silent participations in reported equity	80	536
Reported equity	**7 700**	**6 546**

[2] Business segment RoRaC:
(earnings before taxes) / committed core capital;
(7 per cent (previous year: 5 per cent) of the higher value of the RWA limit and the amount called on)

Group RoE:
(earnings before taxes) / long-term equity under commercial law
(= reported equity – revaluation reserve – earnings after taxes)

The tables may include minor differences that occur in the reproduction of mathematical operations.

(20) Breakdown by geographical regions

1 Jan. – 31 Dec. 2012 / 31 Dec. 2012 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolida-tion	NORD/LB Group
Earnings before taxes (EBT)	– 130	119	111	53	– 77	76
Segment assets	230 608	29 920	5 526	4 133	– 44 637	225 550
Segment liabilities	231 640	28 888	5 526	4 133	– 44 637	225 550
Risk-weighted assets	68 080	7 421	3 298	1 735	– 2 671	77 863
Capital employed	7 060	519	231	121	– 299	7 633
CIR	64.5 %	28.5 %	28.6 %	20.4 %		61.2 %
RoRaC / RoE [1]	– 1.8 %	23.0 %	47.9 %	43.7 %		1.0 %

1 Jan. – 31 Dec. 2011 / 31 Dec. 2011 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolida-tion	NORD/LB Group
Earnings before taxes (EBT)	409	30	169	42	80	730
Segment assets	226 668	28 747	7 523	6 245	– 41 549	227 633
Segment liabilities	226 668	28 747	7 523	6 245	– 41 549	227 633
Risk-weighted assets	72 111	7 387	5 735	2 372	– 2 804	84 800
Capital employed	6 052	369	287	119	– 273	6 554
CIR	55.9 %	46.5 %	22.5 %	25.8 %		52.8 %
RoRaC / RoE [1]	6.8 %	8.2 %	59.1 %	35.3 %		11.1 %

[1] By business segment RoRaC:
(earnings before taxes) / core capital employed
(7 per cent (previous year 5 per cent) of the higher value coming from RWA-Limit or usage amount)

For the Group RoE:
(earnings before taxes – interest expenses for silent participations
in reported equity) / long-term equity under commercial law
(= share capital + capital reserves + retained earnings + non-controlling interests –
silent participations in reported equity)

Notes to the Income Statement

(21) Net interest income

The items interest income and interest expense comprise interest received and paid, deferred interest and pro rata reductions in premiums and discounts relating to financial instruments. Due to the fact that under certain circumstances silent participations are to be classified as liabilities under IAS 32, payments to silent partners are reported as interest expense.

	1 Jan.–31 Dec. 2012 (in € million)	1 Jan.–31 Dec. 2011 (in € million)	Change (in %)
Interest income			
Interest income from lending and money market transactions	4 798	5 016	– 4
Interest income from fixed-income and book entry securities	1 271	1 493	– 15
Interest income from financial instruments at fair value			
Interest income from trading profit/loss and hedge accounting derivatives	5 730	6 186	– 7
Interest income from fair value option	64	77	– 17
Current income			
from shares and other variable-yield securities	9	8	13
from investments	38	77	– 51
Interest income from other amortisations	355	127	> 100
Other interest income and similar income	13	9	44
	12 278	**12 993**	**– 6**
Interest expense			
Interest expense from lending and money market transactions	2 527	2 926	– 14
Interest expense from securitised liabilities	1 605	1 898	– 15
Interest expense from financial instruments at fair value			
Interest expense from trading profit/loss and hedge accounting derivatives	5 274	5 541	– 5
Interest expense from fair value option	324	297	9
Interest expense from subordinated capital	245	331	– 26
Interest expense from other amortisations	261	151	73
Interest expense from provisions and liabilities	79	74	7
Other interest expenses and similar expenses	6	13	– 54
	10 321	**11 231**	**– 8**
Total	**1 957**	**1 762**	**11**

Interest income from lending and money market transactions includes interest income relating to impaired loans (unwinding) of € 61 million (€ 56 million).

The interest income includes € 6,424 million (€ 6,637 million) relating to income from financial instruments which are not measured at fair value through profit or loss. The interest expenses include € 4,638 million (€ 5,306 million) relating to expenses from financial instruments which are not measured at fair value through profit or loss.

(22) Provisions for lending business

	1 Jan. – 31 Dec. 2012 (in € million)	1 Jan. – 31 Dec. 2011 (in € million)	Change (in %)
Income from provisions for lending business			
Reversal of specific valuation allowance	299	330	– 9
Reversal of lumpsum specific loan loss provisions	13	16	– 19
Reversal of general loan loss provisions	175	100	75
Reversal of provisions for lending business	69	108	– 36
Additions to receivables written off	25	25	–
	581	**579**	**–**
Expenses for provisions for lending business			
Allocation to specific valuation allowance	939	617	52
Allocation to lumpsum specific loan loss provisions	5	10	– 50
Allocation to general loan loss provisions	44	11	> 100
Allocation to provisions for lending business	98	53	85
Direct write-offs of bad debts	92	83	11
Premium payments for credit insurance	1	2	– 50
	1 179	**776**	**52**
Total	**– 598**	**– 197**	**> 100**

(23) Net commission income

	1 Jan. – 31 Dec. 2012 (in € million)	1 Jan. – 31 Dec. 2011[1] (in € million)	Change (in %)
Commission income			
Lending and guarantee business	127	118	8
Account management and payment transactions	41	43	– 5
Trust activities	10	40	– 75
Security transactions and custody service	29	34	– 15
Brokerage business	30	30	–
Insurance business	8	9	– 11
Other commission income	32	28	14
	277	**302**	**– 8**
Commission expense			
Lending and guarantee business	17	16	6
Account management and payment transactions	2	2	–
Trust activities	4	26	– 85
Security transactions and custody service	21	24	– 13
Brokerage business	5	10	– 50
Insurance business	31	30	3
Other commission expenses	29	28	4
	109	**136**	**– 20**
Total	**168**	**166**	**1**

[1] The previous year's figures were adjusted.

Commission income includes income from financial instruments which are not measured at fair value in the amount of € 197 million (€ 196 million)[2]. Commission expenses include expenses from financial instruments which are not measured at fair value in the amount of € 40 million (€ 42 million)[2].

[2] The previous year's figures were adjusted.

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

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011 (in € million)	Change (in %)
Trading profit / loss			
Profit / loss from debt securities and other fixed-interest securities	123	59	> 100
Profit / loss from shares and other variable-yield securities	2	– 19	> 100
Profit / loss from derivatives	304	143	> 100
Profit / loss from receivables held for trading	78	100	– 22
	507	**283**	**79**
Foreign exchange gains	8	–	–
Other income	2	4	– 50
	517	**287**	**80**
Profit / loss from the use of fair value option			
Profit / loss from receivables to customers and banks	12	15	– 20
Profit / loss from debt securities and other fixed-interest securities	– 29	20	> 100
Profit / loss from shares and other variable-yield securities	1	– 1	> 100
Profit / loss from liabilties to banks and customers	– 299	– 299	–
Profit / loss from securitised liabilties	– 325	– 81	> 100
Profit / loss from subordinated capital	–	– 2	– 100
	– 640	**– 348**	**– 84**
Total	**– 123**	**– 61**	**> 100**

Commission income from trading activities in the amount of € 2 million (€ 4 million) is reported under other comprehensive income.

(25) Profit / loss from hedge accounting

The profit / loss from hedge accounting includes fair value adjustments relating to the hedged risk of an underlying transaction and offset fair value adjustments to hedge instruments in effective fair value hedge relationships.

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011 (in € million)	Change (in %)
Profit / loss from micro fair value hedges			
from hedged underlying transactions	– 106	390	> 100
from derivatives employed as hedging instruments	70	– 358	> 100
	– 36	**32**	**> 100**
Profit / loss from portfolio fair value hedges			
from hedged underlying transactions	– 385	– 447	– 14
from derivatives employed as hedging instruments	422	545	– 23
	37	**98**	**– 62**
Total	**1**	**130**	**– 99**

(26) Profit / loss from financial assets

Shown in the profit / loss from financial assets are profits / losses from disposals and estimated profits / losses relating to securities and company shares in the financial asset portfolio.

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011 (in € million)	Change (in %)
Profit / loss from financial assets classified as LaR	**– 2**	**– 33**	**94**
Profit / loss from financial assets classified as AfS (excluding investments)			
Profit/ loss from the disposal of			
debt securities and other fixed-interest securities	34	68	– 50
shares and other variable-yield securities	13	4	> 100
Other financial assets classified as AfS	– 2	–	–
Profit / loss from allowances for losses on			
debt securities and other fixed-interest securities	– 2	– 103	98
shares and other variable-yield securities	– 6	– 11	45
Other financial assets classified as AfS	– 16	– 7	> 100
	21	**– 49**	**> 100**
Profit / loss from shares in companies (not consolidated)	**– 24**	**34**	**> 100**
Total	**– 5**	**– 48**	**90**

(27) Profit / loss from investments accounted for using the equity method

The profit / loss from investments accounted for using the equity method is summarised below. It shows the contributions to earnings of joint ventures and affiliated companies accounted for using the equity method.

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011 (in € million)	Change (in %)
Shares in joint ventures			
Income	3	4	– 25
	3	**4**	**– 25**
Shares in associated companies			
Income	41	39	5
Expenses	58	43	35
	– 17	**– 4**	**> 100**
Total	**– 14**	**–**	**–**

(28) Administrative expenses

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011 (in € million)	Change (in %)
Staff expenses			
Wages and salaries	492	454	8
Social insurance contributions	68	66	3
Expenditure on pension schemes and other benefits	37	33	12
Other staff expenses	6	7	– 14
	603	**560**	**8**
Other administrative expenses			
Costs for IT and communications	215	204	5
Building occupancy costs	45	47	– 4
Expenses for marketing, communications and entertainment	48	29	66
Personnel-related material expenses	25	27	– 7
Costs for legal, auditing, appraisal and consulting services	64	64	–
Levies and contributions	20	23	– 13
Expenses for operating and office equipment	6	6	–
Other services	9	10	– 10
Other administrative expenses	34	34	–
	466	**444**	**5**
Amortisation and depreciation			
Property and equipment	45	43	5
Intangible assets	42	42	–
Investment properties	2	2	–
	89	**87**	**2**
Total	**1 158**	**1 091**	**6**

Expenditure on pension schemes and other benefits includes expenditure for defined contribution plans in the amount of € 38 million (€ 34 million).

(29) Other operating profit / loss

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011 (in € million)	Change (in %)
Other operating income			
from the reversal of provisions	269	271	– 1
from insurance contracts	497	450	10
from other business	183	292	– 37
	949	**1 013**	**– 6**
Other operating expenses			
from allocation to provisions	441	344	28
from insurance contracts	315	343	– 8
from other business	292	257	14
	1 048	**944**	**11**
Total	**– 99**	**69**	**> 100**

Income from the reversal of provisions and expense from allocation to provisions primarily concern provisions relating to insurance contracts.

Other operating income from insurance contracts is primarily the result of premium income (€ 417 million (€ 375 million)) and income from reinsurance contracts (€ 50 million (€ 42 million)).

Income from other business includes income from the disposal of receivables (€ 54 million (€ 162 million)) and the disposal of property and equipment (€ 25 million (€ 0 million)), income from the chartering of ships relating to restructuring commitments in lending business (€ 42 million (€ 50 million)), reimbursements of costs (€ 11 million (€ 15 million)), rental income from investment property (€ 10 million (€ 11 million)), income from the redemption of debt securities (€ 2 million (€ 6 million)) and income from IT services (€ 3 million (€ 3 million)).

Other operating expenses from insurance contracts mainly comprise indemnity expenses (€ 258 million (€ 285 million)) and expenses from reinsurance contracts (€ 49 million (€ 50 million)).

Expenses from other business essentially comprise expenses from the disposal of receivables (€ 99 million (€ 78 million)), expenses from the redemption of debt securities (€ 38 million (€ 29 million)), expenses to generate charter income from ships (€ 23 million (€ 21 million)) and expenses from investment property (€ 3 million (€ 2 million)). The expenses from other business also include an amount of € 37 million (€ 40 million) provided for the bank levy set by the Restructuring Fund Act. The expenses from other business also include unscheduled depreciation in the amount of € 44 million (€ 0 million). This is the result of a fall in the market value of ships due to the crisis in the shipping market.

(30) Reorganisation expenses

Reorganisation expenses relate to measures aimed at securing the long-term future and maintaining the competitiveness of the NORD/LB Group, with its material costs and staff expenses being reported separately due to their importance. The need for reorganisation is related to the efficiency improvement programme launched in 2011 and a capital-boosting programme which is the result of EU requirements. The reorganisation expenses include in the amount of € 27 million (€ 0 million) expenses from the allocation made to reorganisation provisions for contracted agreements already concluded concerning the termination of contracts of employment. They also include in the amount of € 5 million (€ 0 million) expenses from projects that aim to achieve significant cost synergies. Furthermore, expenses in the amount of € 2 million (€ 0 million) which are incurred as part of capital measures implemented in consultation with the European Banking Authority (EBA) and which are not to be offset directly against equity are reported.

(31) Expenses for public guarantees related to reorganisation

Expenses for public guarantees related to reorganisation concern the NORD/LB Group's capital-boosting programme. The amount reported of € 19 million (€ 0 million) is entirely attributable to the payment of a premium for a guarantee provided by the states of Lower Saxony and Saxony-Anhalt.

(32) Income taxes

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011 (in € million)	Change (in %)
Current taxes on income and earnings			
Tax expense/income for the current year	112	124	– 10
Tax expense/income for previous years	– 9	– 48	– 81
	103	**76**	**36**
Deferred taxes			
Deferred taxes due to the accrual/reversal of temporary differences and tax losses/tax credits not previously considered	– 94	110	> 100
Deferred taxes due to changes in tax legislation/tax rates	– 4	1	> 100
Deferred taxes due to temporary differences in previous periods not previously considered	– 9	7	> 100
	– 107	**118**	**> 100**
Total	**– 4**	**194**	**> 100**

The following tax reconciliation statement shows an analysis of the difference between the expected income taxes which would result from applying the German income tax rate to earnings before tax in accordance with IFRS and the income taxes actually reported.

(in € million)	1 Jan.– 31 Dec. 2012	1 Jan.– 31 Dec. 2011
IFRS earnings before taxes	**76**	**730**
Anticipated income tax expenditure	24	230
Effects of reconciliation:		
Effects of differing tax rates	– 2	15
Taxes from previous years reported in the reporting period	– 18	– 41
Effects of changes in tax rates	– 2	– 2
Non-creditable income taxes	2	– 1
Non-deductible operational expenditure	47	46
Effects of tax-free earnings	– 26	– 62
Effect of permanent accounting-related effects	– 6	– 61
Effects of write-ups / write-downs / recognition adjustments	– 44	45
Other effects	21	25
Reported income tax expense	**– 4**	**194**

Anticipated income tax expenditure in the tax reconciliation statement is calculated on the basis of the corporation tax rate of 15 per cent plus a solidarity surcharge of 5.5 per cent and the average trade tax rate of approximately 15.6 per cent, as valid in Germany in 2012. The income tax rate for Germany is therefore 31.5 per cent (31.5 per cent).

The deferred taxes of the Group entities in Germany are measured using the tax rate applicable as at or the future tax rate applicable as at the balance sheet date of 31.5 per cent (31.5 per cent).

Effects resulting from deviating tax rates are caused by differing tax rates in each country. The effects of write-ups / write-downs / recognition adjustments also include effects from the subsequent increase or decrease in the recognition of losses carried forward.

Notes to the Statement of Comprehensive Income

Income tax effects fall upon the individual components of other comprehensive income (OCI) as follows:

(in € million)	1 Jan.– 31 Dec. 2012 Amount before taxes	1 Jan.– 31 Dec. 2012 Income tax effect	1 Jan.– 31 Dec. 2012 Amount after taxes	1 Jan.– 31 Dec. 2011 Amount before taxes	1 Jan.– 31 Dec. 2011 Income tax effect	1 Jan.– 31 Dec. 2011 Amount after taxes
Increase/decrease from available for sale (AfS) financial instruments	846	– 287	559	– 943	326	– 620
Changes in value investments accounted for using the equity method recognised directly in equity	40	–	40	16	–	16
Translation differences of foreign business units	– 2	–	– 2	13	–	13
Actuarial gains and losses for pensions for defined benefit obligations	– 500	156	– 344	– 41	12	– 29
Other	**384**	**– 131**	**253**	**– 955**	**338**	**– 617**

Notes to the Balance Sheet

(33) Cash reserve

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Cash on hand	214	233	– 8
Balances with central banks	451	563	– 20
Total	**665**	**796**	**– 16**

Of the balances with central banks, € 103 million (€ 413 million) are credit balances with Deutsche Bundesbank. The required minimum reserve was maintained at all times in the period under review and amounted to € 198 million (€ 462 million).

(34) Loans and advances to banks

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Loans and advances resulting from money market transactions			
German banks	5 804	6 139	– 5
Foreign banks	2 606	2 161	21
	8 410	**8 300**	**1**
Other loans and advances			
German banks			
Due on demand	1 621	1 074	51
With a fixed term or period of notice	19 850	20 491	– 3
Foreign Banks			
Due on demand	2 488	223	> 100
With a fixed term or period of notice	2 009	4 566	– 56
	25 968	**26 354**	**– 1**
Total	**34 378**	**34 654**	**– 1**

Of the loans and advances to banks in Germany, € 9,648 million (€ 10,884 million) are loans and advances to associated savings banks.

(35) Loans and advances to customers

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Loans and advances to customers			
Domestic customers	2 822	2 211	28
Customers abroad	28	30	– 7
	2 850	**2 241**	**27**
Other loans and advances			
Domestic customers			
Due on demand	3 168	2 493	27
With a fixed term or period of notice	79 050	79 370	–
Customers abroad			
Due on demand	359	334	7
With a fixed term or period of notice	29 150	30 214	– 4
	111 727	**112 411**	**– 1**
Total	**114 577**	**114 652**	**–**

(36) Loan loss provisions

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Specific valuation allowance			
German banks	–	– 10	– 100
Foreign banks	–	10	– 100
Domestic customers	1 163	907	–
Customers abroad	330	252	31
	1 493	**1 159**	**29**
Lumpsum specific loan loss provisions			
Domestic customers	19	28	– 32
	19	**28**	**– 32**
General loan loss provisions			
German banks	2	–	–
Foreign banks	1	1	–
Domestic customers	383	461	– 17
Customers abroad	51	118	– 57
	437	**580**	**– 25**
Total	**1 949**	**1 767**	**10**

Loan loss provisions recognised on the asset side and provisions in lending business developed as follows:

	Specific valuation allowance		Lumpsum specific loan loss provisions		General loan loss provisions		Provisions in lending business		Total	
(in € million)	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
1 January	**1 159**	**1 301**	**28**	**35**	**580**	**671**	**113**	**172**	**1 880**	**2 179**
Allocations	939	617	5	10	44	11	98	53	1 086	691
Reversals	299	330	13	16	175	100	69	108	556	554
Utilisation	250	389	1	1	–	–	–	4	251	394
Unwinding	– 63	– 55	–	–	–	–	– 1	– 1	– 64	– 56
Effects from currency translation and other changes	7	15	–	–	– 12	– 2	– 5	1	– 10	14
31 December	**1 493**	**1 159**	**19**	**28**	**437**	**580**	**136**	**113**	**2 085**	**1 880**

(37) Balancing items for hedged financial instruments

This item includes the fair value adjustments to assets attributable to the hedged risk, for which there is a fair value hedge portfolio.

(38) Financial assets at fair value through profit or loss

This item contains the assets held for trading (HfT) and financial assets designated at fair value (DFV).

The trading activities of the Group comprise trading in debt securities and other fixed-interest securities, shares and other variable-yield securities and derivative financial instruments which are not used for hedge accounting.

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Trading assets			
Debt securities and other fixed-interest securities			
Money market instruments			
issued by other borrowers	16	–	–
Bonds and debt securities			
issued by public-sector borrowers	996	470	> 100
issued by other borrowers	1 808	2 403	– 25
	2 804	**2 873**	**– 2**
Shares and other variable-yield securities			
Shares	26	36	– 28
Investment certificates	1	3	– 67
	27	**39**	**– 31**
Positive fair values from derivatives			
Interest-rate risks	10 771	10 208	6
Currency risks	953	1 335	– 29
Share-price and other price risks	61	54	13
Credit derivatives	18	53	– 66
	11 803	**11 650**	**1**
Trading portfolio claims	1 783	2 244	– 21
Other trading assets	– 1	– 1	–
	16 432	**16 805**	**– 2**
Financial assets as at fair value through profit or loss			
Loans and advances to banks and customers	365	257	42
Debt securities and other fixed-interest securities	1 112	1 572	– 29
Shares and other variable-yield securities	11	10	10
	1 488	**1 839**	**– 19**
Total	**17 920**	**18 644**	**– 4**

For receivables designated at fair value there is a maximum default risk of € 366 million (€ 257 million).

The change in the fair value, which is attributable to changes in the credit risk of receivables designated at fair value, amounts to € 42 million (€ – 203 million)[1] in the period under review; the cumulative change is € – 156 million (€ – 198 million)[1].

The credit-risk-induced change in fair value is calculated on the basis of considering the difference between two fair values, which are calculated on the basis of market data applicable at the start of the year. This difference is solely the result of the change in the relevant spread curves which takes place during the course of the financial year.

[1] The previous year's figures were adjusted.

(39) Positive fair values from hedge accounting derivates

This item includes positive fair values of hedging instruments in effective micro fair value hedges and portfolio fair value hedges.

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Micro fair value hedge derivatives	3 073	2 631	17
Portfolio fair value hedge derivatives	1 851	658	> 100
Total	**4 924**	**3 289**	**50**

(40) Financial assets

The balance sheet item financial assets includes all the debt securities and other fixed-interest securities classified as available for sale (AfS), shares and other variable-yield securities, shares in companies which are not measured in accordance with IAS 27, IAS 28 or IAS 31 and financial assets classified as loans and receivables (LaR).

Participations in the equity of other companies and silent participations with loss sharing are allocated to the category (AfS).

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Financial assets classified as LaR	**3 830**	**4 678**	**– 18**
Financial assets classified as AfS			
Debt securities and other fixed-interest securities			
Money market instruments			
issued by public-sector borrowers	159	34	> 100
issued by other borrowers	125	47	> 100
	284	**81**	**> 100**
Bonds and debt securities			
issued by public-sector borrowers	19 681	18 609	6
issued by other borrowers	27 643	30 124	– 8
	47 324	**48 733**	**– 3**
Shares and other variable-yield securities			
Shares	291	236	23
Investment certificates	150	121	24
Participation certificates	13	14	– 7
Other	–	1	– 100
	454	**372**	**22**
Shares in companies	384	482	– 20
Other financial assets classified as AfS	147	164	– 10
	48 593	**49 832**	**– 2**
Total	**52 423**	**54 510**	**– 4**

(41) Investments accounted for using the equity method

The shares in joint ventures in terms of IAS 31 and affiliated companies in terms of IAS 28 accounted for using the equity method are broken down as follows:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Joint ventures			
Financial institutions	27	26	4
Affiliated companies			
Banks	161	162	– 1
Other entities	130	199	– 35
	291	**361**	**– 19**
Total	**318**	**387**	**– 18**

The development of investments accounted for using the equity method is as follows:

(in € million)	Joint ventures	Affiliated companies	Total
1 January 2011	**27**	**375**	**402**
Additions	2	58	60
Disposals	3	29	32
Depreciation	–	43	43
31 December 2011	**26**	**361**	**387**
Additions	3	74	77
Disposals	2	87	89
Depreciation	–	57	57
31 December 2012	**27**	**291**	**318**

The share of profits / losses for joint ventures and affiliated companies accounted for using the equity method are reported under additions and disposals, while impairments are reported under deprecation. Dividends received are reported under disposals.

Shares in investments accounted for using the equity method amounted to € 318 million (€ 387 million), a fall of € 69 million compared to the previous year. The development in the financial year 2012 is the result of the share of profits / losses in the amount of € –14 million (€ 0 million), changes in equity in the amount of € 40 million (€ 17 million) and distributions received in the amount of € 22 million (€ –28 million)) for joint ventures and affiliated companies accounted for using the equity method and reported under additions and disposals. This is seen alongside reductions in the capital of and deconsolidations of investments accounted for using the equity method in the amount of € 11 million.

In the financial year the carrying amount of equity was subject to unscheduled depreciation relating to LBS in the amount of € 57 million.

The table below summarises the financial information of joint ventures and affiliated companies accounted for using the equity method. The values shown represent the proportionate share of the capital held by the NORD/LB Group in the respective companies.

(in € million)	Joint Ventures 31 Dec. 2012	Joint Ventures 31 Dec. 2011	Affiliated companies 31 Dec. 2012	Affiliated companies 31 Dec. 2011
Short-term assets	70	58	827	790
Long-term assets	25	22	3 320	3 301
Short-term liabilities	51	37	563	361
Long-term liabilities	18	17	3 209	3 337
Total income	27	27	535	584
Total expenses	25	24	506	545
Contingent liabilities	110	138	53	44

(42) Property and equipment

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Land and buildings	353	345	2
Operating and office equipment	74	82	– 10
Ships	200	258	– 22
Other property and equipment	8	3	> 100
Total	**635**	**688**	**– 8**

The development of property and equipment is shown under Note (43) Investment property.

(43) Investment property

The carrying amount of investment property is € 94 million (€ 93 million). The fair value of investment property is € 121 million (€ 125 million).

The profit / loss from investment property is summarised as follows:

(in € million)	1 Jan. – 31 Dec. 2012	1 Jan. – 31 Dec. 2011
Rental income	10	11
Direct operating expenses	3	2

The development of cost and accumulated depreciation for property and equipment and investment property is shown as follows:

(in € million)	Land and buildings	Operating and office equipment	Ship	Other property and equipment	Total	Investment property
Cost as at 1 January 2011	**635**	**282**	**281**	**41**	**1 239**	**112**
Additions	1	21	–	21	**43**	1
Disposals	–	10	–	2	**12**	4
Transfers	46	10	–	– 56	**–**	1
Changes from currency translation	–	–	– 11	–	**– 11**	–
Totals 31 December 2011	**682**	**303**	**270**	**4**	**1 259**	**110**
Accumulated depreciation as at 1 January 2011	**325**	**211**	**–**	**1**	**537**	**16**
Depreciation	12	19	12	–	**43**	2
Disposals	–	9	–	–	**9**	1
Totals 31 December 2011	**337**	**221**	**12**	**1**	**571**	**17**
Closing balance as at 31 December 2011	**345**	**82**	**258**	**3**	**688**	**93**
Cost as at 1 January 2012	**682**	**303**	**270**	**4**	**1 259**	**110**
Additions	35	16	–	5	**56**	22
Disposals	4	17	–	–	**21**	22
Change from the basis of consolidation	–	–	–	–	**–**	– 2
Changes from currency translation	–	–	– 2	–	**– 2**	–
Totals 31 December 2012	**713**	**302**	**268**	**9**	**1 292**	**108**
Accumulated depreciation as at 1 January 2012	**337**	**221**	**12**	**1**	**571**	**17**
Depreciation	13	20	12	–	**45**	2
Impairments (non-scheduled)	–	–	44	–	**44**	–
Additions	10	–	–	–	**10**	–
Disposals	–	13	–	–	**13**	5
Totals 31 December 2012	**360**	**228**	**68**	**1**	**657**	**14**
Closing balance as at 31 December 2012	**353**	**74**	**200**	**8**	**635**	**94**

(44) Intangible assets

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Software			
Purchased	21	15	40
Internally generated	91	118	– 23
	112	**133**	**– 16**
Intangible assets under development	18	8	> 100
Other intangible assets	12	12	–
Total	**142**	**153**	**– 7**

Intangible assets under development refer primarily to internally generated software. Fully amortised software is still in use.

Expenses for research and development in the amount of € 93 million (€ 111 million) have been incurred. The research expenditure on internally developed software which is not eligible for capitalisation totals € 83 million (€ 84 million).

The NORD/LB Group has intangible assets with an indefinite useful life in the amount of € 7 million (€ 7 million). These are accounted for entirely in other intangible assets.

The NORD/LB Group's significant intangible assets are shown in the table below:

	Carrying amount (in € million) 31 Dec. 2012	Carrying amount (in € million) 31 Dec. 2011	Remaining depreciation period (in years) 31 Dec. 2012	Remaining depreciation period (in years) 31 Dec. 2011
Migration of IT applications	52	52	4	5
Internally developed software	12	–	14	–
Brand name	5	6	Unlimited	Unlimited

The development of intangible assets is as follows:

(in € million)	Software Purchased	Software Internally generated	Goodwill	Other Purchased	Other Internally generated	Total
Cost as at 1 January 2011	**112**	**126**	**11**	**17**	**77**	**343**
Additions	8	35	–	–	14	57
Disposals	–	–	–	–	2	2
Transfers	1	70	–	–	– 71	–
Total 31 December 2011	**121**	**231**	**11**	**17**	**18**	**398**
Accumulated depreciation as at 1 January 2011	**97**	**81**	**–**	**4**	**–**	**182**
Depreciation	9	32	–	1	–	42
Impairments (non-scheduled)	–	–	11	–	10	21
Total 31 December 2011	**106**	**113**	**11**	**5**	**10**	**245**
Closing balance as at 31 December2011	**15**	**118**	**–**	**12**	**8**	**153**
Cost as at 1 January 2012	**121**	**231**	**–**	**17**	**18**	**387**
Additions	7	6	–	–	21	34
Disposals	1	–	–	–	–	1
Transfers	11	–	–	–	– 11	–
Total 31 December 2012	**138**	**237**	**–**	**17**	**28**	**420**
Accumulated depreciation as at 1 January 2012	**106**	**113**	**–**	**5**	**10**	**234**
Depreciation	9	33	–	–	–	42
Impairments (non-scheduled)	3	–	–	–	–	3
Disposals	1	–	–	–	–	1
Total 31 December 2012	**117**	**146**	**–**	**5**	**10**	**278**
Closing balance as at 31 December 2012	**21**	**91**	**–**	**12**	**18**	**142**

(45) Income tax assets

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Current income tax assets	50	60	– 17
Deferred tax assets	727	721	1
Total	**777**	**781**	**–**

Deferred tax assets reflect potential relief on income taxes from temporary differences in the values of assets and liabilities between the IFRS consolidated balance sheet and tax values in accordance with the tax regulations of the Group companies. Deferred tax assets which were recognised in other comprehensive income totalled € 372 million as at 31 December 2012 (€ 473 million).

Deferred income tax assets were established in respect of the following balance sheet items and with tax losses not yet utilised:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Assets			
Loans and advances to banks	19	29	– 34
Loan loss provisions	128	156	– 18
Financial assets at fair value through profit or loss	514	534	– 4
Financial assets	535	690	– 22
Property and equipment	42	41	2
Other assets	73	75	– 3
Liabilities			
Liabilities to customers	652	479	36
Securitsed liabilities	180	142	27
Financial liabilities at fair value through profit or loss	455	322	41
Negative fair values from hedge accounting derivatives	1 407	943	49
Provisions	377	336	12
Other liabilities	113	103	10
Tax losses carried forward	18	32	– 44
Total	**4 513**	**3 882**	**16**
Net	3 786	3 161	20
Total	**727**	**721**	**1**

In addition to deferred taxes recognised in the income statement, deferred income tax assets also comprise financial assets of € 332 million (€ 472 million) and provisions of € 40 million (€ 1 million) recognised in other comprehensive income.

No deferred taxes were recognised on losses from corporation tax carried forward to the amount of € 7 million (€ 177 million) and on losses from trade tax carried forward to the amount of € 7 million (€ 6 million) due to a limited planning horizon and the resulting insufficient likelihood of their utilisation by 31 December 2012. There is no time limit on the utilisation of existing tax losses carried forward.

(46) Other assets

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Loans and advances on interim accounts	142	219	– 35
Collection items	1	–	–
Assets from insurance contracts	157	145	8
Rights to reimbursement from defined benefit plans	19	19	–
Other assets including prepaid expenses	330	369	– 11
Total	**649**	**752**	**– 14**

The receivables in interim accounts primarily relate to receivables in lending business and transactions in payment accounts. Receivables related to the trading of securities are still included.

Assets relating to insurance contracts are assets from outwards reinsurance (€ 1 million (€ 1 million)) and direct insurance and reinsurance contracts (€ 156 million (€ 144 million)).

Reimbursement claims from defined benefit plans include allocated provisions for pensions to the benefit of parties outside the Group.

(47) Liabilities to banks

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Deposits from other banks			
German banks	737	2 754	– 73
Foreign banks	38	37	3
	775	**2 791**	**– 72**
Liabilities resulting from money market transactions			
German banks	20 739	16 923	23
Foreign banks	9 715	8 297	17
	30 454	**25 220**	**21**
Other liabilities			
German banks			
Due on demand	5 084	1 691	> 100
With a fixed term or period of notice	22 938	24 081	– 5
Foreign banks			
Due on demand	1 200	102	> 100
With a fixed term or period of notice	4 628	5 375	– 14
	33 850	**31 249**	**8**
Total	**65 079**	**59 260**	**10**

Of the liabilities to banks in Germany, € 3,194 million (€ 2,991 million) are due to associated savings banks.

(48) Liabilities to customers

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Savings deposits			
With an agreed notice period of three months			
Domestic customers	911	886	3
Customers abroad	16	20	– 20
With an agreed notice period of more than three months			
Domestic customers	407	561	– 27
Customers abroad	2	4	– 50
	1 336	**1 471**	**– 9**
Liabilities resulting from money market transactions			
Domestic customers	7 275	12 444	– 42
Customers abroad	1 860	2 759	– 33
	9 135	**15 203**	**– 40**
Other liabilities			
Domestic costumers			
Due on demand	11 708	8 862	32
With a fixed term or period of notice	31 844	33 354	– 5
Customers abroad			
Due on demand	1 018	570	79
With a fixed term or period of notice	910	1 185	– 23
	45 480	**43 971**	**3**
Total	**55 951**	**60 645**	**– 8**

(49) Securitised liabilities

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Issued debt securities			
Mortgage bonds	9 732	8 486	15
Municipal debentures	13 345	17 581	– 24
Other debt securities	35 249	36 127	– 2
	58 326	**62 194**	**– 6**
Money market instruments			
Commercial paper	1 651	3 246	– 49
Certificates of deposit	240	453	– 47
Other money market instruments	402	183	> 100
	2 293	**3 882**	**– 41**
Total	**60 619**	**66 076**	**– 8**

Repurchased debt securities issued by the bank itself have been directly deducted from securitised liabilities in the amount of € 7,962 million (€ 8,136 million).

(50) Balancing items for hedged financial instruments

This item includes the fair value adjustments to financial liabilities in portfolio fair value hedges for transactions classified as other liabilities (OL); these fair value adjustments are attributable to the hedged risk.

(51) Financial liabilities at fair value through profit or loss

This item shows trading liabilities (HfT) and financial liabilities designated at fair value (DFV).

Trading liabilities comprise negative fair values resulting from derivative financial instruments which are not used in hedge accounting and delivery obligations resulting from short sales of securities.

The category financial liabilities designated at fair value includes liabilities to banks and customers, securitised liabilities and subordinated capital.

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Trading liabilities			
Negative fair values from derivatives relating to			
interest-rate risks	10 105	9 869	2
currency risks	820	1 471	– 44
share-price and other price risks	27	73	– 63
credit derivatives	169	550	– 69
	11 121	**11 963**	**– 7**
Delivery obligations from short-sales	214	179	20
	11 335	**12 142**	**– 7**
Financial liabilities designated at fair value			
Liabilities to banks and customers	5 920	5 055	17
Securitised liabilities	3 443	3 306	4
Subordinated capital	26	26	–
	9 389	**8 387**	**12**
Total	**20 724**	**20 529**	**1**

The change in the fair value of liabilities designated at fair value is the result of changes in the credit risk and amounts to € – 200 million (€ 130 million) in the period under review; the cumulative change is € – 52 million (€ 146 million).

The credit-risk induced change in fair value is calculated on the basis of difference consideration. The amount stated is the result of the difference between the fair value determined on the balance sheet date on the basis of current market data as well as the current NORD/LB spread curves and the fair values calculated with the help of current market data and the NORD/LB spread curves used in previous reporting periods.

The carrying amount of liabilities designated at fair value as at 31 December 2012 is € 883 million higher (€ 351 million higher) than the corresponding repayment amount. The difference essentially comprises compounding effects from zero bond issues and is the difference between the discounted payment typical for zero bonds and their repayment at nominal value.

(52) Negative fair values from hedge accounting derivates

This item includes negative fair values of hedge instruments in effective micro fair value hedge relationships and portfolio fair value hedges.

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Micro fair value hedge derivatives	3 829	3 377	13
Portfolio fair value hedge derivatives	1 079	45	> 100
Total	**4 908**	**3 422**	**43**

(53) Provisions

Provisions are broken down as follows:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Provisions for pensions and other obligations	**1 975**	**1 437**	**37**
Other provisions			
Provisions in lending business	136	113	20
Provisions for restructuring measures	18	30	– 40
Provisions for contingent losses	4	4	–
Provisions for uncertain liabilities	182	131	39
Provisions for insurance contracts	1 822	1 699	7
	2 162	**1 977**	**9**
Total	**4 137**	**3 414**	**21**

Provisions for pensions and similar obligations are derived as follows:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Present value of defined benefit obligations	2 040	1 498	36
Less fair value of plan assets	– 65	– 61	7
Total	**1 975**	**1 437**	**37**

With regard to the allocation for pensions, there is a reimbursement claim against LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover, in the amount of € 19 million (€ 19 million) and this is reported in other assets. The current value of reimbursement claims is € 0 million (€ 0 million).

The present value of defined benefit obligations can be reconciled from the opening to the closing balance of the period taking into account the effects of the items shown below:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Opening balance	**1 498**	**1 414**	**6**
Current service cost	27	25	8
Interest expense	75	73	3
Actuarial gains / losses from the obligation	500	39	> 100
Increase / decrease resulting from currency translation	2	–	–
Benefits paid	– 62	– 62	–
Changes in the basis of consolidation	–	7	– 100
Effects from settlements / assignments (compensation payments)	–	2	– 100
Closing balance	**2 040**	**1 498**	**36**

In addition to pension commitments, the present value of defined benefit obligations includes allowance payments in the amount of € 178 million (€ 120 million).

The defined benefit obligation is broken down as at the balance sheet date into amounts for defined benefit plans in the amount of € 1,609 million (€ 1,162 million) which are not financed through a fund and into amounts from defined benefit obligations in the amount of € 432 million (€ 336 million) which are either fully or partially financed through a fund.

The fair value of plan assets developed as follows:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Opening balance	**61**	**59**	**3**
Anticipated earnings from plan assets	3	3	–
Actuarial gains / losses from plan assets	3	– 3	> 100
Employer contributions	13	14	– 7
Contributions from participants of the plan	–	3	– 100
Benefits paid	– 15	– 15	–
Closing balance	**65**	**61**	**7**

The fair value of plan assets is broken down as follows:

(in %)	31 Dec. 2012	31 Dec. 2011
Equity instruments	20	18
Debt instruments	59	56
Real Estate	6	4
Other assets	15	22

The fair value of plan assets includes the bank's own debt instruments in the amount of € 4 million (€ 3 million)[1].

[1] The previous year's figures were adjusted.

The anticipated yield from plan assets is ascertained separately for each plan. The yield of each asset category is taken into account and the ascertainment of the target value of the plan on the valuation date is used instead of the actual value. In addition to this, the expected long-term yield of the plan assets for each asset category is weighted with the aim of determining the development of the expected yield for the portfolio. Assessments are drawn up in cooperation with investment consultants and pension experts.

[1] The previous year's figures were adjusted.

The actual amount of income generated by plan assets was € 6 million (€ 2 million), with the resulting difference to expected income amounting to € 3 million (€ – 1 million) or 100 per cent (– 33 per cent).

The figure for allocations to / withdrawals from plan including the benefit payments made directly by the Group is expected to be € 61 million (€ 56 million) in the next reporting period.

Pension costs comprise the following:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Current service cost	27	25	8
Interest expense	74	73	1
Anticipated earnings from plan assets	– 3	– 3	–
Anticipated earnings from reimbursement claims	–	2	– 100
Total	**98**	**97**	**1**

Overview of the amounts in the current period under review and previous reporting periods:

(in € million)	31 Dec. 2012	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008
Defined benefit obligation	2 040	1 498	1 414	1 364	1 212
Plan assets	– 65	– 61	– 59	– 56	– 52
Deficit	1 975	1 437	1 355	1 308	1 160
Actuarial gains / losses	– 128	373	411	429	544
Experience adjustments to					
defined benefit obligation	– 59	– 6	27	– 23	18
plan assets	3	– 2	3	–	1

[1] The previous year's figures were adjusted.

Assumptions on the development of costs in the medical sector have effects on the amounts shown for the health care schemes. A change in the assumed development of health costs of one percentage point would have had the following effects for the Group:

(in € million)	Increase by 1 percentage point 31 Dec. 2012	Increase by 1 percentage point 31 Dec. 2011	Decline by 1 percentage point 31 Dec. 2012	Decline by 1 percentage point 31 Dec. 2011
Effect on the obligation at the end of the year	41	24	– 31	– 19
Effect on total current service costs and interest expense for the past accounting period	2	2	– 1	– 2

Other provisions developed as follows in the year under review:

(in € million)	Provisions in lending business	Provisions for restructuring	Provisions for contingent losses	Provisions for uncertain liabilities: Provisions for liabilities to personnel	Provisions for uncertain liabilities: Other provisions for uncertain liabilities	Insurance provisions	Total
1 January	**113**	**30**	**4**	**37**	**94**	**1 699**	**1 977**
Utilisation	–	9	–	9	7	50	75
Reversals	69	–	–	1	5	264	339
Allocations	98	–	–	46	20	437	601
Effects from changes in interest rates	– 1	–	–	–	2	–	1
Changes from currency translation	– 5	– 3	–	5	–	–	– 3
31 December	**136**	**18**	**4**	**78**	**104**	**1 822**	**2 162**

Provisions for restructuring relate to the implementation of the business model initiated in 2005.

Reported under provisions for liabilities to personnel are provisions for reorganisation measures in the amount of € 27 million (€ 0 million) which are a result of the efficiency improvement programme launched in 2011 (cf. Note (30) Reorganisation expenses). The provisions for liabilities to personnel also include provisions due to early retirement schemes in the amount of € 27 million (€ 15 million) and partial retirement schemes in the amount of € 2 million (€ 1 million) and provisions for long-service awards in the amount of € 10 million (€ 9 million).

Insurance provisions mainly contain actuarial reserves in the amount of € 1,398 million (€ 1,285 million), provisions for known losses in the amount of € 222 million (€ 226 million) and provisions for the reimbursement of premiums in the amount of € 127 million (€ 103 million).

The remaining provisions are mainly due in the long term.

(54) Income tax liabilities

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Current Income tax liabilities	162	161	1
Deferred tax liabilities	34	5	> 100
Total	**196**	**166**	**18**

Current income tax liabilities comprise payment obligations from current income tax to domestic and foreign tax authorities.

Deferred tax liabilities reflect potential income tax liabilities from temporary differences between the values of assets and liabilities in the IFRS consolidated balance sheet and tax values in accordance with the tax regulations of the Group companies. Deferred tax liabilities which were recognised in other comprehensive income totalled € 234 million as at 31 December 2012 (€ 205 million).

Deferred tax liabilities relate to the following balance sheet items:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Assets			
Loans and advances to banks	40	32	25
Loans and advances to customers	269	213	26
Financial assets at fair value through profit or loss	158	260	– 39
Fair values from hedge accounting derivatives	1 333	851	57
Financial assets	898	624	44
Intangible assets	32	40	– 20
Property and equipment	10	10	–
Other assets	41	13	> 100
Liabilities			
Securitised liabilities	21	19	11
Financial liabilities at fair value through profit or loss	936	921	2
Provisions	5	120	– 96
Other liabilities	77	63	22
Total	**3 820**	**3 166**	**21**
Net	3 786	3 161	20
Total	**34**	**5**	**> 100**

In addition to deferred taxes recognised in the income statement, deferred tax liabilities also comprise financial assets of € 233 million (€ 88 million) and provisions of € 1 million (€ 117 million) recognised in other comprehensive income.

(55) Other liabilities

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Liabilities resulting from unsettled invoices	32	50	– 36
Liabilities from premiums	1	2	– 50
Liabilities from short-term employee remuneration	56	54	4
Deferred income	39	43	– 9
Liabilities from payable taxes and social insurance contributions	22	25	– 12
Liabilities from interim accounts	152	282	– 46
Liabilities from insurance contracts	46	47	– 2
Other liabilities	160	253	– 37
Total	**508**	**756**	**– 33**

Liabilities from short-term employee remuneration comprise residual leave entitlements as well as compensation payments and bonuses; the latter are to be paid to employees in the Group in the first half of 2013.

The liabilities in interim accounts primarily relate to liabilities in lending business and transactions in payment accounts.

Liabilities from insurance contracts relate to liabilities from direct insurance and reinsurance contracts in the amount of € 8 million (€ 10 million).

(56) Subordinated capital

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Subordinated liabilities	3 452	3 539	– 2
Participatory capital	224	236	– 5
Silent participations	1 157	2 311	– 50
Total	**4 833**	**6 086**	**– 21**

Subordinated liabilities are not paid back until the claims of all senior creditors have been satisfied. It meets the requirements of §§10 para. 5a of the German Banking Act in the amount of € 3,051 million (€ 3,309 million) for attribution to supplementary capital in accordance with § 10 para. 2b of the German Banking Act. Interest expenses for subordinated liabilities amount to € 145 million (€ 160 million).

Participatory capital comprises solely registered participatory capital. The participatory capital meets the requirements of § 10 para. 5 of the German Banking Act in the amount of € 193 million (€ 218 million) for attribution to supplementary capital in accordance with §10 para. 2b of the German Banking Act. Interest expenses for participatory capital amount to € 14 million (€ 20 million).

Due to their contractual structure and their substance, silent participations constitute debt in accordance with IAS 32; they do, however, meet requirements for recognition as core capital in the amount of € 955 million (€ 1,886 million) in accordance with §10 para. 2a clause 1 no. 10 of the German Banking Act. Interest expenses relating to silent participations amount to € 86 million (€ 148 million).

(57) Equity

The equity is made up as follows:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Issued capital	1 607	1 494	8
Capital reserves	3 332	3 175	5
Retained earnings	2 192	2 480	– 12
Revaluation reserve	– 13	– 543	– 98
Currency translation reserve	– 3	– 3	–
Equity capital attributable to the owners of NORD/LB	7 115	6 603	8
Equity capital attributable to non-controlling interests	585	– 57	> 100
Total	**7 700**	**6 546**	**18**

As at 31 December 2012 the following shareholdings were held in the issued capital of NORD/LB: the federal state of Lower Saxony 59.13 per cent (56.03 per cent), the federal state of Saxony-Anhalt 5.57 per cent (6.00 per cent), the Association of the Savings Banks of Lower Saxony (SVN) 26.36 per cent (28.36 per cent), the Holding Association of the Savings Banks of Saxony-Anhalt (SBV) 5.28 per cent (5.67 per cent) and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania (SZV) 3.66 per cent (3.94 per cent).

The capital reserves include the amounts paid in capital increases by the owners of NORD/LB in addition to the issued capital and a silent participation of € 10 million (€ 139 million), which due to its economic character represents equity in accordance with IAS 32. The profit share for silent participations in capital reserves is € 1 million (€ 53 million).

Retained earnings include retained earnings from previous reporting periods, allocations from profit less the share of minority interests in profit, the offsetting of actuarial gains and losses as well as the changes in equity relating to the shares in affiliated companies and joint ventures accounted for using the equity method.

The revaluation reserve item reports the effects of the measurement of available for sale (AfS) financial instruments.

The currency translation reserve includes the effects of the translation of annual reports of foreign business units with a currency other than the euro relating to the application of the closing rate method.

In addition to the owners of the parent company NORD/LB, other shareholders have an interest in the equity of the NORD/LB Group. These hold shares in the equity of subsidiaries and are reported as non-controlling interests in consolidated equity.

For 2012 there will be no dividend payment owing to the commitments made to the EU Commission. Instead it is proposed that part of the profit will be allocated to retained earnings and the remainder will be carried forward to new account.

Notes to the Cash Flow Statement

The cash flow statement shows the change in cash and cash equivalents for the reporting period as a result of cash flows from operating, investment and financing activities.

Cash and cash equivalents are defined as the cash reserve (cash on hand and balances with central banks).

The cash from operating activities is calculated based on the consolidated earnings using the indirect method. Prior to this calculation, expenses which have no effect on cash in the accounting period are added and income which has no effect on cash in the year under review is deducted. Furthermore, all cash expenses and income which are not allocated to operating activities are eliminated. These payments are taken into account in cash flows from investing or financing activities.

In accordance with IASB recommendations, payments from loans and advances to banks and customers, trading securities, liabilities to banks and customers and from securitised liabilities are reported under cash flow from operating activities.

Cash flow from investing activities includes payments relating to investment and security portfolios classified as financial assets as well as cash receipts and payments relating to property and equipment and to the acquisition of subsidiaries.

Cash flow from financing activities includes cash flows from changes in capital, interest payments on subordinated capital and dividend payments to the owners of the parent company NORD/LB.

We refer to information contained in the risk report concerning liquidity risk management in the NORD/LB Group.

Other Disclosures

Notes to Financial Instruments

(58) Fair value hierarchy

The table below shows the distribution of financial assets and liabilities at fair value based on the fair value hierarchy:

(in € million)	Level 1 31 Dec. 2012	Level 1 31 Dec. 2011	Level 2 31 Dec. 2012	Level 2 31 Dec. 2011	Level 3 31 Dec. 2012	Level 3 31 Dec. 2011	Summe 31 Dec. 2012	Summe 31 Dec. 2011
Assets held for trading	2 852	5 077	13 580	11 669	–	59	16 432	16 805
Designated financial assets reported at fair value	871	890	617	483	–	466	1 488	1 839
Positive fair values from hedge accounting derivatives	–	–	4 924	3 289	–	–	4 924	3 289
Financial assets at fair value	43 183	42 457	4 907	3 717	423	3 566	48 513	49 740
Assets	**46 906**	**48 424**	**24 028**	**19 158**	**423**	**4 091**	**71 357**	**71 673**
Liabilities held for trading	215	181	11 116	11 856	4	105	11 335	12 142
Designated financial liabilities reported at fair value	222	2 439	9 167	5 948	–	–	9 389	8 387
Negative fair values from hedge accounting derivatives	–	–	4 908	3 422	–	–	4 908	3 422
Liabilities	**437**	**2 620**	**25 191**	**21 226**	**4**	**105**	**25 632**	**23 951**

The Financial assets at fair value are accounted for in accordance with an internal rating-based model. Here the probability of default is derived from the ratings that build up an expected cash-flow showing the theoretical price after being discounted. Depending on the deviation between the theoretical price and the market quotes an adjustment of the accounting of level 3 positions is done by an intensity spread. This spread is added to the yield curve leading to adjusted discount rates. The net present value is calculated with these discount rates that show the stated fair value.

If there is no market for the assets at fair value, providing an indication for valuation, the expected cash-flows are discounted using a risk-adjusted interest rate. The risk premium on the agreed interest rate shows the market expectation at the balance sheet date.

The transfers within the fair value hierarchy are summarised as follows:

2012 (in € million)	from Level 1 to Level 2	from Level 1 to Level 3	from Level 2 to Level 1	from Level 2 to Level 3	from Level 3 to Level 1	from Level 3 to Level 2
Assets held for trading	279	–	–	–	37	7
Designated financial assets reported at fair value	–	–	187	–	151	257
Financial assets at fair value	300	2	1 560	–	771	1 805
Liabilities held for trading	–	–	–	–	–	97
Designated financial liabilities reported at fair value	– 1 350	–	–	–	–	–

2011 (in € million)	from Level 1 to Level 2	from Level 1 to Level 3	from Level 2 to Level 1	from Level 2 to Level 3	from Level 3 to Level 1	from Level 3 to Level 2
Assets held for trading	–	–	266	–	94	8
Designated financial assets reported at fair value	–	19	61	–	90	117
Financial assets at fair value	155	524	3 491	111	3 573	773
Liabilities held for trading	–	–	–	7	–	118

For the financial instruments the activity status is reviewed on an individual transaction basis. As at the balance sheet date the transfers have been mostly to Level 1 and Level 2 compared to the previous end-of-year reporting date. The greatest number of transfers was from Level 3. These transfers are attributable to an extended assessment of market activity on the one hand and a significant revival in the markets on the other. Due to the greater level of activity, there was increased use of market rates or rates derived from the market. Level 3 ratings were only necessary for selected exposures.

As part of the process of continually improving the measurement of the bank's structured issues, in NORD/LB Group the use of market prices to calculate the fair value was reviewed and the IFRS fair value measurement hierarchy was applied more stringently. As a result some financial liabilities designated at fair value were transferred from Level 1 to Level 2.

Financial assets and liabilities in Level 3 of the fair value hierarchy developed as follows:

2012	Trading assets		Designated financial assets report at fair value		Financial assets at fair value		Total	
(in € million)	2012	2011	2012	2011	2012	2011	2012	2011
Assets								
1 January	**59**	**216**	**466**	**708**	**3 566**	**8 088**	**4 091**	**9 012**
Effect on the income statement[1]	– 1	– 9	– 39	– 8	– 31	6	– 71	– 11
Effect on the equity capital	–	–	–	–	– 180	– 278	– 180	– 278
Addition from purchase or issuance	9	154	15	–	6	47	30	201
Disposal from sale	9	200	27	61	70	236	106	497
Repayment/exercise	14	–	2	2	290	383	306	385
Addition from Level 1 and 2	–	–	–	19	2	635	2	654
Disposal to Level 1 and 2	44	102	408	207	2 576	4 346	3 028	4 655
Increase/decrease resulting from currency translation	–	–	– 5	17	– 4	33	– 9	50
31 December	**–**	**59**	**–**	**466**	**423**	**3 566**	**423**	**4 091**
For information purposes: Effect in the income statement for financial instruments still in the portfolio[1]	–	–	–	–	– 20	– 20	– 20	– 20

[1] The effects reported include valuation gains/losses, realised profit/loss and deferred interest; these are reported under the relevant items in the income statement.

2012 (in € million)	Liabilities held for trading 2012	Liabilities held for trading 2011
Liabilities		
1 January	**105**	**279**
Effect on the income statement[1)]	– 2	37
Addition from purchase or issuance	–	–
Disposal from sale	–	25
Repayment / exercise	2	75
Addition from Level 1 and 2	–	7
Disposal to Level 1 and 2	97	118
31 Dec.	**4**	**105**
Profit / losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement[1)]	– 2	–

[1)] Profit / losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement

In the case of Level 3 measurement the fair value depends on the assumptions made, so that changes in the assumptions may result in corresponding fluctuations in the fair value. Significant effects as a result of these changes in the assumptions on the fair values recognised in the report are reviewed by means of a sensitivity analysis. In the sensitivity analysis when measuring the ABS securities the rating was stressed by one rating class and the WAL (Weighted Average Life) was stressed separately by one year. In the sensitivity analysis for securities the internal ratings were upgraded and downgraded by one rating class. Accordingly a change in the assumption-based parameters changes the fair values of the financial assets designated at fair value by € 3 million.

(59) Carrying amounts by measurement category

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Assets			
Financial assets held for trading	16 432	16 805	– 2
Financial assets designated at fair value through profit or loss	1 488	1 839	– 19
Available for sale assets	48 593	49 832	– 2
Loans and receivables	150 835	152 220	– 1
Total	**217 348**	**220 696**	**– 2**
Liabilities			
Financial liabilities held for trading	11 335	12 142	– 7
Financial liabilities designated at fair value through profit or loss	9 389	8 387	12
Other liabilities	186 482	192 086	– 3
Total	**207 206**	**212 615**	**– 3**

Hedging instruments for hedge accounting as defined by IAS 39 and the cash reserve are not included since they are not allocated to any measurement category.

(60) Net gains or losses by measurement category

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011 (in € million)	Change (in %)
Financial Instruments Held for Trading	517	287	80
Financial Instruments designated at Fair Value through Profit or Loss	– 640	– 348	84
Available for Sale Assets	– 3	– 15	– 80
Loans and Receivables	– 616	– 200	> 100
Other Liabilities	– 36	– 23	– 57
Total	**– 778**	**– 299**	**>100**

The category financial instruments held for trading relates solely to trading profit/loss, while the category financial instruments designated at fair value through profit or loss includes the profit/loss of the fair value option. The category available for sale assets includes the profit/loss from financial assets and the profit/loss from shares in unconsolidated companies. The category loans and receivables comprises loan loss provisions, the profit/loss from LaR financial assets and the profit/loss from disposals of receivables. The category other liabilities includes solely income and expenses from the repurchase of own liabilities.

The net gains/losses of the measurement categories of financial instruments held for trading and financial instruments designated at fair value through profit or loss include the commission income for the related transactions. The hedge accounting result is not included in the gains/losses since hedge accounting is not allocated to any of the categories.

(61) Impairments/reversals of impairment by measurement category

	1 Jan.– 31 Dec. 2012 (in € million)	1 Jan.– 31 Dec. 2011 (in € million)	Change (in %)
Available for Sale Assets			
Profit/loss from impairment of AfS financial assets	– 24	– 121	– 80
Impairment of shares in unconsolidated companies	– 13	– 20	– 35
	– 37	**– 141**	**– 74**
Loans and Receivables			
Profit/loss from impairment of LaR financial assets	3	– 13	> 100
Profit/loss from impairment of loans and advances	– 569	– 250	> 100
	– 566	**– 263**	**> 100**
Total	**– 603**	**– 404**	**– 49**

(62) Fair values of financial instruments

Fair values of financial instruments are compared with the carrying amounts in the following table.

	31 Dec. 2012			31 Dec. 2011		
(in € million)	Fair Value	Carrying amount	Difference	Fair Value	Carrying amount	Difference
Assets						
Cash reserve	665	665	–	796	796	–
Loans and advances to banks	35 744	34 378	1 366	35 633	34 654	979
Loans and advances to customers	115 611	114 577	1 034	115 859	114 652	1 207
Loan loss provisions	–	– 1 949	–	–	– 1 767	–
Sub-total of loans and advances to banks/customers (net after loan loss provisions)	**151 355**	**147 006**	**4 349**	**151 492**	**147 539**	**3 953**
Adjustment item for financial instruments hedged in the fair value hedge portfolio	–	– 3 [1]	–	–	– [1]	–
Financial assets at fair value through profit or loss	17 920	17 920	–	18 644	18 644	–
Positive fair values from hedge accounting derivatives	4 924	4 924	–	3 289	3 289	–
Financial assets not reported at fair value	3 496	3 910	– 414	4 427	4 770	– 343
Financial assets reported at fair value	48 513	48 513	–	49 740	49 740	–
Investment property	121	94	27	125	93	32
Other assets not reported at fair value	–	–	–	4	4	–
Other assets reported at fair value	16	16	–	15	15	–
Total	**227 010**	**223 045**	**3 962**	**228 532**	**224 890**	**3 642**
Liabilities						
Liabilities to banks	66 429	65 079	1 350	59 607	59 260	347
Liabilties to customers	59 355	55 951	3 404	62 579	60 645	1 934
Securitsed liabilities[2]	61 476	60 619	857	69 998	66 076	3 922
Adjustment item for financial instruments hedged in the fair value hedge portfolio	– [1]	895	–	–	733	–
Financial liabilities at fair value through profit or loss[2]	20 724	20 724	–	20 529	20 529	–
Negative fair values from hedge accounting derivatives	4 908	4 908	–	3 422	3 422	–
Other liabilities not reported at fair value	1	1	–	16	16	–
Other liabilities reported at fair value	–	–	–	3	3	–
Subordinated capital	5 043	4 833	210	6 513	6 086	427
Total	**217 936**	**213 010**	**5 821**	**222 667**	**216 770**	**6 630**

[1] Amounts relating to the liabilities item "Adjustment item for financial instruments hedged in the fair value hedge portfolio" are shown in the fair values of the respective items of hedged financial instruments.
[2] Previous year's figures were adjusted.

It was not possible to reliably determine a fair value for € 80 million (€ 92 million) of financial instruments. These are mainly investments for which there is no active market. There is no intention to sell these investments.

(63) Transfer and derecognition of financial assets

The risks and opportunities relating to transferred financial assets and associated liabilities that remain in the NORD/LB Group are shown in the table below. The table also shows the degree to which transferees' rights of recourse relate only to the respective transferred assets.

31 Dec. 2012	Full recognition of financial assets despite transfer		The transferee's right of recourse relates only to the respective transferred assets		
(in € million)	Carrying amount of the assets	Carrying amount of the associated liabilities	Fair value of the assets	Fair value of the associated liabilities	Net position
Financial assets at fair value through profit or loss	689	3 524	689	3 524	– 2 835
Financial assets not reported at fair value	1 248	55	–	–	–
Financial assets reported at fair value	15 486	11 973	11 729	9 149	2 580
Total	**17 423**	**15 552**	**12 418**	**12 673**	**– 255**

The transferred financial assets primarily concern genuine repos and securities lending transactions.

(64) Derivative financial instruments

The NORD/LB Group employs derivative financial instruments for securing purposes in asset/liability management. Trading is also conducted in derivative financial transactions.

Nominal values constitute the gross volume of all purchases and sales. This item is a reference figure for calculating reciprocally agreed equalisation payments; it does not, however, refer to receivables and liabilities which may be recognised in the balance sheet.

The portfolio of derivative financial instruments comprises the following:

	Nominal values 31 Dec. 2012	Nominal values 31 Dec. 2011	Fair value positive 31 Dec. 2012	Fair value positive 31 Dec. 2011	Fair value negative 31 Dec. 2012	Fair value negative 31 Dec. 2011
Interest-rate risk						
Interest rate swaps	259 107	282 028	14 676	12 373	12 187	10 441
FRAs	5 185	6 781	–	–	–	1
Zinsoptionen						
Call	3 533	3 465	540	634	4	–
Put	8 856	8 948	4	1	1 941	1 953
Caps, floors	7 647	7 748	141	142	91	95
Stock exchange contracts	654	803	1	4	–	–
Other forward interest rate transactions	2 263	2 643	84	72	312	281
	287 245	**312 416**	**15 446**	**13 226**	**14 535**	**12 771**
Currency risk						
Forward exchange contracts	16 521	16 857	200	303	186	405
Currency swaps and interest rate/currency swaps	43 492	52 916	989	1 254	1 103	1 556
Currency options						
Call	327	736	13	48	–	–
Put	309	656	–	–	9	29
Other currency transactions	144	189	–	1	–	1
	60 793	**71 354**	**1 202**	**1 606**	**1 298**	**1 991**
Share price and other price risks						
Share price and other price risks	149	572	5	19	–	22
Stock options						
Call	306	241	55	33	–	–
Put	258	201	–	–	26	50
Stock exchange contracts	51	39	1	2	1	1
	764	**1 053**	**61**	**54**	**27**	**73**
Credit risk						
Assignor	462	1 234	14	46	1	1
Assignee	5 251	7 929	4	7	168	549
	5 713	**9 163**	**18**	**53**	**169**	**550**
Total	**354 515**	**393 986**	**16 727**	**14 939**	**16 029**	**15 385**

The residual terms to maturity of the derivative financial instruments are shown below.

Nominal values (in € million)	Interest-rate risk 31 Dec. 2012	Interest-rate risk 31 Dec. 2011	Currency risk 31 Dec. 2012	Currency risk 31 Dec. 2011	Share price and other price risk 31 Dec. 2012	Share price and other price risk 31 Dec. 2011	Credit risk 31 Dec. 2012	Credit risk 31 Dec. 2011
Up to 3 months	27 880	25 226	14 665	17 447	51	86	640	359
More than 3 months up to 1 year	35 847	43 765	11 640	14 465	62	108	574	2 382
More than 1 year up to 5 years	106 282	130 893	20 862	23 434	643	520	3 790	4 503
More than 5 years	117 236	112 532	13 626	16 008	8	339	709	1 919
Total	**287 245**	**312 416**	**60 793**	**71 354**	**764**	**1 053**	**5 713**	**9 163**

The residual term is defined as the period between the balance sheet date and the contractual due date.

The table below shows the nominal values and a breakdown of the positive and negative fair values of derivative transactions by counterparty.

	Nominal values 31 Dec. 2012	Nominal values 31 Dec. 2011	Fair value positive 31 Dec. 2012	Fair value positive 31 Dec. 2011	Fair value negative 31 Dec. 2012	Fair value negative 31 Dec. 2011
Banks in the OECD	310 727	345 022	13 191	11 636	14 824	14 108
Banks outside the OECD	497	823	6	3	7	20
Public institutions in the OECD	7 670	8 594	439	263	123	125
Other counterparties (including stock exchange contracts)	35 621	39 547	3 091	3 037	1 075	1 132
Total	**354 515**	**393 986**	**16 727**	**14 939**	**16 029**	**15 385**

(65) Disclosures relating to selected european countries

The table below shows, in contrast to the exposure in the risk report, the reported values of transactions relating to selected European countries (including credit derivatives). The disclosures by country include regional governments, municipalities and state-related public-sector companies.

(in € million)	Financial Instruments Held for Trading 31 Dec. 2012	Financial Instruments Held for Trading 31 Dec. 2011	Financial Instruments designated at Fair Value through Profit or Loss 31 Dec. 2012	Financial Instruments designated at Fair Value through Profit or Loss 31 Dec. 2011	Available for Sale Assets 31 Dec. 2012	Available for Sale Assets 31 Dec. 2011	Loans and Receivables 31 Dec. 2012	Loans and Receivables 31 Dec. 2011
Greece								
Country	–	– 56	–	–	–	36	–	–
Financing institutes / insurance companies	–	–	–	–	–	17	–	25
Companies / other	2	4	–	–	–	–	244	324
	2	**– 52**	**–**	**–**	**–**	**53**	**244**	**349**
Ireland								
Country	– 16	– 56	98	94	24	55	–	–
Financing institutes / insurance companies	– 19	1	11	11	378	484	427	701
Companies / other	28	– 13	–	5	2	1	1 696	1 564
	– 7	**– 68**	**109**	**110**	**404**	**540**	**2 123**	**2 265**
Italy								
Country	4	– 13	251	287	1 335	1 343	18	20
Financing institutes / insurance companies	– 41	– 66	–	–	1 327	1 628	123	173
Companies / other	3	14	–	–	45	67	52	55
	– 34	**– 65**	**251**	**287**	**2 707**	**3 038**	**193**	**248**
Portugal								
Country	– 31	– 75	–	–	159	142	–	15
Financing institutes / insurance companies	– 1	– 30	–	–	136	144	12	20
Companies / other	–	–	–	–	20	13	78	103
	– 32	**– 105**	**–**	**–**	**315**	**299**	**90**	**138**
Spain								
Country	4	– 1	–	–	343	438	52	83
Financing institutes / insurance companies	7	3	–	–	1 631	2 250	135	193
Companies / other	9	80	–	–	36	34	459	452
	20	**82**	**–**	**–**	**2 010**	**2 722**	**646**	**728**
Total	**– 51**	**– 208**	**360**	**397**	**5 436**	**6 652**	**3 296**	**3 728**

For financial instruments categorised as available for sale with acquisition costs totalling € 5,678 million (€ 7,326 million), the cumulative valuation of the selected countries reported in equity totals € 53 million (€ 1,131 million). In addition to this, a write-off of € 2 million (€ 99 million) was recognised in the income statement for the period.

With the acceptance of the exchange offer for Greek government bonds in March 2012, the banks of the NORD/LB Group forewent 53.5 per cent of the nominal amount of their receivables in the amount of € 105 million. The disposal of the bonds had an impact of € –3 million on the profit / loss from financial assets.

For receivables categorised as loans and receivables to the selected countries, specific valuation allowances totalling € 51 million (€ 31 million) and general loan loss provisions totalling € 8 million (€ 12 million) were made.

The fair values of receivables categorised as loans and receivables are summarised as follows:

(in € million)	Fair Value Loans and Receivables 31 Dec. 2012	Fair Value Loans and Receivables 31 Dec. 2011
Greece	168	288
Ireland	2 085	2 183
Italy	162	232
Portugal	90	134
Spain	633	709
Total	**3 138**	**3 546**

The nominal value of credit derivatives relating to these countries in the NORD/LB Group's portfolio is € 1,531 million (1,883 million). Of this, states account for € 479 million (€ 601 million), financing institutes/insurance companies for € 1,051 million (€ 1,198 million) and companies / others for € 1 million (€ 84 million). This includes both nominal values where the Group acts as the provider of security and nominal values where the Group acts as the recipient of security. The netted fair value of the credit derivatives is € –118 million (€ –356 million).

The announcement of the exchange offer for Greek government bonds resulted in a credit event, triggering the settlement of associated derivatives. The resulting effect on the profit / loss from trading is € –16 million.

(66) Underlying transactions in effective hedges

Financial assets and liabilities which as underlying transactions are part of a hedge in accordance with IAS 39 continue to be reported together with unsecured transactions in the respective balance sheet items since the hedging transaction has no effect on the type of underlying transaction and its function. The balance sheet item for financial instruments (LaR and OL categories), otherwise reported at amortised cost, is adjusted by the change in fair value results in the hedged risk (in the fair value hedge portfolio by reporting the item in a separate balance sheet item). Financial instruments in the AfS category continue to be reported at their full fair value.

The financial assets and liabilities which are hedged underlying transactions in an effective micro fair hedge are shown below for information purposes:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Assets			
Loans and advances to banks	1 259	1 338	– 6
Loans and advances to customers	7 354	6 876	7
Financial assets	14 486	14 344	1
Total	**23 099**	**22 558**	**2**
Liabilities			
Liabilities to banks	1 252	1 322	– 5
Liabilties to customers	9 831	9 946	– 1
Securitsed liabilities	12 785	12 325	4
Subordinated capital	883	1 124	– 21
Total	**24 751**	**24 717**	**–**

The financial assets and liabilities which are hedged underlying transactions in an effective portfolio fair value hedge are shown below for information purposes:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Veränderung (in %)
Assets			
Loans and advances to customers	5 047	–	–
Financial assets	1 023	639	60
Total	**6 070**	**639**	**> 100**
Liabilities			
Securitsed liabilities	18 220	8 773	> 100
Total	**18 220**	**8 773**	**> 100**

(67) Residual terms of financial liabilities

31 Dec. 2012 (in € million)	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
Liabilities to banks	23 594	14 903	5 630	13 653	10 197	67 977
Liabilties to customers	17 405	3 205	5 630	14 238	21 566	62 044
Securitsed liabilities	2 753	4 692	11 074	40 360	7 625	66 504
Financial liabilities at fair value through profit or loss (no derivatives)	134	35	594	4 790	7 750	13 303
Negative fair values from derivatives held for trading	333	426	1 520	5 099	4 349	11 727
Negative fair values from hedge accounting derivatives	106	122	535	2 175	1 851	4 789
Other liabilities (financial instruments only)	1	–	–	–	–	1
Subordinated capital	60	7	394	2 287	2 963	5 711
Financial guarantees	2 803	31	107	387	1 843	5 171
Irrevocable credit commitments	2 160	53	648	5 165	1 499	9 525
Total	**49 349**	**23 474**	**26 132**	**88 154**	**59 643**	**246 752**

31 Dec. 2011[1] (in € million)	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
Liabilities to banks	13 814	13 058	9 106	12 991	10 411	59 380
Liabilties to customers	19 334	4 406	6 191	15 890	22 914	68 735
Securitsed liabilities	3 957	4 957	9 558	51 425	6 824	76 721
Financial liabilities at fair value through profit or loss (no derivatives)	190	86	302	5 135	7 034	12 747
Negative fair values from derivatives held for trading	224	413	1 538	4 818	2 846	9 839
Negative fair values from hedge accounting derivatives	87	90	209	1 415	948	2 749
Other liabilities (financial instruments only)	3	–	16	–	–	19
Subordinated capital	96	45	427	2 625	4 811	8 004
Financial guarantees	2 890	24	27	438	1 550	4 929
Irrevocable credit commitments	1 948	56	721	5 174	1 557	9 456
Total	**42 543**	**23 135**	**28 095**	**99 911**	**58 895**	**252 579**

[1] Previous year's figures were adjusted.

The residual term for undiscounted financial liabilities is defined as the period between the balance sheet date and the contractual due date.

(68) NORD/LB group as assignor and assignee

The following financial assets have been pledged as collateral for liabilities (carrying amounts):

	31 Dec. 2012 (in € million)	31 Dec. 2011[1] (in € million)	Change (in %)
Loans and advances to banks	23 410	24 815	– 6
Loans and advances to customers	41 992	41 363	2
Financial assets at fair value through profit or loss	1 532	2 298	– 33
Financial assets[1]	29 645	29 557	–
Total	**96 579**	**98 033**	**– 1**

[1] Previous year's figures were adjusted.

Collateral has been provided for borrowing undertaken within the scope of genuine repos. Collateral has also been provided for refinancing funds for specific purposes, securities lending transactions and stock exchange transactions.

Financial assets deposited as collateral for which the assignee has the contractual or customary right to sell or re-pledge the collateral amount to € 22 million (€ 7 million).

Assets were assigned as collateral to the amounts shown for the following liabilities:

	31 Dec. 2012 (in € million)	31 Dec. 2011[1] (in € million)	Change (in %)
Liabilities to banks[1]	23 377	16 864	39
Liabilties to customers	10 584	10 729	– 1
Securitsed liabilities[1]	25 206	27 089	– 7
Financial liabilities at fair value through profit or loss[1]	13 813	12 950	7
Total	**72 980**	**67 632**	**8**

[1] Previous year's figures were adjusted.

For collateral received in particular for repo and securities lending transactions which may be re-pledged or re-sold even if the assignor does not default, the fair value is € 6 million (€ 5 million).

Collateral which may be re-pledged or re-sold even if the assignor does not default was realised. The repayment obligation at current market value is € 2 million (€ 2 million).

(69) Repos and securities lending

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Repurchase transactions as lender			
Liabilities to banks	20 778	12 645	64
Liabilities to customers	–	556	– 100
	20 778	**13 201**	**57**
Reverse repurchase transactions as borrower			
Loans and advances to banks	4 572	3 249	41
Loans and advances to customers	1 734	1 149	51
	6 306	**4 398**	**43**

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Loaned securities			
Loaned securities at fair value through profit or loss	689	277	> 100
Loaned securities from financial assets	18 220	9 777	86
	18 909	**10 054**	**88**
Borrowed securities	**4 994**	**6 014**	**– 17**

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Securities sold under repurchase agreements			
Securities sold under repurchase agreements from financial assets	–	20	– 100
	–	**20**	**– 100**
Securities purchased under repurchase agreements	**1 032**	**548**	**88**

Other Notes

(70) Equity management

Equity management is conducted at the parent company NORD/LB with effect for the Group. The aim is to secure an adequate supply of capital resources in terms of quantity and quality, to achieve an adequate return on equity and to permanently comply with regulatory minimum capital ratios at Group level in each case. Significant capital figures in equity management are:

- Reported equity
- Total regulatory core capital ("core capital for solvency reasons")
- Regulatory eligible capital
- "Core tier 1 capital" as per the current draft of the EU Capital Adequacy Directive
- "Core tier 1 capital" as defined by the European Banking Authority (EBA)

For part of these capital figures, target capital ratios are specified for the Group for which the numerator is the respective capital figure and the denominator is respective risk-weighted assets (RWA) in accordance with the German Solvency Regulation. Regulatory minimum capital ratios, which must be maintained permanently/until further notice, are also in place for total regulatory core capital, regulatory capital and the core tier 1 capital as defined by the EBA. For the total regulatory core capital this minimum ratio is currently 4.0 per cent and for regulatory capital currently 8.0 per cent. With regard to core tier 1 capital as defined by the EBA, the EBA requires of NORD/LB as one of the system-relevant banks in the EU that it maintains a minimum ratio of 9.0 per cent from 30 June 2012 until further notice.

In the year under review 2012 the core task of capital management lay in optimising the capital structure and in implementing capital measures to achieve and permanently maintain a core tier 1 capital ratio as defined by the EBA of at least 9.0 per cent.

The EU Capital Adequacy Directive, which will transpose the so-called "Basel III" regulations into EU law, is likely to come into effect during the course of 2013. The EU Capital Adequacy Directive provides for a gradual and in part significant increase in regulatory minimum capital ratios for core tier 1 capital, total core capital and regulatory capital.

As a result greater requirements will also be placed on equity management in future. The most important capital figure, in terms of both regulatory laws and control within the Group, will be the core tier 1 capital in the sense of the EU Capital Adequacy Directive. In order to strengthen this, the capital structure of the Group will continue to be optimised.

In addition to this, within the scope of equity management
- the actual development and
- targets and forecasts

of the relevant capital figures and associated capital ratios will be calculated and reported to management and the bank's supervisory bodies as and when required. If these calculations indicate any risk for the defined target capital ratios either adjustment measures are taken in terms of RWA or, with the agreement of the owners of the bank, procurement or optimisation measures will be taken for individual capital figures.

In 2011 and 2012 the bank maintained the regulatory minimum capital ratios at Group level at all times. The bank has met the target of a core tier 1 capital ratio as defined by the EBA of at least 9.0 per cent since 30 June 2012 and has in the meantime also exceeded this target. The regulatory core capital ratio and the regulatory capital ratio (= overall ratio) at the end of each year are reported in Note (66).

(71) Regulatory data

The consolidated regulatory capital below was calculated in accordance with the regulations of the German Solvency Regulation.

(in € million)	31 Dec. 2012	31 Dec. 2011
Risk-weighted assets	**77 863**	**84 800**
Capital requirements for credit risk	5 693	6 108
Capital requirements for market risks	149	339
Capital requirements for operational risks	387	337
Capital requirements according to the SolvV	**6 229**	**6 784**

The following schedule shows the composition of regulatory equity for the group of institutes in accordance with § 10 in conjunction with § 10 a of the German Banking Act.

(in € million)	31 Dec. 2012	31 Dec. 2011
Paid-in capital	1 666	1 479
Further capital	10	21
Other reserves	5 356	3 998
Special item for general banking risks in accordance with § 340g of the German Commercial Code	1 466	1 425
Other capital with § 10 2a Nr. 10 KWG	954	2 003
Other components	– 92	– 88
Core capital	**9 360**	**8 838**
Deductions from core capital	– 909	– 833
Core capital for solvency reasons	**8 451**	**8 005**
Non-current subordinated liabilities	3 051	3 309
Participatory capital liabilities	193	218
Other components	– 10	29
Supplementary capital	**3 234**	**3 556**
Deductions from supplementary capital	– 909	– 834
Supplementary capital for solvency reasons	**2 325**	**2 722**
Modified available equity	**10 776**	**10 727**
Tier three capital	–	–
Eligible capital in accordance with § 10 of the German Banking Act	**10 776**	**10 727**

(in %)	31 Dec. 2012	31 Dec. 2011
Overall ratio according to § 2 Paragraph 6 of the German Solvency Regulation (SolvV)	13.84	12.65
Core capital ratio	10.85	9.44

(72) Foreign currency volume

As at 31 December 2012 and 31 December 2011 the NORD/LB Group had the following assets and liabilities in foreign currency:

(in € million)	USD	GBP	JPY	Other	Total 31 Dec. 2012	Total 31 Dec. 2011
Assets						
Loans and advances to banks	645	24	51	342	1 062	1 884
Loans and advances to customers	24 346	3 736	1 517	1 961	31 560	33 769
Loan loss provisions	– 304	– 60	– 27	– 31	– 422	– 334
Financial assets at fair value through profit or loss	13 288	2 483	1 098	2 110	18 979	9 161
Financial assets	3 589	792	417	1 046	5 844	6 945
Other	376	6	95	191	668	610
Total	**41 940**	**6 981**	**3 151**	**5 619**	**57 691**	**52 035**
Liabilities						
Liabilities to banks	7 245	2 213	12	131	9 601	12 253
Liabilties to customers	2 382	234	3	130	2 749	2 893
Securitsed liabilities	3 426	–	1 415	1 802	6 643	7 559
Financial liabilities at fair value through profit or loss	24 284	3 140	1 607	2 965	31 996	26 483
Other	1 240	123	106	221	1 690	1 311
Total	**38 577**	**5 710**	**3 143**	**5 249**	**52 679**	**50 499**

Existing exchange rate risks are eliminated by concluding transactions with matching maturities.

(73) Non-current assets and liabilities

For balance sheet items which include both current and non-current assets and liabilities, the assets and liabilities which are to be realised or settled after more than twelve months are shown below.

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Assets			
Loans and advances to banks	17 672	18 483	– 4
Loans and advances to customers	96 540	97 009	–
Adjustment item for financial instruments hedged in the fair value hedge portfolio	– 3	–	–
Assets held for trading	14 554	15 003	– 3
Loans and advances to banks designated at fair value	6	16	– 63
Loans and advances to customers designated at fair value	248	236	5
Financial assets designated at fair value	622	646	– 4
Positive fair values from hedge accounting derivatives	4 455	2 933	52
Financial assets classified as LaR	3 686	4 128	– 11
Financial assets classified as AfS	38 017	38 059	–
Other assets	37	31	19
Total	**175 834**	**176 544**	**–**
Liabilities			
Liabilities to banks	23 256	23 201	–
Liabilities to customers	34 489	36 635	– 6
Securitised liabilities	47 948	55 038	– 13
Adjustment item for financial instruments hedged in the fair value hedge portfolio	837	710	18
Liabilities held for trading	10 179	10 696	– 5
Liabilities to banks designated at fair value	356	314	13
Liabilities to customers designated at fair value	4 759	4 518	5
Securitised liabilities designated at fair value	3 346	3 074	9
Subordinated capital designated at fair value	26	26	–
Negative fair values from hedge accounting derivatives	4 562	3 148	45
Provisions	1 724	1 557	11
Other liabilities	32	31	3
Subordinated capital	4 133	5 807	– 29
Total	**135 647**	**144 755**	**– 6**

(74) Contingent liabilities and other obligations

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Contingent liabilities			
Liabilities from guarantees and other indemnity agreements	5 170	6 998	– 26
	5 170	**6 998**	**– 26**
Other obligations			
Irrevocable credit commitments	9 525	9 456	1
	9 525	**9 456**	**1**
Total	**14 695**	**16 454**	**– 11**

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

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

Information on uncertainty concerning the amount or the timing of outflows of capital and on possible equalisation payments is not given for reasons of practicality.

(75) Other financial obligations

The Group 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.

NORD/LB, together with Sparkassenverband Niedersachsen and Landesbank Berlin Holding AG, also acts as guarantor for LBS Norddeutsche Landesbausparkasse Berlin-Hannover.

In connection with the acquisition of Deutsche Hypothekenbank (Actien-Gesellschaft), the Group 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.

There was also an obligation to release Bundesverband deutscher Banken e.V. (Association of German Banks) from all losses which were a result of measures in accordance with § 2 para. 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).

Furthermore, NORD/LB indemnifies a director of a limited company under British law from all costs, and claims for liability and damages which arise in relation to his activities as a director.

Due to its investment in Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig, NORD/LB is liable to the effect that the limited partners have released the general partner from liability.

In a joint participating 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 the Group assumes 50 per cent of obligations that may result from this declaration of liability.

In connection with the sale of companies in the NILEG sub-group, a guarantee was made to 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, Frankfurt am Main, 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 part of the share in LHI Leasing GmbH, Munich, a guarantee was also made to 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.

There is also a liability for an amount of up to € 4 million (€ 4 million) to be paid to the employees of two public-sector insurance companies in the event of insolvency.

An obligation towards two companies (two companies) involves the granting of a shareholder loan to the amount of € 11 million (€ 14 million).

The Group is also obliged to make additional contributions up to an amount of € 219 million (€ 216 million) to the security reserve for landesbanks and giro centres. 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 and there is therefore no further obligation to make additional payments.

Other obligations to make additional contributions amount to € 34 million (€ 34 million) in addition to further joint liabilities for other shareholders towards Liquiditäts-Konsortialbank GmbH.

Furthermore, obligations to make additional contributions result on the basis of memberships of protection schemes for insurance companies to the amount of € 1 million (€ 1 million). Due to memberships in other protection schemes within the scope of insurance business, the Group, besides being a proportionate guarantor, also bears additional liability risks to the amount of € 4 million (€ 4 million).

The personally liable partners of a real estate investment fund have been released from their statutory liability.

Call-in obligations for shares and other interests amounted to € 19 million at year-end (€ 19 million).

In the course of normal business activities NORD/LB has provided security in the nominal amount of € 2,842 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 share 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.

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

(76) Subordinated assets

Assets are considered to be subordinated if they are only met after the claims of other creditors in the event of the liquidation or the insolvency of a debtor. The following subordinated assets are included in balance sheet assets:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Loans and advances to banks and customers	20	97	– 79
Financial assets at fair value through profit or loss[1]	182	334	– 46
Financial assets	745	1 005	– 26
Total	**947**	**1 436**	**– 34**

[1] Previous year's figures were adjusted.

(77) Trust activities

In compliance with IFRS regulations, trust activities are not shown in the consolidated balance sheet of the NORD/LB Group; however, they are present in the Group.

Trust activities are broken down as follows:

	31 Dec. 2012 (in € million)	31 Dec. 2011 (in € million)	Change (in %)
Assets held in trust			
Loans and advances to customers	75	199	– 62
Financial instruments at fair value through profit or loss	11	10	10
Other assets held in trust[1]	67	84	– 20
Total	**153**	**293**	**– 48**
Liabilities held in trust			
Liabilities to banks	51	168	– 70
Liabilities to customers	34	41	– 17
Other liabilities held in trust[1]	68	84	– 19
Total	**153**	**293**	**– 48**

[1] Previous year's figures were adjusted.

Related Parties

(78) Number of employees

The average number of employees in the NORD/LB Group for the period under review is shown as follows:

	Male 1 Jan.– 31 Dec. 2012	Male 1 Jan.– 31 Dec. 2011	Female 1 Jan.– 31 Dec. 2012	Female 1 Jan.– 31 Dec. 2011	Total 1 Jan.– 31 Dec. 2012	Total 1 Jan.– 31 Dec. 2011
NORD/LB	2 096	2 093	2 175	2 172	4 271	4 265
Bremer Landesbank sup-group	548	543	576	555	1 124	1 098
NORD/LB Luxembourg sub-group	149	123	75	56	224	179
Deutsche Hypothenbank[1)]	242	226	178	172	420	398
ÖVB	319	306	338	337	657	643
Other	209	241	102	106	311	347
Group	**3 563**	**3 532**	**3 444**	**3 398**	**7 007**	**6 930**

[1)] Previous year's figures were adjusted.

(79) Related parties

All the consolidated and unconsolidated subsidiaries, affiliated companies, joint ventures and subsidiaries of joint ventures qualify as related parties. The owners of NORD/LB, Hannoversche Beteiligungsgesellschaft mbH, Hanover, the subsidiaries and joint ventures of the state of Lower Saxony and the Sparkassenverband Niedersachsen (Association of the Savings Banks of Lower Saxony) the provident funds and companies controlled by related parties are also related parties of the NORD/LB Group.

Natural persons considered to be related parties in accordance with IAS 24 are the members of the Managing Board, the Supervisory Board and the committees of NORD/LB as the parent company and their close relatives.

Business transacted with related parties is concluded at standard market terms and conditions.

The scope of transactions conducted with related parties in 2011 and 2012, excluding those to be eliminated under consolidation, can be seen in the following statements:

31 Dec. 2012 (in € 000)	Share-holders	Subsidaries	Joint Ventures	Affiliated companies	Persons in key positions	Other related parties
Outstanding loans and advances						
to banks	–	–	–	936 116	–	255 795
to customers	2 778 248	54 095	34 053	235 077	1 505	402 899
Other unsettled assets	2 629 046	1	–	62 939	–	12 290
Total assets	**5 407 294**	**54 096**	**34 053**	**1 234 132**	**1 505**	**670 984**
Unsettled liabilities						
to banks	–	–	–	471 754	–	128 013
to customers	259 863	32 817	119 803	100 887	2 501	296 098
Other unsettled liabilities	51 091	512 517	–	–	50	165 352
Total liabilities	**310 954**	**545 334**	**119 803**	**572 641**	**2 551**	**589 463**
Guarantees / sureties received	4 193 947	27	50	5 000	–	20
Guarantees / sureties granted	5 250 662	700	1 056	12 130	–	11 354

1 Jan.–31 Dec. 2012 (in € 000)	Share-holders	Subsidaries	Joint Ventures	Affiliated companies	Persons in key positions	Other related parties
Interest expense	44 613	76 379	134	28 818	38	18 233
Interest income	181 135	2 951	793	44 830	68	23 056
Commission expense	23 985	–	–	55	–	61
Commission income	66	8	26	540	1	233
Other income and expenses	112 654	– 59	–	– 1 541	– 5 032	– 15 995
Total contributions to income	**225 257**	**– 73 479**	**685**	**14 956**	**– 5 001**	**– 11 000**

31 Dec. 2011 (in € 000)	Share-holders	Subsidaries	Joint Ventures	Affiliated companies	Persons in key positions	Other related parties
Outstanding loans and advances						
to banks	–	–	–	936 946	–	197 020
to customers	2 912 893	57 069	14 485	308 028	2 582	397 202
Other unsettled assets	2 928 770	161	–	81 517	–	462
Total assets	**5 841 663**	**57 230**	**14 485**	**1 326 491**	**2 582**	**594 684**
Unsettled liabilities						
to banks	–	–	–	459 580	–	85 281
to customers	761 237	38 994	21 410	102 173	2 337	249 364
Other unsettled liabilities	46 321	1 365 686	–	79	50	147 552
Total liabilities	**807 558**	**1 404 680**	**21 410**	**561 832**	**2 387**	**482 197**
Guarantees / sureties received	4 210 347	27	–	5 000	–	20
Guarantees / sureties granted	5 325 050	450	1 056	6 530	–	1 042

1 Jan. – 31 Dec. 2011 (in € 000)	Share-holders	Subsidaries	Joint Ventures	Affiliated companies	Persons in key positions	Other related parties
Interest expense	61 706	97 523	381	26 092	35	18 788
Interest income	196 992	3 567	481	53 390	102	21 889
Commission expense	24 143	–	–	–	–	851
Commission income	98	7	27	258	2	23
Other income and expenses	54 483	115	3	34 806	– 3 700	– 21 495
Total contributions to income	**165 724**	**– 93 834**	**130**	**62 362**	**– 3 631**	**– 19 222**

As at the balance sheet date there are allowances for loans and advances to affiliated companies in the amount of € 2 million (€ 2 million). Expenses for loan loss provisions in the period under review total € 1 million (€ 0 million).

In the item guarantees / sureties received from shareholders, guarantees in the amount of € 3 500 million (€ 3 550 million) are reported; these relate to an issue programme (G-MTN) guaranteed by the states of Lower Saxony and Saxony-Anhalt which serves for the refinancing of the NORD/LB Group. In the item guarantees / sureties granted to shareholders, guarantees in the amount of € 5 250 million (€ 5 325 million) are reported; these relate to a security pool of loans and advances with which the aforementioned guarantees received from the states of Lower Saxony and Saxony-Anhalt are secured. The maximum term of the guarantees is 5 years.

Total remuneration and loans to governing bodies in accordance with commercial law are presented in Note (81) Remuneration and loans to governing bodies. Payments due in the short term to other persons in key positions total € 3 944 thousand (€ 3 191 thousand). Post-employment benefits total € 820 million (€ 509 million). Remuneration for persons in key positions totals € 4 764 thousand (€ 3 700 thousand).

(80) Members of governing bodies and list of mandates

1. Members of the Managing Board

Dr. Gunter Dunkel
(Chairman)

Dr. Johannes-Jörg Riegler
(Deputy Chairman since 1 January 2013)

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 Feb. 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 Jan. 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 Gruppe

August Nöltker
Union Secretary, ver.di Vereinte Dienstleistungs-gewerkschaft (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)

As at 31 December 2012 the following mandates were held at large corporations by members of the Managing Board of the NORD/LB Group. Banks are treated as large corporations.

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 (former: 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., 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 (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

(81) Remuneration of and loans to governing bodies

(in € 000)	31 Dec. 2012	31 Dec. 2011[1)]
Total emoluments paid to active members of governing bodies		
Managing Board	3 757	2 012
Supervisory Board	361	371
	4 118	**2 383**
Total emoluments paid to former members of governing bodies and their dependants		
Managing Board	4 146	3 932
Advance payments, loans and contingencies		
Managing Board	1 397	1 476
Supervisory Board	614	1 019

[1)] Previous year's figures were adjusted.

Pension obligations under IFRSs to previous board members and their surviving dependents exist in the amount of € 52 531 thousand (€ 42 501 thousand).

(82) Group auditor's fees

(in € 000)	31 Dec. 2012	31 Dec. 2011
Group auditor's fees for		
the statutory audit	5 147	–
other audit-related services	2 431	–
other services	608	–
Group auditor's fees for		
the statutory audit	1 097	5 945
other audit-related services	1 155	3 231
tax services	189	34
other services	20	380

(83) Equity holdings

The list of equity holdings includes all of the companies includes in the consolidated financial statements, the non-consolidated companies, joint ventures, affiliated companies and other equity holdings from 20 per cent. The information on the companies was taken from the most recent available annual financial statements which have been adopted.

Company name and registered office	Shares (%) direct	Shares (%) indirect
a) Companies included in the consolidated financial statements		
aa) Subsidiaries included in the consolidated financial statements		
BLB Immobilien GmbH, Bremen	100.00	–
BLB Leasing GmbH, Oldenburg	100.00	–
Braunschweig-Informationstechnologie-GmbH, Braunschweig	100.00	–
Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen	–	54.83
Bremische Grundstücks-GmbH, Bremen	100.00	–
Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover	–	100.00
KreditServices Nord GmbH, Braunschweig [2)]	–	100.00
MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Pullach im Isartal	–	77.81
Nieba GmbH, Hanover [2)]	–	100.00
Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel / Luxembourg	–	100.00
NORD/FM Norddeutsche Facility Management GmbH, Hanover [2)]	–	100.00
NORD/LB Asset Management Holding GmbH, Hanover	–	100.00
NORD/LB Capital Management GmbH, Hanover	100.00	–
NORD/LB COVERED FINANCE BANK S. A., Luxembourg-Findel / Luxembourg	100.00	–
NORD/LB G-MTN S.A., Luxembourg-Findel / Luxembourg	–	100.00
NORD/LB Kapitalanlagegesellschaft AG, Hanover	100.00	–
Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover [2)]	–	100.00
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen	100.00	–
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	100.00	–
Öffentliche Facility Management GmbH, Braunschweig	100.00	–
Öffentliche Facility Management Leben GmbH & Co. KG, Braunschweig	100.00	–
Öffentliche Facility Management Sach GmbH & Co. KG, Braunschweig	100.00	–
Öffentliche Lebensversicherung Braunschweig, Braunschweig	–	75.00
Öffentliche Sachversicherung Braunschweig, Braunschweig	–	75.00
Skandifinanz AG, Zurich / Switzerland	100.00	–

Company name and registered office	Shares (%) direct	Shares (%) indirect
ab) Special Purpose Entities included in the consolidated financial statements		
Beteiligungs-Kommanditgesellschaft MS „Buxmelody“ Verwaltungs- und Bereederungs GmbH & Co., Buxtehude	–	–
DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Pullach im Isartal	–	–
Fürstenberg Capital Erste GmbH, Fürstenberg	–	–
Fürstenberg Capital II. GmbH, Fürstenberg	–	–
GEBAB Ocean Shipping II GmbH & Co. KG, Hamburg	–	–
GEBAB Ocean Shipping III GmbH & Co. KG, Hamburg	–	–
Hannover Funding Company LLC, Dover (Delaware) / USA	–	–
KMU Shipping Invest GmbH, Hamburg	–	–
MT „BALTIC CHAMPION“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MT „BALTIC COMMODORE“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MT „NORDIC SCORPIUS“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MT „NORDIC SOLAR“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MT „NORDIC STAR“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
NORD/LB Immobilien-Holding GmbH & Co. Objekt Magdeburg KG, Pullach im Isartal	–	–
„OLIVIA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
„OLYMPIA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
„PANDORA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
„PRIMAVERA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
„QUADRIGA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
ac) Investment funds included in the consolidated financial statements		
NORD/LB AM 56	–	100.00
NORD/LB AM 65	–	100.00
NORD/LB AM ALCO [4]	–	100.00
NORD/LB AM OELB	100.00	–
NORD/LB AM OESB	100.00	–
ad) Companies / investment funds accounted for in the consolidated financial statements using the equity method		
Joint ventures		
LHI Leasing GmbH, Pullach im Isartal [5]	43.00	6.00
Affiliated companies		
Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	32.26	–
BREBAU GmbH, Bremen	48.84	–
Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen	27.50	–
GSG Oldenburg Bau- und Wohngesellschaft mit beschränkter Haftung, Oldenburg	22.22	–
LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover	44.00	–
LINOVO Productions GmbH & Co. KG, Pöcking	–	45.17
NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hanover	–	28.66
SALEG Sachsen-Anhaltinische-Landesentwicklungsgesellschaft mbH, Magdeburg [6]	–	56.61
Toto-Lotto Niedersachsen GmbH, Hanover	–	49.85
Investment funds		
Lazard-Sparkassen Rendite-Plus-Fonds	49.18	–

Company name and registered office	Share of capital held (in %)	Equity [1] (in € 000)	Profit/Loss (in € 000)
b) Companies not included in the consolidated financial statements with an equity capital of greater or equal +/– € 1 million			
BGG Oldenburg GmbH & Co. KG, Bremen [11]	100.00	8 115	– 6
Braunschweig-Beteiligungsgesellschaft mbH, Braunschweig [12]	100.00	8 597	–
Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [2] [11]	100.00	30 626	–
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen [11]	100.00	3 400	787
Deutsche Hypo Delaware Blocker Inc., Wilmington (Delaware) / USA [12]	100.00	8 524	– 2 193
NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover [12]	90.00	1 003	– 79
Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hanover [12]	100.00	15 267	77
NORD/LB Project Holding Ltd., London / Great Britaian [12]	100.00	1 281	834
NORD/LB RP Investments LLC, Wilmington (Delaware) / USA [12]	100.00	3 317	1 926
Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [2] [11]	98.00	3 088	–
Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen [12]	100.00	1 095	13
SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main [12]	100.00	1 052	– 1 900
Themis 1 Inc., Wilmington (Delaware) / USA [12]	100.00	7 356	4 671
Themis 3 LLC, Wilmington (Delaware) / USA [4]	100.00	k.A.	k.A.
Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [12]	100.00	35 106	4 426
Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [2] [11]	100.00	1 278	–
Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hanover [12]	72.70	– 3 709	483
Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Tiefgarage Stade Vermietungs KG, Hanover [10] [12]	90.00	– 2 852	14
c) Capital share of greater or equal 20 % in companies with an equity capital of greater or equal +/– € 1 million			
Joint ventures/affiliated companies/other			
Adler Funding LLC, Dover / USA [10] [12]	21.88	– 4 183	– 4 421
Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [3]	49.00	–	–
Bremer Toto und Lotto Gesellschaft mit beschränkter Haftung, Bremen [12]	33.33	4 283	3
Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [12]	50.00	4 800	392
Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [12]	20.89	15 295	329
Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [12]	20.44	11 865	503
Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [12]	20.46	10 237	705
Grundstücksgemeinschaft Escherweg 5 GbR, Bremen [11]	50.00	– 1 941	– 377
Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. – Objekt Zietenterrassen – KG, Göttingen [7] [12]	52.56	2 727	– 444
INI International Neuroscience Institute Hannover GmbH, Hanover [15]	22.70	– 11 131	– 1 066
Medical Park Hannover GmbH, Hanover [12]	50.00	2 251	410

Company name and registered office	Share of capital held (in %)	Equity [1] (in € 000)	Profit / Loss (in € 000)
Medicis Nexus GmbH & Co. KG, Icking [8) 12)]	66.01	9 224	720
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [12)]	26.00	10 204	1 022
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover [12)]	39.82	9 667	1 577
NBV Beteiligungs-GmbH, Hamburg [12)]	28.57	19 493	3 784
Öffentliche Versicherung Bremen, Bremen [12)]	20.00	6 020	60
USPF III Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf [13)]	42.86	2 894	569
Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [12)]	21.72	18 523	376

Company name and registered office	Share of capital held (in %)
d) Subsidiaries not included in the consolidated financial statements with an equity capital of greater or equal +/– € 1 million	
BGG Bremen GmbH & Co. KG, Bremen	100.00
BLBI Beteiligungs-GmbH, Bremen	100.00
Braunschweig Advisors GmbH, Braunschweig	100.00
Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig	100.00
Braunschweig Grundstücksentwicklungsgesellschaft mbH, Braunschweig	100.00
Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn, Bremen	100.00
City Center Magdeburg Hasselbach-Passage Grundstücksgesellschaft mbH, Hanover	100.00
FL FINANZ-LEASING GmbH, Wiesbaden	58.00
Flying Sun Shipping Ltd., Valetta VLT 1455 / Malta	100.00
HERMA Verwaltungs- und Beteiligungsgesellschaft mit beschränkter Haftung, Hanover	100.00
IRC Verwaltung GmbH & Co. Objekt Nienburg KG, Pullach im Isartal	98.00
IRC Verwaltung GmbH & Co. Objekt Unterföhring KG, Pullach im Isartal	98.00
LBT Holding Corporation Inc., Wilmington (Delaware) / USA	100.00
LHI Leasing GmbH & Co. Immobilien KG, Pullach im Isartal	90.00
NBN Grundstücks- und Verwaltungs-GmbH, Hanover	100.00
NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover	100.00
NORD/LB Beteiligungsgesellschaft in Mecklenburg-Vorpommern und Sachsen-Anhalt mbH, Hanover [2)]	100.00
NORD/LB Informationstechnologie GmbH, Hanover [2)]	100.00
PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hanover	100.00
RAINBOW LS SHIPPING Ltd., Valetta VLT 1455 / Malta	100.00
Ricklinger Kreisel Beteiligungs GmbH, Hanover	100.00
TANGENS Grundstücksverwaltung GmbH & Co. Vermietungs-KG, Pullach im Isartal	100.00
Terra Grundbesitzgesellschaft am Aegi mbH, Hanover	100.00
Vermögensverwaltungsgesellschaft Thiede GmbH u. Co. Grundschulen-Vermietungs-KG, Hanover	79.80

Annotations:
1) Equity as defined in §§ 266 and 272 HGB, excl. capital unpaid.
2) Here a profit and loss transfer agreement exists.
3) These figures are not accounted for according to § 313 para 2, sec. 4, sentence 4.
4) Founded in the year under review.
5) Due to the joint management, this company is classified as a joint venture.
6) Due to the "potential voting rights" of third parties, this company is classified as an affiliated company.
7) Due to the share in voting rights of 50.00 per cent, this company is not classified as a subsidiary.
8) Due to the rebuttal of the definition of control/significant influence, this company is allocated to other investments.
9) No disclosures relating to equity and earnings are made in accordance with § 313 para. 2 no. 4 clause 3 of the German Commercial Code.
10) The company is not actually overindebted.
11) Provisional data as at 31 December 2012.
12) Data as at 31 Dec. 2011.
13) Data as at 30 Sep. 2011 (deviating fiscal year).
14) Data as at 31 Dec. 2010.
15) Data as at 31 Dec. 2009.

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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RESPONSIBILITY STATEMENT

We declare that to the best of our knowledge and in accordance with applicable accounting principles, the consolidated financial statements provide a true and fair view of the Group's net assets, financial position and results of operations and that the Group management report presents a true and fair view of the development of business including the operating result and the position of the Group and also describes the significant opportunities and risks relating to the probable development of the Group.

Hanover / Braunschweig / Magdeburg, 18 March 2013

Norddeutsche Landesbank Girozentrale

The Managing Board

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

AUDITOR'S REPORT

"We have audited the consolidated financial statements prepared by the Norddeutsche Landesbank – Girozentrale –, Hanover, Braunschweig and Magdeburg (NORD/LB), comprising the balance sheet, the income statement, the notes to the financial statements, the cash-flow statement and the statement of changes in equity, as well as the Group management report for the financial year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a of the German Commercial Code (HGB) and the supplementary provisions of the statutes, is the responsibility of the Managing Board of NORD/LB. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code (HGB) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). These standards require that we plan and conduct the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group 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 consolidated financial statements comply with IFRS, as adopted by the EU, and additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (HGB) as well as the supplementary provisions of the statutes, and give a true and fair view of the net assets, financial and earnings position of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and overall provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hanover, 21 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer
Wirtschaftsprüfer
[German Public Auditor]

Leitz
Wirtschaftsprüfer
[German Public Auditor]

FACTS AND DATA

Foundation

Norddeutschen Landesbank Girozentrale
founded by merger of 1 July 1970

Predecessors:

Herzogliches Leyhaus (founded 1765) since 1919
"Braunschweigische Staatsbank" (oldest predecessor)
Hannoversche Landeskreditanstalt (founded 1840)
Niedersächsische Landesbank – Girozentrale – (founded 1917)
Niedersächsische Wohnungskreditanstalt Stadtschaft – (founded 1918)

Legal Basis

State treaty of 22 August 2007 concluded between the federal states of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania on Norddeutsche Landesbank Girozentrale as amended by the state treaty of 12 July 2011 entered into force on 31 December 2011.

Statues of Norddeutsche Landesbank Girozentrale in accordance with resolutions taken at the Owners' meeting on 1 June 2012. The statutes entered into force on 9 August 2012.

Legal Form

Institution incorporated under public law

Owners

State of Lower Saxony
Association of Savings Banks in Lower Saxony
State of Saxony-Anhalt
Savings Banks Holding Association in Saxony-Anhalt
Special Purpose Holding Association of Savings Banks in Mecklenburg-Western Pomerania

Executive Bodies

Managing Board
Owners' meeting
Supervisory Board

Supervision

Supervised by the Minister of Finance of the State of Lower Saxony in consultation with the counterparts of the State of Saxony-Anhalt

Managing Board

Dr. Gunter Dunkel
(Chairman)

Dr. Johannes-Jörg Riegler
(Deputy Chairman up to 1 January 2013)

Christoph Schulz

Ulrike Brouzi

Eckhard Forst

Dr. Hinrich Holm

Executive Vice Presidents

Carsten Hüncken

Jürgen Machalett

Dr. Ulf Meier

Christoph Trestler

Headquarters

Hanover (Head quarters)
Friedrichswall 10
30159 Hanover

Braunschweig
Friedrich-Wilhelm-Platz
38100 Braunschweig

Magdeburg
Breiter Weg 7
39104 Magdeburg

Development Banks

Investitionsbank Sachsen-Anhalt
Domplatz 12
39104 Magdeburg

Landesförderinstitut Mecklenburg-Vorpommern
Werkstraße 213
19061 Schwerin

Branches

Hanover Branch
Georgsplatz 1
30159 Hanover

Hamburg Branch
Brodschrangen 4
20457 Hamburg

Magdeburg Branch
Landesbank für Sachsen-Anhalt
Breiter Weg 7
39104 Magdeburg

Schwerin Branch
Graf-Schack-Allee 10/10A
19053 Schwerin

Foreign Branches
(alphabetical)

NORD/LB London
One Wood Street
London EC2V 7WT
UK1

NORD/LB New York
1114, Avenue of the Americas
20th Floor
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Friedrich-Wilhelm-Platz, Bürgerpark
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Stadtoldendorf
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Süpplingen
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(As at 15 March 2013)

Chairman
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Minister of Finance
State of Lower Saxony

Hartmut Möllring
Minister of Finance
State of Lower Saxony
(Chairman up to 18 February 2013)

First Deputy Chairman
Thomas Mang
President
Association of Savings Banks in Lower Saxony

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

Members
Frank Berg
Chairman of the Board of Management
OstseeSparkasse Rostock

Norbert Dierkes
Chairman of the Board of Management
Sparkasse Jerichower Land

Edda Döpke
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Ralf Dörries
Senior Vice President
NORD/LB Norddeutsche Landesbank Girozentrale

Hans-Heinrich Hahne
Chairman of the Board of Management
Sparkasse Schaumburg

Frank Hildebrandt
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Martin Kind
Managing Director
KIND Hörgeräte GmbH & Co. KG

Frank Klingebiel
Mayor
City of Salzgitter

Ulrich Mädge
Mayor
Hansestadt Lüneburg

Freddy Pedersen
Deputy chairment
United Services Union
(ver.di – Vereinte Dienstleistungsgewerkschaft)

Jörg Reinbrecht
Representative
United Services Union
(ver.di – Vereinte Dienstleistungsgewerkschaft)

Ilse Thonagel
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Landesförderinstitut Mecklenburg-Vorpommern

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

Heinrich von Nathusius
Managing Director
IFA Gruppe

Klaus-Peter Wennemann
Management consultant

Owners' meeting

(As 15 March 2013)

Chairman
Thomas Mang
President
Association of Savings Banks in Lower Saxony

First Deputy Chairman
Frank Berg
Chairman of the Board of Management
OstseeSparkasse Rostock

Second Deputy Chairman
Dr. Michael Ermrich
County officer
Landkreis Harz

For the State of Lower Saxony
Frank Doods
Undersecretary
Ministry of Finance
State of Lower Saxony

Ulrich Böckmann
Regierungsdirektor (Senior Counsellor)
Ministry of Finance
State of Lower Saxony

For the State of Saxony-Anhalt
Dr. Ingolf Lange
Principal
Ministry of Finance
State of Saxony-Anhalt

Michael Richter
Undersecretary
Ministry of Finance
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Chairman of the Board of Management
Sparkasse Burgenlandkreis

Special Purpose Holding Association of Savings Banks in Mecklenburg-Western Pomerania
Dr. Paul Krüger
Mayor
City of Neubrandenburg

For the Association of Savings Banks in Lower Saxony
Ludwig Momann
Chairman of the Board of Management
Sparkasse Emsland

GLOSSARY

Amortised cost
Amount at which financial assets or liabilities are measured on initial recognition less repayments, including or less accumulated amortisation of any discount or premium using the effective interest rate method and less any allowances for impairment.

Asset Backed Securities (ABS)
Tradable, interest-bearing securities whose interest payments and capital repayments are derived from and collateralised or backed by secured underlying financial assets.

Assets held for trading
Financial assets acquired for the purpose of achieving a profit in the short term, as well as derivative financial instruments that are not hedging instruments in an effective hedge relationship.

Available for sale financial assets
Non-derivative financial assets which are not allocated to any other IAS 39 valuation category or assets which have been classified as available for sale. Until derecognition changes in the fair value are recognised directly in equity.

Backtesting
Method of monitoring the quality of value-at-risk models involving a retrospective comparison of losses calculated in the value-at-risk approach with losses effectively incurred.

Confidence level
In the value-at-risk model the confidence level describes the probability at which a potential loss will not exceed the corresponding value-at-risk amount.

Deferred taxes
If stated values in the tax balance sheet differ from the carrying amounts of assets and liabilities in the IFRS balance sheet and if these differences are taxable temporary differences, amounts of income tax liabilities payable in the future or amounts of income tax assets recoverable in the future are recognised as deferred taxes.

Derivative or derivative financial instrument
Derivatives or derivative financial instruments are financial assets or liabilities whose value changes on the basis of a defined underlying asset (interest rate, currency, share, etc.), which requires no or only a small initial investment and is settled at a future date.

Effective interest method
Method for calculating the amortised cost of financial assets or liabilities and the allocation of interest income and expense to the respective periods. The effective interest rate is the interest rate used for calculating estimated future cash receipts and payments through the expected life of the financial instruments to their exact discounted net carrying amount.

Embedded derivatives
Structured products comprise a host contract and one or more embedded derivative financial instruments. The components are all the subject matter of a single contract relating to the structured product, i.e. they constitute a legal unit and may not be negotiated separately due to the circumstance of a contractual unit. Embedded derivatives are to be reported as separate financial instruments in certain circumstances.

Equity method
Accounting method whereby the investment in associated companies and joint ventures is initially recognised in the balance sheet at cost and adjusted in subsequent periods in accordance with the change in the investor's share of the net assets of the associate.

Expected loss
Expected loss is the loss which is expected to occur within a year. E. g. in the loan portfolio, it can be calculated on the basis of available loss data.

Fair value
Amount for which an asset could be exchanged or a liability settled between knowledgeable, willing and independent parties in an arms length transaction.

Finance lease
Lease in which risks and rewards relating to ownership of the leased item are substantially transferred to the lessee.

Financial assets or liabilities designated at fair value through profit or loss (dFV)
Financial assets and liabilities may under certain circumstances be irrevocably designated at fair value through profit or loss upon initial recognition ("fair value option"). Recognition and measurement inconsistencies resulting from different valuation methods are thus avoided or significantly reduced.

Financial instrument
A financial instrument is a contract that gives rise to a financial asset of one entity and at the same time gives rise to a financial liability or equity instrument for another entity.

Goodwill
Future economic benefits from assets resulting from business combinations which cannot be individually identified and separately recognised.

Hedge accounting
Accounting and balance sheet presentation of hedging relationships between hedged item and hedging instrument in order to avoid or reduce volatility in the income statement and in equity which would results from different measurements of hedged item and hedging instrument.

Hedged item
Financial assets or liabilities, fixed liabilities, highly probable forecast transactions or net investments in foreign operations that a company exposes to the risk of a change in fair value or future cash flows and that are designated as part of an effective hedge relationship.

Hedging instrument
Derivative or (in the event of hedging currency risk) nonderivative financial instruments for which the fair value or cash flows are expected to effectively offset or reduce the changes in the fair value or cash flow of a designated hedged item.

Impairment
If the carrying amount of an asset exceeds its recoverable amount or if there is objective evidence of impairment to a financial asset and if this loss event has a measurable impact on the estimated future cash flows, the asset should be impaired.

Investment Properties
Land and buildings held solely to generate rental income or for the purpose of capital appreciation.

Investments held to maturity (HtM)
Non-derivative financial assets listed in an active market with fixed or determinable payments and a fixed maturity for which an entity has the ability and intention to hold to maturity. The held to maturity category is currently not employed in the NORD/LB Group.

Level 1, Level 2, Level 3
The respective level of the fair value hierarchy is determined by the input data used for valuation purposes and reflects the market proximity of variables used to measure fair value.

Liabilities held for trading
Financial liabilities entered into for the purpose of achieving a profit in the short term, as well as derivative financial instruments that are not hedging instruments in an effective hedge relationship.

Loans and receivables (LaR)
Non-derivative financial assets with fixed or determinable payments which are not listed in an active market.

Operating lease
All the leases that do not qualify for recognition as finance lease.

Other financial Liabilities (OL)
All the financial liabilities which are not held for trading or which are not designated at fair value through profit or loss through exercising the fair value option. These liabilities are measured at amortised cost.

Rating
Standardised evaluation of the creditworthiness of securities or borrowers carried out in a detailed internal risk assessment (internal rating) or by an independent rating agency (external rating).

Securitisation
In securitisation, receivables are pooled and possibly transferred to a special purpose entity which is refinanced through issuing securities.

Stress testing
Method which attempts to model the effects of extraordinary, but possibly feasible events.

Unexpected loss
Dimension to quantify risk as a potential deviation of potential future loss from expected loss, the potential future loss being dependent on the confidence level.

Value-at-risk
Value-at-risk (VaR) is the potential future loss which is not exceeded in a specific period and at a specific confidence level.

Volatility
Dimension to measure fluctuations (e.g. exchange rate fluctuations for securities or currencies). A higher degree of volatility shows wider fluctuations in the observation period and infers that risk may be higher in future.

NOTES DIRECTORY

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Die norddeutsche Art.

OUR PROXIMITY / YOUR STRENGTH

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