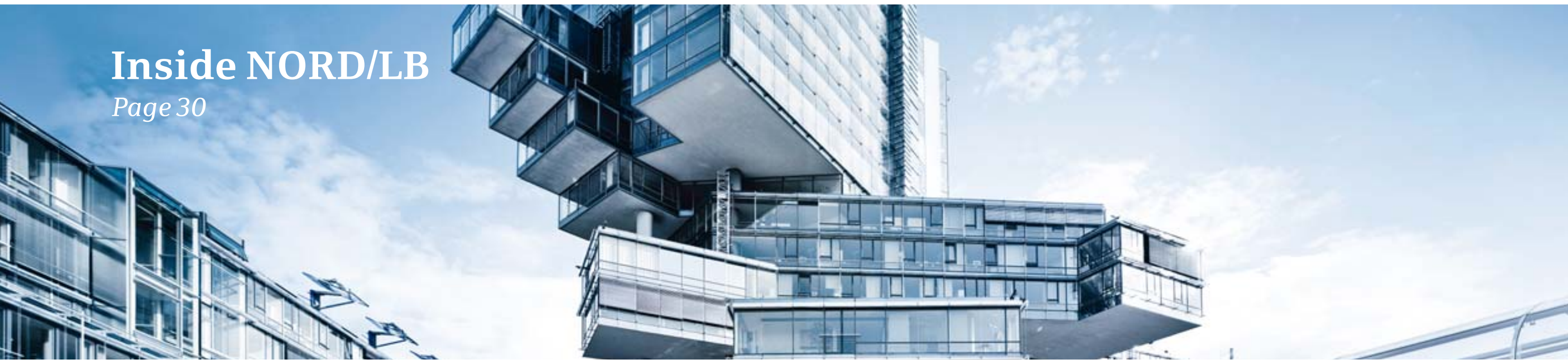
NORD/LB

Die norddeutsche Art.






# Annual Report 2011

Finanzgruppe

# NORD/LB Group at a glance

| | 1 Jan.–31 Dec. 2011 | 1 Jan.–31 Dec. 2010*) | Change (in %) |
|---|---|---|---|
| **In € million** | | | |
| Net interest income | 1 763 | 1 662 | 6 |
| Loan loss provisions | – 205 | – 642 | – 68 |
| Net commission income | 166 | 197 | – 16 |
| Profit/loss from financial instruments at fair value through profit or loss including hedge accounting | 69 | 115 | – 40 |
| Profit/loss from financial assets | – 41 | 82 | > 100 |
| Profit/loss from investments accounted for using the equity method | – | – 73 | 100 |
| Administrative expenses | 1 091 | 1 070 | 2 |
| Other operating profit/loss | 69 | 48 | 44 |
| Earnings before taxes | 730 | 319 | > 100 |
| Income taxes | 194 | 5 | > 100 |
| Consolidated profit | 536 | 314 | 71 |
| **Key figures in %** | | | |
| Cost-Income-Ratio (CIR) | 52.8 | 54.9 | |
| Return-on-Equity (RoE) | 10.6 | 5.6 | |

| | 31 Dec. 2011 | 31 Dec. 2010*) | Change (in %) |
|---|---|---|---|
| **Balance figures in € million** | | | |
| Total assets | 227 630 | 228 524 | – |
| Customer deposits | 63 322 | 60 742 | 4 |
| Customer loans | 116 404 | 113 605 | 2 |
| Equity | 6 543 | 5 801 | 13 |
| **Regulatory key figures** | | | |
| Core capital for solvency reasons in € million | 8 005 | 6 829 | 17 |
| Regulatory equity in € million | 10 727 | 9 599 | 12 |
| Risk-weighted assets in € million | 84 800 | 86 850 | – 2 |
| Regulatory capital ratio (= overall ratio) in % | 12.6 | 11.1 | |
| Core capital ratio in % | 9.4 | 7.9 | |

NORD/LB ratings (long-term/short-term/individual)
Moody's A2/P-1/D+ – Fitch Ratings A/F1/bbb-

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

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

NORD/LB
Die norddeutsche Art.

# NORD/LB –
# roles and responsibilities

*As a financial institution, NORD/LB fulfils a total of four responsibilities: it is a commercial bank, a Landesbank, a central savings bank and a parent company.*

As a **COMMERCIAL BANK**, our aim is to offer a comprehensive range of attractive financial services to private, commercial and institutional customers and the public sector in Northern Germany. However, we also operate well beyond this core region. We are involved in structured financing for international projects in selected locations – particularly where energy, infrastructure, industry and real estate are involved. Worldwide, we are represented in ship and aircraft financing and at all the world's major trading centres, in London and New York as well as in Moscow, Mumbai, Beijing, Shanghai and Singapore.

In the federal states of Lower Saxony and Saxony-Anhalt, however, we act as a **LANDESBANK**, supporting the states as our owners in their banking business and remaining available to them in regional economic development. Moreover, we advise the government of Mecklenburg-Western Pomerania as a partner of the Landesförderinstitut (State Institute for the Advancement of the Economy) and the government of Saxony-Anhalt as a partner of Investitionsbank Sachsen-Anhalt.

In these two federal states as well as in Lower Saxony, we are also a partner to all savings banks in our role as the **CENTRAL SAVINGS BANK**. In addition, we offer individual services to other savings banks outside our core region, for example in Schleswig-Holstein. As a clearing bank (Girozentrale), we are there to offer them all the services that they require for their activities. Our goal is to create optimum solutions for customers in the savings bank financial group at all times by exploiting our national and international network within the NORD/LB Group.

Finally, all of these areas of business can be found within the NORD/LB **GROUP**. As such, we function as a parent company that manages all parts of the group in accordance with our strategic goals, achieves synergies, strengthens our customer divisions and pools our services, both in the Financial Markets division and in financing, in risk management and in organisation and information technology.

# Our subsidiaries and holdings

*NORD/LB's strategic subsidiaries and holdings are a material part of our business model. All business segments are managed in close cooperation throughout the Group.*

Braunschweigische Landessparkasse
Ein Unternehmen der NORD/LB

NORD/LB Luxembourg

DEUTSCHE HYPO
Ein Unternehmen der NORD/LB

BREMER LANDESBANK

# Financial calendar

| | |
|---|---|
| Release of results as at 31 December 2011 | 19 April 2012 |
| Release of results as at 31 March 2012 | 31 May 2012 |
| Release of results as at 30 June 2012 | 29 August 2012 |
| Release of results as at 30 September 2012 | 29 November 2012 |

NORD/LB

Die norddeutsche Art.

# Annual Report 2011

Finanzgruppe



# Contents



24
*New paths with new energies*

# The team of the Erweiterter Konzernvorstand






A
**DR. JOHANNES-JÖRG RIEGLER**
*Born 1964*
**Chief Risk Officer (CRO)**;
Credit Risk Management, Central Risk Management, Special Credit Management, Research/Economy and Relationship with the Savings Bank Network

B
**DR. STEPHAN-ANDREAS KAULVERS**
*Born 1956*
Chairman of the Managing Board of Bremer Landesbank

E
**CHRISTOPH SCHULZ**
*Born 1960*
Private and Commercial Customers; Chairman of the Managing Board of Braunschweigische Landessparkasse

F
**HARRY ROSENBAUM**
*Born 1958*
Chairman of the Managing Board of NORD/LB Luxembourg S.A.

G
**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

# (extended Group Managing Board)


C


D


H


I

C
**ULRIKE BROUZI**
*Born 1965*
**Chief Operating Officer (COO);**
Organisation and IT, Corporate Services, Group Security, Risk Control and Controlling, Cost/Efficiency Management, Landesförderinstitut and Relationship with Mecklenburg-Western Pomerania

D
**DR. GUNTER DUNKEL**
*Born 1953*
**Chairman of the Managing Board (CEO);**
Managing Board Office/Legal/Compliance, Human Resources, Group Development, Auditing, Corporate Communications and Finance/Tax

H
**DR. HINRICH HOLM**
*Born 1965*
Treasury, Markets, Portfolio Investments, Investitionsbank Sachsen-Anhalt and relationship with Saxony-Anhalt and foreign branches

I
**DR. JÜRGEN ALLERKAMP**
*Born 1956*
Chairman of the Managing Board of Deutsche Hypo


Dear clients, partners and friends,

Only in turbulent times does it become clear who has built his house on solid foundations. In the last few years, customers have increasingly begun to reflect again on what their bank’s most important asset is: reliability, trustworthiness and stability. Here in Lower Saxony, we also like to think that we are storm-proof and have our feet planted firmly on the ground. We are proud that, despite the crisis that ravaged the markets in 2011, we received a clear signal from you as our customers and business partners: you trust us and rely on us.

Our owners also sent out a strong signal of solidarity with the capital measures required by regulatory provisions. And, not least, our employees demonstrated once again with their expertise, loyalty and sound judgement that they will provide reliable support for our customers even in turbulent times. We would like to thank you for this.

This Annual Report will allow you to satisfy yourself that NORD/LB has remained calmly and steadily on course during these challenging times and is also preparing itself for the coming quarters, so that it can continue to be there for you as a competent financial partner.

Best wishes,

**DR. GUNTER DUNKEL**
Chairman of the Managing Board of NORD/LB

*Ladies and gentlemen,*

The year 2011 was another year of considerable turbulence on the financial markets. Nevertheless, NORD/LB managed to come through the financial crisis without any state bailouts. The Landesbank's long-established business model, which is focused on the real economy, is now paying off. NORD/LB can thus continue to act as a reliable financial partner to people and business in Northern Germany. This applies both to private customers in the Braunschweig area and to small and medium-sized businesses in the three states of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania. NORD/LB is particularly strong in financing for the maritime sector, the aircraft industry and renewable energies, areas that are important to Northern Germany.

*"NORD/LB can continue to act as a reliable financial partner to people and business in Northern Germany."*

The bank's well-founded expertise, many years of experience, specialist banking advice and provision of bespoke financial services to business help to keep the Northern German federal states fit for the future.

In the wake of the global crisis, regulatory requirements of banks have been tightened. NORD/LB's owners have responded together with the bank and commenced measures to strengthen the Tier 1 capital as required. A competent Landesbank that is firmly rooted in the region and is able to act is a strong asset. That's how we want it to remain in the future.

Kind regards,

**HARTMUT MÖLLRING**
Minister of Finance, State of Lower Saxony
and Chairman of the Supervisory Board of NORD/LB

# History 2011

January February March April May June

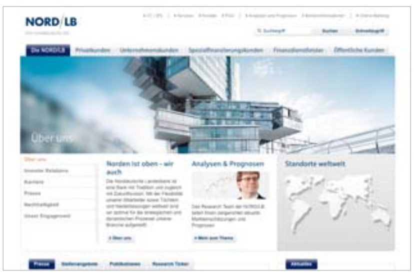
**11 January 2011**
**NORD/LB successfully issues jumbo covered bond**
NORD/LB issued a public jumbo covered bond with a volume of EUR 1 billion. The order book had already reached its target level after just a few hours and included a total of 45 institutional investors, mainly German banks and funds along with central banks and insurance companies.

**14 February 2011**
**NORD/LB finances portfolio of nine aircraft**
NORD/LB finances a portfolio of nine aircraft, five Airbus 320s and four Boeing 737s, for an Australian aircraft fund. The deal comprises seven individual loans and has a total volume of around USD 360 million, of which NORD/LB is to take on USD 250 million. The nine aircraft are leased on a long-term basis to seven well-known airlines, including Air Berlin, Air China and the successful Indian low-cost carrier IndiGo.

**10 March 2011**
**NORD/LB finances wind farm in Siersleben, Saxony-Anhalt**
NORD/LB, the Landesbank for Saxony-Anhalt, finances the construction and subsequent operation of a wind farm in Siersleben, Saxony-Anhalt, for the company e.n.o. energy. This allows the bank to expand its involvement in the field of renewable energies further. The Siersleben wind farm consists of four turbines, each of which has an output of two megawatts (MW). The total output of 8 MW corresponds to the annual requirements of almost 2,500 households.

**10 March 2011**
**Butendiek financing initiated**
The wpd group in Bremen is preparing to implement the Butendiek offshore wind project, which is to be constructed 32 km to the west of Sylt in the German North Sea with 80 wind turbines. The project company Butendiek Offshore-Windpark GmbH & Co. KG has now commissioned a consortium to structure the financing. Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale acts as the additional lead arranger here.

**01 April 2011**
**NORD/LB launches its new website**
The bank’s website has been given a facelift. In line with our customer-oriented business model and the bank’s strategy, the navigation of the website has been tailored to the bank’s customer groups. Each customer group has its own page within the website, which shows the bank’s expertise with regard to the respective sector, contact, references and products.



**07 April 2011**
**NORD/LB finances energy-efficient container ships**
Hapag-Lloyd AG is currently having ten ships built in South Korea, for which NORD/LB is involved in the financing. These “Super-Post-Panamax” ships are among the largest models currently available on the market. The ships have a very economical and efficient design, with a correspondingly low consumption per transported container. They fulfil foreseeable future environmental regulations for container ships. What is particularly innovative is that the heat emitted by the ship’s main engine is converted into energy via a heat recovery system.

The overall financing volume of the transaction is USD 925 million. NORD/LB acts as one of the mandated lead arrangers.

**10 May 2011**
**NORD/LB arranges financing for two solar parks in France**
NORD/LB arranges the project financing for two solar power plants in Les Mées, France, around 100 kilometres north of Marseille. The financing volume is € 63 million. The two solar parks have a combined capacity of 18.2 megawatts and are owned by “Doric Solar Provence”, the third renewable energy fund set up by fund operator Doric. NORD/LB, which had already been mandated as a debt advisor in August 2010, structured the long-term financing.

July | August | September | October | November | December

12 May 2011

**Another award for its activities as foundation manager – NORD/LB and Landessparkasse once again top the list**

Listing in the Fuchs rankings – leap forward to place 3

In the “Fuchsbriefe” test looking into asset management for foundations, the Private Banking section of NORD/LB and the Braunschweigische Landessparkasse once again achieved excellent results, and their quality was again recognised as being of the very highest level. Those implementing the test said that the work “could be recommended without reservations”. The quality of the advice and performance provided by NORD/LB and Braunschweigische Landessparkasse over the years was assessed at an average of 90 out of a possible 100 points. This means that both achieved a comfortable place in the rankings of the best-performing banks of all time.

12 May 2011

**NORD/LB wins a “Partnerships Bulletin Award 2011”**

NORD/LB received a prestigious award for its activities in financing public-private partnerships (PPP). At the presentation of the “Partnerships Bulletin Awards 2011”, the infrastructure specialists from the Structured Finance division were awarded one of the top places in the “Best Debt Funder” category. The prize has been awarded for 13 years and is regarded as the most prestigious award for PPPs in the UK.

Partnerships Bulletin AWARDS 2011

15 July 2011

**NORD/LB passes bank stress test**

NORD/LB passed the EU-wide bank stress test of the European Banking Authority (EBA). Based on the definition of capital that the EBA developed specifically for the stress test and in deviation from the current legal situation, the bank achieved a core capital ratio of 5.6 percent in the stress scenario.

This took into account the planned conversion of silent participations and other capital instruments of the state of Lower Saxony in the amount of around € 1.1 billion and the strengthening of the bank’s share capital through the addition of € 600 million.

26 July 2011

**Fitch gives top rating of “AAA” to public covered bonds of NORD/LB**

Rating agency Fitch Ratings awarded its best rating of “AAA” to NORD/LB’s public covered bonds. Together with the existing “Aaa” rating of Moody’s, this means that NORD/LB’s covered bonds now have the best ratings from two rating agencies.

07 October 2011

**Deutsche Hypo finances almost 5,000 apartments nationwide**

Deutsche Hypo has just added 4,900 rental apartments to its financing portfolio. The borrowers are four subsidiaries of DeWAG Deutsche Wohn-Anlage GmbH. The transaction has a ten-year term and a volume of € 208 million, of which Deutsche Hypo provides € 78.1 million as the lead manager.

12 December 2011

**Ulrike Brouzi becomes Chief Operating Officer at NORD/LB**

The Supervisory Board of NORD/LB appointed Ms Ulrike Brouzi to the bank’s Managing Board. From 1 January 2012, she will take on the post of Chief Operating Officer (COO) and will thus be responsible for the Organisation and IT, Controlling, Risk Control, Corporate Services and Group Security divisions. In addition, she will assume the management of the business area of Mecklenburg-Western Pomerania.

22 December 2011

**European Commission approves plans to strengthen NORD/LB’s capital**

Following an investigation in respect to the laws on financial assistance, the European Commission, as expected, approved the capital measures announced in April by the state of Lower Saxony, involving a package totalling € 1.67 billion to be provided by the state and the savings banks that own NORD/LB. This means that all the legal requirements for the implementation of the capital measures have been fulfilled.

NORD/LB GROUP

# A STABLE BANK IN TURBULENT TIMES

*The year 2011 had begun well: the economy was on track for growth and the crisis appeared to have been overcome. However, this was not set to continue. Later in the year, there was a slowdown in development on the global markets, and the entire banking sector faced new challenges.*

In connection with the implementation of Basel III, at NORD/LB we set about strengthening our equity, adjusting to the new liquidity requirements at all levels and, as part of this, stepping up our management of risk-weighted assets.

Our customers were naturally also affected by the turbulence on the markets. However, both we and they noticed that the stable foundations we had created in our cooperation with them were now having a positive effect. Our customers know that they can rely on NORD/LB as a stable bank and that they have a longstanding financial partner by their side. We will come through these difficult times together and we will continue to offer them intelligent solutions in future, which will bring them forward.

## OUR CUSTOMERS

PRESENTED:

Flexible financing solutions and competent services with which we offer our customers maximum security, including, and in particular, in difficult times.

*Page 12*

## RENEWABLE ENERGIES

PROVEN:

We are one of the world's leading providers of financing for renewable energy projects – from wind power through photovoltaics to biogas.

*Page 24*

## INSIDE NORD/LB

IMPLEMENTED:

We are always on the lookout for new things, for ideas and projects that will allow us to progress as a bank – for us and our customers.

*Page 30*

## EXPERTS

ASKED FOR:

Three experts at NORD/LB explain firstly how we are dealing with Basel III, secondly how we manage risks and balance out fluctuations and thirdly how we secure our liquidity.

*Page 22 / 28 / 34*


Our customers

# MAXIMUM SECURITY IN TURBULENT MARKETS

*With NORD/LB's flexible financing solutions and competent services, we offer our customers maximum security – including, and in particular, in difficult times.*

PURCHASING RECEIVABLES

## Optimised and syndicated

BIOTRONIK s a leading medical technology company and a pioneer of telemonitoring, with a global sales network. As one of only five global manufacturers of active heart implants such as pacemakers and defibrillators, the company supplies state-of-the-art medical technology to Spanish hospitals, among other clients. In this business, large volumes of liquid funds are tied up. In order to release these, NORD/LB structured the purchase of a portfolio of receivables, generating positive effects for BIOTRONIK's balance sheet at the same time. These kinds of receivables purchases are an excellent tool for generating liquidity. "With the structured transaction, we can also limit our customers' risks in connection with outstanding receivables. This allows our customers to concentrate fully on their actual business again," says Jens Döring from the Corporate Finance division at NORD/LB.

Receivables purchasing differs from a loan in one important way: the focus is not on corporate risk, but on the receivables portfolio. This means that granularity, the portfolio's past performance and mechanisms to hedge the receivables play a much bigger part than instruments to monitor risks, such as key balance sheet figures or annual financial statements.

NORD/LB structured and implemented the transaction with BIOTRONIK without the involvement of other partners. However, several parties can also team up when carrying out large-scale purchases of receivables. The advantages of syndication lie in the combination of the logic of receivables purchasing with the mechanics of a syndicated loan: a bank purchases receivables and keeps them on its accounts. The syndicate takes over part of the risk from the buyer, and possibly also part of the refinancing, through holdings.

As with the lead manager for a syndicated loan, the buyer then has the task of processing sales and drawings


*Susanne Bernt, Vice President for Corporate Finance at Biotronik SE & Co. KG, talking to Jens Feldbinder, her NORD/LB corporate customer advisor*

and ensuring that the necessary information is exchanged.

The facts that the corporate risk is kept largely separate and the distribution across several banks are advantages of syndicated receivables purchasing that we have also exploited for our customer Coutinho & Ferrostaal GmbH & Co KG from Hamburg, one of the largest independent steel trading companies in the world. The company sells both products and raw materials along the entire value-creation chain in the steel industry. In 2011, NORD/LB carried out a substantial receivables purchase for Coutinho & Ferrostaal as the sole mandated lead arranger, thus supporting the company's success. In total, receivables on goods that had already been sold with a value of USD 260 million were transferred to the books, with NORD/LB keeping a significant share. Such a syndicated receivables purchase is a modern and effective method of spreading financing across several shoulders when a large volume is required. [—]

*https://www.nordlb.com/corporate-customers/corporate-customers/product-service-centre/*

DEBENTURE LOANS

# A renaissance

Arnsberg n the Sauerland: 74,000 inhabitants, first documented in 789 AD, today the location of the headquarters of the TRILUX group – Europe's leading provider of high-quality lighting systems. There is an atmosphere of new beginnings in the sector. In particular, LED technology is developing rapidly, offering tremendous opportunities and bright prospects for the future. TRILUX has positioned itself ahead of all others as a provider of intelligent, energy-efficient technologies, which has enabled it to win over the capital market. Proof of this has been provided most recently by the debenture loan with a volume of € 30 million that NORD/LB placed for TRILUX: at € 70 million, demand was more than double what had actually been planned. In this way, we gave TRILUX the opportunity to spread its own financing more widely whilst offering investors an attractive yield-bearing asset.

Since the market for bonds and syndicated loans began to dry up in 2008 as a result of the economic and financial crisis, debenture loans have experienced a true renaissance. The advantages are obvious. Companies can expand their investor base to include savings banks, insurance companies and other institutional investors, for example, and can quickly gain access to financial resources that are not earmarked for a specific purpose. Debenture loans are also flexible in the way they are designed, and allow costs to be saved for issuing and administration compared with bonds.

All this makes debenture loans attractive, particularly to small and medium-sized businesses and especially for companies with a municipal background, such as public utility companies. At NORD/LB, we built up special expertise in this field in 2011, which further strengthened the debenture loan campaign we launched in 2009. The primary aim here is for NORD/LB to expand and consolidate its established role as an arranger of debenture loan transactions through further optimisation of the cooperation between our corporate customers and experts in the Corporate Finance and Financial Markets divisions. A look at the figures shows that we are on the right track. In 2010 alone, we carried out six major debenture loan transactions, which brought in a seven-figure sum. 2011 was even more successful, with seven transactions that overall were two times oversubscribed.

This also included Scholz AG from Essingen in Baden-Württemberg, one of the world's leading companies for recycling scrap steel and metal.

*An innovative lighting concept implemented by Trilux GmbH & Co. KG at its head office in Arnsberg*

With over 10 million tonnes of metal being recycled and returned to the economic cycle as a secondary raw material, Scholz AG is making an important contribution towards the preservation of natural resources. However, to do this repeated investment in recycling facilities is necessary, for which Scholz AG also relies on debenture loans arranged by NORD/LB. We have now become the company's core bank,

> ”
> *Debenture loans are particularly attractive to* **small and medium-sized businesses.**

not only through the arrangement of three debenture loans with a volume in the high eight-figures, but also through the restructuring of a syndicated loan. What Scholz AG has particularly come to appreciate, however, is that we have done all this in the midst of an economic crisis and thus demonstrated that we will continue to support our customers in difficult times. [—]

*https://www.nordlb.com/corporate-customers/corporate-customers/product-service-centre/*

SAVINGS BANKS

## Systematic advice

It is becoming increasingly complex to choose the right investments in securities business and to provide optimum advice for private or commercial customers. Demands on the expertise of employees at savings banks are increasing continuously. For this reason, we not only provide them with comprehensive support in organising their individual investment process in the sale of securities. We also make a whole range of products available to them that are optimally coordinated as part of integrated interaction and that help them to organise their investment advice efficiently. For example, *WebDepot* is used for individual and institution-wide controlling and reporting, while BIS.on (online stock exchange information system) provides employees of savings banks with all the facts and connections that they need as all-rounders to provide optimum advice to their customers. With BIS.on, they can access all the important information with a click of their mouse.

Another tool we provide to savings banks is *CheckUp* for customer analysis and an assessment of the current situation. The interaction with *WebDepot* and BIS.on shows how the instruments are optimally interconnected, for example in the investment process in private banking.

In a first step, *CheckUp* is used to optimise the customer's assets in their entirety. Firstly, the savings bank takes an inventory of the customer's assets and transfers the data to NORD/LB's system, which then analyses and optimises them. A customised report is then sent back to the local savings bank responsible for the customer, which finally holds a strategy discussion with the customer. When the strategic course of action that has been decided on is implemented, the liquid assets are optimised with *WebDepot* and the global strategy is initially transferred to a specified securities strategy. The savings bank then uses the BIS.on information system to generate recommendations and takes these into account when assigning the strategy to a recommendation profile. After a final analysis and a comparison of all the data, the customer receives what he needs for his personal and individual investment strategy: an optimum, integrated and holistic recommendation as to how he can enhance his investment portfolio effectively yet safely. [—]

*https://www.nordlb.com/en/financial-institutions/banks-and-savings-banks/product-service-centre/*

AIRCRAFT FINANCING

# Disconnected from cycles

A look at the international market for the construction of non-military aircraft reveals an interesting juxtaposition, as the most important locations are not just Seattle, Toulouse and Hamburg, but also Stade and Buxtehude. Together, the three German towns make Northern Germany the world's third-largest region for civil aircraft manufacturing. The metropolitan area of Hamburg thus has access to a pool of expertise ranging from aircraft development and aircraft manufacture to maintenance and airport operation. Three large companies, over 300 small and medium-sized companies and an array of other companies contribute to this success. This includes NORD/LB: with a portfolio currently totalling 740 aircraft and a financing volume of € 7.5 billion, we are one of the five largest providers of aircraft financing worldwide.

Even if commercial aviation is a growth industry, it remains a business field that involves high demands. It is very sensitive to the effects of negative events such as terror attacks or natural disasters and to changes in the global economy. In view of the current crisis on the international financial markets, the International Air Transport Association (IATA) has therefore revised its profit forecast for 2012 further downwards, despite the fact that 2010 and 2011 were good years for international air transport. Analysts at the umbrella organisation most recently issued a profit forecast of USD 3.5 billion – provided that the crisis subsides. If it remains unresolved, IATA estimates that the sector may even face a possible loss of up to USD 8.3 billion.

> *When* **looking at risks,** *we focus on the aircraft itself.*

Reason enough for NORD/LB to disconnect itself from the cycles as far as possible and thus to generate stable income from lending. Our approach is to focus on the aircraft itself when looking at risks, taking into account initial utilisation and conservative repayment profiles. Moreover, when choosing aircraft we attach particular importance to modern models that are used worldwide and that incorporate fuel-efficient technologies.

The structures with which we finance the aircraft and the instruments with which we secure them are subject to strict regulations, and we continue to develop these regulations in line with the needs of the market. When selecting our partners, we also consistently look out for experienced market operators from the leading aircraft leasing companies and airlines. [—]

*https://www.nordlb.com/structured-finance/aircraft/*

**Hannover Funding ABCP programme:**

For volumes of receivables of € 50 million and above, NORD/LB's "Hannover Funding" ABCP (asset-backed commercial paper) programme offers its customers the option to obtain financing on the capital market anonymously, at low cost, flexibly and on a revolving basis through the securitisation of receivables. The programme is aimed in particular at customers with high levels of short-term and medium-term leasing and trade receivables, which can also involve different currencies and legal systems.

The principle of the securitisation of receivables from customers is not only efficient, but has also been tried and tested for decades on the market by experienced practitioners in NORD/LB's Markets division: Hannover Funding Company LLC, which is supported and managed by NORD/LB, finances a revolving receivables pool for the respective customer, which is kept protected against insolvency.

It is possible for Hannover Funding to obtain refinancing at extremely favourable interest rates by issuing short-term asset-backed securities (ABCP) in USD, EUR and GBP, thanks to NORD/LB's good creditworthiness and the excellent level of acceptance by European and US investors. The cost advantage that arises is passed on to customers. This means that the customer's financing costs are largely independent of NORD/LB's refinancing costs.

Hannover Funding has grown continuously without any cyclical fluctuations since it was founded in 2000 and is currently financing over 40 transactions with a total volume of approximately USD 2.4 billion.

TRANSPORT SHIPPING

## From calm waters into the rough sea

In late 2010 and early 2011, the shipping markets were able to heave a sigh of relief, the economy was recovering and there were indications of a rise in charter rates – and shipping companies were investing in new ships. The year 2011 got off to a correspondingly positive start, particularly in business with container shipping, but also in the transportation of raw materials and bulk freighters. Charter rates and ship valuations rose.

The construction of a ship takes time. However, the markets react very quickly – a discrepancy that made itself felt in the third quarter of 2011 with noticeable negative consequences. The global economic slowdown led to a decline in demand for transport and consequently to the prospect of significant overcapacity. The market collapsed, the effects of which were also keenly felt by NORD/LB, as one of the leading providers of financing for the maritime sector.

This is not the first crisis that we have overcome together with our customers in 30 years. The shipping market has been very volatile since the end of 2008, and we have responded accordingly. We have significantly expanded, intensified and improved our internal risk monitoring, so we were not unprepared for developments. On the contrary, we were able to respond together with our customers in a calculated and targeted way.

Not least, our business figures alone are proof of the success of our actions: despite the crises in the shipping sector, this area of our business activities has to date always made a positive contribution to our company's performance. [—]

*https://www.nordlb.com/structured-finance/ships/*

RECEIVABLES FINANCING

## for Hapag-Lloyd

One sign of NORD/LB's excellent reputation in the maritime sector in 2011 was the participation of Hapag-Lloyd AG (HLAG) in NORD/LB's Hannover Funding ABCP programme (see box). With Hannover Funding, NORD/LB is currently offering HLAG a line of up to USD 100 million. Receivables from HLAG's worldwide container transportation business are securitised.

NORD/LB has thus successfully transferred the structure for the securitisation of freight rates via ABCP, which was already established in the air transport sector and the rest of the logistics sector, to the maritime sector for the first time, thus establishing a further established source of financing for companies in the maritime sector.

Mandating by HLAG was also of strategic importance to NORD/LB in 2011. We showed that we can also support our customers abroad, and once again demonstrated our expertise in supporting the maritime sector with innovative financing solutions on the capital market. [—]


# A SAFE BANK – DEUTSCHE HYPO

*As one of the most well-known German Pfandbrief (covered bond) banks, Deutsche Hypothekenbank (Actien-Gesellschaft) – a subsidiary of NORD/LB – has a high level of expertise in financing commercial real estate. It is thus the centre of excellence for our professional and institutional real estate banking customers in the NORD/LB Group.*

We rely on a strategic, non-cyclical business policy and did not withdraw from individual markets even during the financial and economic crisis. If we have made a strategic decision to enter a market, we will stay there – even in difficult times. For our customers, this long-term approach means one thing above all: reliability. We will remain available to our customers as a partner with local expertise, even if we temporarily cut back our new business activities owing to cyclical conditions. This approach secures our reputation as a stable market operator and gives us a clear competitive advantage in the recovery phases. For many years, we have focused on an intensive commitment to our customers, and therefore on our direct business. We negotiate ourselves and maintain intensive and lasting contact with our customers. However, even if all of these points are central to our activities, we always make outstanding property quality a basic condition for all financing, whether for construction projects or project development.

## An experience in 18,000 square metres: "30 Crown Place" in London

An imposing 16-storey office building with a state-of-the-art design shot up into the sky on the fringes of the City of London in 2010: "30 Crown Place". It has a plot area of around 1,700 square metres and a rental area of approximately 18,000 square metres and has been let to the prestigious law firm Pinsent Manson LLP for 20 years.

Hannover Leasing acquired the property in August 2011 for the closed-end international real estate investment fund "Wachstumswerte Europa 6" ["Growth Values Europe 6"], and Deutsche Hypo and Postbank together assumed the financing, totalling GBP 76 million, in equal proportions. Deutsche Hypo also took on the roles of arranger, agent, lender and security trustee. Deutsche Hypo increased its total loan commitments in the UK to € 510 million in 2011 – more than three times the previous year's figure of € 236 million. Founding a branch in London in 2010 contributed enormously to this positive development. The NORD/LB subsidiary also benefited from the fact that, of all Europe's top locations on the real estate market, London saw the quickest and most sustainable recovery from the crisis of the previous years. Deutsche Hypo also believes that the market in London will remain very interesting in future. [—]


## Modernity for young and old

A unique complex, built by the property developer GBI AG, is being created in the new Europa district of the banking city of Frankfurt. In addition to a budget hotel owned by the Motel-One Group and a modern apartment hotel run by the internationally renowned Citadines Apart'Hotel chain, it will include a SMARTments facility for student accommodation. The complex will also provide space for a children's day care facility that is urgently needed for neighbouring residential areas.

The acquisition and development of the property with a gross floor area of 24,500 square metres will be financed by Deutsche Hypo. The total volume of investment is around € 65 million. With this commitment, Deutsche Hypo is demonstrating once again that it will remain available on a lasting basis as a reliable financial partner for the development of good and interesting projects. [—]

*www.deutsche-hypo.de/en*
*https://www.nordlb.com/structured-finance/real-estate/*

# WELCOME TO NO. 1

*As part of the NORD/LB Group, Braunschweigische Landessparkasse offers proximity to customers at over 100 sites in the Braunschweig area. Because nothing can replace a trusting personal conversation.*

For us, good advice begins with listening and looking at the life situation as a whole. To achieve this high quality, we draw on strong partners such as Öffentliche Versicherung Braunschweig and the Landesbausparkasse, which – like Braunschweigische Landessparkasse – are part of the NORD/LB Group. This makes Braunschweigische Landessparkasse stand out from its competitors. It is more than just a bank. And it has a long tradition: for generations, people and companies in the Braunschweig area have placed their trust in "their" regional savings bank, which has been going since 1765. It is also good for the Braunschweig region, as it is one of the biggest patrons of sport, social affairs, the arts and culture in the area and above all is committed to the needs of children and young people.

## World Savings Day

The 2011 "Savings Celebration Day" was shaped by the distinct trend towards saving and investing, both of which become popular again in times marked by uncertainty, as demonstrated in the "Wealth Barometer 2011" study conducted by the German Association of Savings Banks and Girobanks. Saving means more than this, however, as it also always relates to the future of children – a sustainable approach that is practised by inhabitants in our region. Setting an example to children by saving and encouraging them to save also helps to teach children how to deal with money. Savings banks are the right partners for both aspects, being anchored in the region and committed to the local people. [—]

## Climate improves for start-ups

The foundation of a business is always the birth of an idea and its translation into reality. Anyone who sets up a company creates something new, develops strengths, opens up entrepreneurial freedom – and creates jobs. Not least for this reason, start-ups are of great importance to every economy. In 2011, Braunschweigische Landessparkasse focused on the theme of business start-ups and, together with enthusiastic partners, advanced the climate and the quality of new independent businesses in the Braunschweig region. The will to make an idea reality is one thing, but careful preparation and a coherent strategy are also required. This is where the experts at Braunschweigische Landessparkasse can contribute their many years of experience and the expertise of specialists among their ranks, in order to act as competent partners to entrepreneurs. It's about more than just the business idea. The advisers also analyse how viable and plausible the business plan is, examine company and personal provisions, draw up an individual financing concept and provide information about public funding. In short, they support the founder at all stages of setting up the business. One tool that is used when determining the right type of financing, particularly financing that is viable, is the "KfW entrepreneur loan". KfW (Kreditanstalt für Wiederaufbau, Reconstruction Loan Corporation) has set this up specifically to give commercial enterprises the option of making long-term investments in Germany or abroad at a fixed favourable interest rate. Only if investments are made, whether in start-ups or in the expansion of capacity, can growth be generated – for the benefit of the whole economy. [—]

**A handful of good reasons to choose Landessparkasse:**

- Located near you.
- More than just a bank.
- An integrated approach to all financial matters.
- Going strong since 1765.
- Supports the Braunschweig region.

*https://www.nordlb.com/private-customers/private-customers/*

# WE'RE READY FOR BASEL III

**INTERVIEW**

*As the head of the unit for Investment Data Management and Equity Management at NORD/LB, Steffen Mollnau is responsible for the management of equity in the Group.*

**Mollnau, could you describe briefly what Basel III is?**

**STEFFEN MOLLNAU (S.M.)** Basel III is, in a nutshell, only the working title for a collection of new regulatory requirements for the financial sector. They were stipulated by the Basel Bank Supervisory Committee in the wake of the global financial crisis in 2008/2009. At that time, it had become clear to governments and the banking regulators that action was urgently needed worldwide with regard to the minimum levels of equity and liquidity for banks. The crisis and the fact that banks had had to be bailed out with taxpayers' money showed that the minimum standards required by law needed to be raised considerably. Basel III aims to do this with its various individual regulations, which are to be introduced from 2013 onwards and will then – with extensive interim regulations to cushion the effects – become fully effective from 2022 onwards.

**Does "Tier 1 capital" form part of Basel III?**

**S.M.** It's actually a very central component, as the equity term "Tier 1 capital" stipulates that, at the end of the process, banks must keep available a certain minimum ratio of Tier 1 capital – i.e. the Tier 1 capital in relation to risk-

weighted assets – on a permanent basis. In addition, there must be a “capital conservation buffer”, which must also consist of Tier 1 capital – all in all, the Tier 1 capital ratio will then be at least 7 percent.

**And is NORD/LB prepared for these changes?**

**S.M.** Definitely, and even very comfortably, if we take as our basis the regulatory requirements for minimum capital that currently apply in Germany. We need to bear one thing in mind, however: the minimum requirements for Tier 1 capital I have just mentioned, which Basel III prescribes from 2013 onwards, increase requirements of banks not only in terms of quantity, but also above all in terms of quality. In addition, a guideline of the European Banking Authority (EBA) for large banks in Europe stipulates that they must comply with a Tier 1 capital ratio of 9 percent from 30 June 2012 onwards. The EBA has thus brought the schedule forward dramatically. We will therefore adapt our equity instruments now, even though we actually have adequate capital.

”

*We will already have fulfilled the* ***capital requirements*** *by the middle of this year, rather than in 2019.*

**Which individual measures are planned?**

**S.M.** Firstly, I would like to point out that NORD/LB actually responded early to the increased capital requirements in March 2011 by setting up a programme to strengthen our capital, with which we will fulfil the requirements, which do not need to be met by law until 2019, by the middle of this year (originally 2015). To do this, we firstly limited the risk-weighted assets to € 90 billion and converted silent participations and other capital instruments of the owners into Tier 1 capital. Around € 1.15 billion was affected by this. We also received over € 500 million in fresh capital from our owners. In addition, we will sell investments, retain profits and convert further silent participations in the Group with a value of up to € 1 billion into Tier 1 capital. By the end of 2011, we had already created around € 1.7 billion of additional Tier 1 capital through such measures, thereby taking a large step towards our goal.

**Will the increase in Tier 1 capital also have an impact on your customers?**

**S.M.** It will be difficult to avoid such an impact, as we will still have to fulfil our investors’ expectations of an adequate return even after the introduction of the increased regulatory requirements. However, this means that we also have higher equity costs, which we will have to cover through higher prices. However, this will not impact only NORD/LB, as the entire financial sector is affected by the increased requirements, and therefore all customers of all banks.

NEW ENERGIES

# NEW PATHS WITH NEW ENERGIES

*We are one of the leading providers of financing worldwide for projects in the field of renewable energies and offer our customers precisely tailored financing solutions in this field.*

GLOBAL TECH I

## 41 square kilometres of wind power

Far out in the North Sea, outside marine protected areas, 180 kilometres from Bremerhaven and 138 kilometres from Emden in a north-westerly direction, 80 vast wind turbines are soon to be turning. Each individual turbine will have an output of 5 megawatts – enough to supply a total of 445,000 households with environmentally friendly electricity. *Global Tech I*, as the 41-square kilometre site is known, is a true pioneering feat. The North Sea is up to 40 metres deep there, and up to now wind energy in Germany has been produced almost exclusively on land, i.e. "onshore". Completely new challenges now have to be overcome with regard to materials and technology.

No one can finance such a large project alone; the total volume of investment is around € 1 billion. A consortium of 16 commercial banks has therefore been formed. The European Investment Bank is to contribute € 100 million and the commercial banking consortium € 270 million. A loan of € 400 million will also be provided at favourable interest rates by the Investment Bank, while the development bank KfW has granted a loan of € 280 million as part of the German government's special programme "Offshore Wind Energy". This will be used to finance the first ten offshore wind farms.

*Global Tech I* is not only being implemented in Northern Germany, but also with enthusiastic Northern German involvement: together with other banks, NORD/LB has structured and arranged the financing for the wind farm. Our own financial contribution to the project is € 50 million. We have thus demonstrated yet again that we can also use our many years of expertise in the field of wind energy in offshore projects in a way that benefits all parties. NORD/LB has been financing and supporting renewable energy projects since the early 1990s.

The project company *Global Tech I* Offshore Wind GmbH, which is supported by two energy suppliers, an energy trading company, an investment company and two project development companies as shareholders, is responsible for implementing and operating *Global Tech I*. *Global Tech I* is to go on stream in 2012 and will be complete by 2013. The electricity will then be fed into the grid at the Diele substation near Papenburg, via the island of Norderney, and Germany will have further consolidated its leading role worldwide in the use of renewable energy. [—]

*https://www.nordlb.com/structured-finance/energy/product-service-centre/*

CLIMATE PROTECTION

## Innovative financing

NORD/LB was also able to demonstrate its expertise in the global financing of renewable energy projects with a second wind power project in 2011. A wind farm with a capacity of 24.6 megawatts is being constructed for around € 45 million in Hyndburn, Lancashire, England, the financing of which has been structured and implemented by NORD/LB. We also structured a € 10 million loan provided by KfW (Kreditanstalt für Wiederaufbau) – a true innovation on the UK market.

The wind farm will be equipped with 12 wind turbines of the 2-megawatt class and is to go on stream in autumn 2012. [—]

AGRICULTURAL BANKING

## Farmers, banks and biogas

In recent years, agriculture and renewable energies have become increasingly interconnected. The links between the two sectors range from the construction of wind turbines in fields and meadows to the cultivation of plants for use in biogas facilities and the provision of areas previously used for agricultural purposes for photovoltaic power plants. For farmers, entry into the renewable energies market initially means tying up resources, particularly capital resources. This needs careful consideration, as many factors are involved in determining whether entry to this market makes sense – solar panels in shady locations would not.

With its substantial expertise as one of the leading providers of agricultural financing in Germany, NORD/LB has the specialist knowledge required to act as a partner to farmers not only on the agricultural markets, which are already volatile and are becoming increasingly internationally connected and liberalised, but also when entering or switching to the market for renewable energies. Our customer advisers are themselves agricultural economists and have detailed specialist knowledge of the structures, production processes and parameters of the agricultural market. They have all the necessary expertise to support their customers in recognising operational strengths and development opportunities and remedying weaknesses – for example, when constructing a biogas plant.

Together with the farmer, we firstly develop a made-to-measure concept relating to his options in terms of area, the financial basis and staff capacity. Then we look at how the financing can be implemented, for example, through an additional development loan from KfW – as well as the normal investment loan – which can be granted for heat grids and gas mains. These have the advantage that favourable interest rates and repayment grants are provided. Once the financing is in place, we can look at optimum implementation: are the operator and manufacturer at the plant well matched? Have we cooperated with the manufacturer in the past, and what was our experience? How will the supply of the necessary raw materials to the biogas plant be ensured? In the best-case scenario – which is also the most common – the farmer is both at the same time: the provider of the soil and the operator of the plant. If all these parameters are right, there is nothing to stop the successful construction and financially profitable operation of a biogas plant. [—]

*https://www.nordlb.com/en/corporate-customers/agricultural-banking/*

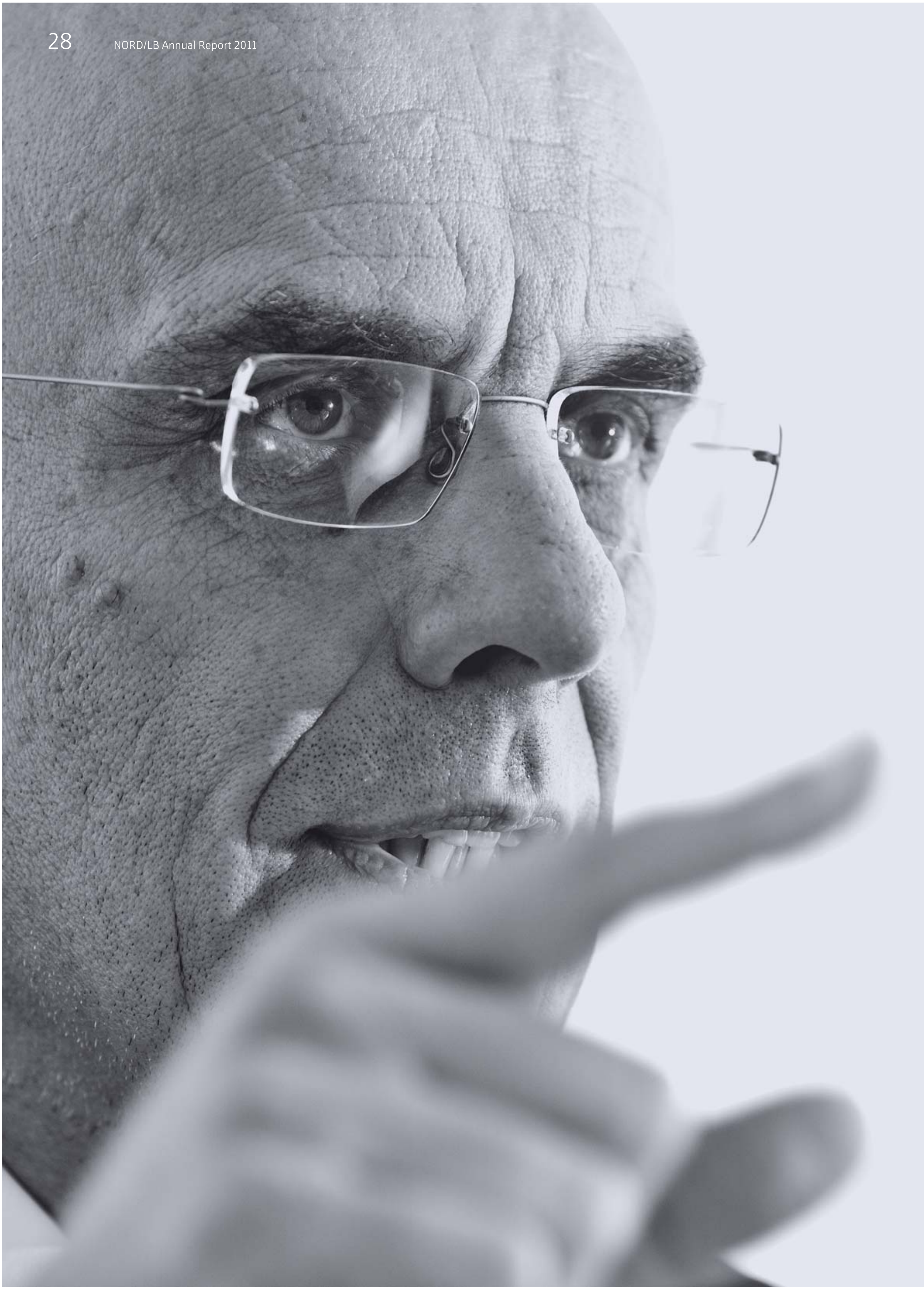
AWARDED

## Environment and education

*Supported by NORD/LB and scoring high once again: Eco School in Europe for the* ***7th time.***

The Otto-Bennemann School in Braunschweig is one of the educational establishments in the region that is very strongly committed to the issues of the environment and sustainability and that repeatedly distinguishes itself with measures to increase its energy efficiency. It has constructed a "solar power plant" in the school grounds, for example, for which the vocational school for economics and management was awarded the title "Eco School in Europe" for the seventh time. The title is awarded by the international Foundation for Environmental Education (F. E. E.). The system that is installed on the school roof has an output of 11.5 kWp (kilowatt peak = peak output) and covers an area of approximately 228 square metres, and was built by the pupils and teachers themselves. Braunschweigische Landessparkasse, part of the NORD/LB Group, has rewarded this commitment with a grant, as three key points in the development policy of the Landessparkasse are combined in this project: involvement in voluntary work, renewable energies and education. [—]

*https://www.nordlb.com/our-commitment/social/*



REPORT

*Interview with Thomas Bürkle, an expert in risk-weighted assets at NORD/LB*

# MANAGING RISKS, BALANCING OUT FLUCTUATIONS

Thomas Bürkle smiles when he is asked what RWA, i.e. risk-weighted assets, actually are. "Pay attention, it's actually quite simple," says the RWA expert at NORD/LB. "Banks grant loans to borrowers. In balance sheet terms, these loans or receivables belong to the bank's assets. Naturally, the bank also takes a risk with each loan that it grants, as it may be that there is a partial or complete default on the loan. This risk can and actually must be calculated. A so-called risk profile is drawn up for each loan. This profile varies from one loan to the next and depends on a whole series of factors. If we now take both together, the total of all loans and the respective risk weighting of these loans, we can calculate the product of both: the risk-weighted assets."

In 2011, we introduced the theme of RWA management at NORD/LB as part of a project. This is an important issue, as a bank's equity must amount to 8 percent of the risk-weighted assets in accordance with Basel II.

The implementation of a process as complex as RWA management cannot be completed overnight. Many small and large steps are required, as Thomas Bürkle explains: "The first thing was to develop a coherent concept. To this end, we monitored the strategy and planning process and current developments in 2011. Our priority, however," he continues, "will be to adjust the RWA limits soon in the course of the year, as this will enable us to keep the necessary buffer available with which we can compensate for fluctuations, in order to make the most efficient use of the limited RWA."

> ”
> *With active RWA management, NORD/LB can respond in a* **targeted and efficient** *way to the effects of Basel III.*

The means to this end is a system of key indicators, with which NORD/LB can assess how productive the use of RWA is. The experts have divided the key figures into two groups: one is used to support the decision on how the limits are to be reallocated during the year. To do this, they are examined on the basis of standardised risk costs. The other group is used to carry out a check on the performance of the RWA based on the actual values.

"In addition," Thomas Bürkle continues, "we have defined a Group-wide management and control system – a governance system – with which we can ensure that the management controls are consistent. And, very importantly, we have set up an RWA buffer with which we can cushion fluctuations in limits that depend on external influences. That means more security in times of crisis."

NORD/LB has therefore made provisions and is also looking a lot further ahead. From Basel II and RWA management directly to Basel III and the significant increase in regulatory requirements tied up with this package. With active RWA management, NORD/LB can respond in a targeted and efficient way to the effects of Basel III.

INSIDE NORD/LB

# CHOOSING PATHS THAT WILL BRING US FORWARD

*If you stand still, you'll fall behind. We are therefore always on the lookout for ideas and projects that will allow us to progress – for us and our customers.*

CORPORATE CUSTOMERS

## The best for SMEs

NORD/LB has a particularly strong presence in the media as a provider of financing on the markets for ships, aircraft and renewable energies. We are strongly represented and have a large volume of expertise on these markets. However, what is often overlooked is that corporate customer business, the full range of business for SMEs, has been an important pillar of NORD/LB's business model for decades, thanks to an efficient team and a very long tradition at our bank. We consciously choose not to focus on certain sectors. For us, each customer is an individual case. Our goal is lasting benefits for the company concerned, rather than our short-term profit. Our existing customers

appreciate our interest in long-term business relationships and our new customers notice this very quickly. We are convinced that it is only on this basis that we will be able to draw up meaningful individual and innovative solutions – for example through factoring, reverse factoring or borrowing base financing, i.e. special forms of working capital credit.

*FACTS & FIGURES*

*250*

new customers were gained for NORD/LB's corporate customer business within just two years.

This fact offers a crucial advantage when attracting new customers: individual and custom-made services from a single source. We have developed this expertise by successfully combining two things. On one hand, we have a large number of experts in specific financing issues at our bank, as an institution that operates internationally. On the other hand, NORD/LB is not so large that employees in different departments lose sight of each other. They can draw on the experience of other divisions at any time, and product specialists and customer advisers are closely interlinked. NORD/LB is large enough to sell not only standard products, but not so large that every idea must be immediately transferred to the mass market. This means we are closer to SMEs, as we think like them and understand their mentality. In complex cases in particular, we have repeatedly come up with innovative solutions for our middle-market corporate customers.

Our success has proved us right: within just two years, we have gained around 250 new customers in the Group's corporate customer business. Reason enough to expand this segment further. Our goal is to gain 150 new customers in Germany each year until 2015. At the same time as strengthening our position as the leading bank for small and medium-sized enterprises in Northern Germany, we want to expand our presence in the regions of Germany that are experiencing strong growth. This means we are also talking to companies from Western or Southern Germany increasingly often.

Even if the economy has recently slowed somewhat and companies are more cautious in their outlook, our aim is still to remain at their side in the long term – particularly in difficult economic times. The years 2008 and 2009 proved this. Because we helped our customers to come through the economic crisis, our relationships with them have become extraordinarily close and resilient. The mutual trust between them and NORD/LB is based on a solid foundation. [—]

*https://www.nordlb.com/corporate-customers/corporate-customers/*

THOROUGHLY MODERNISED

## IT

In 2008, German savings banks gave the starting signal for the fundamental modernisation of the IT systems on which their work is based: the merger of their two data centres, FinanzIT and Sparkassen Informatik, to form Finanz Informatik (FI). In 2011, we successfully completed the first phase of the replacement of the IT systems and the largest individual project of NORD/LB.

The project, which has been christened "FI Migration", essentially involved replacing the old regional system of the former FinanzIT with the savings bank system *OSPlus*. As well as the conversion of core functions of NORD/LB's retail and savings bank business, we also switched over the functions of domestic payment transactions and replaced a large number of infrastructure components. Components in the IT systems that had evolved historically were disentangled and a variety of processes were adapted to the conditions of the new infrastructure in the FI data centre.

In detail, over 1.4 million customer accounts and 580 self-service devices have migrated to the new system since 2008, and over 50 IT systems have been adapted. The most important thing about the last step we took in 2011 was that it was implemented quietly. We ensured a smooth transition for the 400,000 customers affected by the migration.

We've done it. Operational restrictions caused by the migration were dealt with in a targeted way. This positive progress was also made possible thanks to the ongoing training sessions we held with our employees. Around 7,000 participants were familiarised with *OSPlus* in over 800 sessions, 90 percent of which were held by staff of Braunschweigische Landessparkasse.

For us, this success shows that NORD/LB is in a position to successfully manage and implement even large projects relating to change – not least thanks to exemplary collaboration between all the specialist banking divisions involved. At the same time, we are pleased that with "FI Migration" for the Association of Savings Banks, we have made an important contribution towards ensuring that synergies are actually achieved from the merger of the data centres that began in 2008.

There is still a long way to go until the replacement of all the IT systems is completed, but the next phase of the project is already waiting to be launched. In a second phase, we will modernise the IT systems for the management of the bank and the wholesale financing business between 2012 and 2015. In this step, there will be a particular focus on the numerous regulatory requirements. We are confident that we will also be able to bring this phase to a successful conclusion. [—]

ESP 2015

## More efficiency

Despite the difficult climate, NORD/LB is still operating successfully on the market. Not least, our project to increase efficiency (ESP) 2015 is largely responsible for this. This project has been initiated partly because we need positive results more than ever in order to build up equity through our own efforts and thus to fulfil the regulatory requirements. At the same time, we are still in a position to make investments and to determine the further development of NORD/LB ourselves. In consultation with our owners, at the beginning of 2011 we decided to limit administrative costs in the Group to € 1.1 billion and commenced the first measures. We will now examine all tasks and achievements, so that we will also be able to take advantage of opportunities offered by our tried and tested business model. [—]

*See also sustainability report on page 44*

STRUCTURED BONDS

# Issues in Asia

*On hand for our customers in Asia: Singapore, Shanghai, Beijing and Mumbai*

For a long time, granting foreign currency loans has been part of the range of services that NORD/LB can offer its customers. In order to determine the refinancing costs in the respective currency accurately and to rule out exchange rate risks, it is necessary to raise the funds in the corresponding currency on the primary market. In 2011, NORD/LB therefore further expanded its primary market access in US dollars in Asia with structured issues, and thus refinanced its lending business in this currency at matching currencies more than in previous years. The structuring of the issues also had the advantage that we achieved considerable funding advantages compared with unstructured issues, i.e. we were able to cover our liquidity requirements at a lower price. In 2011, we initially generated a volume of almost USD 400 million through zero-coupon bonds alone.

NORD/LB's rights of termination in the structures are formulated in such a way that on average – over at least three years – we will have secure access to the US dollars. If it makes economic sense, it will also be possible to have access to the funds for much longer. Carrying out successful issues in this segment is a real unique selling point of NORD/LB compared with all other German Landesbanks. Once again, we have demonstrated our expertise in this field. In 2011, NORD/LB also acted as a dealer in structured US dollars for the first time with some of these issues, as part of its own EMTN (European Medium Term Note) programme. This made it possible to place the issues directly with the investor and thus to save commission. [—]

***FACTS & FIGURES***

**$ 400 million**

– the volume that NORD/LB generated in Asia in 2011.

# LIQUIDITY ON A STABLE BASIS

**INTERVIEW** *Dirk Bollmann is the head of the Treasury division at NORD/LB*

**Mr. Bollmann, what are the responsibilities of the Treasury division at NORD/LB?**
**DIRK BOLLMANN (D. B.)** In a nutshell, we manage interest rate, exchange rate and liquidity risks arising from NORD/LB's business activities. We assume the bank's liquidity management, as it were. In principle, we are "matched funded". That means that we aim to close immediately any open positions arising from our customers' transactions.

**In retrospect, how was the 2011 financial year for your division?**
**D. B.** Naturally, it was largely shaped by the effects of the financial market crisis, particularly in the second half of the year. But, to pre-empt another question, NORD/LB was able to offset the burden arising from the negative developments in Greece from the outset thanks to forward-looking liquidity management.

**What about 2012? What happens next?**
**D. B.** We will have to wait and observe closely how the markets develop. They will, of course, remain volatile, as the EU debt crisis is continuing.

**What are you going to focus on?**
**D. B.** We will continue with the course we embarked on in 2011. That means we will continue to focus on diversifying our capital sources and on constantly adapting the range of products we offer our customers to market requirements, which are still changing. In addition, we will work consistently on fulfilling the general legal and regulatory conditions: Basel III, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), to name just a few. With the LCR, we ensure that we will remain solvent in the short term, while the NSFR ensures that NORD/LB will guarantee the stability of its funding.

**You've said that you commenced such measures in 2011. What have you implemented already?**
**D.B.** Quite a lot. Take liquidity control: in 2011, we introduced a Liquidity Treasury Cockpit. This allows us to stipulate the respective range within which we can operate for all indicators in an annual management cycle, which means we can continually optimise these indicators in relation to what is happening on the market. Another example of a response to the crisis is that we broadened and diversified our investor base and – together with our colleagues in Investor Relations – expanded our currency funding. At the same time, we developed further issuing products, to improve the mix of capital sources.

**So NORD/LB is well prepared for the challenges that the financial sector is facing?**
**D. B.** Of course, even if the work is far from complete. The regulatory conditions are still changing, and there are still many things to be done. But with the right strategic concepts and control mechanisms, we have created a basis for fulfilling all requirements. This applies in particular to the LCR and the NSFR.

*With the right* **strategic concepts and control mechanisms,** *we have created a basis for fulfilling all requirements.*

# *SUSTAINABILITY*

*Progress report for 2011*

*For us, sustainability is also a* **process of discovery** *in the search for answers to current and future requirements. It is thus becoming a driving force behind our* **cultural change.**

FRANK SIEMERS, sustainability representative

## SHAPING OUR COMMON FUTURE RESPONSIBLY…

*Page 38*

### … FOR OUR CUSTOMERS

They are at the heart of all that we do. We therefore dedicate our activities to fulfilling their needs and requests, thereby founding lasting partnerships – and have been doing this for over 245 years.

*Page 40*

### … FOR OUR EMPLOYEES

They are our future. We therefore create the necessary conditions to allow them to develop their full potential – at a company we enjoy working at.

*Page 50*

### … FOR SOCIETY

Our social environment is not only the area in which we operate, but also the area in which our employees live. We are therefore committed to ensuring its sustainability and to preventing negative effects on society from our operations..

*Page 60*

### … FOR THE ENVIRONMENT

We believe that the lasting economic success of our business is possible only in an intact natural environment. For this reason, we organise our activities in such a way that the impact on nature is minimised.

*Page 68*

*Sustainability has been a factor in our corporate strategy, and thus an integral component in our actions, since 2006. Since then, we have regularly presented our sustainability profile in this annual report.*

# SHAPING OUR COMMON FUTURE RESPONSIBLY…

This year, we have organised the report as a progress report. The aim here is therefore not so much to present all aspects of our sustainable actions in full. Rather, we want to show in this report how we developed the individual focal points of our fields of action in the 2011 financial year. Reporting on sustainability issues is itself also a development process. Our system of coordinates is the information needs of our stakeholders.

# Why we operate the way we do

Sustainability is a question of future viability. This applies not only to the individual company, but also includes the natural environment and the social context in which it operates. For us, sustainability therefore means organising our activities in a way that is economically successful whilst minimising the impact on nature and culture. Because the ongoing business success of our company can only be achieved in a world in which the natural environment remains intact and in a society that is characterised by social stability.

## Sustainability in day-to-day operations

As a corporate responsibility that is in practice at NORD/LB, sustainable action does not involve looking at trends, but has been a fundamental principle for over 245 years. We therefore want to understand what drives our stakeholders, to create a bank we enjoy working for and to promote development in our core regions, which are the areas in which we operate and also the areas in which we live. And, not least, we want to preserve natural resources and biological diversity by minimising the environmental impact of our operational and business activities.

## Sustainability as part of our culture

We regard sustainability as a company-wide responsibility and a process of continuous improvement. We have therefore integrated sustainability and responsibility into our mission statement as key values. In order to implement these values in such a way that they contribute to lasting sustainable development whilst ensuring that our company remains successful and competitive in the long term, we have explained them in concrete terms in our sustainability strategy *https://www.nordlb.com/sustainability/*. This specifies our basic orientation and highlights core themes and concrete goals that we are aiming for in the individual fields of action. In our sustainability programme, we define measures with which we hope to achieve the goals set out in our sustainability strategy. We have anchored sustainability in our organisation and created corresponding structures for responsibility *https://www.nordlb.com/sustainability/*. This system of sustainability management is the basis for successful implementation of our responsible actions. It is also a factor in the ongoing cultural change at the NORD/LB Group.

## Sustainability as a Group-wide process

At NORD/LB, we began in 2006 to integrate sustainability into the organisation of structures and procedures. In terms of employees, this represents 58.2 percent of the NORD/LB Group. In order to implement our sustainable action Group-wide, we want to gradually integrate other Group companies into our sustainability management. Bremer Landesbank carried out a status quo analysis of its sustainable action to date at the beginning of the year in connection with this and summarised the results in a status report. Deutsche Hypothekenbank, another Group company, is currently conducting a status quo analysis. These steps are an important basis for continuing the future course of our sustainable action in harmony with other Group companies. The three Group companies together represent over 83 percent of employees at the NORD/LB Group. [—]

# ... FOR OUR CUSTOMERS

*Sustainability forms part of our core business. Here, we can achieve the greatest impact with our responsible action – for the natural environment and society, and of course also to ensure the long-term business success of NORD/LB and our customers.*

For us, integrating sustainability into our core business therefore means organising our activities in such a way that they are not only geared towards economic success, but also aim to be as kind as possible to our natural and cultural environment. Given the global ecological and social requirements we are now facing, this will also ensure our long-term competitiveness, which will also benefit our customers.

# Sustainability in day-to-day operations

## As a risk manager

As well as economic effects, entrepreneurial activities always also have ecological and social effects, which can influence and intensify each other. As part of our risk management, we therefore increasingly assess commitments in accordance with ecological, social and ethical aspects, in addition to economic aspects. Our aim is to identify risks to our business and reputation at an early stage and to manage them successfully in the interests of customers and the bank. At the same time, we are gearing our portfolio management towards the future and contributing towards long-term development. As part of our Environmental Social Governance (ESG) approach, measures include drawing up financing guidelines for sectors that involve a higher risk potential. We thus exclude any direct investments that serve the manufacture of and trading in pornography and so-called "controversial weapons" such as atomic, biological and chemical weapons, mines, uranium ammunition, cluster bombs and cluster munitions and permit business in the field of weapons and arms only with restrictions.

To be able to manage aspects of ESG and resulting potential risks to our reputation and business more effectively, we have developed a process that is perfectly tailored to the concerns of NORD/LB. All employees can report related risks to a contact in Compliance or seek advice here. Compliance calls a meeting of the NORD/LB "RepRisk Committee", which was set up in 2011, if, after an initial assessment of the situation, it is expected that a certain risk threshold could be exceeded for these risks. This committee, which is under the overall control of Compliance, is made up of representatives of central areas of responsibility within the bank. It then assesses the risks and develops appropriate measures, in order to manage any associated risks to NORD/LB's reputation and business.

For us, successful risk management begins with the orientation of our core business activities. For this reason, our direct financing activities in the energy sector were already focusing on the field of renewable energies back in the early 1990s. The focus of our activities is on financing for onshore wind farms. We also provide advice and financing for the realisation of offshore wind farms. We implement these innovative and environmentally friendly projects in collaboration with various customer groups – from project companies of various sizes to local and regional authorities, agricultural businesses, private and commercial real estate projects and the major conventional energy suppliers. This also means we are making an active contribution to the energy transition. In line with our convictions, as a matter of principle we refuse to get involved in nuclear energy projects as part of these direct investments in the field of energy, and we also aim not to participate in projects that are damaging to the climate. This has always been a fixed part of our business policy and our strategic orientation. However, as we do not disclose our business strategies for competitive reasons and our stakeholders are increasingly showing a justified interest in appropriate binding principles, we wish to formulate a guideline for our project financing activities in 2012 that also includes this long-established practice.

This is to form the overriding policy for the responsible organisation of our project financing activities and the anchor point from which we derive concrete guidelines for individual focal points.

## As a partner to our customers

**Providing responsible advice**

For us, responsible advice begins with the beneficial aspects for our customers. We can create benefits with our services only if they are understood by our customers and if they match the customers' needs. For us, the key to this is transparency. This is not without self-interest, as only if our customers trust us will our relationships with them develop into long-term partnerships. They are our goal. We therefore also regard our advice as the protection of consumer interests. This also applies to business with private customers, on which Braunschweigische Landessparkasse has a particular focus within the NORD/LB Group.

The same principle that we practise in all our commitments therefore also applies here: we do business that we understand with customers who we know. We do not speculate with or in products that do not really exist. We deliver a promise to our customers and everyone who wishes to become a customer: local and always close by. An integrated approach to all financial matters. This principle and our integrated approach to advice have also helped to ensure that we are always among the best in independent tests. In the "Fuchsbriefe" test looking into asset management for foundations in 2011, for example, the Private Banking section of Braunschweigische Landessparkasse and NORD/LB once again achieved excellent results, and their quality was again recognised as being of the very highest level. The testers said that their work "could be recommended without reservations". We obtain these ratings because we look for products for our customers, rather than customers for our products. We provide comprehensive advice before every investment. And with the integrated advice sessions we offer our customers free of charge with the "S-Finance Check", we are improving year by year. Over 30,000 customers take advantage of this service every year at Braunschweigische Landessparkasse alone.

> "*We do business that we* **understand** *with customers who we* **know**.

**Offering individual solutions**

As the leading bank for small and medium-sized enterprises in Northern Germany, we make our customers' wishes our central system of coordinates. We place them at the centre of our actions. Our aim is to find the optimum financial solutions for the respective plans of all customer groups. The financial crisis and its diverse effects on the real economy have redefined the issue of safeguarding the future viability of companies and regional authorities. As a long-term partner to our customers, we will support the necessary processes of adaptation with services that are individually tailored to their respective needs. In addition to services such as balance sheet structure management and the use of development funds within the scope of financing structures that are eligible for grants, our various solutions in receivables management give companies the option to cover large requirements for liquid funds whilst reducing the risks associated with outstanding receivables. *More on page 12.* Furthermore, debenture loans are experiencing a renaissance, as they allow companies to diversify their own financing at the same time as offering interested investors an attractive yield-bearing asset. Their design is flexible and allows issuing costs to be saved compared with bonds.


These advantages also make debenture loans attractive to small and medium-sized enterprises with a municipal background. *More on page 14.*

**Raising awareness of requirements**

As a long-term partner to our customers, we also take discussions beyond day-to-day business and look for joint solutions to current problems. This enables us to support our customers in constantly changing circumstances with our expertise and to develop possible solutions. At the same time, our magazine 52° NORD provides our customers with a forum in which they can present their ideas and strategies for overcoming current challenges.

In 2011, for example, the issue of natural resources rapidly developed into a global political issue, partly owing to the situation in Libya. At the same time, the strong growth in emerging countries has led to additional demand for natural resources. Worldwide competition for the best prices is therefore set to continue in the coming years. We have shown in 52° NORD, our magazine for small and medium-sized enterprises, how our customers are already responding to this development. Optimism prevails among our customers. To most of them, it is clear that innovation is the only long-term answer to the shortage of natural resources. The examples on page 14 show that our customers are investing in new technologies.

At the same time, 52° NORD is looking for answers and practical tips on current issues that are affecting our middle-market corporate customers. In the issues published in 2011, we dealt with protecting intellectual property and the effects of the energy transition that has begun on SMEs.

The energy transition has generated new opportunities for the dynamic introduction of renewable energies and for implementing strategies to increase energy efficiency. The Regional Economy unit at NORD/LB picked up on these developments at an early stage in the course of its regional economic analyses and its consultations with local authorities. Another focal point of activities in 2011 was the development of strategies to strengthen the knowledge base of regions. Only those regions that succeed in fully exploiting their knowledge potential, linking their knowledge resources in a targeted way and countering the shortage of professionals with appropriate strategies will be able to secure their competitive position on a lasting basis.

Savings banks are also increasingly facing a change in the economy and in society, which, not least, is influencing their business potential. The number and age structure of customers and the development of individual business divisions are directly linked to economic and demographic development. In view of these challenges in the regional savings bank business, the Regional Economy unit at NORD/LB has developed the product “Sparkasse 2020” [“Savings Bank 2020”], the purpose of which is to analyse demographic, economic and sociocultural developments in the respective regions at an early stage and to develop recommendations for action for the business strategy.

**Our customers’ satisfaction as a benchmark**

The needs of our customers are at the centre of everything we do. Lasting customer relationships are our goal. We therefore want to know whether our commitment, our reliability and our professionalism are also fulfilling the expectations of our customers. For this reason, we carried out a customer satisfaction survey among our corporate customers for the fourth time in 2011, based on a representative cross-section of our middle-market corporate customers.

96 percent of those surveyed said that they would be happy to continue cooperating with NORD/LB in future, and 89 percent of our customers would recommend NORD/LB to others. At the same time, the results of the survey provided important suggestions as to how we can improve further in future.

### As a provider of efficient services

We can act as a long-term partner to our customers only if we provide optimum services. In doing this, we look not only at the quality of the service, but also the cost of producing it. For this reason, we set up a project in 2011 to improve efficiency, encompassing all divisions of the bank and the Group. We also want to carry out consistent checks to establish which tasks are still necessary and to get rid of any working steps or activities that become superfluous in future. From 2012, a training and placement centre will provide support for employees whose jobs are to be lost in future as a result of measures to increase efficiency, and will prepare them for new roles in areas of the bank for which there will be increased demand in future. With this tool, we are creating the right conditions for greater flexibility in adapting NORD/LB to current and future requirements and are also helping to safeguard the employability of our employees, and thus important expertise for the bank. We have therefore deliberately designed the project for reorganisation, rather than for job cuts. However, wherever a surplus of staff is unavoidable, we will continue to try and find socially acceptable solutions. We believe that our project to increase efficiency will make an important contribution towards safeguarding the future viability of NORD/LB at the same time as developing potential benefits for our customers, owners and employees. [—]

## Sustainable products

### The energy transition: our contribution

The core meltdown in the reactors of nuclear power plants in Fukushima, Japan, in March 2011 raised global awareness of the risks posed by nuclear energy to the environment and society and thus to the economy, and set the course for a turnaround in energy. Unresolved issues relating to the permanent disposal of radioactive waste and waning support for this technology have backed up the long-established trend in Germany towards the use of renewable energies and given other countries fresh impetus for making increased use of them.

We believe that this validates our business focus on the renewable energies sector, which we have had since the early 1990s, and as a pioneer in this field we will support current and new investors in realising projects by contributing our expertise. Despite the challenges currently faced by market operators, 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 financing we provide in this sector is € 4.8 billion.

**Renewable energies: project financing**

Our involvement in renewable energies focuses on project financing. As a top arranger, the NORD/LB Group currently offers structuring and financing solutions for the entire European market and the American continent through a team of specialists distributed across several sites. The Structured Finance division of NORD/LB operates internationally from Hanover, London, New York and Singapore. Our many years of expertise and our knowledge of the regional markets make us the ideal partner to provide financial support for projects in the field of renewable energies – for small and medium-sized project developers in Germany and for international corporations and energy companies. As well as the active structuring and financing of projects in this field, we also act as an adviser to companies, to facilitate or improve the financial viability of new technologies and sub-sectors.

*Those involved in implementing Global Tech I for NORD/LB: Andreas Bösel, Ulrich Winkelmann, Frank Fette and Florian Hock (left to right)*

Our involvement in ongoing project financing in this area currently totals around € 4.6 billion. This means that almost 50 percent of our project-based financing relates to renewable energies. In the 2011 financial year alone, we signed new financing agreements with a volume of approximately € 1.65 billion.

Our commitments in the 2011 financial year included a 16-megawatt (MW) wind farm in Lower Saxony for one of Germany's most successful wind farm developers, which we have already supported with a variety of projects. Furthermore, NORD/LB further expanded its market position in the 2011 financial year for financing wind farm projects in Europe, particularly in the UK and Ireland, and in the USA. Our commitments include a 36.8 MW wind farm in Ireland with NORD/LB as the financial adviser and mandated lead arranger and a 24.6 MW wind farm in Lancashire, England, in which NORD/LB has implemented innovative structuring, incorporating KfW development funds.

The NORD/LB Group also focused on the innovative area of offshore wind energy in 2011. Having advised companies and suppliers in previous years with regard to the financial viability and necessary risk parameters of these billion-euro investment plans, in July 2011 we arranged and structured the financing of the first offshore wind farm, with a total volume of € 1.047 billion, together with three other banks with "Global Tech I". With "Global Tech I", in which a total of 16 international commercial banks are involved, a wind farm is being constructed in the North Sea approximately 180 kilometres from Bremerhaven. The wind farm will cover an area of 41 square kilometres and is to go on stream in 2012.

After the construction phase is completed, "Global Tech I" will produce 1.4 billion kilowatt hours of environmentally friendly electricity each year with a total of 80 wind turbines, which will be able to supply around 445,000 households. More on page 24.

In addition, we expanded our international involvement in the field of solar energy in 2011. This includes financing a further 60 MW solar farm in Ontario, Canada, which, as our third financing agreement with the same Canadian operator, shows that NORD/LB is also expanding its international customer relationships, and thus its expert knowledge, in a targeted way.

In all these projects, the cutting-edge technologies of companies in the renewable energies sector based in our home region are used. As part of our financing activities, we are thus supporting these companies in accessing further growth regions and making them globally competitive with our range of services. We also support the creation and safeguarding of sustainable jobs in our core regions and help to ensure an energy supply that makes efficient use of resources and is kind to the environment.

At the same time, we make sure that the projects are implemented not only in a way that is economically successful, but also in a way that minimises their impact on the natural and cultural environment. It is therefore a basic principle of this financing that economic, ecological and social aspects are taken into account. The acceptability of a project to the local population is a key factor that we take into account when deciding whether or not to approve a request for financing. Within the scope of this project financing in the field of energy, we do not participate in nuclear energy projects and do not target projects that are damaging to the environment, such as coal-fired power stations. In view of the need to ensure the security of supply, we believe that natural gas projects represent an important and justifiable bridging technology until the minimum volume of renewable energies required for baseload supply is reached.

We believe that the renewable energies sector will remain a clear growth market that is highly attractive to investors in the future. As part of our long-term business policy, we therefore want to continue our strategic alignment in this area and to support future-oriented solutions with our expertise. The focus will remain on onshore wind energy projects. In view of the energy transition, we believe that this represents a promising commitment with benefits for NORD/LB and our customers, the natural environment and society.

### Renewable energies for corporate and private customers

In the run-up to the amendment of the Renewable Energy Sources Act on 1 January 2012, the boom in investment in agricultural businesses in the field of renewable energies has also intensified further. As a financing specialist for renewable energies in agriculture, NORD/LB offers individual financing solutions for the respective company, taking into account the development programmes of KfW and Landwirtschaftliche Rentenbank.

In the 2011 financial year, we financed around 100 new biogas plants near farms and the expansion of capacity at existing biogas plants with a total output of approximately 60 megawatts, involving a lending volume of around € 200 million. The number of biogas plants financed by us thus rose to around 400 plants with a total output of more than 250 megawatts. We also financed numerous wind turbines, and in particular photovoltaic power plants, on the buildings of agricultural companies.

Investment in renewable energies serves not only the expansion of a sustainable energy supply. For agricultural businesses, they represent an additional line of business that secures jobs and the creation of value in rural regions. The integration of the generation of renewable energies into material cycles in agricultural companies also creates additional synergies with positive effects on the efficiency of the use of natural resources and on the economic development of companies. More on page 27.

Braunschweigische Landessparkasse, which concentrates primarily on business with private and commercial customers at the NORD/LB Group, has financed projects in the field of renewable energies with a total volume of around € 150 million in total in the last few years. The range of projects financed includes large investments such as wind farms and many smaller financing agreements in the field of “photovoltaics”. The solar energy projects included the Salzdahlumer Straße vocational school in Braunschweig, the

*We ensure that projects are implemented not only in a way that is* ***economically successful,*** *but also in a way that minimises their impact on the* ***natural and cultural*** *environment.*

"Krodoland" theme park in Bad Harzburg and a school in Seesen. Moreover, the Landessparkasse also supported investments in photovoltaics by investors interested not only in the return, but also in the tax aspects of an investment.

As a bank, we want to help using renewable energies as a fundamental principle for private consumers, companies and local authorities. In the case of individual home-owners, the Landessparkasse focuses on providing advisory services and financing, to enable them to implement energy-saving new-build projects and to modernise and update the energy systems in their homes. It believes that this is one way in which to support the realisation of sustainable homes that retain their value, both when used by owner-occupiers, as well as in the event of their sale or use as rental properties. To ensure that this is implemented in the most cost-effective manner, it arranges suitable funding on behalf of the customer. Amongst other schemes, NORD/LB and Braunschweigische Landessparkasse also offer all incentive schemes provided by KfW (Kreditanstalt für Wiederaufbau). This service also encompasses all of the environmental programmes, as well as the residential and industrial incentive schemes.

With this commitment, the bank not only creates added value for its various customer groups – for private households as well as business partners and companies that produce, install or finance solar, wind power or biogas plants. After-sales surveys confirm the success of this strategy. At the same time, Braunschweigische Landessparkasse is contributing towards ensuring the future viability of the domestic economy and securing future-oriented jobs in its region.

**Integrating the value-creation chain**

We are now one of the leading banks that are active in the renewable energies sector, as we do not confine our activities to the provision of finance, but have gradually incorporated the entire value chain in this sector into the range of services we provide. We support the growth strategies of the mainly small and medium-sized companies in the sector that are domiciled in our core regions with cooperation agreements and mergers through our Mergers & Acquisitions services.

Our Research Renewables division, which was set up in 2011, analyses the market environment and potential for increased use of renewable energies. The focus here is on the frequent changes in general conditions, developments within the sector and the use of new technologies, for example. Our analyses look at the challenges faced in the transformation of the German energy system and at current issues in the energy sector in Germany and abroad. Our assessments and forecasts reveal investment opportunities and risks and ensure a well-founded information base in the field of renewable energies. The results of the Research Renewables division are published in studies such as "Renewables Special".

*The new-build project in Naumburg in the first construction phase*

## Demographic change: our contribution

Against the backdrop of demographic change in particular, we see opportunities to combine business success and a community focus in our core business on a long-term basis. We focus here above all on supporting local authorities and companies in the fields of residential property and social housing.

**Focus on residential property**
In our business, we concentrate on long-term partnerships. The housing business is an important cornerstone in this. Together with our customers, we develop economically efficient and energy-efficient solutions for the implementation of sustainable living concepts that take into account demographic changes and ecological demands on a livable city.

In the 2011 financial year, we provided financial support for a city-centre new-build project of GWG Naumburg on a previously unattractive brownfield site in the middle of Naumburg's old town, with a view of the cathedral. In this project, planning focused on suitability for multiple generations as well as the efficient use of renewable energies. Geothermal energy, solar power and photovoltaics together form a future-oriented energy package that will cut energy costs and $CO_2$ emissions. At the same time, the project is organised in such a way that it will support forward-looking urbanisation and prevent further urban sprawl and sealing off of the area around the town.

**Focus on social housing**
Bremer Landesbank has been financing the construction of social housing since the 1980s, and thus integrated social issues into its core business at an early stage. The driving force behind setting up this area of business was the optimum synthesis of social and regulatory requirements and economic demands. In this area of activity, the bank especially focuses on old people's homes and care homes, forms of sheltered housing, hospitals 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 not only the NORD/LB Group's centre of excellence in this area, but is also one of the leading providers of financing for social housing nationwide.

Thanks to its core business in that area, it is fulfilling an important role in addressing the demographic change that is underway in Germany.

## Sustainable investments: our contribution

Sustainable investments can be a driver of sustainable development at companies, as they encourage the companies who are committed to them to organise their economic success in a way that has minimal impact on the natural and cultural environment.

### Structures and products

We wanted to help promote the necessary market structures. For this reason, we supported the Hanover Stock Exchange in establishing the Global Challenges Index (GCX). By creating the GCX, the Hanover Stock Exchange was one of the first stock exchanges in Germany to compile a sustainability index that focuses on addressing the ecological and social challenges (protecting our climate, supplying drinking water, protecting our forests, preservation of biodiversity, responding to demographic trends, combating poverty and implementing sustainable governance structures) that apply the world over.

At the same time, we want our sustainable investments to give investors who choose the sustainability approach when making investment decisions the opportunity to participate in the performance of sustainable companies whilst simultaneously contributing to long-term development. To meet the needs of institutional investors, we have developed our Global Challenges Index fund, which sets out to achieve the objectives referred to above. For private investors, Bremer Landesbank provides access to two sustainable funds from Swisscanto AG – the Green Invest Equity and the Green Invest Balanced funds – which combine sustainability with favourable returns.

### NORD/LB as a sustainable investment

Our performance in terms of sustainability is regularly assessed by independent sustainability rating agencies. We also see an opportunity here to position ourselves as a sustainable investment for interested investors. According to the assessments that form a measure of our performance in our capacity as a regional bank and are carried out by the reference rating agencies oekom AG of Munich, Sustainalytics GmbH of Frankfurt and imug of Hanover, due to our above-average involvement in areas such as the environment and social care, we are one of the best providers in this sector.

More about this can be found in the section on performance at:
→ *https://www.nordlb.com/en/sustainability/*

Our good performance in terms of sustainability also makes us a staple for sustainably oriented institutional investors in their portfolio of sustainable investments. This makes us confident that we are on the right track with our sustainable actions. We want to pursue this course consistently. In order to attract further interested investors, we also want to step up talks with these customer groups about our sustainable actions in future. [—]

*Our employees are our future.
Their talent, knowledge and experience are indispensable in order to meet constantly increasing demands and thus protect our competitiveness in the long term.*

# ...FOR OUR EMPLOYEES

We bear a particular responsibility for our employees in economically challenging times, and we create and improve opportunities to identify, encourage, develop and nurture their potential. In doing this, we hope to shape our joint future at a company we enjoy working for.

## Realignment of our Human Resources policy

We regard our work as a key service for the people at this bank. With it, we create a working environment in which employees can feel motivated and can achieve their maximum efficiency. In order to fulfil these aspirations, we subjected our human resources concept to a fundamental realignment in 2011. It now focuses on the four different consumers of Human Resources services (managers, employees, staff with potential and the staff council) and makes us a strategic partner for the various areas of responsibility and a specialist contact for employees. More streamlined processes also enable us to organise standardised services more quickly and in a way that ensures higher quality.

We want to be an attractive employer not only for our own employees, but also on the job market. We therefore began in 2011 to position NORD/LB even more strongly as an employer brand. A team of NORD/LB employees with high potential has defined the essential characteristics of NORD/LB together with HR Marketing and the marketing department, and is designing an appropriate "employer brand". The roll-out is to take place in 2012. [—]

## Gaining talent

We look for the best graduates from each year group. And we look for talent. This means that our efforts to attract new blood do not stop at 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 and what it does in work placements. In 2011, we offered around 100 students and around 60 pupils a work placement and enabled four students on an annual placement to obtain the university entrance qualification thanks to their period at NORD/LB. As a participant in the "Fair Company" initiative, we are committed to providing adequate pay for this and do not fill full-time positions with placement students.

With the online platform "NORDPOOL", we offer pupils interested in training at NORD/LB the option of applying to NORD/LB – accompanied by a letter of recommendation from a qualified mentor.

With "BOBS – Berufsorientierung Braunschweig" ["Career Guidance Braunschweig"], another regional career guidance project for attracting the next generation of staff for Braunschweigische Landessparkasse will be launched in 2012. It offers pupils from the eighth year onwards the opportunity to get to know NORD/LB and thus the world of banking, and so to begin planning their career at an early stage. As well as recruitment fairs and special events, we took part in the "WoMenPower" convention for the first time in 2011. Under the guiding theme "driving – controlling – moving careers", 12 female employees with potential from NORD/LB (students, alumni and management trainees) took part in various workshops with 12 female mentors from NORD/LB and thus obtained inspiration for their personal career.

As a premium member of Hannover Center of Finance e.V., in 2011 we remained committed to strengthening Hanover as a centre of financial market research and preparing junior staff for increasing technical requirements in the financial sector. By participating in the "Master Thesis Meetings" in 2011, we supported the best students with their practice-oriented theses. In addition, Braunschweigische Landessparkasse 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 this year. We have also extended our scholarship programme in cooperation with the Leuphana University of Lüneburg until 2016 and have decided on the allocation of scholarships for a further two years.

As well as the transfer of knowledge between employees of NORD/LB and scholarship holders, we also benefit as we are able to attract employees with potential at an early stage. In 2011, we also managed to attract female employees with potential for management trainee programmes and direct entry from among the NORD/LB alumni. At the end of the 2012/2013 winter semester, we expect there to be an increase in the quota of female alumni returning, as some of them will be completing their full-time studies. This also contributes to our goal of increasing the proportion of women in management positions.

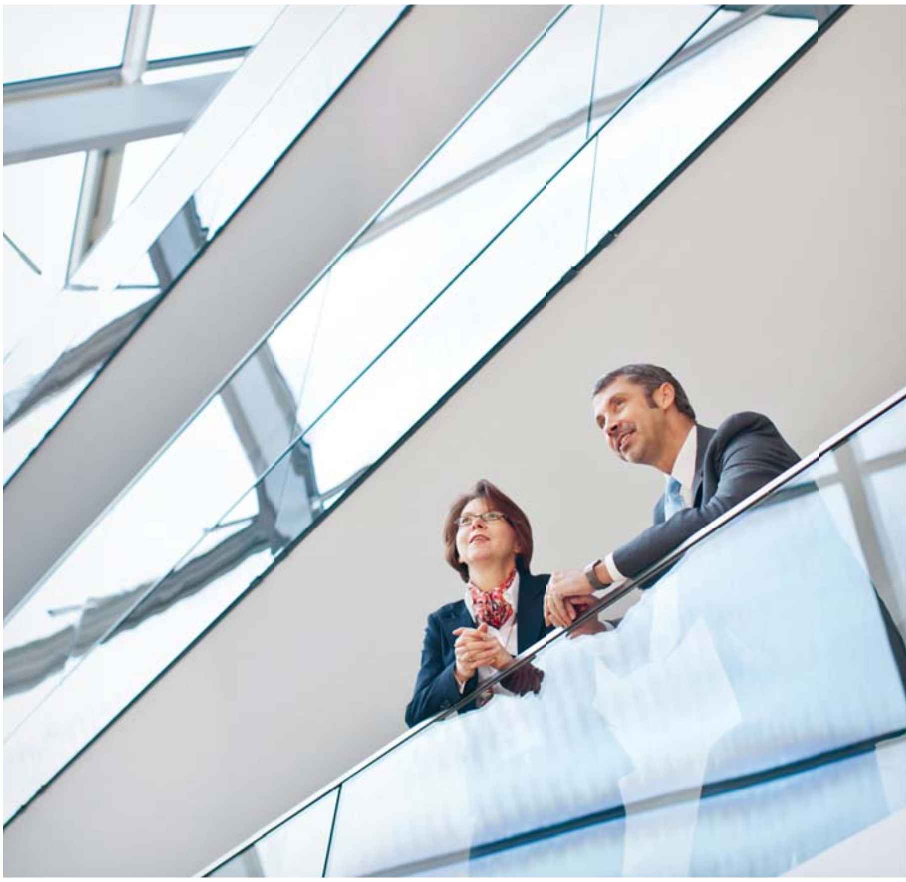
As two years of students took their school-leaving examinations at the same time, a total of 106 young people were able to start training for seven different careers at NORD/LB in 2011. This raised our ratio of trainees to 5.2 percent, bringing us considerably closer to the target of 7 percent set out in our sustainability strategy for 2013. At the same time, we managed to take on 83 percent of those completing training with us in 2011. Furthermore, we offered 30 new management trainees a career start in line with their expectations in a total of 10 different trainee programmes. [—]

*"NORD/LB offers managers and employees a lot of entrepreneurial scope – provided that you have your own initiative and a sense of responsibility. The bank supports the issue of 'Women in management' through a special development programme, for example. With regard to career opportunities, women are urged to actively use opportunities."*

UTA SCHULENBURG, Head of Marketing

*"Mentoring expands our perspective of the company and allows us to discuss management experience and management in practice. At the same time, the very trusting and personal atmosphere opens up additional scope for practice-oriented work and personal development. A positive and extremely valuable experience all round."*

HELGA NETHING, Head of Corporate Sales,
here with her mentor UWE DIDWISCHUS,
Head of the Corporate Services division



# Developing and retaining potential

We want to create the ideal conditions for optimum development of our employees' potential. For this reason, we are committed to their professional, personal and social development. A key component in this is our personnel development programme. In 2011, a total of 12,400 participants took part in almost 1,500 seminars as part of our personnel development measures. This included 6,673 end users, who were trained for our most important IT project in the migration of IT systems. In face-to-face instruction sessions, online training courses and refresher exercises, employees of other Group companies were also prepared for the new IT solution for the entire bank. These qualification measures involved almost 460 training sessions over a period of six months, most of which were held by more than 50 employees in addition to their day-to-day tasks.

*FACTS & FIGURES*

**Diversity in top management**

*The first woman on the managing board of a German Landesbank*

Owing to the increased demand for managers at Braunschweigische Landessparkasse, we stepped up our management development activities in 2011. As well as processes for identifying potential and seminars, we designed a new qualification programme that can be specifically adapted to the specialist banking divisions according to the principle "from the division, for the division". We will launch the cross-divisional risk management qualification programme in early 2012. The aim of this is to ensure more sharing of division-specific knowledge of issues of relevance to risk with other people involved in these issues.

We also stepped up our three career development programmes for managers, experts and project/programme managers in 2011. We ran our programme for project/programme managers for the first time in 2011 in a selected pilot area with seven participants, and will also implement it in other specialist banking divisions in 2012. With our "JuLia" high potential programme, we began in 2006 to support selected key personnel at the bank within the scope of personnel development measures and to place them in appropriate target positions at the bank. The participants in the current group, which was set up in 2009, are helping to establish NORD/LB as an employer brand under the concept of "employer branding".

Our mentoring programmes are an important component in our knowledge management, with which we can effectively combine experience and career development. At the same time, they are an essential element for supporting the career development of women – particularly for women in management positions.

With our "Women in Management" initiative, we are fulfilling additional prerequisites for increasing the proportion of female managers at the bank, which is currently 20.3 percent – at all hierarchical levels and in all divisions of the bank. In December 2011, the Supervisory Board of NORD/LB appointed Ulrike Brouzi, until then a NORD/LB Executive Vice President, to the Managing Board of NORD/LB, thereby paving the way for real diversity in top management at our bank. Ulrike Brouzi is also the first female member of a managing board at a German Landesbank.

Other conditions were also created at other Group companies in 2011 that will ensure that employees' potential can be developed more effectively through qualifications. Deutsche Hypothekenbank developed a new personnel development programme in the year under review and implemented management principles as safeguards of a forward-looking management culture. Bremer Landesbank received a certificate for the "Top German Employer in 2011" for its successful Human Resources policy in the year under review. Companies that receive awards from the Corporate Research Foundation (CRF Institute) are pioneers of professional career development and Human Resources management with the highest standards. [—]

## Performance and responsibility as basic principles

Responsible management is indispensable for the long-term success of our company and for a value-based corporate culture that is accepted and implemented by all employees. NORD/LB recognised this at an early stage and defined its first management principles in 1977. However, our requirements of management have increased continuously. A team of managers has therefore developed new guidelines, with the involvement of staff representatives and Group subsidiaries, with which we hope to lead all employees to success again in the future on the basis of our mission statement and the key NORD/LB values of trust, responsibility, sustainability, courage and performance. The new management principles were presented to each area of responsibility in moderated workshops and daily experiences of management, cooperation and communication were considered and discussed. The results led to concrete agreements as to how the management culture and cooperation can be developed and optimised in future. The new management principles therefore do not remain abstract, but serve as a stimulus for a lively, open and fruitful debate about our corporate culture. They are to lead to noticeable changes, motivate our employees and consciously bring about success. To ensure a sustainable Human Resources policy, these discussions, which began in 2011, will be continued in 2012 and compliance with the agreements will be checked.

We do not just promote performance – we also reward what it achieves for NORD/LB. Our performance management system, which encompasses all areas of the company and all hierarchical levels including the Managing Board, forms the basis of this. At an annual appraisal, the performance for the previous financial year is assessed and individual targets, which are derived from the overriding corporate goals in a cascade system, are agreed for the new financial year. This appraisal is also used for development planning for personal profiles. [—]

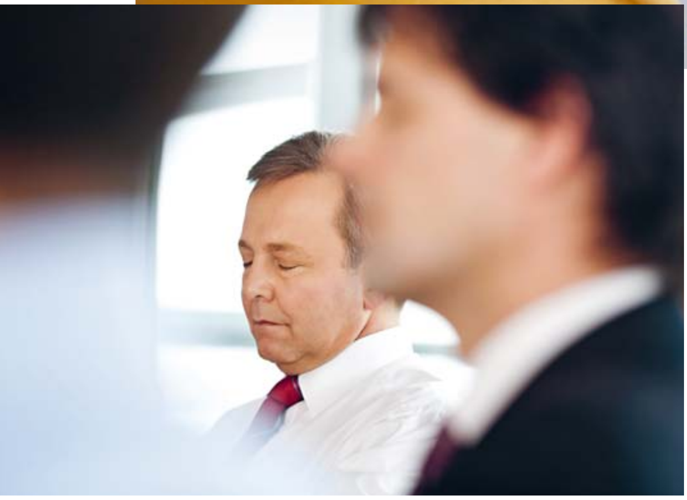
## Protecting health

Protecting the health and the physical well-being of our employees is a key requirement for ensuring the long-term success of our company. Our company health management system, which is designed to provide preventive and informative measures, is therefore an integral part of the responsibility we take for employees. It supplements classic occupational health and safety measures by creating good working conditions and implementing measures to improve quality of life in the workplace. In the year under review, we expanded our range of services in this field, increasing the number of company sports groups by around 30 percent, for example. This not only promotes the physical and mental balance required to cope with demands in the workplace, but also strengthens employees' sense of solidarity. With the new sports groups set up in 2011, which include volleyball, badminton and zumba, our employees now participate in almost 50 company sports groups in total, which we support both financially and in terms of organisation. Our range of courses extends from business yoga and relaxation techniques – which also include massage in the workplace – to back fitness as a lunch break activity.

*FACTS & FIGURES*

**50**

company sports groups are supported by us financially and in terms of organisation.



*“Time Out gives me the opportunity to counteract increasing demands at an early stage by taking a short break. This benefits not only my own health, but also my employer. That means Time Out achieves a balance in two senses – a great experience that everyone should try.”*

TORSTEN LÖHR, a specialist in issues relating to the German Securities Trading Act (Wertpapierhandelsgesetz) in the Corporate Services division

Our social counselling service supports employees not only in professional and personal life crises, but also focuses on prevention, so that any emerging imbalances can be rectified at an early stage. As part of this, a new service was created in 2011 with the “Time Out” relaxation programme. “Time Out” gives all employees an opportunity to counteract mental and physical stresses with a short, supervised break. Participants learn simple and effective techniques for achieving relaxation and inner balance step by step. Health seminars and information events offer additional support with strengthening individual health resources.

This also includes the seminar "Management and Health", which highlights ways in which managers can promote health and is being attended by more and more managers at the bank. Information events on the issues of "Life kinetics", "The back begins in the head" and "Successful stress management" provide all employees with additional perspectives on how to stay healthy during everyday work. This service is rounded off by initiatives such as the "Football Cup", "Cycle to Work", with almost 300 participants, and the "TUIfly Marathon Hanover", with almost 200 participants from NORD/LB. Our company restaurants also provide a varied menu incorporating seasonal foods from the region and conduct campaign weeks, which provide employees with ideas about healthy eating. In addition, we provide health tips for the workplace and information about company health promotion services in the regular "Health" column in our employee magazine "361º". In the reporting year, the company health management system at Bremer Landesbank received the seal of "excellence" at the Corporate Health Awards 2011, awarded by Handelsblatt, TÜV SÜD Life Service and EuPD Research. [—]

## Supporting work-life balance

Supporting our employees with combining their professional and personal goals is a key component in our responsibility for employees. We create an overall framework that will enable our employees to achieve an individual balance between these two spheres. The availability of various working time models and of flexible working hours is part of this, as is the creation of additional opportunities for home-based working and the payment of allowances by the bank in various areas. We offer various childcare services and in 2011 increased the number of day nursery places available, to meet growing demand. We support employees with looking for childminders for children up to three years of age and with finding day care facilities close to home for children aged three years and over. In collaboration with an external provider, we have also set up emergency care for children up to 14 years of age. To close existing gaps in provision during holiday periods, we initiated a pilot project this year for 2012, which involves the provision of childcare at NORD/LB's premises in Braunschweig. We also offer quick, professional support in cooperation with an external service provider for the organisation of competent advice and care for relatives in need of care, giving our employees the scope they urgently need here. These efforts are backed up by our "laundry service", which allows all employees to hand in any clothes that need cleaned quickly and without any complications on NORD/LB's premises. This gives them additional free time that they can invest in work or their family.

We regard our commitment to the compatibility of work and family as a process of continuous improvement. For this reason, Bremer Landesbank obtained certification from the "berufundfamilie" audit operated by the Hertie foundation in 2009, followed by NORD/LB in 2010. To ensure that the next audit is successful, we have identified various fields of action, set ambitious targets and initiated measures with which we can achieve these targets. [—]

# Key employee figures for NORD/LB Bank in Germany *)

| | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2009 | Unit |
|---|---|---|---|---|
| **Employees** | | | | |
| Number | 4 258 | 4 211 | 3 864 | |
| **Employee structure** | | | | |
| Proportion of female employees: | | | | |
| Total | 51.7 | 51.2 | 51.5 | % |
| In management positions | 20.3 | 19.8 | 19.1 | % |
| Part-time rate | 19.6 | 18.6 | 19.1 | % |
| **Working standards** | | | | |
| Number of employees with full freedom of association | 100 | 100 | 100 | % |
| **Staff development** | | | | |
| Number of employees with the opportunity for professional development | 100 | 100 | 100 | % |
| Training hours per employee | 39.4 | 25.1 | 19.8 | Hrs / employee |
| Portion of trainees | 5.2 | 4.4 | 4.3 | % |
| Expenditure of staff development activities | 5.7 | 7.1 | 6.8 | € millions |
| **Illness and fluctuation** | | | | |
| Illness rate | 4.8 | 4.4 | 4.1 | % |
| Fluctuation rate | 3.7 | 2.1 | 3.9 | % |

*) Comprises 58.2 percent of the employees of the NORD/LB Group.

*"NORD/LB was immediately positive regarding our request for several months of parental leave. With the provision of day nursery places, it supported us with combining family and work according to our individual wishes. For my wife – who also works for NORD/LB – this ensured a smooth return to professional life after maternity leave."*

MARC ARNOLD, credit specialist
in the corporate customer business

# EMPLOYEES ARE AN ESSENTIAL PART OF THE WHOLE

**INTERVIEW** *Uwe Loof is Head of the Human Resources division*

**Mr. Loof, what marks out an attractive employer?**

**UWE LOOF (U.L.)** What's important today – and will be even more important in future – is to offer employees and potential employees an attractive package. This includes challenging tasks in interesting areas of business, in which employees have opportunities for co-determination. However, attractiveness is also positively influenced by job security, a transparent and employee-oriented salary structure, support for 'double career couples', options for combining work and family, a good working atmosphere and the promotion of individual employability. The aim is to secure the loyalty of satisfied employees who identify with the company and who also project this externally.

**What requirements do companies have to fulfil in this regard today?**

**U.L.** Guaranteeing job security primarily involves the fulfilment of customer expectations, the necessary increase in efficiency, the flexibility of the company and handling digitalisation professionally. In addition, companies must cope with internal and external demographic changes. This is a challenge that also calls for more openness towards cultural diversity at the company. However, in my view the biggest challenge is to recognise the complexity of these issues and take into account how they are interconnected when making decisions. Qualified staff are needed for this.

> ”
> *We need* **creative and critical employees** *who will actively drive forward the process of change and improvemen at our company.*

**What is the key to ensuring that employees are motivated and committed?**

**U.L.** Employees are an essential part of the whole, because people make a bank successful. Companies need to become aware of the talent they have in-house and actively support those employees to secure their loyalty. Moreover, a good management culture, respectful, constructive cooperation and above all a distinct culture of communication are important for motivation and commitment.
Without information, trust cannot be built up and reliability cannot be demonstrated – and that is precisely what matters in a time marked by volatile changes.

**Female quotas – an option for the future viability of banks?**

**U.L.** Women in the world of work are not an option, but an essential. And not just for banks. Companies that do not recognise this change in society and tap into this potential will lose out in competition on the Human Resources markets. Setting a quota is, unfortunately, a sign that equality does not yet exist in practice, or that the causes of inequality have not yet been addressed.

**What advice would you give to employees in order to prepare them for the future?**

**U.L.** The duties of employees are set to continue changing, not least because, as a Landesbank, we operate in the public sector, but in a dynamic environment. Employees would therefore be well advised to remain flexible and to strengthen the internal job market with the right specialist and general qualifications. We need creative and critical employees who will actively drive forward the process of change and improvement at our company. To do this, we must build on experience and at the same time boldly strike new paths. We can only master the future if we get involved in it!

# ...FOR SOCIETY

*We can shape our joint future because we have a clear strategy. It has grown out of our company history, which spans more than 245 years, and our diverse activities as a large regional bank and a corporate citizen in our native region.*

**For us, acting responsibly therefore means being committed to ensuring the future viability of our society through active contributions and services. Moreover, our aim has always been to avoid any negative effects on society from our company's activities. That's what we have committed ourselves to do.**

# Living integrity

Integral and fair behaviour towards our customers and other market operators forms the basis for our corporate culture. It creates the right conditions for the trust that our stakeholders have shown in us from the beginning and thus constitutes the value-based ethical foundation for the success of our business. We are committed to securing this trust in future. That is the reason why we encourage all of our employees to act with responsibility and integrity by holding regular training sessions and why we are constantly updating our systems of control and sanctions in response to the changing conditions. Compliance thus plays an important part in protecting NORD/LB against risks that could threaten the survival of the bank and simultaneously reducing personal risks to the people who work at the bank.

## Increasing awareness of compliance across the Group

With our compliance system, we ensure that all guidelines and standards that apply at the respective sites of the bank are implemented appropriately. For this reason, we extended our monitoring of capital-market transactions carried out by the bank and its employees and our precautionary measures to prevent money laundering and other criminal offences at the beginning of the year to include "regulatory compliance". In an increasingly complex environment, the aim of regulatory compliance is to act as a central authority ensuring that all legal, regulatory and customary standards in Germany and abroad are identified at an early stage and can be complied with throughout the bank. We have also created the conditions for a head office structure for the compliance units, so that we can be even more stringent in organising the protective function for the bank, its employees and its customers at all sites through the consistent organisation of structures and processes.

## NORD/LB's ethical principles

Above and beyond the regulatory requirements, the bank expects all members of the Managing Board, managers and employees to behave fairly and in a way that reflects the bank's values. This is summarised as a binding standard in our ethical principles. These contain clear, specific 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 whistleblower system that enables all employees and our customers to report any criminal activities to an external ombudsman. This is subject to confidentiality and also opens up the possibility of anonymous involvement in protecting integrity at NORD/LB.

## Focus on capital market compliance

When our customers invest in the capital markets, they have a legitimate right to expect us to protect their best interests. With an independent and effective compliance system, we implement and monitor precautionary measures to ensure that our customers receive individual and objective advice, their instructions are carried out in line with best execution and their interests are not overshadowed by those of the bank or its employees. In the event that the investor does not believe his interests are being satisfactorily represented, we will take this into account, without giving priority to the interests of the bank. With the implementation of the minimum requirements for compliance in 2011, we fulfilled further prerequisites for optimising customer protection further, creating greater transparency and adjusting our checks to new potential risks. We adapted existing provisions – for example, for identifying actions that may be used to manipulate the market or unauthorised short-selling and the rules for dealing with insider information and the monitoring of this – to constantly changing market conditions.

## Prevention of money laundering and other criminal offences

We extended our decisive approach to dealing with money laundering, the financing of terrorism and fraudulent activities in 2011 to include a comprehensive analysis of the threat for all types of economic crime. We improved our existing risk management system further by developing appropriate and effective preventive measures to counteract all of the risk scenarios identified for this extended scope. Our business- and customer-related protection systems are designed to prevent the entry into or continuation of business relationships that are intended for the purposes of economic crime or that facilitate anonymous transactions. We therefore enter into business relationships only after thoroughly checking the identity of the customer. If we are ever informed of any suspicious transactions or business relationships, we will consistently report them. As a further preventive measure, employees are regularly made aware of current risks as required through web-based learning programmes, face-to-face instruction and newsletters.

## Regulatory compliance

Our new "Regulatory Compliance" unit identifies all regulations of relevance to banks in Germany and abroad. Additional information from law firms, auditors and the information systems of professional associations is also analysed. The affected divisions of the bank are then contacted and provided with regular updates regarding the legislative procedures.

Along with the requirements of "Basel III" and the third amendment of the minimum requirements for risk management (MaRisk), the issues currently affecting the bank include the latest proposals of the European Commission regarding financial market guidelines (MiFID II) and the prevention of market abuse. The introduction of procedures for the implementation of the new regulatory requirements is monitored by the "Regulatory Compliance" unit. This will enable NORD/LB to conduct its business activities in a responsible manner at all of its locations.

## Offering services in line with the market

In the interests of our customers and investors, we guarantee that trading transactions of NORD/LB will be concluded under conditions in line with the market, irrespective of the market division. This prevents any financial damage to our customers or to the bank. The methods and market parameters used are continuously developed in an ongoing process of improvement. 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.

With these activities, we also set further key milestones in 2011 to prevent possible negative effects on society from our business activities and to ensure NORD/LB's sustainability in the long term. [—]

*FACTS & FIGURES*

**100 %**

of employees at NORD/LB completed online compliance training in 2011.

*Information about current risks according to requirements is the key to successful compliance*

# Our commitment to the future

The development of our regional environment is particularly important to us as a large regional bank. It is not only the most important area in which we do business, but also where our employees and their families live. It is therefore in our own interests to ensure its future viability, for several reasons. We have been committed to this for over 245 years – not just as a financial service provider, an employer and client and a partner to the economy and local authorities, but also 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. Within the scope of our commitment, we concentrate on the areas that benefit the bank and society alike. Our long-term development is inextricably linked to the long-term development of our social environment.

## As a patron of the arts, culture and science

With funding becoming increasingly scarce, we see our support for art, culture and science as a contribution towards the preservation of cultural diversity. This is a prerequisite for the preservation of scope for pluralistic development in the economy and society in our core regions. In our promotion of culture, we therefore focus on the major music festivals in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania, among other events. Along with the Kurt Weill Festival in Dessau, which NORD/LB has been supporting for 19 years, these include the Usedom Music Festival and the Mecklenburg-Western Pomerania Festival, the Lower Saxony Music Festival and the Handel Festival in Göttingen.

The cultural commitments of Braunschweigische Landessparkasse in 2011 included sponsoring agreements for the Braunschweig festival "Kultur im Zelt", the street theatre festival in Holzminden, which the Landessparkasse has pledged to support for eight years, and several jazz concerts and festivals under the umbrella brand of "Swinging Braunschweig". Funds from the savings bank lottery "Sparen + Gewinnen" ["Save + Win"] in Lower Saxony also enabled a concert with Katie Melua to be held in the Volkswagen Halle in Braunschweig. The state theatre of Braunschweig is also receiving support for its "Theaterfieber" ["Theatre fever"] project, the aim of which is to interest young audiences in particular in theatre and thus to prevent a long-term decline in attendance figures.

As part of our patronage of the arts, we support exhibitions and art projects in art institutions and museums. These include the Art Society Hanover, the Kestnergesellschaft art gallery, the Lower Saxony State Museum and the Sprengel Museum in Hanover. Together with Sparkasse Hannover, the savings bank foundation of Lower Saxony and Versicherungsgruppe Hannover, NORD/LB was involved in purchasing the collection of illustrator Ronald Searle for the Wilhelm Busch Museum for a high five-figure sum in 2011.

With its support for exhibitions in museums and art societies in the area in which it operates, the Landessparkasse promotes cultural diversity and helps to ensure the survival of these institutions for a time. The bank's own programme of exhibitions in its branches, particularly in the Galerie Dankwardstraße, the former head office of Braunschweigische Staatsbank, is aimed at up-and-coming artists and provides them with space to showcase largely unknown work. And if a prominent artist is ever featured, as was the case in 2011 with Armin Mueller-Stahl, the Landessparkasse still follows an integrated approach: the Hollywood actor was not only present with his pictures, but also gave a high-profile concert at the Braunschweig State Theatre and talked to pupils about his beginnings in the GDR and his move to West Germany.

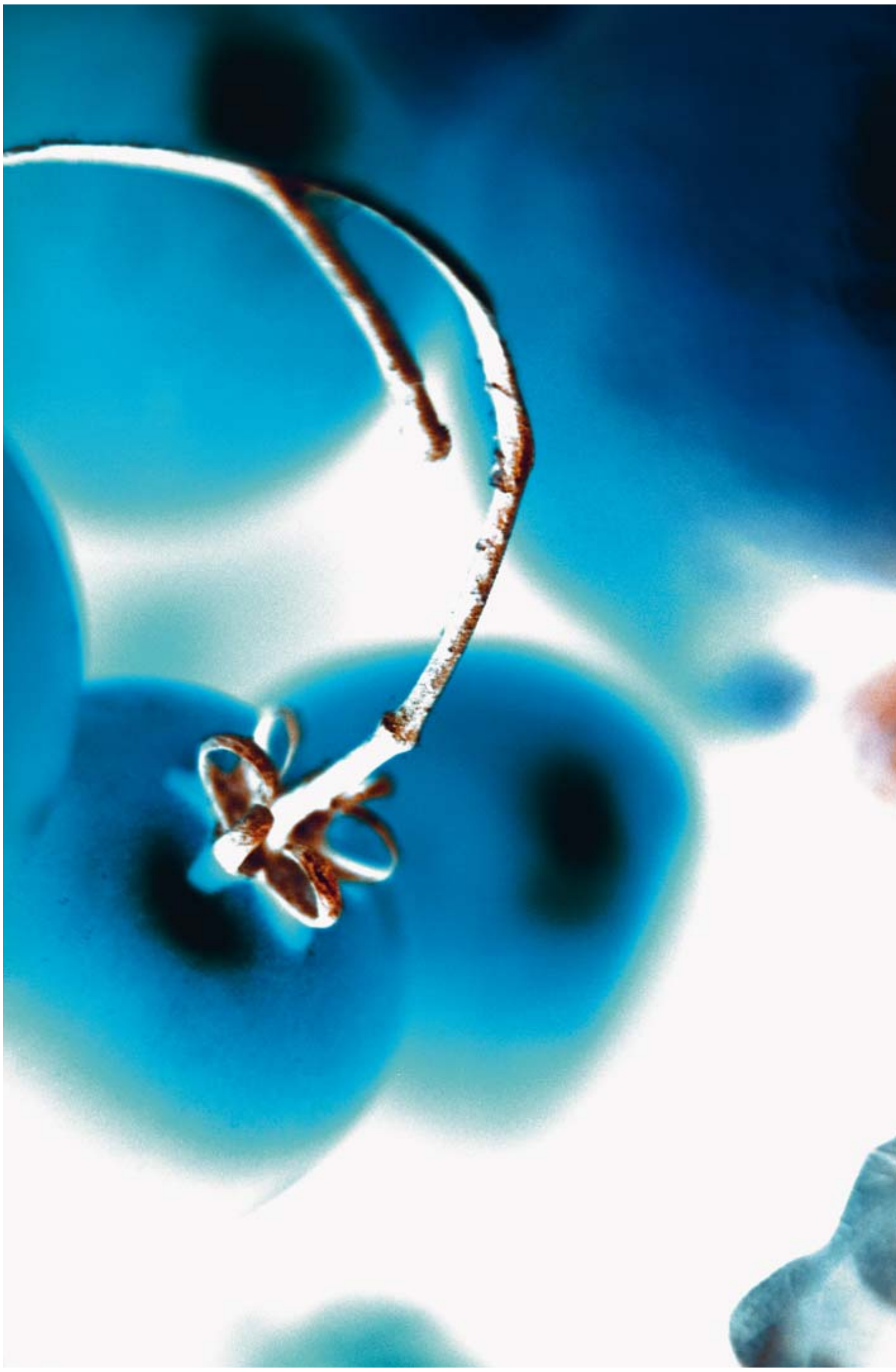
At the bank's own NORD/LB art gallery in Hanover, we offer both established and new artists a platform to present their work. In 2011, we exhibited photographic work by Christiane Richter and installations by Katja Pfeiffer, presented pictures by Friedrich Karl Waechter and Volker Kriegel in cooperation with the Wilhelm Busch Museum and gave painter Michael Jäger the opportunity to present his work. In addition, we enabled the Hanover State Opera to stage the complete Ring of the Nibelungen in 2010 and 2011 and, as part of the savings bank financial group, provided a five-figure sum in funding for the Herrenhausen Arts Festival and the renovation of the Sprengel Museum.

We regard our support for science as an investment in the future. For this reason, we place a clear emphasis here on funding for future-oriented solutions where academic research meets practice. We concentrate in particular on supporting the new generation of academics in disciplines that can contribute to current and future requirements and the issues of the future. To do this, we award specific scholarships, support scientific work and research projects and cooperate with academic institutions in various areas. We also provide specific funding for selected degree courses and professorships.

As a bank, we also believe that we have a responsibility to provide solutions to challenges affecting our economic and social stability. Against the backdrop of the financial crisis and its associated effects, we therefore began in 2009 to set up a centre for the research and development of sustainable and thus future-oriented risk management, as part of our cooperation with the Leuphana University Lüneburg. This includes a professorship at the Leuphana University, supplemented by a scholarship programme aimed at up to nine students at the Leuphana College each year.

The aim is to provide scholarship holders with specific specialist knowledge and thus to familiarise them with the principles of sustainable economic activity and management. In view of current economic developments, we extended this commitment in 2011, initially until 2016.

In its support for academic research, Braunschweigische Landessparkasse focuses in particular on the next generation. For several semes-



*Diasec by Christiane Richter, 2010*

ters, it has provided exclusive support for the children's university at the Braunschweig University of Technology, where the youngest recruits are introduced to the results of academic research. The "Wissensforscher" ["Knowledge researcher"] project, which has been supported for years and provides primary school pupils with video-based instruction in experimental research into scientific and technical phenomena, has achieved a similar result. Furthermore, NORD/LB and the Landessparkasse have for a quarter of a century been regional sponsors of the "Jugend forscht" ["Young Researchers"] competition for south-eastern Lower Saxony. And the annual donation to the Braunschweig university association, the organisation for friends and supporters of the Braunschweig University of Technology, primarily benefits student activities and the child-oriented project "Green School" 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 is committed to the development of wind energy expertise in north-western Germany and to protecting the science centres in Lower Saxony and Bremen. Under the working title "BLB meets wind studies", the bank invited students on the continuing professional development course "Wind energy technology and management" to discuss future prospects and the outlook for the wind energy sector together with industry experts in 2011. It also contributes towards the transfer of knowledge between academics and practice and to support for a future-oriented energy supply within the context of the energy transition in Germany as a member of the German Federal Association of Wind Energy.

## As a supporter of social projects

Even in Germany, one of the world's most developed economies, social problems are growing. For this reason, NORD/LB and its Group companies have increasingly focused their commitment on social projects in the last few years.

We believe that our responsibility lies in helping people in difficult social situations to help themselves and in playing our part in enabling young people in particular to begin 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 urban districts that contain social flashpoints, as well as a variety of community projects, such as the Workers' Welfare Association, church-based welfare and social work and other initiatives, such as lunches for socially-underprivileged children, young people and the homeless. In addition, we have provided continuous financial support for the work of the diagnostics and treatment centre for abused children (KiD) in Hanover since 2008. Since 2011, we have also supported the Kindertraum [Children's dream] campaign, which provides targeted support for children at a primary school in Hanover with visual, hearing, speech or motor function impairments. Furthermore, we have provided constant support for the Children of Chernobyl foundation for many years.

Braunschweigische Landessparkasse is involved in a wide range of social projects. The projects "be your own hero" and "Triathlon macht Schule" (TRImaS), the Laufsparbuch [running savings book] and support for the activities of the Zukunft Wald [Future of forests] foundation are designed to run for several years. TRImaS is about more than just sport: in addition to physical activity, it also involves healthy eating, a strong community spirit and development of one's own motor skills. The Laufsparbuch offered by the Landessparkasse has become a very popular instrument for generating donations: at a large number of running events in the Braunschweig area, members of the public can enter credits in their savings book for the kilometres they have *"be your own hero" encourages future generations to take on social responsibility*

run, and the Landessparkasse will then convert the distance run into donations. In 2011, these donations benefited the visually impaired reporters at Eintracht Braunschweig, the support association Konfirmanden-Ferien-Seminar and the Haus der Hoffnung ["House of Hope"] in Bad Gandersheim.

A key aim of the Zukunft Wald foundation is to motivate school pupils to plant trees and to cultivate the foundation forests created through this – a project intended to run for decades, for which the Landessparkasse has provided a further € 10,000 worth of funding. Moreover, the Landessparkasse takes part in the annual "City cleaning day" by "rewarding" each child and pupil who gets involved in cleaning up Braunschweig with € 1 for their respective kindergarten or school; around € 13,000 was spent on this in 2011.

Braunschweigische Landessparkasse also carried out the "Geldspeicher" ["Money bin"] project at schools in the area where it operates in 2011, together with the volunteer agency for Braunschweig-Wolfenbüttel. The "Geldspeicher" project is a preventive, educational programme, the aim of which is to give pupils an understanding of the issues of finance, budget management, marketing, advertising and consumption. With its commitment to this project, Braunschweigische Landessparkasse is aiming to show young people how to handle money and budgets, educate them about possible debt traps and resulting excess debts and thus strengthen their position as responsible consumers. In 2011, the innovative project received an innovation award of € 3,000 from the Federal Association of Volunteer Agencies in Potsdam.

For the bank, its investment in the future viability of our social environment has a twofold "return". That is why it commits significant financial resources to such initiatives. The support we provide via the Lower Saxony Sparkasse "Save and Win" (Sparen + Gewinnen) lottery plays an important role in the area in which Braunschweigische Landessparkasse operates. In 2011, the funds generated by the lottery alone provided over € 240,000 in funding for projects involving children and young people, sport, the arts and culture and social causes.

## Through the commitment of our employees

Many of our employees are involved in voluntary work for associations, not-for-profit organisations, foundations and educational establishments. In view of demographic changes, the bank believes that this will make an important contribution towards safeguarding the future of our social environment. Employees are therefore specifically invited to take part, and the bank supports their activities. 20 trainees at Braunschweigische Landessparkasse got involved in social causes in 2011 as part of the "Brücken bauen" ["Building bridges"] project, and helped underprivileged

children from the Remenhof in Braunschweig to paint the front of a house. This allowed the trainees to participate in a voluntary project right from the beginning of their working life and to get used to "extracurricular achievements" at the Landessparkasse at an early stage.

With the campaign "Sie engagieren sich … wir unterstützen Sie" [You give your time – we will support you], we offer employees involved in voluntary work the chance to apply for exclusive funding for the organisations they support. The Managing Board of NORD/LB also decided in 2011 to support outstanding commitment to social causes directly with additional specific funding. 20 projects benefited from this in 2011.

In the light of the steadily growing importance to society of civic involvement, we not only invite our employees to get involved in voluntary work, but also aim to encourage young people in the area to participate. Among other initiatives, Braunschweigische Landessparkasse is involved in the "be your own hero" project in connection with this. In this innovative project, young people are encouraged, with the assistance of adventurer and motivation coach Joachim Franz, to get involved in voluntary work and thus to become "their own heroes"; this measure is backed up by a "be your own hero award", with which ideas for voluntary projects are submitted, awarded prizes and then provided with financial support for their implementation.

## As a benefactor creating benefits for society

The STIFTUNG NORD/LB · ÖFFENTLICHE is a foundation launched jointly by NORD/LB and the Öffentliche Versicherung Braunschweig in 1994 and is one of the largest regional foundations in Lower Saxony. Its work is concentrated within the area around Braunschweig, the region in which the Braunschweigische Landessparkasse and the Öffentliche Versicherung operate. In 2011, it paid out more than € 1.1 million in support of over 60 individual projects in areas such as art and culture, science, research and transfer and sport.

After taking a comprehensive look in 2010 at the management of third-party non-profit foundations, the foundation concentrated in particular on evaluating its own activities in 2011. Communication channels and tools were examined, along with the areas of project management, office management, finance and foundation management. At the same time, the objectives of the foundation were refined, in order to provide more consistent support as a recognised regional institution and partner to people in the Braunschweig area between 2012 and 2016 (development phase IV of the foundation). [—]

# …FOR THE ENVIRONMENT

*We want to organise our operational activities in harmony with the natural environment. An effective company programme of environmental protection measures plays a key part in achieving this aim. Since the early 1990s, protecting the environment has therefore formed an integral part of our activities to promote sustainability.*

# Saving resources

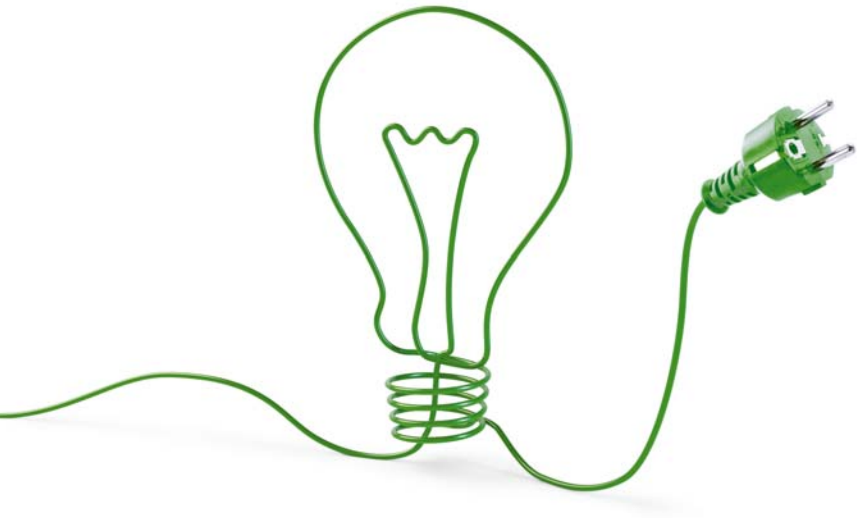
Economical use of paper, water and energy and the avoidance and recycling of waste saves essential natural resources, whilst simultaneously reducing costs. These activities therefore constitute the essential levers of our resource management system and the core activities of our company programme of environmental protection measures → *https://www.nordlb.com/sustainability/bank-operations/*. Despite the slight rise in employee numbers compared with the previous year, we managed to reduce our paper consumption by 4 percent to 253,099 kg in 2011. At 214,013 kg, the lion's share of this related to printing and copier paper. The paper consumption per employee therefore fell only slightly year-on-year, to 59.44 kg. The proportion of recycled paper bearing the "Blue Angel" logo that was consumed remained stable at just under 28 percent, which was lower than we had intended. The rest of the paper used was made from new fibres. Here, we use only paper produced from sustainable forests that bears the hallmark of the Forest Stewardship Council (FSC), both for printing and copying paper and for our publications.

The total volume of waste we generated rose by 2.6 percent year-on-year to 760,590 kg. NORD/LB's biggest IT project to date, "FI Migration", made a significant contribution to this. With additional external staff, this project is bringing NORD/LB's entire IT system into line with future requirements and thus making it fit for the future. Over 60 percent of the waste we generate is now recycled, closing existing material cycles. Organic waste is used in biogas plants, for example. The methane generated from this is fed in to combined heat and power plants and used to produce energy in the form of electricity and district heating, which can then be used to supply many households. Other substances such as waste grease are processed and made into biodiesel. [—]


# Responsible procurement

An effective company programme of environmental protection measures starts with the supply chain. We have therefore integrated aspects of sustainability into our purchasing standards, and strongly encourage our service providers and suppliers to act in accordance with our principles. These standards help to prevent waste from being created through our purchasing activities, to close material cycles and to protect associated human and employment rights. We monitor compliance with these standards on a regular basis through targeted spot checks, and we take a zero-tolerance approach to contraventions. With these measures, we support compliance with the applicable ecological, social and ethical standards in the value-creation chain and thus help to ensure that our economic activities are kind to the natural and cultural environment.

When making our purchasing decisions in the 2011 financial year, we once again gave priority to banking operations that make efficient use of resources and have minimal impact on the environment. The fact that we obtain 10 percent



*FACTS & FIGURES*

*100 %*

electricity from renewable energy sources

of our electricity from renewable energy sources combines economic and ecological benefits and additionally reduced our carbon footprint in the period under review.

In order to increase these benefits for the bank and the environment further, we have decided to obtain all of our electricity requirements from renewable sources as of 2012. This will cut our carbon footprint by around 9,000 tonnes in total. In addition, we replaced 95 individual analogue copier systems with 35 new multifunction devices in 2011, in order to reduce the associated costs for the use of technicians and electricity consumption and to cut back on the number of different toners used, thereby making our use of resources even more efficient. All the toner cartridges used in our devices are returned to the suppliers after use and reused. When catering for guests, we use coffee with the fair trade logo. We also use mainly products from companies that operate in accordance with organic principles. All of our fish products are obtained from sustainable fisheries. Furthermore, we use almost exclusively seasonal products from the region for all of our catering activities. [—]

## Improving our energy efficiency

Once again in the 2011 financial year, the efficient management of our energy consumption in heating and the power supply to our buildings and the environmentally friendly organisation of our business trips were the key value drivers for our commitment to organising our operational activities in a way that was compatible with nature. We also see the greatest potential for preventing or reducing $CO_2$ emissions here.

### Focus on energy consumption

We are developing the greatest potential benefits for the environment, health and cost savings with the energy-efficient management of our buildings. We have achieved continuous improvements here since our corporate environmental management programme was launched in the early 1990s. Ongoing analysis of weak points and adjustments to the technology at our facilities, the reduction of energy loss and the use of more efficient consumers – such as the switch to LED technology – including for outdoor advertising – are the means of choice for us. In the 2011 financial year, our consumption of both heating energy and electricity was reduced. Our heating energy consumption decreased by 9.9 percent to 17,456,000 kWh and our electricity consumption was down 3 percent on the previous year, at 20,225,000 kWh.

### Focus on IT

Our electricity consumption and the resulting impact on costs and the environment are key factors in the alignment of our IT activities. When looking at sustainability, we therefore focus on our use of resources and on the energy efficiency and environmental impact of products. In the 2011 reporting year, we further optimised our central components such as data centres and central network and communication components with regard to these core themes.

As part of this, we replaced 70 LAN switches with new devices that use 40 percent less energy. At several of the


*Dr. Michael Lange, Head of Equity Investments, travelled for half a year for NORD/LB using electric vehicles*

bank's sites, we replaced the telecommunication systems with VoIP technology (voice over IP technology). In 2012, we plan to replace core and distribution switches with alternatives that will also use 40 percent less energy. These measures will be accompanied by a reduction in our data centres from three to two in 2012. The latest generation of energy- and resource-efficient hardware technology will also be used both in our data centres and at all work stations. All of the printers and multifunction devices used are set to double-sided printing and, like the monitors, will switch to the energy-saving standby mode shortly after use.

## Focus on mobility

Once again, the total number of kilometres travelled reached a new record of 16,343,000 km (+6.7 percent) in 2011. A major influencing factor was the continuing growth in new business opportunities, including outside our traditional core business regions.

Owing to the area in which we operate, cars were once again the most commonly used means of transport. As the area that we provide services to widened, we added six vehicles to our fleet in 2011, bringing the total number to 204. The distance covered on business trips by car increased by 12.4 percent to 7,622,000 km in 2011. Only a small increase was recorded in the distance travelled by air, which went up by just under 3.8 percent to 5,158,000 km. Of this figure, 95 percent related to long-haul flights covering more than 500 km, which were due to the increase in international business contacts. The distance covered by rail remained slightly below the previous year's figure at 3,562,000 km, which once again accounted for the smallest proportion of the total distance travelled. $CO_2$ emissions from business trips rose by 6.1 percent to 2,375 tonnes.

As we cannot cut down on business trips by car, we are focusing on vehicles with an optimum energy footprint. To this end, we have participated since June 2011 in testing a fleet of electric vehicles with a Golf Blue-e-Motion from Volkswagen. This vehicle is equipped with an all-electric drive and was incorporated into our fleet for six months. In conducting these fleet tests, Volkswagen is aiming to gather as much information as possible about user acceptance of electric vehicles and their suitability in practice. As well as technical insights, personal perception and the travel habits of users are of particular interest. For this reason, the test drivers are in close contact with the development departments at Volkswagen. For NORD/LB, the test provides important insights into how we can organise our own mobility in the future. We also added a vehicle from VW's new BlueMotion series to our Braunschweig fleet in November 2011. Compared with the original version, this will cut $CO_2$ emissions by half a tonne each year based on a distance travelled of 15,000 km. [—]

## Making people aware

We can achieve the ambitious goals of our company programme of environmental protection measures because the people who work at NORD/LB are committed to these goals in their day-to-day work. Along with clear guidelines, we want to make an effective corporate environmental protection programme not only achievable, but a reality. This requires dialogue in order to identify potential, encourage participation and – wherever possible – highlight benefits for individual employees. We want to take more action here in future. The coming year therefore looks set to be influenced by new dialogue systems, including with regard to the corporate environmental protection programme. [—]

”

*In future, we want to* ***promote dialogue*** *more strongly than before in order to identify potential, encourage participation and highlight benefits for individual employees.*

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

| | Absolute 31 Dec. 2011 | Absolute 31 Dec. 2010 | Absolute 31 Dec. 2009 | Unit | Per employee 31 Dec. 2011 | Per employeer 31 Dec. 2010 | Per employee 31 Dec. 2009 | Unit |
|---|---|---|---|---|---|---|---|---|
| Total waste | 760 590 | 741 339 | 839 135 | kg | 178,63 | 176,04 | 217,17 | kg/empl. |
| Paper | 390 798 | 369 652 | 489 009 | kg | 91,78 | 87,78 | 126,56 | kg/empl. |
| Remaining waste | 295 780 | 290 899 | 242 646 | kg | 69,46 | 69,08 | 62,80 | kg/empl. |
| Hazardous waste | 16 741 | 8 845 | 10 442 | kg | 3,93 | 2,10 | 2,70 | kg/empl. |
| Recycled materials excluding paper | 57 271 | 71 943 | 97 038 | kg | 13,45 | 17,08 | 25,11 | kg/empl. |
| Consumption | | | | | | | | |
| Water consumption | 62 795 | 55 220 | 50 636 | m³ | 14,75 | 13,11 | 13,10 | m³/empl. |
| Paper consumption [2] | 214 013 | 217 038 | 228 850 | kg | 50,26 | 51,54 | 59,23 | kg/empl. |
| Paper consumption [3] | 253 099 | 263 581 | 291 587 | kg | 59,44 | 62,59 | 75,46 | kg/empl. |
| Energy consumption | 37 681 763 | 40 223 290 | 34 082 774 | kWh | 8 849,64 | 9 551,96 | 8 820,59 | kWh/empl. |
| Heating | 17 456 600 | 19 366 867 | 13 931 234 | kWh | 4 099,72 | 4 599,11 | 3 605,39 | kWh/empl. |
| Electricity | 20 225 163 | 20 856 423 | 20 151 540 | kWh | 4 749,92 | 4 952,84 | 5 215,20 | kWh/empl. |
| Travel [4] | 16 343 678 | 15 316 537 | 14 158 362 | km | 3 838,35 | 3 637,27 | 3 595,32 | km/empl. |
| Air | 5 158 524 | 4 970 801 | 4 954 990 | km | 1 211,49 | 1 180,43 | 1 258,25 | km/empl. |
| Rail | 3 562 653 | 3 565 199 | 3 481 430 | km | 836,70 | 846,64 | 884,06 | km/empl. |
| Car | 7 622 501 | 6 780 537 | 5 721 942 | km | 1 790,16 | 1 610,20 | 1 453,01 | km/empl. |
| $CO_2$ emissions | 15 236 | 15 629 | 15 612 | t $CO_2$ | 3,58 | 3,71 | 4,04 | t $CO_2$/empl. |
| from energy consumption [5] | 12 861 | 13 390 | 13 641 | t $CO_2$ | | | | |
| from business travel | 2 375 | 2 239 | 1 971 | t $CO_2$ | | | | |

1) Comprises 58.2 percent of the employees of the NORD/LB Group.
2) Printer and copier paper.
3) Including letterheaded stationery.
4) The absolute figures include business trips made by NORD/LB Bank in Germany and NORD/FM.
5) Also influenced by changes in the conversion factors used by energy suppliers.

# DECLARATION OF NORDDEUTSCHE LANDESBANK GIROZENTRALE ON THE GERMAN CORPORATE GOVERNANCE CODE

The German Corporate Governance Code contains important rules on the conduct and monitoring of German listed companies. It contains nationally and internationally recognised standards for good and trustworthy company management, in particular in respect of the conduct of leadership and organisation of a company, as well as control mechanisms and cooperation between the Managing Board and the Supervisory Board. The objective of the Code is to strengthen the trust of investors, customers, employees and the general public in the leadership and monitoring of a company.

Due to the Code's legal provision towards listed joint-stock corporations, compliance with it is not a statutory requirement for NORD/LB, given the bank's position as a credit institution taking the legal form of a public-law institution (Anstalt öffentlichen Rechts). Nevertheless, NORD/LB considers it an important matter that it positions itself in the market as a reliable and trustworthy partner. We believe transparent company management to be a significant aspect of this requirement. For this reason, the bank has resolved to comply with the Code's suggestions and recommendations developing in-house principles that follow the code's rules, to the extent that this is possible and appropriate within the context of the specific legal form and ownership structure.

NORD/LB pays particular heed to those rules that are concerned with the structure of the corporate bodies, their responsibilities, their collaboration and with the transparency of the company. In these areas, NORD/LB largely complies with the recommendations and suggestions of the Code. In respect of transparency, all information published by the bank, including the Group's Annual Financial Statements, Semi-Annual and Quarterly Financial Reports, is also available from its website.

## Managing Board

The Managing Board manages the bank on its own account in pursuit of the objective of sustainable value creation in the interests of the bank, and with particular respect to the needs of its owners, employees and its public responsibilities as a state bank (Landesbank) and clearing bank (Girozentrale). The Managing Board conducts business in consideration of the statutory requirements, the constitution of the bank and the general and specific guidelines adopted by the Owners' Meeting or the Supervisory Board, and ensures that all subsidiaries of the Group also comply therewith. In particular, the Managing Board ensures that appropriate risk management and risk controlling systems are in place according to the structure of the bank's business.

The Managing Board comprises the Chairman, the Vice Chairman and other ordinary members.


In deciding the composition of the Board, attention is also paid to ensuring the diversity of its make-up. The Chairman of the Managing Board decides how its business is subdivided, with the agreement of the other Board members. Each Board member is assigned at least one specific business division. The Managing Board is represented by at least one member at each registered office of the bank.

The Managing Board agrees the strategic direction of the bank with the Supervisory Board, with which it discusses at regular intervals the progress made in implementing the strategy. It provides regular reports to the Supervisory Board, on the basis of individually established information and reporting requirements, on significant bank matters, in particular those relating to intended business policy and other elementary questions of company planning, the profitability of the bank and in particular its equity capital, its business operations, its situation, transactions that may be of considerable importance for the profitability and liquidity of the bank and for the situation of its assets, finances and revenue, and on the risk situation of the bank and its systems of remuneration.

Furthermore, in the case of important events that are of particular relevance to the situation of the bank, the Managing Board reports to the Supervisory Board, in particular on the risk situation, and involves the Supervisory Board in any fundamental decisions that must be made.

The remuneration of the members of the Managing Board, which comprises both fixed and variable (performance-related) elements, is agreed and regularly verified by the Presidial Committee of the Supervisory Board. Provision is made for this to take account of both positive and negative business performance.

## Supervisory Board

The task of the Supervisory Board is to provide the Managing Board with regular advice and to monitor the Managing Board's management of the company. It decides on the appointment and dismissal of members of the Managing Board, the general guidelines governing the business of the bank, the annual schedule as presented by the Managing Board, the rules of procedure for the Managing Board, the appointment and commissioning of the auditors, the adoption of the financial statements and on the entering into of shareholdings. The Supervisory Board may also decide that other transactions and measures that are of particular importance for the bank also require its agreement. It prepares rules of procedure for itself and its committees.

The Supervisory Board comprises 18 members, of whom 12 are representatives of the owners. The remaining six are elected by the employees of the bank in accordance with the rules of the Lower Saxony Staff Representation Act. The term of office is four years. The Chairman of the Supervisory Board is the Finance Minister of the State of Lower Saxony. The First Deputy Chairman is the Chairman of the Lower Saxony Savings Banks and Giro Association (Niedersächsische Sparkassen- und Giroverband – NSGV), while the Second Deputy Chairman is the Finance Minister of the State of Saxony-Anhalt. If the Chairman of the Supervisory Board is unable to attend, he is represented by one of his two deputies. There are no former members of the Managing Board of the bank on the Supervisory Board. The constitution of the bank does not permit former members of the Managing Board to become the Chairman of the Supervisory Board.

In order to support its work in respect of the business structure of the bank, the Supervisory Board has established a Presidial Committee, an Audit Committee and a General Working and Credit Committee. Additional committees may be formed as required. The members of the committees should be members of the Supervisory Board. When a Supervisory Board member's term of office comes to an end, any membership of committees also ceases. The Presidial Committee is responsible for preparing meetings and resolutions of the Supervisory Board, and for dealing with urgent business and personnel-related matters.

The Audit Committee monitors the audits of the bank's individual and consolidated financial statements, and reports to the Supervisory Board – on the basis of the auditor's report – on the results of the audit of the financial statements. It is also responsible for monitoring the accounting process and the effectiveness of the internal control and audit system, and of the risk management system. The Audit Committee also verifies and monitors the independence of the auditor, in particular in reference to the additional services the auditor provides to the bank. At least one member of the Audit Committee must be independent and must have expert understanding in the fields of accounting or auditing. The Chairman of the Supervisory Board does not also chair the Audit Committee at the same time.

The task of the General Working and Credit Committee is to fulfil the rights and duties of the Supervisory Board in the provision of advice and monitoring of the company management of the bank at regularly scheduled meetings.

## Owners' Meeting

The bank's guarantors, and therefore its owners, are the State of Lower Saxony, the State of Saxony-Anhalt, the Lower Saxony Savings Banks and Giro Association (Niedersächsische Sparkassen- und Giroverband – NSGV), the Saxony-Anhalt Savings Banks Holding Association (Sparkassenbeteiligungsverband Sachsen-Anhalt – SBV) and the Special Purpose Holding Association of the Mecklenburg-Western Pomerania Savings Banks (Sparkassenbeteiligungszweckverband Mecklenburg-Vorpommern – SZV). Each owner may appoint up to two representatives to attend the Owners' Meeting. Voting rights are exercised according to the share held in the capital of the bank. The representatives of each individual owner must cast their votes in the same way. Members of the Managing Board of the bank participate in the meetings in an advisory capacity at the invitation of the Chairman of the Owners' Meeting. The Owners' Meeting adopts resolutions concerning matters of fundamental importance, in particular those referring to a change to the statutes, any matters pertaining to the capital and other equity, the general principles of the business policy, the entry of other legal persons under

public law into the bank, the entering of shareholdings in such institutions or the merger of the bank with other public-law credit institutions, the conversion of the bank into a joint-stock company or another legal form. Moreover, the Owners' Meeting adopts resolutions relating to the appropriation of profit, discharge of the Managing Board and the Supervisory Board, remuneration of the members of the Supervisory Board, the committees and advisory boards and on all other matters for which it is allocated responsibility in the statutes.

## Rights and duties of the members of the bodies of the bank, cooperation between the bodies.

The members of the bodies of the bank work closely to the bank's benefit, and must support the bank to the best of their abilities by their conduct in office. They are sworn to secrecy. In the conduct of their business, the members of the Managing Board must exercise the care of a proper and conscientious business manager. In the event that the members of the Managing Board are in breach of their duties, they are obliged to repay the bank the resulting loss in the context of the principles of the "business judgement rule". This also applies accordingly to the duty of care obligation and responsibility of the members of the Supervisory Board. The members of the Supervisory Board are not bound by orders and instructions. They are obliged to disclose any conflict of interest to the Supervisory Board.

# GROUP MANAGEMENT REPORT

→ *pages 79 – 153*

## Contents

# 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 operates branches in Hamburg, Düsseldorf and Schwerin as well as in 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) 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 share capital amounts to € 1,493,896,250, with the federal state of Lower Saxony holding 56.03 per cent (of which 28.39 per cent is held in trust for the state-owned Hannoversche Beteiligungsgesellschaft mbH), the federal state of Saxony-Anhalt 6.00 per cent, the Lower Saxony Association of Savings Banks and Girobanks 28.36 per cent, the Holding Association of the Savings Banks of Saxony-Anhalt 5.68 per cent and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania 3.94 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
- Savings Bank Network
- Financial Markets/Institutional Customers
- Corporate Customers
- 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 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 in the Notes.

## Control Systems

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

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.

Group Management Report
Consolidated Financial Statements
Reports
Data/Glossary

# Personnel Report

As at 31 December 2011 a total of 7,318 people were employed by the NORD/LB Group. The number of employees therefore rose by 332 compared to the previous year. The significant increase in the number of employees is primarily attributable to the initial consideration of KreditServices Nord GmbH, Braunschweig in the basis of consolidation.

| Reporting date | 31 Dec. 2011 | 31 Dec. 2010 | Change absolute terms | Change percentage |
|---|---|---|---|---|
| NORD/LB | 4 523 | 4 463 | 60 | 1 |
| Bremer Landesbank sub-group | 1 154 | 1 119 | 35 | 3 |
| NORD/LB Luxembourg sub-group | 218 | 202 | 16 | 8 |
| ÖVBS sub-group | 679 | 672 | 7 | 1 |
| NORD/LB Asset Management | 64 | 63 | 1 | 2 |
| Deutsche Hypo | 443 | 393 | 50 | 22 |
| NORD/FM | 67 | 74 | – 7 | – 9 |
| KreditServices Nord | 170 | – | 170 | |
| | **7 318** | **6 986** | **332** | **5** |

# Report on the Earnings

(In the following text the previous year's figures for the financial year 2010 or as at 31 December 2010 are shown in brackets.)

Reflected in the earnings position of NORD/LB are the following significant effects of 2011: Net interest income was positively affected by the sale of the indirect holdings in DekaBank Deutsche Girozentrale. Loan loss provisions are below the previous year's level as a result of the more favourable general economic environment and the resulting lower net allocations. The profit/loss from financial assets, which was greatly affected by the impairment of Greek government bonds, had a negative effect. The profit/loss from financial instruments at fair value through profit or loss including hedge accounting fell due to the continuing difficult market environment. Other operating profit/loss was negatively affected by the bank levy in 2011.

The financial year 2011 closed with satisfactory earnings before taxes of € 730 million.

The figures for the income statement are summarised as follows:

| | 2011 (in € million) | 2010[1] (in € million) | Change[2] (in € million) | Change (in %) |
|---|---|---|---|---|
| Net interest income | 1 763 | 1 662 | 101 | 6 |
| Loan loss provisions | – 205 | – 642 | 437 | – 68 |
| Net commission income | 166 | 197 | – 31 | – 16 |
| Profit/loss from financial instruments at fair value through profit or loss including hedge accounting | 69 | 115 | – 46 | – 40 |
| Profit/loss from financial assets | – 41 | 82 | – 123 | > 100 |
| Profit/loss from investments accounted for using the equity method | – | – 73 | 73 | 100 |
| Administrative expenses | 1 091 | 1 070 | – 21 | 2 |
| Other operating profit/loss | 69 | 48 | 21 | 44 |
| **Earnings before income taxes** | **730** | **319** | **411** | **> 100** |
| Income taxes | 194 | 5 | – 189 | > 100 |
| **Consolidated profit** | **536** | **314** | **222** | **71** |

[1] Changes in the previous year's figures are accounted for according to IAS 8
(See 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) | 2011 | 2010[1] | Change[2] |
|---|---|---|---|
| Interest income | 12 994 | 12 520 | 474 |
| Interest expense | 11 231 | 10 858 | – 373 |
| **Net interest income** | **1 763** | **1 662** | **101** |

[1] Changes in the previous year's figures are accounted for according to IAS 8
(See 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 slightly compared to the previous year by € 101 million to € 1,763 million. The improved net interest income was affected in the amount of € 64 million by the sale of the majority of the indirect holdings in DekaBank Deutsche Girozentrale.

**Loan Loss Provisions**

Loan loss provisions fell compared to the previous year by € 437 million to € 205 million. This is primarily due to the net reversal of general loan loss provisions in the amount of € 89 million (in the same period of the previous year the net allocation was € 215 million) and the net allocation to specific valuation allowances of € 295 million (in the same period of the previous year the net allocation was € 396 million). In addition to this, € 55 million was released from loan loss provisions (previous year: net allocation of € 33 million). Of this, € 40 million relates to the release of general loan loss provisions (previous year: net allocation of € 16 million).

**Net commission Income**

| (in € million) | 2011 | 2010[1] | Change[2] |
|---|---|---|---|
| Commission income | 302 | 338 | – 36 |
| Commission expense | 136 | 141 | 5 |
| **Net Commission income** | **166** | **197** | **– 31** |

[1] Changes in the previous year's figures are accounted for according to IAS 8 (See 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 commission income is, at € 166 million, around € 31 million lower than in the same period of the previous year. This essentially attributable to lower commission income in the non-banking business. Commission income and commission expense from banking transactions fell in equal measure.

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

| (in € million) | 2011 | 2010[1] | Change[2] |
|---|---|---|---|
| Profit/loss from debt securities and other fixed-interest securities | 59 | 30 | 29 |
| Profit/loss from shares and other variable-yield securities | – 19 | 10 | – 29 |
| Profit/loss from derivatives | 143 | 9 | 134 |
| Profit/loss from receivables held for trading | 100 | 15 | 85 |
| Profit/loss from foreign exchange and other results | 4 | 66 | – 62 |
| Profit/loss from fair value option | – 348 | – 168 | – 180 |
| Profit/loss from hedge accounting | 130 | 153 | – 23 |
| **Profit/loss from financial instruments at fair value through profit or loss including hedge accounting** | **69** | **115** | **– 46** |

[1] Changes in the previous year's figures are accounted for according to IAS 8 (See 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 profit/loss from financial instruments at fair value through profit or loss including hedge accounting remains stable at € 69 million (€ 115 million). A significant fall in interest rates compared to the previous year resulted in significant write-downs in the structured issues reported in the fair value option, which were compensated for by the positive result of debt securities recognised as assets, receivables held for trading purposes and income from interest derivatives. In addition to interest derivatives, the income from derivatives is affected by income from currency derivatives following the widening in the EUR/USD base spread relevant for the measurement of these financial transactions and a loss from credit derivatives, which is the result of a positioning as an assignor and a slight increase in the relevant credit spreads. The income from shares and other variable-yield securities reflects as in the previous year the development of the European share indices.

### Administrative expenses

| (in € million) | 2011 | 2010 | Change*) |
|---|---|---|---|
| Wages and salaries | 454 | 440 | – 14 |
| Social contributions and expenditure on pension schemes | 106 | 100 | – 6 |
| **Staff expenses** | **560** | **540** | **– 20** |
| Other administrative expenses | 444 | 468 | 24 |
| Depreciation and impairments | 87 | 62 | – 25 |
| **Administrative expenses** | **1 091** | **1 070** | **– 21** |

*) The preceding sign in the change column indicates the effect on profits or losses

The increase in administrative expenses by € 21 million to € 1,091 million is primarily attributable to the increase in staff expenses. Scheduled depreciation on ocean-going ships in the amount of € 12 million was also reported in the year under review. This depreciation relates to the subsidiary KMU Shipping Invest GmbH, Hamburg, that was fully consolidated for the first time with effect of 31 December 2010.

### Profit/loss from financial assets

The profit/loss from financial assets is € –41 million and is therefore € 123 million below the previous year's figure. The result was affected significantly by the impairment of Greek government bonds as well as bonds of affiliated companies in the amount of € 99 million. The sale of the shares directly held in DekaBank Deutsche Girozentrale had a positive effect of € 32 million on the result. The previous year's result was also affected by income from disposals and proceeds from the sale of investments (€ 83 million).

### Profit/loss from investments accounted for using the equity method

The profit/loss from investments accounted for using the equity method was € 73 million above the previous year's figure. The improvement is due to the deconsolidation of Bank DnB NORD A/S as at 31 December 2010, which had negatively impacted the previous year's figure to the tune of € 96 million. The profit/loss from investments accounted for using the equity method has also been negatively impacted by a write-off in the amount of € 43 million. The improved positive proportionate profit/loss from investments accounted for using the equity method made up for this though.

### Other operating profit/loss

The increase in other operating profit/loss by € 21 million to € 69 million is primarily attributable to the proceeds from the disposal of receivables and the positive balance of charter income and the expenses to generate charter income. The bank levy charged for the first time in 2011 in the amount of € 43 million and the full depreciation of the goodwill of Deutsche Hypothekenbank in the amount of € 11 million had a negative effect.

### Income taxes

| (in € million) | 2011 | 2010 | Change*) |
|---|---|---|---|
| Current taxes on income and earnings | 76 | 159 | – 83 |
| Deferred taxes | 118 | – 154 | 272 |
| **Income taxes** | **194** | **5** | **189** |

*) The preceding sign in the change column indicates the effect on profits or losses

Income taxes affected significantly by the capitalisation of tax losses carried forward and tax rebates in 2010.

# Assets and Financial Position

| | 2011 (in € million) | 2010*) (in € million) | Change (in € million) | Change (in %) |
|---|---|---|---|---|
| Loans and advances to banks | 32 928 | 36 734 | – 3 806 | – 10 |
| Loans and advances to customers | 116 404 | 113 605 | 2 799 | 2 |
| Loan loss provisions | – 1 785 | – 2 018 | 233 | – 12 |
| Financial assets at fair value through profit or loss | 18 644 | 15 103 | 3 541 | 23 |
| Financial assets | 54 499 | 58 666 | – 4 167 | – 7 |
| Investments accounted for using the equity method | 387 | 402 | – 15 | – 4 |
| Other assets | 6 553 | 6 032 | 521 | 9 |
| **Total assets** | **227 630** | **228 524** | **– 894** | **–** |
| Liabilities to banks | 56 584 | 60 962 | – 4 378 | – 7 |
| Liabilities to customers | 63 322 | 60 742 | 2 580 | 4 |
| Securitised liabilities | 66 076 | 71 061 | – 4 985 | – 7 |
| Financial liabilities at fair value through profit or loss | 20 529 | 16 596 | 3 933 | 24 |
| Provisions | 3 414 | 3 357 | 57 | 2 |
| Other liabilities | 11 162 | 10 005 | 1 157 | 12 |
| Reported equity including minority interests | 6 543 | 5 801 | 742 | 13 |
| **Total liabilities and equity** | **227 630** | **228 524** | **– 894** | **–** |

*) Changes in the previous year's figures are accounted for according to IAS 8
(See note (2) Adjustment of figures for the previous year)

Total assets fell compared to 31 December 2010 by € 894 million to € 227.6 billion. The fall in loans and advances to banks and financial assets is compensated in part by the rise in financial assets at fair value through profit or loss, loans and advances to customers and other assets. On the liabilities side, the main decline was seen in the liabilities towards banks as well as in securitised liabilities. Liabilities to customers and financial liabilities at fair value through profit or loss increased though. Reported equity rose by € 742 million. In particular the capital increase within the scope of the capital-boosting programme, which was achieved by the conversion of silent participations and an increase in cash capital, contributed to this. Profit distributions and the negative overall result for the period of € 84 million, which was affected in particular by the fall in the fair values of financial instruments in the Available for Sale (AfS) category, had an opposite effect.

Loans and advances to customers are still the largest balance sheet item at 51 per cent (50 per cent), followed by financial assets at 24 per cent (26 per cent).

Financial assets at fair value through profit or loss comprise trading assets and financial assets designated at fair value. While the latter fell slightly compared to the previous year, a nominal increase in debt securities and other fixed-interest securities resulted in an increase in trading assets. The overall increase as at 31 December 2011 was € 4.1 billion.

The rise in liabilities to customers is seen in particular in liabilities resulting from money market transactions to domestic customers. The fall in securitised liabilities is primarily the result of a fall in municipal bonds and the redemption of existing issues against lower new issues of securitisations.

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 € 4 billion. This is primarily attributable to the development of negative fair values from interest derivatives in trading liabilities.

NORDL/LB initiated a capital-boosting programme together with its owners in 2011. The aim of the programme was to generate hard core capital in the Group to a level that would satisfy the requirements of the EU-wide bank stress test announced in July 2011. This aim was achieved in full by the end of 2011 with the conversion of silent participations and other capital instruments and an increase in cash capital in the total amount of € 1.7 billion.

In order to also achieve by mid-2012 the hard core capital ratio of 9 per cent for system-relevant banks in the EU that was approved by the summit of EU heads of state and government in October 2011, this capital-boosting programme has been expanded. The minimum ratio specified should be met in particular by the conversion of further silent participations, the sale of investments and retained earnings.

As at 31 December 2011, the Group's regulatory capital totalled € 10.7 billion (€ 9.6 billion), of which € 8.0 billion related to core capital (previous year € 6.8 billion). The core capital ratio is 9.44 per cent (7.86 per cent). The own funds ratio (= total ratio) makes up 12.65 per cent of risk-weighted assets against 11.05 per cent in the previous year.

Please refer to the information on liquidity risks in the risk report for a detailed presentation of the bank's financial position.

# Summary

The performance of the business is considered to be satisfactory.

# Supplementary Report

In February 2012 Greece released an exchange offer for its sovereign bonds.

On 8 March 2012 all banks of the NORD/LB Group committed to accept the offer. At that day NORD/LB's nominal value of Greek sovereign bonds amounted to € 105 million. In addition the International Swaps and Derivatives Association Inc. (ISDA) stated on 9 March 2012 that due to the exchange offer for Greek sovereign bonds a credit event occured. Therefore all corresponding credit default swaps matured immediately. Corresponding credit default swaps within the NORD/LB Group portfolio in the nominal amount of € 94 million have already been recognised under fair value through profit or loss to € –56 million. One part of the credit default swaps in the amount of € 59 million is compensated by the delivery of securities.The other part in the amount of € 35 million is compensated by cash.

# Development of the Business Segments

## Savings Bank Network

The savings bank network consolidates savings bank syndicate business, business with the public sector (municipal business), institutional savings bank business and the private customer business.

NORD/LB implemented this network model as the basis of its collaboration with savings banks in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania in 2004 and since developed it to meet changing conditions. As part of the savings bank finance group NORD/LB is available as a partner for its customers wherever it can generate added value. Accordingly it also offers its products and services to among others the savings banks in Schleswig-Holstein.

**Syndicate Business**
Syndicate Business can look back on what was on the whole a successful financial year. With the risk structure remaining satisfactory, the customer portfolio was developed steadily and there was a significant increase in new business compared to the previous year. Growth in the loan portfolio can be seen overall with scheduled repayments.

The loan processes implemented in the past year which are structured specifically to meet the requirements of savings banks continue to be widely accepted. With the savings bank vote being considered in the credit decision, the knowledge and experience of local savings banks can be used optimally and the credit decision can be made much more quickly.

In addition to its lending business, NORD/LB was also able to assist and support its customers in the network region in the area of Mergers & Acquisitions.

**Municipal Business**
Within the scope of municipality financing, the collaboration with local authorities in Germany was characterised in 2011 on the one hand by a noticeable relaxation in the municipal financing situation. On the other hand, German municipalities were, due to the latest decision of the Basel Committee on Banking Supervision and the continuing national debt crisis, the subject of a public debate on sustainable financial capacity and the resulting financing risk.

The level of municipal and cash loans in the owners' region and the states of Schleswig-Holstein and Brandenburg remained constant in the year under review. The pleasing development in new business compared to the previous year is seen alongside a high decline in portfolio business. This is attributable among other things to the consolidation programmes of individual federal states in the business region to support the municipalities, which have resulted in a fall in demand for loans.

In addition to its traditional municipal business, NORD/LB advises municipalities holistically on all matters concerning municipal finance. NORD/LB is also involved in nationwide projects to develop the collaboration with municipalities. The "Municipal Debt Diagnosis" project launched by the Deutscher Sparkassen- und Giroverband (German Association of Savings Banks and Girobanks, DSGV) in 2010 was supported again in 2011. Closer contact was established with many local authorities not least of all due to this project. The themes included the use of derivative financing instruments, feasibility studies for major municipal projects and the marketing of industrial estates.

**Promotional Business**
The development of the promotional business is essentially dependent on the promotional policy of the respective federal government, changes in interest rates and the business policies of the savings banks. NORD/LB follows developments by communicating closely with the development institutes, in particular the KfW (Reconstruction Loan Corporation), the DSGV and the state associations. In addition to this, the savings banks are supported by seminars, up-to-date training on promotion and joint customer visits.

After new business reflected Germany's economic recovery with a sharp rise and therefore an exceptional year in 2010, promotional business was at a higher level in 2011 compared to the years before 2010. At the same time many customers with promotional loans from the time of higher market interest rates made use of their cancellation right and refinanced at much lower interest rates with the funds of the savings bank. As a result the overall balance of promotional loans remained largely unchanged.

**Institutional Savings Bank Business**
The national finance crisis had a significant impact on the capital market business. The year was characterised by the run on German government bonds, the reduction in investments in other European government bonds and the alternative investment in European covered bonds. The investment policy of the savings banks, which focuses on conservative and liquid market segments, reflected these developments. In close collaboration with NORD/LB, many planned transactions were successfully implemented. The expertise of NORD/LB in the covered bond segment came into its own. The Covered Bond Day, which brought European issuers and NORD/LB customers closer together, and the participation of NORD/LB in issue syndicates of European covered bond issuers reinforced this.

**Private Customer Business**
In the private customer business important changes were necessary during the course of the year to meet new regulatory requirements. These concerned in particular the organisation of sales processes in terms of quality of information and adviser liability. NORD/LB supported the savings banks as they designed their own investment process.

The placement of investment products was characterised by great uncertainty and customers unwilling to commit in 2011. Primarily closed German real estate investment funds, solar project funds and engine funds were preferred by subscribers. After a good level of sales in the first half of the year primarily with conservative products, the debate about national debt in the eurozone and the stability of currencies caused great uncertainty. The volatility in money and capital markets also had a negative impact on this situation.

The key topic of generation management is becoming increasingly important when advising wealthy customers in savings banks. Following the needs and requirements of demographic change, NORD/LB extended its product and service offering in the area of generation management in 2011. In particular the execution of wills was met with great interest among the associated savings banks and their customers.

In the savings bank network business of Bremer Landesbank saw a successful continuation of all-round services for associated savings banks. Earnings have been maintained in an economic environment with distinctly competitive structures.

In the syndicated business with corporate customers conducted by associated savings banks, the focus of sales was again on interest rate and currency management as well as documentary foreign business, in addition to traditional financing business. 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.

In addition to its core business, in the Savings Bank Network of NORD/LB Luxembourg foreign currency loans are issued primarily to customers of associated savings banks under guarantee by the respective brokering savings bank. Here the bank generates added value here by promoting the concept of the association and by contributing its strengths in the area of foreign currency refinancing.

Compared to the previous year, the performance of the NORD/LB Group's Savings Bank Network has been very pleasing. The contribution to the operating result after loan loss provisions more than doubled due to an improved earnings and risk position and was € 47 million (€ 19 million) in 2011.

Net interest income was on a par with the previous year's figure. The contribution, which is mostly generated by lending business, amounts to € 62 million (€ 63 million) As in the previous year the largest contribution to the overall result came from NORD/LB AöR in the amount of € 45 million. Compared to the previous year significant increases were achieved in particular in NORD/LB AöR in income from services in syndicate business and in the profit/loss from financial instruments at fair value in the institutional savings bank business. The positive development in the fair value result following the fall in 2010 is attributable to a gradual normalisation of sales of structured products in 2011.

Due to the improved risk situation, the loan loss provisions in the savings bank syndicate business were reversed in the amount of € 6 million (in the previous year allocation in the amount of € 16 million).

Due to the positive development in earnings and at the same time a reduced equity commitment, the RoRaC rose significantly from 20 per cent to 50 per cent. The almost constant operating costs in the amount of € 53 million resulted in an improved CIR of 57 per cent (60 per cent).

## Private and Commercial Customers

As well as business with private, individual, commercial and small-business customers, 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 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 an integral part of NORD/LB it also has direct access to the full range of a major international bank. As a member of the savings bank financial group it also has access to its range of services.

Based on its current market leadership position, its strategic goal of quality leadership in consulting and service was pursued systematically in 2011.

In the private customer business the main emphasis of sales in the past year was on gaining deposits. For this purpose at the start of the year twelve-month fixed-rate savings accounts were offered with special attractive conditions. In this two-month campaign € 43 million worth of deposits were acquired. The anniversary product "1765" launched the countdown to the Landessparkasse's 250th birthday on 9 March 2015 in 2010. In 2011 this countdown continued successfully with the "Geburtstags-Privatkredit" (Birthday Personal Loan) campaign, which generated assets of € 19 million. Overall the amount of assets relating to personal loans rose by 4 per cent.

After the DekaBank-Vermögensmanagement's Profit Depot and Premium Select products were rated "Good+" by the FondsConsult study, the DekaBank's score improved once again and it emerged as the test winner in 2011 with an overall score of "1.8". Braunschweigische Landessparkasse has also been offering the "Park Account" since July 2011 with above-average interest rates for all endowment insurance policies and annuity insurance policies.

Particular attention was also paid in the past financial year on the customer group of new generation customers. The Germany-wide sales campaign "Giro sucht Hero" (Giro looks for a hero) staged a dual for the title of advertising star for the savings bank's giro account. The protagonists explained in print and TV advertisements as well as in online videos for Facebook and YouTube the product benefits of the savings bank's giro account. In addition to this, a new image campaign was launched for World Savings Day and actively supported with three-year fixed-rate savings accounts with special conditions and the "Sparplan 5" (Savings Plan 5) product exclusively for young customers (0–18 years old).

Focus was also placed in the young-customer sector on cooperation with local schools. Braunschweigische Landessparkasse has initiated together with the Braunschweig/Wolfenbüttel Volunteer Agency the "Money Bin" project in schools. The object of this preventative programme is to prepare pupils for issues such as financial services, advertising and consumption with honorary financial experts. The successful project was awarded the Innovation Prize by the German Association of Volunteer Agencies.

In asset management, special emphasis was placed with the implementation of the segment-specific sales concept in 2011 on customer loyalty and special events such as the Bad Harzburg Horse Racing Week, and the presentation of the services on offer in a new image brochure

In Braunschweigische Landessparkasse's Private Banking the high-quality range of services for customers was extended. This was confirmed not least of all by the "Fuchsbriefe", a leading reference medium in the area of private banking. In a test of endowment funds, the "Fuchsbriefe" once again rated NORD/LB's Private Banking as the top provider and as "recommended without reservation". In the year under review the bank started to expand its product range with a cooperation with a local real estate agency. Private Banking customers were advised of investment properties in a targeted manner and assisted in their financing.

In its Corporate Customers business, Braunschweigische Landessparkasse relied as in the previous year on an integrated advisory approach and the use of the S finance concept family. This was continued in 2011 with the launch of the S finance concept for the Corporate Customers segment and for municipalities/institutional customers. For the targeted support of private corporate customers, a so-called tandem support was implemented together with Private Banking. Based on the feedback to concept discussions, new potential business was developed and implemented with our specialists. For example, new business was secured with interest rates hedging by derivative financial instruments. On the liabilities side, fresh impetus has been gained on the private side of Corporate Customers which will involve customer relations being extended long term. With almost the same number of business giro account customers and a slight fall in credit volume, commission income increased overall by approx. 11 per cent.

Furthermore, the image campaign "Gut für das Braunschweiger Land" (Good for the Braunschweig region), in which the Landessparkasse offers its customers an interesting financing option with middle-market finance, was continued. The focus was on a KfW Entrepreneur Loan with attractive conditions that was actively promoted with posters, newspaper reports and letters to customers as well as in the internet.

The focus of Bremer Landesbank's private customer business in the year under review was on increasing its market share in private banking. Its business performance and further awards for the quality of its advisory services in 2011 underline its positioning as a premium provider. The Private Banking division of Bremer Landesbank was once again singled out as one of the best asset managers the German-speaking world with the distinction "summa cum laude" in the Elite Report from Munich.

The systematic implementation of an integrated advisory approach, which goes beyond financial analysis and takes into account the personal motives of customers, was a key element for these positive results. In Private Banking this is supported by asset concepts that are also based on financial planning aspects. Overall a pleasing increase in customers of 8 per cent compared to the previous year was recorded in Private Banking. In the private customer segment, the finance concept that is also based on financial planning aspects was also introduced for less complex asset situations.

"Business banking", i.e. the private side of corporate customers, was also promoted with success in Bremer Landesbank. Here the close collaboration and links with the Special Financing and Corporate Customer divisions ensured a high level of acceptance.

Bremer Landesbank's own independent Portfolio Management division was able to contribute to the positive result despite the continued restrained demand for securities products. The "Systematic Investment Process" (SIP®) designed by the bank is having an impact in particular on asset management, the SIP® fund family and on the advisory process. The deposit strategies of Bremer Landesbank were acknowledged by the Institut für Vermögensaufbau (Institute for Asset Accumulation) in Munich as having an "excellent risk-return ratio".

The Private Banking Division at NORD/LB Luxembourg 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. The bank is also active as approved insurance broker in Luxembourg.

The services provided still includes the design and issuing of public funds for Group-wide private banking and for external interested parties. The funds are supported by NORD/LB Luxembourg as the fund manager and initiator. Custodian bank activities are outsourced to a service provider.

The first half of 2011 was characterised by restrained demand for capital and share products. This trend intensified in the second half of 2011. The search for secure investments resulted in customer security deposits in a further reduction in the ratio of shares in favour of near money market investments. Private Banking's contribution to earnings increased significantly compared to the previous year particularly in interest products despite the difficult markets.

Income from insurance premiums in Öffentliche Versicherung Braunschweig (ÖVBS) rose in the year under review by approx. 3 per cent. Income from life insurance premiums exceeded the previous year's record result and rose despite a slight fall in the number of insurance contracts (by approx. 2,300 contracts, or a fall of almost 2 per cent) to € 164 million (€ 160 million). Gross income in property insurance also rose and was € 222 million (€ 216 million) in the year under review. The total number of insurance contracts rose by around 13,000 contracts compared to the previous year to roughly 1.3 million. The ÖVBS also successfully launched with StarterPlus disability insurance a product aimed specifically at job-starters up to the age of 25 as protection against occupational disability. In order to extend its market share of around 50 per cent in its sales region, ÖVBS has offered motor insurance since spring 2011 with an extended range of benefits and attractive options. By the end of the year it had almost 34,000 contracts in the latest tariff generation.

In 2011 the good contributions to earnings of the private and corporate customers business of Braunschweigische Landessparkasse and ÖVBS dominated the earnings of NORD/LB's Private and Commercial Customers division.

Overall a net income of € 90 million was reported. This is particularly pleasing after the previous year's results, in which the net income from DnB NORD was greater than the net income from interest, services and trading transactions.

Net interest income rose by € 4 million in 2011 despite a moderate fall in lending business due to the positive performance in deposit business attributable to the change in interest rates.

Due to the launch of a new IT system in Sales, which affected all of the applications relevant for providing customer advice, and the associated temporary reduction in active sales time, net commission income fell compared to the previous year by roughly € 1 million. The trading profit was increased by € 4 million compared to the previous year and compensated for the fall in net commission income. Together with a reduction in loan loss provisions of € 2 million, this resulted in a very pleasing result for this segment.

The change in the fee system of the loan-processing company KreditServices Nord (KSN) resulted in a reduction in administrative expenses of € 14 million and a reduction in other operating profit/loss.

With less equity employed and the positive result compared to the previous year, a RoRaC of 33 per cent is reported. The CIR improved to 75 per cent.

## Corporate Customers

The Corporate Customers segment 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).

NORD/LB's Corporate Customers business expanded again in 2011. Around 140 companies were acquired as new customers. Traditional credit financing remained an important component in the product portfolio of the Corporate Customers business. In addition to this, the focus was on individual, innovative solutions in close cooperation with the Corporate Finance product division.

The economic conditions were attractive for many customers and resulted in a good order situation. The related rise in receivables in the balance sheets of customers resulted in greater focus on alternative forms of capital procurement. Finance solutions such as factoring, reverse factoring, borrowing base financing and the syndication of structured receivables portfolio purchases provided NORD/LB's customers not only with the required liquidity, but at the same time optimised the structure of their balance sheets.

Within the scope of a bonded loan offensive, which commenced two years ago, NORD/LB again placed bonded loans very successfully in the capital market for its customers in the year under review. Bonded loans represent an interesting opportunity for customers to gain initial capital market experience and to make themselves known to external investors. The customers receive finance without additional ties. This significantly increases their entrepreneurial and financial flexibility in competition. In 2011 around 100 investors provided NORD/LB customers with considerable liquid funds via this instrument; these funds were used to finance individual projects.

The special competence of NORD/LB in the area of residential housing is making an impact nationwide. NORD/LB is one of the Top 10 financers in residential housing in Germany. Municipalities and other parties engaged in the area of residential housing increasingly have to face the challenges of climate protection and providing areas for housing as well as consider demographic changes. With intelligent solutions such as sale-and-lease-back constructions and forward loans, NORD/LB helped its Real Estate Banking Customers to optimise their financing structures, improve their rating, release liquidity and retain their real estate assets.

NORD/LB also reinforced its market position as the most significant special financer in the agricultural segment in the year under review. In the run-up to the amendment to the German Renewable Energy Sources Act (EEG) on 1 January 2012, there was a further investment boom in the area of renewable energies. In 2011 NORD/LB financed approx. 150 new biogas plants near to farms and capacity expansions for existing plants with a total output of 60 megawatts and a total credit volume of approx. € 200 million. The exclusive use of agricultural economists in customer support with specific knowledge on the structures, production processes and market parameters in the agricultural sector has been well-received. NORD/LB was therefore able to expand its Agricultural Banking business far beyond the borders of Northern Germany.

Bremer Landesbank's Corporate Customers division focuses on business with middle-market corporate customers and small business customers in the Nord West region.

Sales activities were expanded in 2011. In a very demanding market environment, earnings were well above expectations in this segment. A pleasing increase in the volume of both investment loans and working capital loans was recorded. Traditional investment activity in the region was somewhat restrained for a while; the reinforcement of sales in the area of "public funding" resulted though in a pleasing increase in the volume of long-term finance. Despite the increase in credit volume, risk costs were well below the anticipated values.

Commodity forward trading with agricultural raw materials showed itself to be a promising niche product as commission business; a significant increase was achieved here. With the launch of an electronic trading platform at the end of 2011, the foundations for further growth were laid. The high fluctuation of interest rates in 2011 resulted in an increase in demand for derivative products.

The business activities of Skandifinanz AG were wound down completely in the year under review and transferred to the parent company NORD/LB Luxembourg. Skandifinanz AG returned its banking licence in December 2011 with the approval of the Swiss Financial Market Supervisory Authority.

The Corporate Customers business concluded another successful year with a contribution to consolidated earnings of € 177 million. Interest income continued to develop positively and improved compared to the previous year by 4 per cent to € 234 million.

New business activities bore fruit in the lending business and were reflected in increased volumes. Deposit business also benefited from increased volumes and improved margins.

Net commission income increased compared to the previous year by 13 per cent to € 29 million due to an increase in income relating to fees for advisory services and in particular to product specialists. Corporate Customers business also benefited from an increase in commission income from securities business.

The NORD/LB Group generated a very pleasing trading profit of € 16 million from interest and currency management in its Corporate Customers business. This was almost double the previous year's figure.

In 2011 the risk situation developed very moderately. Risk costs more than halved compared to the previous year and remained well below expectations.

As a results of the significant absolute increase in income against almost unchanged administrative expenses, the already very good cost-income ratio improved again compared to the previous year and was only 26 per cent in 2011. Based on the high-value credit portfolio, the RoRaC reached a very pleasing 30 per cent in 2011.

## Real Estate Banking Customers

As part of the strategic realignment of the NORD/LB Group, NORD/LB is gradually concentrating its commercial real estate business in the wholly-owned subsidiary Deutsche Hypothekenbank (Actien-Gesellschaft). The transfer of existing business, which started in 2009, from NORD/LB to Deutsche Hypothekenbank should be largely completed by the end of 2013. 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 financing projects in the target markets of Germany, Western Europe and the USA. The portfolio includes asset classes such as office and commercial buildings, shopping centres and residential construction measures. The focus is on quality properties with a good tenant structure and a constant and plannable cash flow. Both long-term loans and short-term interim loans for new construction projects and existing properties were issued.

Deutsche Hypo acts as an independent competence centre for the Group. Its main areas of business are clearly defined as retail, office, logistics, hotel and multi-storey residential construction in the target markets of Germany, Great Britain, France, Benelux, Spain and the USA. The bank will also continue to stick to is strategic policy of conducting approximately two thirds of its business in Germany and one third abroad.

In addition to the transferred credit commitments of NORD/LB, new real estate finance of approx. € 3.0 billion (€ 1.8 billion) was generated by Deutsche Hypo in the year under review. The volume of new business was increased significantly in particular in the real estate markets of Germany and Great Britain, while the development in Spain and the USA was rather restrained. Significant focus was placed on expanding project developments – an area in which the bank has possessed great expertise for many years and achieved almost € 1 billion of new business this year alone.

Bremer Landesbank's clear focus in the financing of community interest properties, for which the bank now acts as a competence centre in the NORD/LB Group, lies in the financing of nursing homes. Demographic trends and the growing need for in-patient nursing highlight the strategic importance of this area.

Compared to the previous year earnings before taxes in the Real Estate Banking Customers segment increased to € 118 million (€ 99 million). This development is primarily attributable to lower loan loss provisions. Due to the asset transfer, a shift in earnings in this segment has been recorded from NORD/LB to Deutsche Hypo.

After a significant increase in the previous year, net interest income remained virtually constant at € 245 million (€ 248 million). Positive growth was recorded due to the increase in derivative business in the profit/loss from financial instruments at fair value through profit or loss and guarantee and processing commissions in net commission income. The fall in income from services compared to 2010 is attributable in part to the noticeable improvement in the quality of the portfolio and the associated lower income from restructurings in Deutsche Hypothekenbank. It is also attributable to the reporting of the payments within the scope of the mandate by NORD/LB to Deutsche Hypo being synchronised: instead of these payments being reported under administrative expenses, NORD/LB now reports them under net commission income. As a result administrative expenses have also reduced.

The improved risk situation results in lower loan loss provisions of € 91 million (€ 110 million) in 2011 compared to the previous year. Deutsche Hypothekenbank accounts for allocations to loan loss provisions of € 78 million; these are almost exclusively for its foreign business.

The CIR is a low 21 per cent. The RoRac developed positively compared to the previous year in particular due to the lower loan loss provisions and at the same time reduced equity commitment and is 11 per cent.

## Energy and Infrastructure Customers

The Energy and Infrastructure Customers segment focuses on the structuring and arranging of individual financing solutions in the growth sectors of renewable energies and social infrastructure. NORD/LB relies here on long-term customer relationships and supports its customers with flexible and creative approaches in global markets.

Since the start of the 1990s NORD/LB finances projects in the growth sector of renewable energies. The focus is on financing sustainable energy production from wind and solar energy. NORD/LB serves together with Bremer Landesbank a broad range of projects, from the small local North German project to the major global project in Europe or North America.

For example, in 2011 NORD/LB financed a 16 megawatt wind park near Hanover with the operator WKN AG. In England the Bank supported the innovative financing of a 24.6 megawatt wind park with the German developer and operator Energiekontor AG. In Ireland NORD/LB acted as both the financial adviser and mandated lead arranger for a 36.8 megawatt wind park together with its longstanding German cooperation partner Enercon GmbH. The global focus is also shown by a commitment in the area of solar energy with the structuring and financing of a further solar park with German technology in Canada.

The area of offshore wind energy had a particularly positive impact in the year under review. Here NORD/LB has arranged and structured in recent years together with three other banks the financing of Global Tech I. The 400 megawatt North Sea wind park represents the largest project in terms of finance to date with 80 wind turbines and a volume of € 1.047 billion. NORD/LB was therefore able to successfully use its wind-energy know-how gained over many years in a market of the future.

The second major pillar in the area of structured finance is international infrastructure. Within the scope of social infrastructure projects, NORD/LB concentrates on building construction, education, "blue-light" projects and waste/waste water. The subdivision of transport infrastructure concentrates on road, rail and street-lighting projects and the financing of rail franchises.

As a public bank, NORD/LB used its proximity to public authorities for public finance initiatives (PFI) and public private partnership business (PPP). NORD/LB was one of the first German banks to successfully provide public private partnership financing in the British and German markets. Its market position was extended again in 2011 with the structuring and financing of further projects particularly in Great Britain. For example, school buildings in Salford, England, were successfully financed by PPP solutions. The previous year's successes were repeated with further "street-lighting projects" in England, the financing of fire stations and a waste recycling plant.

The German PPP market was again characterised by the Economic Stimulus Package II (Konjunkturpaket II) and restrained public investment in 2011. NORD/LB's know-how was used in a PPP guideline for Lower Saxony, which is aimed at both the municipalities and potential investors.

Bremer Landesbank recorded significant growth in the renewable energies segment in the past financial year. New business development reflects the increased structuring and financing requirement of customers after the amendment to the German Renewable Energy Sources Act (EEG) in 2008. In particular wind power, biogas and photovoltaics may continue to benefit from the positive conditions. 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 2011 and strengthened its earnings. Bremer Landesbank has acted the NORD/LB Group's competence centre in this sub-segment since 2008 and remains with a wide customer base a reliable partner for bank-related leasing companies. Since the start of 2011 initial transactions have been concluded relating to the refinancing of factoring companies.

Overall the segment's contribution to the operating result of € 128 million was at the previous year's level. By focusing on high-quality assets and projects, loan loss provisions were reduced significantly by € 15 million compared to the previous year. As a result risk-weighted assets were reduced by 9 per cent. Net interest income fell slightly compared to the previous year (– 4 per cent). The previous year's pleasing result in income from services and trading profit was virtually maintained (€ – 2 million).

The continued investments in this segment have resulted in an increase in operating costs of € 7 million.

The overall development of the income items resulted in the RoRac remaining stable compared to the previous year at 24 per cent. The CIR rose though from 20 to 24 per cent, although this figure is still low.

## Ship and Aircraft Customers

**Ship Financing**
After a pleasing start to 2011, the market for container ships came increasingly under pressure from April. The reasons for this included a significant increase in transport capacity (due in part to a high number of new deliveries) and a slowdown in growth in the demand for container transport to the western industrial nations (due specifically to the debt crisis in the USA and the euro crisis). The market was also characterised by a high level of competition and cut-throat competition among major shipping lines. Freight rates and charter rates fell significantly, while fuel costs rose.

The situation remained tense for carriers of bulk goods. There remained a strong imbalance between tonnage growth and demand, which in turn had a negative impact in particular on ship values.

Activities in 2011 therefore focused on supporting existing customers. NORD/LB supported its customers in particular with follow-up financing or the extension of existing financing, whereby the difficult conditions were taken into account with active risk management. Intensive portfolio monitoring and control is therefore an important component of this focus.

In addition to this, new business was selectively acquired. For example, NORD/LB is providing as the syndicate leader for a bank consortium for Meyer Werft GmbH in Papenburg financing for the construction of a new cruise ship for 2,800 passengers.

Since the crisis in the shipping sector worsened, Bremer Landesbank has only concluded new business selectively and to a limited degree. The growth in volume is attributable in particular to deliveries from business contracted in previous years. Bremer Landesbank is well positioned with long-term loan structures with long-standing direct customers and is expecting that there will be a moderate but noticeable market recovery. In the long term the bank is expecting that there will be steady rise in the volume of world trade and a rise in demand for modern shipping tonnage.

**Aircraft Financing**
On the whole, the air passenger transport markets developed positively in 2011. However, in general there continue to be great geographical differences concerning the respective transport developments. These are attributable on the one hand to varying economic developments and external shocks (e.g. impact of the unrest in some countries in North Africa, weakness of the Japanese market as a result of the earthquake).

The global air freight markets came increasingly under pressure from June 2011. The reasons for this development included economic uncertainty, the drop in total demand and the associated fall in the business climate index and consumer confidence.

Following the withholding of orders for new aircraft by airlines at the height of the last economic crisis, there was a significant rise in new orders in 2010. Aircraft manufacturers again recorded a high level of incoming orders in 2011 in the civil aviation industry and increased their production rates.

NORD/LB's new business remained brisk and concentrated on the latest generation aircraft. With the spreading of risk in mind, aircraft portfolios that are joint liability schemes and include additional security instructions to prevent default account for most of the commitments.

NORD/LB also acquired interesting mandates for export financing; for example 18 Boeing 737-800 aircraft for the low-cost Irish carrier Ryanair are being financed by NORD/LB in the total amount of approx. € 370 million against a guarantee by the US EXIM Bank. Activities with selected partners were also continued in the market for closed funds.

As a result shipping and aircraft financing was able to increase its contribution to the operating result to € 243 million (€ 230 million). A significant driver of this result was a € 27 million increase in interest income. Both the increase in margins as a result of the worsening of the crisis in the shipping sector and the increased volume due to new business in the area of aircraft financing played a role here.

Due to limited opportunities for new business and lower restructuring fees, the income from services and trading fell by € 14 million from the previous year's very high level. The difficult market conditions are reflected in the constantly high level of loan loss provisions and risk-weighted assets. The RoRac improved compared to the previous year from 13 per cent to 14 per cent. The high level of resources tied up due to the difficult market conditions for ship financing resulted with an increase in administrative expenses of € 4 million in a slightly higher CIR.

## Financial Markets

**Corporate Sales**
In the capital market business for national and international corporate and special financing customers, mixed results were achieved in the past financial year. Overall, though, the positive development in customer business continued with very pleasing growth rates. Low interest rates in euro, US dollar, pound sterling and Japanese yen were actively used to hedge variable-rate financing both in new lending business and in the existing loan portfolio. In currency business the high volatility of the currency markets was used to hedge foreign currency risks, for example with the increased use of option strategies. Here the Corporate Sales specialists follow the approach of developing customised, customer-oriented solutions and providing high-quality advice.

**Markets**
The reputation gained in recent years among institutional customers contributed again towards a significant increase in sales volumes in 2011. In particular in the area of interest products, the previous year's very good result was once again exceeded. Due to the significant fall in interest rates, institutional customers and banks attached much greater importance to registered and bonded securities and to structured products. The lower risk appetite in customer portfolios resulted in a fall in demand in direct business for share products. However, sales within the scope of special fund mandates rose.

Due to the continued development of our relationship management for institutional customers and the systematic implementation of the customer-focused approach towards support, business relations with strategic target customers were strengthened both qualitatively and quantitatively. This included among other things the selective expansion of lending business, an increase in payment transaction business and an increase in custodian bank activities. NORD/LB held its own in the highly competitive segment of custodian bank business with institutional customers. Once again a significant inflow of funds was recorded here.

In the year under review the US dollar refinancing was placed on a broader base. For example, additional investors were acquired for structured NORD/LB US dollar issues in Asia. As a result, compared to previous years more currency-congruent refinancing was generated for NORD/LB's lending business in US dollars. Due to the structuring of issue products, the bank was also able to achieve a significant funding advantage over traditional issues. In the year under review the issue of multiple-call zero structures generated a significant volume in US dollars.

NORD/LB remains the only German Landesbank which has successfully launched issues in the US dollar segment. What is also particularly pleasing is that with some of these issues NORD/LB appeared for the first time externally as a dealer of structured US dollar issues in the Euro Medium Term Note programme (EMTN).

NORD/LB extended its market position significantly in the support of new issues in all defined core areas. The number of joint lead mandates was, viewed across all segments, more than doubled. This was also reflected with significant increases in the earnings realised. In the Bloomberg League Tables, in the segment of German federal state bonds, NORD/LB achieved after several years of being positioned in the leading the group the sole leadership position for the first time. In the "German jumbo covered bond" segment it achieved a place among the top ten institutes for the first time with fifth place.

Involvement in Western Europe and Scandinavia was also extended in the year under review. NORD/LB presented itself with remarkable performances for various transactions in lead positions in issue syndicates and as a provider of know-how at various congresses as a first-class address for foreign issues and in particular covered bonds. At the same the "Origination Corporates" segment was successfully developed with the result that eight bond mandates were successfully placed on the market. NORD/LB therefore provides small and medium-sized enterprises and energy suppliers with access to the capital market.

**Portfolio Investments**
The result of the Portfolio Investments division was affected in the previous year by the distortions as a result of the national debt crisis and the associated poor development in the capital market. Strategic interest management and Single Name Credit Investments made a positive contribution to interest income. The latter also had to take into account valuation losses, as did Equity & Fund Investments. With some investments (Single Name Credits and Asset Back Securities (ABS)), losses were realised due to risk reduction measures which had a negative impact on the result. Overall the reduction in the volume of the portfolio due to maturities over the course of the year and due to disposals made a significant contribution to limiting the growth of the bank's risk-weighted assets (RWA). Due to the conservative investment policy, the division continues to be affected to a lesser degree by the national debt crisis than other market participants.

**Treasury**
In the Treasury Division, which is responsible for the operational control of interest, exchange rate and liquidity risks, the effects of the financial market crisis were again felt in 2011. The business and earnings development was primarily characterised in the second half of the year by the national debt crisis. The negative impact of the necessary Greece impairment was compensated among other things though by the exploitation of spreads between the maturities of the steep yield curve. The diversification of funding sources and the continual adjustment of the product range against the background of ever-changing market requirements and the current and upcoming changes to the legal and regulatory framework (Basel III, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) etc.) remain the division's focus.

The Financial Markets division of Bremer Landesbank provides access to national and international financial markets for private and institutional customers and for the bank's own business. The long and short-term refinancing measures of Bremer Landesbank are also performed in the Financial Markets division.

The operational capital market business was conducted in a market environment that was largely characterised by the effects of the euro crisis and the international and inter-institutional efforts to limit the consequences in the financial and real markets.

The treasury, trading and sales activities of the Financial Markets units of Bremer Landesbank proved to be successful here, with activities focused on controlling liquidity and interest rate risks, securing the continuous liquidity of the bank and providing customers with money and capital market products.

The division's sales units again recorded high sales and continuous demand for advice and support in all money, currency and derivative products in 2011. In the year under review extended credit spreads again had and effect on the profit/loss from financial instruments at fair value through profit or loss.

Despite the turbulence in financial markets, Deutsche Hypo's capital market business proved to be robust. Investments are made in particular in assets which generate a constant cash flow, such as state-funded housing construction, medical care and infrastructure projects with state guarantees. The geographical focus is currently on Germany, the Netherlands and Scandinavia. As Deutsche Hypo continues to place high quality requirements on new business, the volume of new business fell again in the year under review. The concentration on first-class credit ratings was implemented in full. The bank used 2011 to extend its position and reputation as a quality issuing house. Demand remained high among investors for Deutschen Hypo's secured and unsecured bonds. In March 2011 for example a jumbo public sector Pfandbrief was placed very successfully. The fact that a negative contribution to earnings was generated overall is explained primarily by the performance of credit derivatives and by credit-spread effects on financial instruments at fair value through profit or loss.

The trading division of NORD/LB Luxembourg re-positioned itself at the start of the financial year 2011 under the name Financial Markets. The new structure underlines the increased focus on customer-oriented business. The Client Relationship Management, Corporate Sales and Risk Distribution & Solutions groups are new, while the traditional internal, trading-related service functions are consolidated in the ALM (Asset Liability Management)/Treasury division. The bank no longer conducts credit investments and the current portfolio is gradually being wound down.

*Client Relationship Management (CRM)*
The target group is exclusively institutional customers in Switzerland, the Benelux countries and Liechtenstein. CRM acts as the central point of contact for customers and arranges business relating to the whole product range established in the NORD/LB Group.

*Corporate Sales (CS)*
The Corporate Sales team is the product specialist for interest and currency management and offers potential analysis and the development of customised solutions for customers. Here the focus is on developing existing customer relations in NORD/LB's Corporate Customers segment.

*Risk Distribution & Solutions (RDS)*
The RDS team is the placement agent for credit products, both for external mandates and counterparties and for NORD/LB's internal market divisions and products. Banks, funds, pension funds and insurance policies are supported from the European financial centre of Luxembourg.

*ALM/Treasury*
ALM/Treasury is a service provider for the bank and a solution provider for all issues relating to liquidity and interest and currency management. The division is primarily responsible for balance sheet structure management and trades in securities for the purpose of controlling liquidity and interest rate risk.

A broad diversification of refinancing sources for lending business and high flexibility with regard to currencies, maturities and repayment structures are ensured. Refinancing sources include deposits by banks and institutional investors, issue programmes (European Commercial Paper, European Medium Term Notes), open market transactions and internal funding for maturity bands over 24 months. The bank also acts as a repo buyer to increase the share of secured lending business.

To control interest rate risks the bank also uses the trading book, primarily with derivatives. With derivatives there is a concentration on interest rate swaps, forward foreign exchange transactions including interest swaps and futures. In so doing the bank does not take any material risks in relation to complex derivative products.

In the Credit Investments & Solutions (CIS) portfolio the planned reduction in the volume was achieved by targeted sales and by not reinvesting maturing securities. No new business was conducted, so the CIS portfolio will be phased out via the maturities of the respective transactions.

The result of Financial Markets was greatly affected by the national debt crisis in the second half of the year. However, the negative impact of the impairment of Greek securities was compensated by actively controlling interest rate risk in the Treasury Division.

The NORD/LB Group possesses a unique selling proposition in COVERED FINANCE BANK S.A. (NORD/LB CFB). NORD/LB is the first and only landesbank which is able to issue lettres de gage publiques in different maturity bands and currencies for its long-term refinancing. Luxembourg's covered bond law, which allows loans and advances to municipal companies (public utilities, water utilities, airports and seaports, etc.) to be covered, provides municipal companies with optimal financing conditions.

The growth in new issues in the Covered Bond segment largely took place in the first half of 2011 and was at the expense of the market for uncovered liabilities (senior unsecured). In the past financial year NORD/LB CFB's lettres de gage publiques continued to hold their own against the competition from government bonds. Due to their good credit rating and high security, lettres de gage have been competitive against the comparatively unsecure and therefore higher interest bonds of many governments.

In the financial year 2011 the new issue activities of NORD/LB CFB concentrated on the euro, US dollar, Swiss franc and Norwegian krone in primarily medium to long-term maturities. For the first time the bank was also able to place uncovered bonded loans with cancellation rights on the market.

With the goal of risk optimisation and risk diversification, in addition to its direct business with customers the bank also acquires international municipal lending business and other assets suitable for its cover pool via international banks and investment houses. As in the previous two years, the bank focused its new business activities again in 2011 on the customer segment "municipal companies in Germany". As at 31 December 2011 German assets, in particular municipal companies and public banks such as savings banks and development banks, make up the highest share in the cover pool.

Asset Management is conducted in NORD/LB 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 again performed positively despite the difficult capital market conditions. Commission income increased significantly compared to the previous year. This is attributable to the pleasing performance of managed assets. Assets under administration increased by € 1 billion to € 12 billion and assets under management by € 1 billion to € 8 billion.

In the past financial year the contribution to the operating result in the Financial Markets segment rose despite the continuing market turbulence in the eurozone by € 25 million to € 130 million. A reduction in valuation losses in particular in the subsidiaries and positive effects from risk reduction measures in NORD/LB AöR contributed significantly to this.

In interest income the previous year's very good performance due to the controlling of interest rate risk was not repeated due to the impact of the financial market crisis on all Group divisions. The reduction in particular in the bank portfolio that was pushed in 2011, as well as in credit derivatives, also resulted in a fall in interest income. Overall net interest income therefore fell in this segment by € 90 million. Net commission income fell in the year under review by ca. € 20 million due to a reduction in the ABS/CLO (Collateralised Loan Obligation) portfolio.

Within the scope of the portfolio reduction, the valuation allowances made in previous years were partly released through profit or loss, with a positive effect being recognised in loan loss provisions. The necessary risk protection for Greece commitments in the NORD/LB Group is reported in the profit/loss from financial assets; this has therefore fallen compared to the previous year by € 74 million.

The continuing credit-spread volatility in the capital markets in the year under review resulted in valuation losses in existing items (in particular credit derivatives) and a corresponding negative fair value result. Compared to the previous year losses were reduced though by € 108 million.

The positive one-off effects in other operating profit/loss are attributable to countermeasures to compensate for a reduction in earnings relating to the euro and national debt crisis.

Due to the improved earnings position and only a slight increase in administrative expenses the CIR improved to 43 per cent. The development in earnings results with less capital tied up due to portfolio reductions in an increased RoRaC compared to the previous year of 10 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”.

This item mainly shows sources of revenue for the entire bank which are not allocated to the profit centres, such as investment/financing revenue (among others, revenue from investments and from investments of capital), non-allocated service centre items (overhead costs), projects covering the entire bank, the profit/loss from other financial instruments, from financial assets, hedge accounting, other investments and consolidation items.

The loan loss provisions of the Group controlling/others segment include in particular the general loan loss provisions not allocated to the operational units. There were significant releases here in the year under review.

Ineffective hedge relationships resulted in a very positive profit/loss from hedge accounting in 2011. Disposals from the investment portfolio were the reason for a positive result in the profit/loss from financial assets under Group Controlling/Others in both reference years. The bank levy was recognised for the first time in 2011 under other operating profit/loss. The increase in administrative expenses was driven primarily by IT projects covering the entire bank, special depreciation and changes in the basis of consolidation.

**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.

# Business Activities and the General Environment

## Economic Development

**Germany**

2011 was a very successful year for the German economy in spite of the turmoil in the financial markets. According to initial estimates by the Federal Statistical Office, real gross domestic product (GDP) rose by 3.0 per cent compared to the previous year. GDP had already risen sharply by 3.7 per cent in 2010. Almost all economic sectors recorded growth in real value added in the past year. Thanks to the swift recovery, economic output reached the level achieved before the crisis by mid-2011. The deficit ratio has fallen to 1.0 per cent of nominal GDP due to the state of the economy, which meant that the deficit criteria of the European Stability and Growth Pact were met in the past year.

Alongside net exports, in particular private consumption provided impetus for growth in 2011. Due to its traditionally strong export sector, Germany benefited once again from the high level of demand in the emerging economies. However, a few special factors such as the disaster in Japan and a weak US economy slowed down growth in global trade in the first half of the year. The strong export growth of 8.2 compared to the previous year is above all proof of the fact that products “Made in Germany” are highly competitive. However, due to the sharp rise in imports (+7.2 per cent), net exports contributed only 0.8 percentage points to real GDP. Approximately 2 percentage points were therefore attributable to domestic demand.

Private consumption experienced thanks to a significant increase in real wages and an of late robust job market its highest real growth for five years, 1.5 per cent. There was also a high level of investment in 2011: investment in plant and equipment grew in real terms by 8.3 per cent, with low real interest rates and the sharp rise in capacity utilisation in the first half of the year contributing factors. Construction investment also recorded its highest level of growth for five years at 5.4 per cent.

The high annual growth rates hide the fact, though, that growth slowed down significantly during the course of the year. In the first quarter seasonally-adjusted real GDP rose by 1.3 per cent compared to the previous quarter. This trend was helped by the particularly mild weather, which brought forward the customary spring resurgence in the construction sector. As this simultaneously limited the capacity for expansion for the second quarter, the spring brought only an increase of 0.3 per cent in real GDP compared to the previous quarter. Private consumption suffered from the sharp rise in the price of crude oil and foreign trade effects also slowed down growth in the spring. Gross domestic product rose once more in the third quarter (+ 0.5 per cent); however, by the end of the year the economic engine started to splutter. The reported annual growth rate of 3.0 per cent (the Federal Statistical Office had to use in part estimates for the development in the final quarter) equate to a fall in GDP of almost 0.3 per cent in the last three months of 2011 compared to the previous quarter. This clearly indicates that the anticipated downturn has already started. This is also confirmed by the hard economic indicators. Although industrial production only fell slightly in November, the fall in incoming orders has had a negative impact on the outlook. Significantly fewer orders were received in particular from abroad, and this has curbed exports.

The job market benefited from the rate of economic growth in the past year. The positive trend has continued and the number of unemployed has fallen once again. On average just under three million people were registered as unemployed, 262,000 fewer than in 2010. The unemployment rate fell accordingly to average 6.8 per cent. This is the lowest level since unemployment rates for Germany as a whole started to be recorded. The national Index of Consumer Prices rose by 2.3 per cent in 2011. The rate of inflation therefore rose much more sharply than in the previous two years (1.1 and 0.4 per cent respectively). This was attributable in particular to the sharp rise in the price of crude oil.

## General Economic Development in Foreign Markets

**USA**
The US economy experienced contrasting fortunes in 2011: while the first half of the year was characterised by surprisingly poor economic growth despite good sentiment indicators, the second half of the year saw solid economic growth despite poorer sentiment indicators. The economic dip in the first six months was attributable in particular to a few exceptional negative factors such as freak weather conditions, the rise in the price of crude oil and the disaster in Japan with negative implications for the automotive industry. The necessary catch-up effects contributed significantly to the very robust growth achieved in the second half of the year. The strength lay in particular in the area of investment and consumption.

The period since August has been overshadowed by a new financial crisis. First of all the financial markets came under massive pressure when US politicians came to a budget compromise virtually at the last minute and the US ratings agency Standard & Poor's lowered the country's credit rating from AAA to AA+ as a direct consequence. The crisis in the eurozone was also a source of uncertainty worldwide. In particular these as yet unresolved difficulties represent in addition to the likewise uncertain US budget policy the two main economic risks for the USA in the current year.

The Federal Reserve stuck to its zero interest rate policy in 2011. The relaxed US monetary policy had a negative impact on the currency in particular in the first half of the year. During the course of the year market participants paid greater attention to the national debt crisis in the eurozone countries; this had a gradual detrimental impact on the EU single currency. The relaxing of the monetary reins by the European Central Bank (ECB) at the end of the year put the euro under further pressure. As a result of this action, the US dollar rose in value against the euro and was slightly below the rate of 1.30 USD/EUR at the end of the year. The crisis in the eurozone resulted in a rise in US treasuries; at the end of 2011 the yield of ten-year treasuries was just below 2.0 per cent.

**Asia**
In 2011 economic growth slowed down in Asia. After the swift recovery in 2010, growth was more moderate, even though the Chinese economy showed itself to be surprisingly robust at the end of the year. Economic development in Japan was hindered by the disaster caused by the earthquake, tsunami and nuclear meltdown in Fukushima on 11 March 2011. From an economic point of view the disruption of supply chains had a significant impact, increasing the fall in GDP in the first quarter. In particular the second quarter, though, was significantly affected by a fall in exports. The picture is further tarnished by Japan's high and growing national debt.

**Financial Markets**
The crisis in the eurozone again dominated the financial markets in the past year. Since the spring of 2010 the debt situation in some countries in the eurozone has kept capital markets and European politicians in suspense. After Portugal became the third country to be bailed out by the European Unions' rescue package at the start of the year, the crisis worsened once again. Having started with the massive budget problems in Greece, the debt crisis was now spreading to other countries in the eurozone such as Italy and Spain. The fall in government bond yields is evidence of the high level of distrust in the markets.

European politicians have tried to calm the capital markets in the past year by expanding existing stability mechanisms and in so doing prevent the debt crisis spreading to other countries in the eurozone. A range of new measures were adopted at a number of European summit meetings, with only limited success to date. Greece has received a second bailout package from its European partners with the voluntary participation of private investors, for which negotiations concerning a haircut were started. The European Financial Stability Facility (EFSF) was also improved qualitatively and quantitatively. In order to increase the clout of the EFSF, it was decided to increase its leverage.

Government bonds from countries with the highest credit ratings such as France, Austria and Finland came under greater pressure. The crisis is also having an increasingly negative impact on the real economy. Due to the necessary steps to consolidate public finance in many countries in the eurozone and the gloomy outlook for the global economy, the outlook for the economy in Europe has become bleaker during the course of the year. German government bonds continued to be viewed by the market as a safe haven in the eurozone. However, France and Austria lost their top rating, which also resulted in a downgrade of the EFSF.

Due to the escalating crisis in the eurozone, the ECB resumed its Securities Markets Programme (SMP) in August and has purchased government bonds in the amount of more than € 137 billion. In so doing it has almost tripled the total volume of its government bond portfolio in half a year. At the first two meetings of the Governing Council under the leadership of the new ECB President Mario Draghi, the ECB cut the interest rate twice to 1.0 per cent and therefore took back the interest rate increases of April and July. As the crisis in the eurozone was the most important issue in the capital markets, German federal securities remained much sought after. The yield of ten-year government bonds fell sharply by the end of 2011 to below 2.0 per cent. US treasuries were also sought after as a safe investment. The yield of ten-year treasuries fell during the crisis from the high of 3.7 per cent achieved in February to 1.7 per cent in September. The yield spread between the ten-year US treasuries and German government bonds gradually reduced during the course of the year. After a poor issue result for German government bonds in November, the yield of ten-year US treasuries was for a short period even 30 basis points below the yield for German government bonds. By the end of the year the situation normalised and the spread was almost even.

In the interbank market there were renewed tensions due to the crisis in the eurozone and the impending participation of the private sector in the bailout of Greece. After money market rates had largely normalised in the previous year, the 3-month EURIBOR listed at the end of the year at a good 120 basis points above its secured counterpart (EUREPO). The ECB reacted to this by flooding the markets with liquidity. For the first time in its history it provided liquidity for a period of up to three years. The banks obtained almost € 500 billion with the three-year tender in December. However, this did not calm the situation completely. European banks made increasing use of the deposit facility. At the end of 2011 the volume of overnight deposits rose to € 452 billion.

In the first half of the year the euro rose significantly in value against the US dollar. In particular the relaxed monetary policy of the US had a negative impact on its currency. During the course of the year market participants paid greater attention to the national debt crisis in the eurozone countries; this had a gradual detrimental impact on the EU single currency. The relaxing of monetary reins by the ECB at the end of the year put the euro under further pressure. With the escalating crisis in the eurozone, the US dollar rose in value against the euro and was slightly below the exchange rate of 1.30 USD/EUR at the end of the year. Compared to the pound sterling, the euro moved within a relatively narrow band of 0.91 to 0.83 GBP/EUR and the exchange rate at the end of the year was 0.83 GBP/EUR.

The most important share markets were also affected by the national debt crises on either side of the Atlantic by mid-2011. However, the prospect of a slowdown in global growth also played a role here. The leading German share index DAX fell from its high of more than 7,500 points recorded in May to 5,000 points for a period in the summer. Even though the DAX gradually recovered from these lows, its annual performance was negative, as it was for most other international share indices.

# Forecasts and Other Information on Anticipated Developments

## General Economic Development

Global economic growth will be much slower in 2012 than in the two previous years. The real economic consequences of the crisis in the eurozone were starting to become increasingly noticeable at the end of 2011.

The US economy entered the new year with decent momentum. Consumption will remain an important driver of growth with a gradual rise in the incomes of private households and a fall in the inflation rate. Investment will also continue to rise, although at a much slower rate than in the previous year. We expect in view of the recent rise in sentiment surveys in the business sector and improved consumer confidence GDP growth of 2.2 per cent in 2012. The Federal Reserve has announced that it will not raise interest rates this year. The greatest risk for the global economy and therefore for the US economy is the debt crisis in the eurozone.

The easing of the European crisis will be made more difficult by the growing strain on the real economy. For 2012 GDP is expected to fall by 0.2 per cent in the eurozone compared to the previous year. Harsh austerity programmes in several countries will have a dampening effect. NORD/LB expects that the economy will slow down more in Spain and Italy than in the eurozone as a whole. The high level of unemployment in many countries will remain a major problem. Greece and Portugal will also not be able to come out of the harsh adjustment recession due to their austerity policies in 2012.

Germany will not be unaffected by this due to its high export orientation. However, NORD/LB expects slight economic growth of 0.5 per cent thanks to a robust domestic economy. Economic development will be buoyed in particular by private consumption. The extent of the economic slowdown and the question of how quickly the economy can recover again will depend greatly on how the debt crisis will develop.

The inflation rate will return to the area tolerated by the European Central Bank (ECB) due to the significant economic downturn and basis effects in the current year. The rise in administered prices should prevent too severe a drop; we therefore expect the Harmonised Index of Consumer Prices (HICP) to rise by 1.9 per cent in the eurozone. In Germany the rate of inflation is expected to be somewhat lower. The ECB has already returned to a base rate of 1.0 per cent. This level should not be touched until well into 2013, although there is a certain chance of a further cut in the interest rate. Development concerning lending in the eurozone and the aggregated money supply is so subdued, that there is no significant threat of inflation even in the medium term. In view of the ongoing difficult situation in the financial markets against the background of the debt crisis, the ECB will continue the unconventional measures in 2012.

German government bonds will remain safe, but the safe-haven motive should, depending on the crisis strategy adopted by politicians, gradually become less relevant. By the end of the year we expect a moderate rise in yields with a constantly steep yield curve. However, here too there is extraordinarily high uncertainty due to European policy being difficult to assess.

## NORD/LB Planning for 2012

For 2012 the NORD/LB Group is planning, based on the operational successes of the previous year, to continue to develop the solid result of 2011 qualitatively and quantitatively, although it is becoming more difficult to increase annual profits under the current regulatory and economic conditions Overall though, NORD/LB will continue on a cautious development path, but a significant rise in earnings is only expected in the medium term after the national debt crisis in the eurozone has been overcome.

On the income side the bank is planning for the contribution to earnings to remain steady despite a fall in net interest income as a result of lower earnings due to interest rates, higher refinancing expenses and positive one-off effects in the previous year (sale of Deka etc.). In net commission income, profit/loss from financial instruments at fair value through profit or loss (including hedge accounting) and profit/loss from investments accounted for using the equity method, the contribution to earnings is expected to be higher than in the previous year. Other operating profit/loss, which includes the bank levy, is planned to be lower than in the previous year due to the non-recurrence of special effects.

With administrative expenses the NORD/LB Group is expecting staff expenses to stay roughly at a constant level. Reductions in NORD/LB AöR due to the efficiency improvement programme will be more than compensated for by increases in the subsidiaries. Other administrative expenses will rise due among other things to the capitalisation of project costs, with the result that overall a moderate increase in administrative expenses is expected.

Due to the economic slowdown NORD/LB is expecting a difficult year in lending business; it has made high loan loss provisions and the adequate risk buffer set for 2012 is well above the loan loss provisions actually required in 2011. Reversals of general loan loss provisions as seen in 2011 are not planned for 2012.

NORD/LB's earnings before taxes in 2012 are planned to be higher than in 2010, but will not reach the previous year's outstanding level that was influenced by positive one-off effects; the RoE and CIR will develop accordingly.

NORD/LB will meet the increased capital requirements demanded by the European Banking Authority (EBA) by mid-2012 in full with the support of the owners. The first package of measures had already been implemented by the end of 2011.

## Business Segment Planning for 2012

**Private and Commercial Customers**

The Private and Commercial Customers segment mainly reports on the results of the Private, Individual, Private Banking, Commercial, Small Business and Corporate Customers strategic business units of Braunschweigische Landessparkasse, Bremer Landesbank, Norddeutsche Landesbank Luxembourg and Öffentliche Versicherung Braunschweig.

In this business segment NORD/LB will continue its strategy in the respective locations. NORD/LB AöR positions itself as a quality supplier in the market. The aim is to achieve an even greater maximisation of potential by meeting defined contact ratios and applying the S finance concept while providing support that meets customer needs. At the same time greater cooperation with ÖVBS is planned. With the introduction of a joint Service Counter with ÖVBS, a further increase in the sale of insurance products is planned. For the targeted support of private corporate customers, the tandem support (advice provided by corporate and private customer advisers) will be intensified. In the current year a further improvement in processes is planned with the optimisation of throughput times with the focus on real estate advice. In Bremer Landesbank, Private Banking should continue to grow. NORD/LB Luxembourg intends to step up activity with low-risk investments and by focusing on real estate finance.

Overall the previous year's earnings will not be repeated in the coming year. A fall in particular in deposit business due to interest rates and lower earnings from financial instruments at fair value through profit or loss will not be able to be fully compensated for by an increase in income from services, interest income from ÖVBS and profit/loss from financial assets from ÖVBS.

After moderate loan loss provisions in the previous year, the imputed loan loss provisions required for 2012 have been provided for again.

Compared to the previous year, administrative expenses will increase at approximately in line with inflation. A slight reduction in staff expenses in NORD/LB AöR due to the efficiency improvement programme will be more than compensated for by increases in the subsidiaries. There will be a rise in the cost of materials due to the increase in IT costs and the regular exchange of customer cards.

As a result of the increase in cost of materials and loan loss provisions with income remaining constant, overall a fall in the contribution to earnings is expected in this business segment for 2012 with a corresponding impact on the key figures.

Competitive pressure from other market participants remains high and the impact on the business volume and margins remains to be seen.

**Savings Bank Network**
The focus in the Savings Bank Network of NORDLB AöR in 2012 will lie in intensifying sales with the acquisition of additional savings banks in the extended network region. Derivative expertise should be expanded in syndicate and municipal business. The start of the cover pooling project has been delayed and is now planned for the current year. In the business region of Bremer Landesbank the relationship approach will continue to be pursued with the associated savings banks, in which a central, overriding management of customer relationships will be implemented. This will ensure an integrated concept for advice and support that meets customer needs. NORD/LB Luxembourg is planning to expand the foreign currency refinancing of associated savings banks.

There will be a slight increase in earnings due to the planned improvement in the contribution to earnings from commission business, profit/loss from financial instruments at fair value through profit or loss and interest income from syndicate business, and a fall in interest income due to the cessation of municipal business in other regions in NORD/LB AöR should be more than compensated for.

In the savings bank syndicate business the imputed loan loss provisions required for 2012 have been provided for again; these will be above the previous year's figure that was characterised by reversals of loan loss provisions.

Compared to the previous year an increase in administrative expenses is expected; this will be attributable to an increase in IT expenses and secondary costs.

This development will result overall in a contribution to earnings that is planned to be below the previous year's level. The CIR will be higher than in 2011, while the RoRaC will fall due to the higher loan loss provisions and higher commitment of risk-weighted assets (RWA) due to the increase in syndicate business.

Consolidation programmes implemented by the federal states in the business region may have a negative impact on the achievement of targets set with the consequence of a reduction in potential business.

**Financial Markets/Institutional Customers**
The Financial Markets business segment provides the investors and customers of NORD/LB with efficient access to the financial markets and in doing so relies on a combination of relationship management and specialist knowledge.

With a systematic alignment to the customer segments of NORD/LB, the Corporate Sales and Markets divisions aim to pool know-how and increase in earnings with corporate and structured finance customers. In addition to advising other business segments of NORD/LB, Markets is planning to develop and expand its securitisation business and implement the "Loan Funds" initiative. The focus of the Treasury Division lies in liquidity management, the optimisation of funding and diversification of the sources of funding and assistance in the development of primary access to foreign currency funding. In the Portfolio Investments division, the cutback scenario will continue to be implemented; selective new investments will be made in Corporate Single Names among others.

Targeted derisking measures (including the trimming down of the credit investment portfolio, reduction in the state financing portfolio) will also be implemented in the other locations, while at the same time selected new business will be invested in (assets with stable interest income, acquisition of new strategic customers). At NORD/LB CFB it is planned that business will be developed and expanded in the area of sales.

Income in the current year in this segment should be well above the previous year's level. The NORD/LB Group is expecting here an increase in income from services as well as a significantly improved earnings from financial instruments at fair value through profit or and profit/loss from financial assets after impairments relating to the national debt crisis in 2011. This would more than compensate for the fall in interest income due to interest rates and the loss of positive earnings from the sale of securities in the previous year.

The loan loss provisions for 2012 in this business segment are made for necessary impairments to the Asset Back Securities (ABS)/Collateralised Loan Obligation (CLO) portfolio.

Compared to the previous year, staff expenses are expected to remain steady and the cost of materials and secondary costs are expected to rise due to a fall in project relief, which will result overall in a rise in administrative expenses.

The rise in RWAs compared to the previous year is the result of an increase in RWAs due to market price risks as a result of the Basel III regulations and the planned creation of a liquidity buffer.

Compared to the previous year, the planned contribution to earnings of Financial Markets will improve in particular due to the much better earnings from financial instruments at fair value through profit or loss with corresponding improvements in the RoRaC and CIR.

Risks in the planning of the Financial Markets division lie in the worsening national debt crisis, restrained economic development with negative consequences such as the valuation of portfolios being adjusted, a fall in new lending business with the associated opportunities to generate income from cross selling and unexpected developments in credit spreads and interest rates.

**Corporate Customers**
NORD/LB's strategy of focusing on growth which has been pursued with success in recent years should be continued in 2012. The further acquisition of new customers and the development of core bank relationships and an increase in the cross-selling ratio will be pushed. The corporate customer advisers will be supported here by specialists from the likewise growing product divisions Corporate Finance and Corporate Sales.

The Corporate Customers business of Bremer Landesbank is planning to increase margins by making more use of global loans from the European Investment Bank for investment loans and interest-induced growth in its deposit business. In addition to this, the customer base in the Agrar Commodities division is to be extended.

Due to the investment in this business segment, earnings should be confirmed at the level of the very successful previous year. Growth in income from services will compensate for the fall in profit/loss from financial instruments at fair value through profit or loss, which will not reach the good result of the previous year.

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

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

Overall a fall in the contribution to earnings compared to the previous year is expected due to the higher anticipated loan loss provisions and the increase in administrative expenses. RWAs will increase in the current year due to the volume-induced higher equity commitment compared to the previous year with a corresponding fall in the RoRaC. The CIR will fall in the first instance due to the investments in this business segment.

The bleak economic expectations and the continued high level of competitive pressure may lessen the impact of the measures planned to be implemented in this business segment in 2012 with a corresponding risk for volume development, margins and commission.

**Energy and Infrastructure Customers**
In the growth area of renewable energies, NORD/LB will continue to use its recognised expertise to acquire business. New business will no longer be able to reach the high level of previous years, though, due to the increasing competition and regulatory implications (capital adequacy). NORD/LB is examining possible innovative financing structures to achieve greater compatability with the funding potential and the implementation of a loan-debit-fund concept for infrastructure assets and renewable energies.

At Bremer Landesbank the focus will remain on the onshore wind energy sector in the Energy and Infrastructure Customers segment, with repowering gaining in importance. Growing potential is also seen in the offshore sector and in photovoltaics. However, a reduced level of new business is planned in the biogas plant business.

Due to the increasing competitive pressures, for 2012 lower margins with again slightly higher volumes than the previous year are expected, which will result overall in a fall in the interest terms contribution on the assets side. The total of income from services, earnings from financial instruments at fair value through profit or loss and other operating profit/loss is expected to be at the previous year's level in 2012.

Adequate loan loss provisions have again been considered for 2012 at the long-term level.

For the current year a moderate rise in administrative expenses is expected. Staff expenses and cost of materials will rise slightly due to rises in pay scales and adjustment for inflation. In NORD/LB AöR it is planned that the remuneration structures will be more flexible in future. The share of the variable salary component will be increased in particular in the foreign locations.

The contribution to earnings before taxes will not reach the level of 2011 due to the fall in earnings and the increase in loan loss provisions and administrative expenses. The RWA will increase due to the growth in the portfolio, and the RoRaC will fall as a result. Due to the fall in income and higher administrative expenses, the cost-income ratio will rise.

NORD/LB has achieved, as a pioneer in the area of financing renewable energies (such as wind energy plants, bioenergy and solar energy) an important market position in Europe. With the increased entry of competitors into this area and the shift in customer business to Asia, risks to the future development of margins and commission can be seen.

**Ship and Aircraft Customers**
In the Ship and Aircraft Customers business segment, which came through the crisis in the shipping sector comparatively well in 2011, NORD/LB intends to achieve close to the previous year's pleasing earnings in 2012.

In consideration of the difficult market situation, earnings in the Ship Customers division are expected to remain constant or fall slightly in the current year compared to the previous year. In the Aircraft Customers division NORD/LB is relying on qualitative growth, which should be enabled above all by active portfolio management, detailed identification of customer needs and based upon this individual support for customers; this will virtually compensate for the fall in earnings in the Ship Customers division.

At Bremer Landesbank restructuring/portfolio adjustment will be a high priority in 2012 in view of the tense market situation. New business will continue to be possible only by releasing volume within the scope of repayments, but is expected to be at a lower level than in the previous year. Additional income should be generated by exploiting the cross-selling potential. In addition to this, the financing of river cruise ships and container boxes will continue to be controlled by this location as the competence centre for such activity.

Overall, income in this segment is expected to be below the previous year's high level. Falls in interest and commission business will not be compensated for by the increase in the profit/loss from financial instruments at fair value through profit or loss.

Due to NORD/LB's conservative approach to loan loss provisions, net loan loss provisions have once again been considered at the high level of the previous year in the budget.

Administrative expenses will increase overall. Rising staff expenses (new jobs filled in the Aircraft Customers division to accompany the growth prospects and crisis-related increase in demand in the Ship Customers division) and rising secondary costs in back office divisions will not be able to be compensated for by a fall in cost of materials.

This business segment will not repeat the previous year's good result in 2012. The very low CIR will rise, while the RoRaC will fall in 2012 despite the anticipated fall in RWA compared to 2011.

Earnings will continue to be affected by the shipping crisis; the market will start to recover later than previously expected.

**Real Estate Banking Customers**

The planning premise of NORD/LB for the Real Estate Banking Customers business segment was slightly modified. The transfer of assets from NORD/LB to Deutsche Hypo continues to progress as planned; however, in particular the New York real estate business will remain in NORD/LB. The portfolio in Singapore will be phased out; in future no new business will be taken on there. With a stronger concentration and harmonisation of products and processes, synergy effects can be exploited. The transfer of business activities to Deutsche Hypo will result in a fall in income and costs for NORD/LB, and the reverse development is planned in Deutsche Hypo. The project development business is to be strengthened. It is also planned that the syndications and derivatives business will be intensified.

Bremer Landesbank's financing of community interest properties is also shown in the Real Estate Banking Customers segment. Here the business potential in the market for care services should be exploited. With the covering of real estate and the increased use of relevant KfW funding programmes it is expected that more flexibility in pricing will be created, with a corresponding positive impact on margins.

Income in this segment will be less than in the previous year. The lower income from interest and commission business that has been budgeted for will not be compensated for by the increase in the profit/loss from financial instruments at fair value through profit or loss.

In the Real Estate Banking Customers business the imputed loan loss provisions have been made and are above the previous year's figure.

Compared to the previous year an increase in administrative expenses is expected due to deferred project costs from the previous year and a moderate increase in the number of jobs in Deutsche Hypothekenbank.

This development will result overall in a contribution to earnings that is planned to be below the previous year's level. The CIR will be higher than in 2011, while the RoRaC will fall despite the lower RWA commitment.

Risks to the development in earnings lie in a decline in the real estate market, which would be against the expectations of market participants, with the corresponding impact on earnings and loan loss provisions.

## Medium-Term Planning for the Period up to 2016

NORD/LB will continue to resolutely pursue its strategy of operating its customer-oriented business model which has proved itself in the crisis and its risk-conscious business policy. The business model will be constantly reviewed and adjusted if necessary. In its estimation of its medium-term development, 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 earnings components and at the same time improving the earnings structure and a return to normal risk provisions. In the medium term the issue of funding will continue to be of key importance to NORD/LB in particular in longer maturity periods.

The aim of the efficiency improvement programme that has been launched is to keep staff expenses stable in the medium term; the cost of materials will fall slightly in the medium-term plan after several projects have been phased out and depreciation falls after capitalisation relating to expired projects.

Compliance with the Basel III requirements and the criteria of the EBA are of key importance for NORD/LB. All of the measures necessary for this will continue to be taken in future together with the owners.

Given the overall development of earnings and expenditure, with loan loss provisions at the level of the required imputed covering, the bank expects earnings before taxes to increase significantly in the period up to 2016, accompanied by a corresponding improvement in key figures.

# Risk Report

The risk report of the NORD/LB Group as at 31 December 2011 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 § 26a 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 2010, 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).

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 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 (MaRisk) 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 CSSF (Commission de Surveillance du Secteur Financier) apply and are complied with by the institutes concerned.

The amendments to MaRisk have resulted in changes in the requirements for risk management. The measures identified within the scope of the analysis of the third MaRisk amendment have also been taken, therefore ensuring that MaRisk continues to be complied with.

**Risk Management – Strategies**
The NORD/LB Group's business policy is deliberately conservative. The responsible handling of risks is the uppermost priority. 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. They 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 and the allocation of risk capital to the material risk types is undertaken.

For the NORD/LB Group it was conservatively determined that normally at most 80 per cent of the economic risk coverage may be covered with risk potential. The relevant approach in the RBC model (status quo of economic capital adequacy) should therefore provide a minimum coverage of 125 per cent. At the level of the significant companies, this specification applies for each individual institute.

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.

The Group risk strategy and the risk strategies of the significant companies from a risk point of view were reviewed and adjusted in 2011 and discussed with the Supervisory Board after being passed by the 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.

**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 higher Group risk strategy and its amendments in the Erweiterter Konzernvorstand (Extended Group Managing Board); the Erweiterter Konzernvorstand also includes the Chairmen of the Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo and its resolutions are referred to the responsible bodies in the Group institutes concerned for formal decision. 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 Risk Control Division is responsible for updating and developing the RBC model and regularly reviewing the risk strategies.

Operational risk management is performed decentrally in the significant Group companies. In order to ensure the greatest possible comparability with regard to the assessment, reporting, controlling and monitoring 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 and divisions 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. For risk control in particular the Risk/Finance Konzernsteuerungskreis is relevant.

- Group Risk Committee: The Group Risk Committee (GRC) is a committee which is part of the Risk/Finance Konzernsteuerungskreis (Group Control Committee) and comprises the Chief Risk Officer, the heads of the market divisions and the heads of the Central Management Risk, Risk Control, 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).

In 2011 a Group-wide RWA Management Committee comprising representatives from market and back office divisions was set up to improve the operational control of risk-weighted assets (RWA). The committee monitors the NORD/LB Group's target capital ratio and ensures the RWA are allocated optimally from a productivity point of view and compatible with holistic bank control.

The structure and organisation of risk management at the NORD/LB Group complies with the requirements of MaRisk. 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.

In the year under review the NORD/LB Group took further measures to extend the Group-wide risk control. Subsidiaries were integrated more into the risk control of the parent company based on their risk content and to the extent possible under company law. The NORD/LB Group will in future make greater use of its scope for Group control, from further harmonisation of the methods and rules to credit rate assessment 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, the efficiency and correctness of business activities. It also facilitates the optimisation of business processes and of controlling and monitoring procedures.

Within the framework of the Group-wide monitoring instruments, the internal audit departments of NORD/LB, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo, NORD/LB CFB, Skandifinanz AG, Öffentlichen Versicherungen Braunschweig and NORD/LB Asset Management work together closely using fundamentally uniform conditions (audit policy) and instruments (in particular the assessment matrix for audit findings and reporting standards).

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 Group audits, joint audits of the Group audit with the internal audits (cooperative Group audits) also take place. The objectives, tasks, role 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 Process (NPP) in the significant institutes of the NORD/LB Group from a risk point of view taking into account the respective conditions. There is 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 risk-bearing capacity model constitutes the methodical basis for monitoring the risk strategies in the NORD/LB Group. This monitoring is carried out at Group level by NORD/LB's Risk Control Division and by the respective risk control divisions at individual institute level. The NORD/LB's Risk Control Division 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's RBC model consists of the three perspectives of going concern, economic capital adequacy and regulatory capital adequacy, in which the respective material risks (risk potential) are compared with the defined risk capital of the individual institutes and the Group. The economic and regulatory capital adequacy are both broken down further into the perspectives of status quo and under stress.

The first perspective presents the going-concern case, which assumes the continuation of the company on the basis of the NORD/LB Group's current business model. It compares, using a lower confidence level than the other two perspectives, the economically calculated risk potential with risk capital in the form of free regulatory capital based on a defined overall ratio. In addition to this, risk capital effects during the year are considered in an indexation process.

The second and third perspectives 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 economic capital adequacy, while risk potentials calculated based on regulatory specifications are used for the regulatory capital adequacy. On the capital side both the economic and the regulatory capital adequacy tests are based on equity and equity-like components which according to banking regulations are to be classified as equity. In the economic consideration, as in the going-concern case, an indexation process takes into account risk capital effects during the year.

For the Internal Capital Adequacy Assessment Process (ICAAP) required in accordance with MaRisk, primarily the pillar of economic capital adequacy (status quo) is considered. The regulatory capital adequacy in the status quo is to be complied with as a strict supplementary condition. Strategic limits are derived from the consideration of 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 by the Risk Control Division 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 Covered Bond Act (Pfandbriefgesetz) are also informed about risks relating to covered bond business on at least a quarterly basis. These reports prepared at individual institute level meet the requirements of § 27 of the Covered Bond Act.

The NORD/LB Group has revised and improved its existing RBC model in the year under review. The focus was on an optimisation of the quantitative methods and in particular extensive improvements to the credit portfolio model; these included improvements in the modelling of loss amounts in the event of default, improvements in the consideration of interdependencies between individual borrowers and the integration of losses via rating migrations. In turn, charges based on models that had previously been added were reduced. The migration of the data from the internal credit risk reporting to a new IT environment allows improved data quality, e. g. with regard to the market values and collateral considered.

The method for quantifying investment risk has been redesigned in order to adequately consider in particular risks beyond the carrying amount. With the calculation of market price risk, the scaling factor used for longer holding periods was adjusted. In addition, as at 31 December 2011 general inverse stress tests for all risk types were integrated for the first time into the RBC report.

Against the background of the industry-wide discussion with the German regulatory authority on the assessment of internal bank risk-bearing-capacity concepts and requirements relating to this formulated by the regulatory authority, the RBC model is currently the subject of a critical review. The objective here is to reinforce the conservative risk policy of the NORD/LB Group and to consider changes in economic conditions and the associated higher volatility.

**Risk Management – Development in 2011**

The risk coverage in the economic capital adequacy (status quo) improved significantly in the year under review and is 298 per cent as at the reporting date. The rise is attributable both to a fall in risk potential and an increase in risk capital. Of the significant types of risk included in the model, namely credit, investment, market price, liquidity and operational risk, credit risk is by far the most significant.

The methodological adjustments made resulted in a change in the economic risk potential. The credit risk potential fell considerably, while conversely the investment risk was roughly doubled due to the methodological changes.

The fall in risk potential can be attributed above all to reduced credit exposures and improved ratings in the credit portfolio of NORD/LB. The increase in risk capital was the result of various measures undertaken in the year under review to strengthen the NORD/LB Group's capital base. The utilisation of risk capital in the economic capital adequacy (status quo) can be seen in the following table, which shows risk-bearing capacity for the NORD/LB Group:

| (in € million) | Risk-bearing capacity 31 Dec. 2011 | | Risk-bearing capacity 31 Dec. 2010 | |
|---|---|---|---|---|
| **Risk capital** | **10 903** | **100 %** | **9 561** | **100 %** |
| Credit risk | 2 703 | 25 % | 3 509 | 37 % |
| Investment risk | 113 | 1 % | 118 | 1 % |
| Market price risk | 431 | 4 % | 382 | 4 % |
| Liquidity risk | 154 | 1 % | 150 | 2 % |
| Operational risk | 256 | 2 % | 240 | 3 % |
| **Total risk potential** | **3 657** | **34 %** | **4 398** | **46 %** |
| **Excess coverage** | **7 246** | **66 %** | **5 163** | **54 %** |
| **Risk coverage ratio** | | **298 %** | | **217 %** |

Overall the risk cover ratio is well above the internally specified target of 125 per cent. The specifications of the risk strategy concerning the allocation of risk capital to risk types were also complied with. The risk-bearing capacity is also given taking into account the internally-defined stress scenarios covering all risk types.

In the period under review the NORD/LB Group took part in the EU-wide bank stress test which was published in July 2011 and was coordinated by the European Banking Authority (EBA). The Group passed the stress test with a core capital ratio of 5.6 per cent that was over the specified 5 per cent.

In October 2011 the EBA announced as a result of the worsening national debt crisis new more stringent requirements. According to these, various European financial institutions must have a hard core capital ratio of at least 9 per cent as at 30 June 2012. In the calculation silent participations were not included as core capital instruments and an additional buffer for market value losses for commitments to countries in the European Economic Area was considered. Based on these specifications which are well above regulatory requirements, the EBA calculated as at 30 September 2011 a capital requirement of € 2 489 million for NORD/LB.

In reaction to this, NORD/LB boosted its capital stock, as planned in April 2011, by € 1.7 billion by the turn of 2011/2012 and has therefore already covered most of the capitalisation requirement. The remaining requirement will be largely covered by a restructuring of existing silent participations. In addition to this, the bank will retain earnings in the hundreds of millions and dispose of investments.

Overall the plan envisages that the hard core capital will be boosted by up to € 1 billion. NORD/LB expects that it will exceed the EBA requirements with the aforementioned package of measures by 30 June 2012. A corresponding concept was sent to the Federal Financial Supervisory Authority (BaFin) in January 2012.

## Credit Risk

Credit risk is a component of counterparty risk and is broken down into traditional credit risk and counterparty risk in trading. Credit risk defines the risk of loss involved 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 involved 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 involved 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*
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 credit business and it positions itself with its customers accordingly.

In order to meet the specific requirements of each business segment, NORD/LB has established financing principles for the individual market segments; these cover both market and back office divisions. These represent binding guidelines for new business for the respective market divisions and take into account the conservative orientation of the NORD/LB Group.

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, Great Britain and France. At industry level NORD/LB focuses on ships, aircraft, energy, banks, real estate and local authorities in Germany.

*Structure and Organisation*

A risk-related organisational structure and the functions, responsibilities and authorisations of divisions involved in risk processes are clearly defined at employee level. In accordance with MaRisk, processes in credit 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 and are relieved of administrative tasks. 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 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. With exposures with risk concentrations, a credit rate assessment takes place with regard to 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 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 unit which is part of the CRM. Concentrations are examined with regard to the size of an economic borrower entity in accordance with § 19 para. 2 of the of the German Banking Act as well as by country and industry.

The processing of non-performing loans or exposures requiring debt readjustment is the responsibility of the Special Credit Management (SCM) Division at NORD/LB. Credits with a rating of 11 or worse 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) and exposures which deteriorate by three ratings and therefore fall to a rating of 9 (allocation to the "above-average/heightened risk" category in accordance with IFD) or worse must all be reported to the SCM division. Other defined risk indicators may also prompt a presentation requirement. The SCM decides whether the processing of a loan is to be taken over or whether the loan is to remain with the CRM. 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. For financial institutions including central governments and foreign regional authorities, asset backed securities and corporate bonds, processing remains 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 a person in authority in the market division and a person in authority in the back office division (bilateral authorisation). The second vote is prepared in units independent of the market divisions in accordance with specified criteria. In addition to fulfilling the regulatory requirement of functional separation for credit assessments, this ensures that first-class credit decisions are taken on the basis of unified standards.

The Managing Board is responsible for controlling NORD/LB's credit portfolio. In performing its tasks, the Board consults among other things the Group Risk Committee, which ensures that a link between individual credit decisions and portfolio management as well as an approach covering all the types of risk is given. 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.

From at a certain volume, decisions are taken by the Managing Board or by the Allgemeiner Arbeits- und Kreditausschuss (AAKA, General Working and Credit Committee), 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 approval for loans to executives.

The Credit Risk Control department is responsible for the methods for measuring credit risks and for credit risk control instruments. It is responsible for the independent monitoring of credit and investment risk at portfolio level and for the corresponding report system as well as the regulatory reporting system. This department is also where method-related responsibility for procedures relating to the economic quantification of counterparty risk lies.

At Bremer Landesbank independent back office tasks are carried out by the back office department Financing Risk Management. In addition to casting a second vote, it verifies and stipulates rating levels, verifies collateral values, processes and supervises of debt restructuring and 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 department bearing the same name. This department 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 implemented. The tasks relating to independently monitoring risks at portfolio level and to independent reporting are the responsibility of the risk control division in Overall Bank 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.

Risk management at Deutsche Hypo is also based on the concepts of NORD/LB and regularly improved. 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 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 half-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 loan 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 which is also used 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 or external legal opinions are obtained and the relevant jurisdictions are permanently monitored. 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.

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 for every 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, bearing risk concentration or bearing heavy 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 can be 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.

Both synthetic securitisations using various hedging instruments and true sale transactions 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, among other approaches, a rating system in accordance with the Internal Assessment Approach of the German Solvency Regulation for its securitisation transactions.

In the period under review no internal loans were securitised by the NORD/LB Group. 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 portfolios are measured using the ratings-based approach for securitisations, while Bremer Landesbank's are also 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**

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

Unexpected loss for credit risk is quantified 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.

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

The version of the credit risk model that was improved in the year under review 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 authorisation for its rating systems, for its Internal Assessment Approach (IAA), for securitisation and to use methods to reduce credit risk. 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**

The NORD/LB's Credit Risk Control department 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 portfolio report. The credit portfolio 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 Controlling division prepares together with the Credit Risk Management division a credit 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 requirements of MaRisk. This report informs the Managing Board and the Supervisory Board in detail about the bank's risk situation.

**Credit Risk – Development in 2011**

The maximum default risk for on-balance-sheet and off-balance-sheet financial instruments as at the reporting date is € 242 billion and has fallen in 2011 by 1 per cent. In particular a fall in financial assets, loans and advances to banks and irrevocable credit commitments contributed to this.

| **Risk-bearing financial instruments** (in € million) | Maximum default risk 31 Dec. 2011 | Maximum default risk 31 Dec.2010 [1] |
|---|---|---|
| Loans and advances to banks | 32 928 | 36 734 |
| Loans and advances to customers | 116 404 | 113 605 |
| Financial assets at fair value through profit or loss | 18 644 | 15 103 |
| Positive fair values from hedge accounting derivatives | 3 289 | 2 938 |
| Financial assets | 54 499 | 58 666 |
| **Sub-total** | **225 764** | **227 046** |
| Liabilities from guarantees and other indemnity agreements | 6 998 | 7 026 |
| Irrevocable credit commitments | 9 456 | 10 919 |
| **Total** | **242 218** | **244 991** |

[1] The previous year's figures were adjusted

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.

Calculation of the total exposure is based on utilisation (in the case of guarantees the nominal value and in the case of securities the carrying amount) and the credit equivalents resulting from derivatives (including add-ons and in consideration of netting). Irrevocable and revocable credit commitments are included in the total exposure, while securities against the NORD/LB Group are ignored. Also included in the total exposure are investments.

*Analysis of the Total Exposure*

The NORD/LB Group's total exposure as at 31 December 2011 amounts to € 240 billion and has therefore fallen compared to the previous year's value by 2 per cent. The reduction in the volume is above all the result of the reduced total exposure of NORD/LB and in particular a reduced exposure in the area of foreign banks. In accordance with the conservative risk policy of the NORD/LB Group, the total exposure continues to focus on the very good to good rating classes.

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

The Rating Structure table shows the breakdown of the total exposure in the NORD/LB Group (portfolio and new business), broken down by product type and compared to the previous year's structure.

| **Rating structure**[1] (in € million) | Loans[2] 31 Dec. 2011 | Securities[3] 31 Dec. 2011 | Derivates[4] 31 Dec. 2011 | Other[5] 31 Dec. 2011 | Total exposure 31 Dec. 2011 | Total exposure 31 Dec. 2010 |
|---|---|---|---|---|---|---|
| very good to good | 101 323 | 52 559 | 12 943 | 11 498 | 178 323 | 185 605 |
| good / satisfactory | 15 938 | 1 593 | 520 | 1 519 | 19 569 | 20 513 |
| reasonable / satisfactory | 14 853 | 709 | 358 | 862 | 16 782 | 12 546 |
| increased risk | 7 489 | 163 | 145 | 373 | 8 170 | 9 624 |
| high risk | 4 521 | 149 | 68 | 64 | 4 802 | 4 456 |
| very high risk | 4 395 | 217 | 82 | 63 | 4 758 | 5 826 |
| default (= NPL) | 6 168 | 797 | 222 | 59 | 7 246 | 6 465 |
| **Total** | **154 686** | **56 188** | **14 338** | **14 439** | **239 651** | **245 036** |

[1] Allocated in accordance with IFD rating categories.
[2] Includes loans taken up or loan commitments, guarantees and other non-derivative, off-balance sheet assets. As in the internal reporting, irrevocable loan commitments are generally included at 60 per cent (61 per cent) and revocable loan commitments at ten per cent (five per cent).
[3] Includes the own stocks of securities issued by third parties (banking book only).
[4] Includes derivative financial instruments such as financial swaps, options, futures, forward rate agreements and currency transactions.
[5] Includes other products such as transmitted loans and loans administered for third-party account.

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 these best rating categories in the total exposure of 74 per cent (76 per cent) is explained by the great importance of business with public authorities and financing institutes with a good credit rating and therefore at the same time reflects the conservative risk policy of the NORD/LB Group.

The current slowdown in the global economy has so far hardly affected the NORD/LB Group's credit portfolio. The exposure in rating categories with a high to very high risk rose by more than the overall exposure, the share of non-performing loans (NPL) rose though from 2.6 per cent to 3.0 per cent. A fall in the first half of the year was countered by an increase in the NPL exposure in the third and fourth quarter. The main reason for this is a rise in the portfolio of NORD/LB and Bremer Landesbank caused by ship financing.

The breakdown of total exposure by industry group shows that business conducted with financial institutions and with public administrations, which basically remain low risk, accounts for 61 per cent (62 per cent) and still constitutes a considerable share of the total exposure.

| Industries [1] (in € million) | Loans [2] 31 Dec. 2011 | Securities [3] 31 Dec. 2011 | Derivates [4] 31 Dec. 2011 | Other [5] 31 Dec. 2011 | Total exposure 31 Dec. 2011 | Total exposure 31 Dec. 2010 |
|---|---|---|---|---|---|---|
| Financing institutes/ insurance companies | 43 207 | 33 143 | 9 873 | 7 707 | 93 930 | 103 714 |
| Service industries/other | 62 212 | 20 452 | 1 322 | 1 971 | 85 958 | 83 585 |
| – Of which: Land, housing | 18 739 | 33 | 446 | 465 | 19 683 | 19 741 |
| – Of which: Public administration | 31 019 | 19 898 | 535 | 90 | 51 542 | 48 210 |
| Transport/ communications | 30 164 | 731 | 1 043 | 340 | 32 278 | 31 395 |
| – Of which: Shipping | 19 039 | 0 | 506 | 58 | 19 603 | 19 961 |
| – Of which: Aviation | 7 878 | 6 | 139 | 164 | 8 188 | 7 334 |
| Manufacturing industry | 5 876 | 649 | 1 057 | 261 | 7 842 | 7 645 |
| Energy, water and mining | 7 118 | 1 106 | 700 | 3 050 | 11 974 | 9 689 |
| Trade, maintenance and repairs | 3 081 | 47 | 205 | 215 | 3 548 | 3 757 |
| Agriculture, forestry and fishing | 801 | 28 | 3 | 800 | 1 632 | 1 549 |
| Construction | 2 227 | 31 | 135 | 96 | 2 489 | 2 761 |
| Other | – | – | – | – | – | 940 |
| **Total** | **154 686** | **56 188** | **14 338** | **14 439** | **239 651** | **245 036** |

[1] Allocated in alignment with the internal reporting in accordance with economic criteria.
[2] to [5] see the previous chart on the rating structure.

The breakdown of the total exposure by region shows that the eurozone accounts for a high share of 82 per cent (80 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 64 per cent to 66 per cent.

| Regions [1] (in € million) | Loans [2] 31 Dec. 2011 | Securities [3] 31 Dec. 2011 | Derivates [4] 31 Dec. 2011 | Other [5] 31 Dec. 2011 | Total exposure 31 Dec. 2011 | Total exposure 31 Dec. 2010 |
|---|---|---|---|---|---|---|
| Euro countries | 126 134 | 46 011 | 9 201 | 14 309 | 195 654 | 196 549 |
| – Of which: Germany | 110 930 | 28 396 | 5 600 | 14 097 | 159 022 | 157 747 |
| Other Western Europe | 9 604 | 3 854 | 3 230 | 66 | 16 754 | 18 553 |
| North America | 9 843 | 4 387 | 1 424 | 49 | 15 703 | 16 627 |
| Latin America | 2 936 | 342 | 19 | – | 3 297 | 2 229 |
| Middle East/Africa | 1 169 | 91 | 1 | 1 | 1 262 | 1 078 |
| Asia/Australia | 5 002 | 1 503 | 463 | 15 | 6 982 | 6 807 |
| Other countries | – | – | – | – | – | 3 192 |
| **Total** | **154 686** | **56 188** | **14 338** | **14 439** | **239 651** | **245 036** |

[1] Allocated in alignment with the internal reporting in accordance with economic criteria.
[2] to [5] see the previous chart on the rating structure.

The exposure in Greece, Ireland, Italy, Portugal and Spain fell by a total of 14 per cent to € 13.9 billion, primarily due to maturities. Their share in the overall exposure is only 6 per cent. The share of receivables owed by the respective countries, regional governments and municipalities also fell to 1 per cent of the total exposure or € 3.4 billion, also primarily due to maturities.

| Exposure in selected countries [1] (in € million) | Greece | | Ireland | | Italy | | Portugal | | Spain | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 |
| Sovereign Exposure | 219 | 275 | 331 | 285 | 1 959 | 2 018 | 383 | 435 | 497 | 666 | **3 389** | **3 679** |
| – Of which: CDS | 94 | n/a | 191 | n/a | 102 | n/a | 194 | n/a | – | n/a | **581** | **n/a** |
| Financing institutions/ insurance companies | 50 | 101 | 1 285 | 1 843 | 2 301 | 2 796 | 493 | 871 | 3 026 | 4 102 | **7 155** | **9 713** |
| Corporates/ Other | 353 | 237 | 1 882 | 1 415 | 190 | 178 | 211 | 136 | 710 | 886 | **3 345** | **2 852** |
| **Total** | **622** | **612** | **3 499** | **3 543** | **4 449** | **4 992** | **1 087** | **1 442** | **4 232** | **5 654** | **13 890** | **16 243** |

[1] Allocated in alignment with the internal reporting in accordance with economic criteria.

The NORD/LB Group has made impairments for Greek government bonds in the year under review. Details can be found in the notes in note 61. Sufficient loan loss provisions have been made for the expected investment by private creditors.

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

| Sovereign exposure in selected countries by maturity [1] (in € million) | Greece | Ireland | Italy | Portugal | Spain | Total |
|---|---|---|---|---|---|---|
| | 31 Dec. 2011 | 31 Dec. 2011 | 31 Dec. 2011 | 31 Dec. 2011 | 31 Dec. 2011 | **31 Dec. 2011** |
| up to 1 year | 10 | 35 | – | 33 | 97 | **175** |
| more than 1 up to 5 years | 129 | – | 392 | 89 | 290 | **900** |
| more than 5 years | 80 | 296 | 1 567 | 261 | 110 | **2 314** |
| **Total** | **219** | **331** | **1 959** | **383** | **497** | **3 389** |

[1] Allocated by residual terms.

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 enjoying 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 earnings 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 balance of specific valuation allowances, lumpsum specific loan loss provisions and provisions for lending business fell in the NORD/LB Group in 2011 due to release of provisions in NORD/LB (cf. note 34 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 fell in the period under review from 0.61 per cent to 0.55 per cent. The fall in expected losses also resulted in a reduction in general loan loss provisions in the period under review.

The reason for this is that the risk situation has eased significantly in almost all sectors with the exception of ship financing, which resulted in a significant fall in loan loss provisions. The worsening of the shipping crisis resulted in this sector in a notable increase in allowances for exposures and loan loss provisions. Due to the good collateralisation of these commitments, however, on the whole only a moderate level of new loan loss provisions needed to be made.

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 book value of NPLs requiring a write-down is covered 37 per cent (38 per cent) by loan loss provisions before the inclusion of collateral.

The share of total NPLs in the total exposure rose in the period under review and is as at 31 December 2011 3.0 per cent (2.6 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] (in € 000) | Total exposure of impaired receivables [2] 31 Dec. 2011 | Total exposure of impaired receivables [2] 31 Dec. 2010 | Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2011 | Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2010 |
|---|---|---|---|---|
| Financing institutes/insurance companies | 195 191 | 481 648 | 114 661 | 216 688 |
| Service industries/other | 1 382 347 | 1 694 374 | 474 096 | 546 303 |
| Transport/communications | 1 786 045 | 1 344 675 | 451 076 | 316 174 |
| Manufacturing industry | 218 555 | 300 601 | 125 266 | 231 366 |
| Energy, water and mining | 179 511 | 91 554 | 44 183 | 31 339 |
| Trade, maintenance and repairs | 57 167 | 78 575 | 26 743 | 41 242 |
| Agriculture, forestry and fishing | 14 691 | 27 635 | 7 943 | 20 289 |
| Construction | 117 639 | 105 107 | 85 201 | 88 752 |
| Other | – | 7 134 | – | 1 039 |
| **Total** | **3 951 147** | **4 131 303** | **1 329 170** | **1 493 192** |

[1] Allocated in alignment with the internal reporting in accordance with economic criteria.
[2] For information purposes: the gross book value of NPLs requiring allowances is € 3 560 million (€ 3 887 million).

| 31 Dec. 2011 | Total exposure of overdue, unimpaired receivables | | | | | General loan loss provisions |
|---|---|---|---|---|---|---|
| **Industries**[1] (in € 000) | Up to 1 month | 1 up to 3 months | 3 up to 6 months | More than 6 months | Total | |
| Financial institutions/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 |
| Other | – | – | – | – | – | – |
| **Total** | **1 803 090** | **869 338** | **108 383** | **602 161** | **3 382 972** | **617 542** |

[1] Allocated in line with the internal reporting by economic criteria.

| 31 Dec. 2010 | Total exposure of overdue, unimpaired receivables[2] | | | | | General loan loss provisions |
|---|---|---|---|---|---|---|
| **Industries**[1] (in € 000) | Up to 1 month | 1 up to 3 months | 3 up to 6 months | More than 6 months | Total | |
| Financial institutions/insurance companies | 520 137 | 350 | 1 801 | 242 | 522 530 | 32 827 |
| Service industries/other | 177 042 | 179 994 | 24 115 | 154 367 | 535 519 | 204 317 |
| Transport/communications | 468 771 | 123 574 | 120 374 | 256 079 | 968 798 | 419 608 |
| Manufacturing industry | 33 666 | 24 | 1 001 | 2 814 | 37 505 | 39 076 |
| Energy, water and mining | 58 115 | – | – | 12 415 | 70 530 | 7 298 |
| Trade, maintenance and repairs | 56 449 | 2 775 | 1 278 | 4 571 | 65 073 | 10 737 |
| Agriculture, forestry and fishing | 14 686 | 1 | 230 | 3 793 | 18 710 | 4 057 |
| Construction | 18 512 | 1 | 1 458 | 3 660 | 23 631 | 28 812 |
| Other | 1 127 | – | – | 22 | 1 150 | 434 |
| **Total** | **1 348 506** | **306 721** | **150 257** | **437 962** | **2 243 446** | **747 167** |

[1] Allocated in line with the internal reporting by economic criteria.
[2] Previous year's figures were adjusted.

| Regions[1] (in € 000) | Total exposure of impaired receivables[2] 31 Dec. 2011 | Total exposure of impaired receivables[2] 31 Dec. 2010 | Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2011 | Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2010 |
|---|---|---|---|---|
| Euro countries | 3 113 083 | 3 007 298 | 1 089 052 | 1 191 654 |
| Other Europe | 354 047 | 693 687 | 99 516 | 158 116 |
| North America | 442 033 | 412 017 | 96 432 | 84 228 |
| Latin America | 10 533 | 1 382 | 26 940 | 49 653 |
| Middle East/Africa | – | – | – | – |
| Asia/Australia | 31 451 | 16 918 | 17 229 | 9 541 |
| Other | – | – | – | – |
| **Total** | **3 951 147** | **4 131 303** | **1 329 170** | **1 493 192** |

[1] Allocated in line with the internal reporting by economic criteria.

| 31 Dec. 2011 | Total exposure of overdue, unimpaired receivables | | | | | General loan loss provisions |
|---|---|---|---|---|---|---|
| Regions[1] (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 | 85 369 | 1 | 1 371 | 283 809 | 20 179 |
| North America | 45 225 | 868 | – | 82 623 | 128 716 | 59 418 |
| Latin America | 19 622 | 13 962 | – | – | 33 584 | 11 603 |
| Middle East/Africa | – | – | – | – | – | 4 865 |
| Asia/Australia | 5 738 | 77 462 | – | – | 83 201 | 10 638 |
| Other | – | – | – | – | – | 3 |
| **Total** | **1 803 090** | **869 338** | **108 383** | **602 161** | **3 382 971** | **617 541** |

[1] Allocated in line with the internal reporting by economic criteria.

| 31 Dec. 2010 | Total exposure of overdue, unimpaired receivables[2] | | | | | General loan loss provisions |
|---|---|---|---|---|---|---|
| Regions[1] (in € 000) | Up to 1 month | 1 up to 3 months | 3 up to 6 months | More than 6 months | Total | |
| Euro countries | 1 301 798 | 187 634 | 148 826 | 334 722 | 1 972 979 | 589 670 |
| Other Europe | 46 350 | – | 1 034 | 23 623 | 71 007 | 33 269 |
| North America | 1 | 119 039 | – | 76 273 | 195 313 | 100 789 |
| Latin America | 0 | – | – | 1 066 | 1 066 | 5 144 |
| Middle East/Africa | 345 | – | – | – | 345 | 4 417 |
| Asia/Australia | 12 | – | – | – | 12 | 6 176 |
| Other | – | 48 | 397 | 2 279 | 2 724 | 7 702 |
| **Total** | **1 348 506** | **306 721** | **150 257** | **437 962** | **2 243 446** | **747 167** |

[1] Allocated in line with the internal reporting by economic criteria.
[2] Previous year's figures were adjusted.

The exposure of overdue, unimpaired receivables rose in almost all maturity bands. The main reason for this is a rise in the area of ship financing. Of the overdue, unimpaired receivables, only 21 per cent (26 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. 53 per cent (60 per cent) of receivables are overdue by up to one month; as a general rule 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 34. The values can be reconciled as follows:

| Reconciliations (in € million) | Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business | | General loan loss provisions | |
|---|---|---|---|---|
| | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 |
| **Risk report** | **1 329** | **1 493** | **618** | **747** |
| Differing basis of consolidation | – 50 | – 52 | 1 | 2 |
| General loan loss provisions on off-balance sheet obligations | 38 | 78 | – 38 | – 78 |
| **Consolidated financial statements** | **1 317** | **1 519** | **580** | **671** |

Direct write-offs of loans by the significant Group companies from a risk point of view in the year under review totalled € 85 million (€ 24 million). Additions to receivables written off amounted to € 17 million (€ 13 million). Direct write-offs of securities in the category loans and receivables (LaR) in the NORD/LB Group totalled € 14 million (€ 22 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 2011 by € 12 billion (€ 13 billion); this equates to a share of 13 per cent (13 per cent) of the total RWA credit risk. Mainly sureties and guarantees from states and banks were included.

The NORD/LB Group has not obtained any assets in the period under review by taking possession of securities obtained in the form collateral or by claiming other collateral for loans.

**Credit Risk – Outlook**
Against the background of the debt crisis in several EU countries and the associated market uncertainty, the NORD/LB Group expects the share of non-performing loans and new loan loss provisions to be at roughly the same level as the previous year. The NORD/LB Group is expecting difficult market conditions in particular for ship financing. The NORD/LB Group will continue to monitor developments closely and where necessary proceed with the measures to strengthen the risk rates.

In 2012 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 a component of counterparty risk and defines the risk of incurring losses when making equity available to third parties. A potential loss due to other financial liabilities is also a component of investment risk, unless it was considered in the other risks.

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

**Investment Risk – Management**

*Strategy*

Securing and improving the bank's own market position is the primary motive behind the investment policy of the NORD/LB Group. Generally the acquiring of investments serves 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.

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, Controlling and Risk Control divisions. Domestic and foreign investments are all supervised centrally by Investment Management 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.

In the year under review the risk analysis for investments was performed by NORD/LB's Investment Management using improved methods. Based on an investment analysis model, which also expressly considers risks beyond the carrying amount, investments were classified consistently across all divisions as significant, important and other investments. The review considered both quantitative and qualitative criteria.

The result of the materiality analysis determines how closely the risks are monitored in all divisions of NORD/LB. A further differentiation is made from a risk point of view for the treatment of significant investments. The significant investments based on quantitative criteria of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB (referred to as significant investments from a risk point of view in the risk report) are considered in the internal reporting of the NORD/LB Group at the level of individual risk type. The significant investments based on qualitative reasons of the NORD/LB Asset Management Group, the Öffentliche Versicherungen Braunschweig Group and Skandifinanz AG 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.

The programming of an IT application so that investments can be analysed regularly based on the model developed in 2011 is well advanced and should be completed in the first half of 2012.

The concept is still in the implementation phase in subsidiaries with their 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.

All investments are monitored centrally by Investment Management. The significant subsidiaries from a risk point of view with their own investments have their own units that are responsible for monitoring.

The Erweiterter Konzernvorstand and the Konzernsteuerungskreise control all material strategic and strategy-supporting investments. All other investments are controlled in Investment Management in collaboration with the Finance and Controlling divisions, unless the responsibility lies with another division due to a particular connection.

**Investment Risk – Assessment**
The method for measuring investment risk was improved in the year under review and now 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 unexpected loss at portfolio level, which together add up to an unexpected loss 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 based on the quantified risk potential for each 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**
Current income (earnings and depreciation) and the risks of all investments monitored by Investment Management are regularly evaluated and reported to the NORD/LB Managing Board on a half-yearly basis by Investment Management together with other significant key data within the scope of modified reporting.

In addition to this, realised or anticipated income from investments is reported on a monthly basis to the Finance Division. The Controlling 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 Risk Control Division.

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 2011**
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 investments since 2005. In continuation of this strategy, NORD/LB disposed of the majority of its indirect holdings in DekaBank Deutsche Girozentrale in 2011.

Without considering the effect of the change in the model, the risk potential reported in the economic capital adequacy of the RBC report fell significantly as a result and is € 113 million as at 31 December 2011.

In addition to optimising the investment portfolio, the continued development of investment risk management was a priority in the past year. The bank has finalised its materiality concept for Investment Management and subjected existing risk factors to different considerations.

After the emergence of the fraud case at Skandifinanz Bank AG, since 2010 the NORD/LB Group has, taking into account risk aspects, greatly downsized Skandifinanz Bank AG and returned its banking licence. Since January 2012 Skandifinanz AG is no longer a significant investment of the NORD/LB Group.

The significant investments based on qualitative criteria include Skandfinanz AG, Öffentliche Versicherungen Braunschweig and the NORD/LB Asset Management Group, and their risk management and risk situations are briefly outlined below.

**Öffentliche Versicherungen Braunschweig**
Risks in Öffentliche Versicherungen 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.

In terms of insurance risks at ÖVBS, 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 the subject of intensive discussion and are being tested with regard to their effects by the European Supervisory Authority. Many provisions are already laid down in concrete terms in the Minimum Requirements for Risk Management for Insurance Companies (MaRisk VA).

ÖVBS finalised in particular the risk handbook in 2011, which documents the principles of risk management together with the risk strategy that is approved annually.

For 2012 a cross-divisional project is planned for the further implementation of Solvency II. The aim is, based on the extensive implementation of MaRisk VA, to analyse the material components early and adequately implement the requirements.

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 which endanger 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. 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.

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 MaRisk and the Minimum Requirements for Risk Management for Investment Companies (InvMaRisk). 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 he 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 which endanger the Group here either.

**Investment Risk – Outlook**
Based on the data as at 31 December 2011, DekaBank Deutsche Girozentrale was redefined as a significant investment of the NORD/LB Group. Investment Management is currently arranging the resulting intensity of monitoring with the other divisions involved in control.

Significant tasks for 2012 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.

## 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 as well as credit-spread risk 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 (HGB).

- Credit-spread risk defines potential changes in value which would result 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. Their positioning on money, currency and capital markets should be in line with the significance and dimension of the Group and is primarily geared towards the needs of customers and supporting the control measures of the bank as a whole. As far as possible, there is no positioning on an opportunistic basis.

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.

Significant credit-spread risks in the banking book also result across the Group from existing investments in securities and credit derivatives. The NORD/LB Group generally aims to use the credit spreads to maturity and to gradually reduce the amount of the credit-spread risks in the banking book by trimming down the portfolio.

*Structure and Organisation*

The trading divisions Treasury, Markets and Portfolio Investments 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 Managing Board. Members of the ALCO in NORD/LB include the Financial Markets, Risk Control and Finance Board Members. Also represented are the heads of the trading divisions and the Risk Control, Credit Risk Management, Research/Economy, Controlling and Finance divisions. 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 Portfolio Investments and Treasury divisions and the relevant units of the subsidiaries.

Risks are monitored by the 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 for the quarterly SolvV report to the Bundesbank. The responsibility for the development and validation of the risk model also lies with the Risk Control Division.

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. They have their own risk control units which are responsible for monitoring the risks. 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 Board Member who is responsible for Financial Markets and who delegates to the subordinate organisational units.

Compliance with the limits is monitored both throughout the day and at the end of the day 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.

**Market Price Risk – Assessment**
The VaR ratios are calculated daily using the historical simulation method or, in the case of Bremer Landesbank and Deutsche Hypo, based on a variance-covariance approach. In the process a Group-wide unilateral confidence level of 95 per cent and a holding period of one trading day are used. At the end of each quarter NORD/LB also prepares a VaR calculation 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 controlled uniformly in the Group not using a VaR method, but by a scenario analysis.

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

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

The number of back-testing exceptions rose during the course of the year under review and was as at the reporting date red for NORD/LB and green for the other significant companies of the NORD/LB Group from a risk point of view. This increase was partly expected due to the worsening 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 area concerned are increased accordingly by additions from back-testing until these effects are corrected.

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

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

NORD/LB as individual institute 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 the locations in Hanover, London and Singapore. For the remaining types of risk from a regulatory point of view (in particular interest rate risk and currency risk) and for the subsidiaries the standard method is applied.

**Market Price Risk – Reporting**

In compliance with MaRisk requirements, the Risk Control Division, which is independent of the divisions responsible for the items, reports daily on market price risks to the respective Board Member. The Board Members 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.

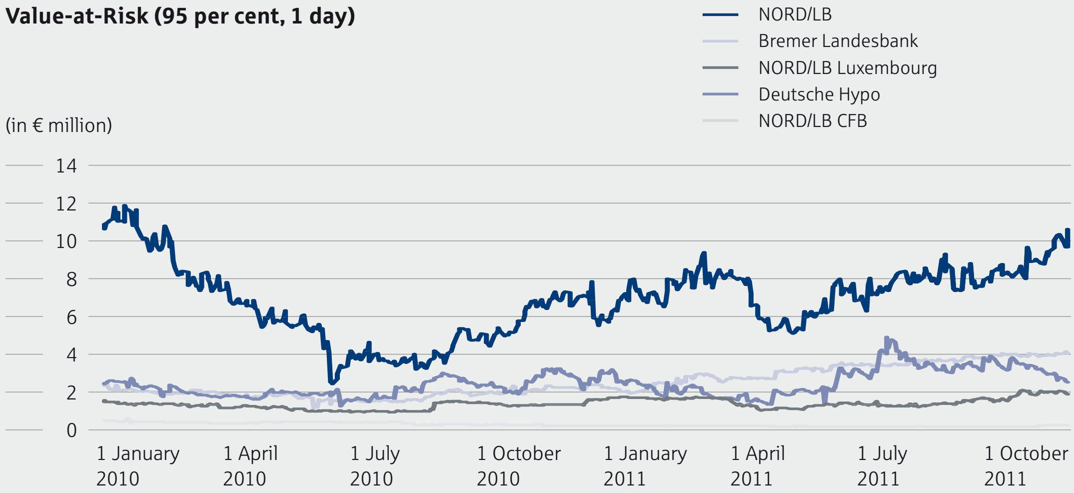
**Market Price Risk – Development in 2011**

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.

In the first half of the year, in particular the VaR figure rose in NORD/LB due to the reduction of positions in the Treasury Division, which had shown a negative correlation to the position of the overall bank. The reduction in the VaR in May 2011 was primarily due to the historical simulation method. The VaR fell as in May 2010 there had been several major scenarios as a result of the national debt crisis in Europe which one year later were no longer included in the calculation.

In the third and fourth quarter market price risk rose considerably. The main reason was the widening of the national debt crisis in Europe, which resulted in increased volatility in the markets relevant for NORD/LB.

**Value-at-Risk (95 per cent, 1 day)**




The average NORD/LB utilisation of market price risk limits for the year was 24 per cent (10 per cent), with maximum utilisation amounting to 35 per cent (23 per cent) and minimum utilisation at 16 per cent (5 per cent). In Bremer Landesbank the average was 43 per cent (24 per cent), in NORD/LB Luxembourg 21 per cent (23 per cent), in Deutsche Hypo 50 per cent (43 per cent) and in NORD/LB CFB 24 per cent (28 per cent).

During the course of 2011, the daily VaR calculated as the sum of the VAR values of the significant subsidiaries from a risk point of view (confidence level of 95 per cent and holding period of one day) fluctuated between € 10 million and € 19 million, with an average value of € 15 million. As at 31 December 2011, a VaR of € 17 million (€ 12.3 million) was calculated for the NORD/LB Group, representing an increase of 42 per cent compared to the previous year. The historical simulation method was used throughout the Group. As at 31 December 2010, the VaR was € 12.5 million including credit-spread risks in the liquidity reserve.

The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted in the NORD/LB Group to € 88 million as at 31 December 2011 (€ 76 million). These figures also include the interest rate, share price and currency risks in the banking book.

| Market price risks (in € 000) 1) 2) 3) | Maximum 1 Jan.– 31 Dec. 2011 | Maximum 1 Jan.– 31 Dec. 2010 | Average 1 Jan.– 31 Dec. 2011 | Average 1 Jan.– 31 Dec. 2010 | Minimum 1 Jan.– 31 Dec. 2011 | Minimum 1 Jan.– 31 Dec. 2010 | End-of year risk 31 Dec. 2011 | End-of-year risk 31 Dec. 2010 |
|---|---|---|---|---|---|---|---|---|
| Interest rate risk (VaR 95 %, 1d) | 19 289 | 9 631 | 15 229 | 5 418 | 10 588 | 3 399 | 18 019 | 12 248 |
| Currency risk (VaR 95 %, 1d) | 1 905 | 2 869 | 1 340 | 1 272 | 912 | 967 | 625 | 735 |
| Share price and fund price risk (VaR 95 %, 1d) | 2 366 | 2 576 | 1 204 | 1 325 | 668 | 741 | 811 | 1 610 |
| Volatility risk (VaR 95 %, 1d) | 521 | 488 | 265 | 290 | 124 | 188 | 257 | 361 |
| Other add-ons | 127 | 202 | 51 | 46 | 10 | 3 | 46 | 54 |
| **Total** | **19 261** | **18 215** | **14 905** | **11 626** | **10 267** | **6 907** | **17 499** | **12 349** |

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.
2) Maximum, average and minimum of the partial risk types are shown under consideration of the equity capital's duration 2010.
3) Credit-spread-risks of the liquidity reserve are not included in the shown figures 2010.

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 trimming down of the overall portfolio and active sales in the ABS portfolio. At the same time, unlike in the previous year, specific 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 the requirements of the German Solvency Regulation. The result for NORD/LB as at 31 December 2011 is at 4 per cent well below the regulatory threshold which provides for a maximum share of 20 per cent of liable equity.

**Market Price Risk – Outlook**
The NORD/LB Group will continue to observe all the relevant asset categories closely in 2012 as short-term, volatile market fluctuations can still be expected. Based on the conservative risk policy, the gradual developments of the risk models, the risk control process and focused trading strategy, the NORD/LB Group believes though that it is also well prepared for turbulent market phases.

With regard to the methods used, for 2012 it is planned that the harmonisation of the VaR calculation used in the NORD/LB Group with the Group-wide application of historical simulation will be completed in a common IT system and that the risk measures will be standardised with the integration of the credit spread risks in the banking book into the VaR model.

With regard to the regulatory approval of the market risk model, NORD/LB expects the market risk model for currency risks to be approved in 2012.

## Liquidity Risk

Liquidity risks are risks which may result from disruptions in the liquidity of individual market segments, unexpected events in lending, deposit 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 the bank's own lending, deposit or new issue business may also result in liquidity shortages. The focus of the NORD/LB Group's consideration is on the respective coming twelve months.

- Refinancing risk constitutes potential declines in earnings resulting from a deterioration in the bank's own refinancing 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.

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

**Liquidity Risk – Management**
*Strategy*
Securing perpetual liquidity for 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 refinancing risk 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 covered bond issues and retail deposits.

*Structure and Organisation*
In addition to the Treasury division, the global trading divisions Markets and Portfolio Investments and the Risk Control Division are included in the process of liquidity risk management at NORD/LB.

The Treasury Division is responsible for 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 Division is in charge of the implementation and development of internal procedures for measuring, limiting and monitoring liquidity risks. The Risk Control Division also ascertains and monitors traditional liquidity risk and monitors refinancing risk. It 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**
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 maturities are 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 in each case, hence also describing a current 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 considerations.

The dynamic stress scenario is supplemented by other statistical stress tests every month. These tests cover a scenario specific to NORD/LB, the alternative scenario of a comprehensive liquidity crisis, a short-term scenario for a market-wide liquidity problem and the scenario for calculating the liquidity buffer resulting from the third MaRisk amendment.

Market liquidity risks are implicitly accounted for by means of classifying securities in the liquidity maturity balance sheet 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 of key importance, i.e. the suitability of the securities as collateral in repo transactions, with central banks or as cover for covered bonds.

For control at Group level, a Group liquidity maturity balance sheet is prepared on a monthly basis. 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 maturity balance sheets 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 position, 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 the current liquidity maturities. 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, a separate credit-spread risk calculation is made for securities in the banking book 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 and since the parameters applied for calculating a scenario are specified in relation to current market spreads, 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 Division reports to the responsible Board Members several times a week, and depending on the amount of the limit used on a daily basis if necessary, on the dynamic stress test scenario for the NORD/LB Group's traditional liquidity risk.

In addition to this, NORD/LB's biggest investors in new business are monitored regularly. The responsible Board Members 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 regulating liquidity risk. The report in accordance with Liqv 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.

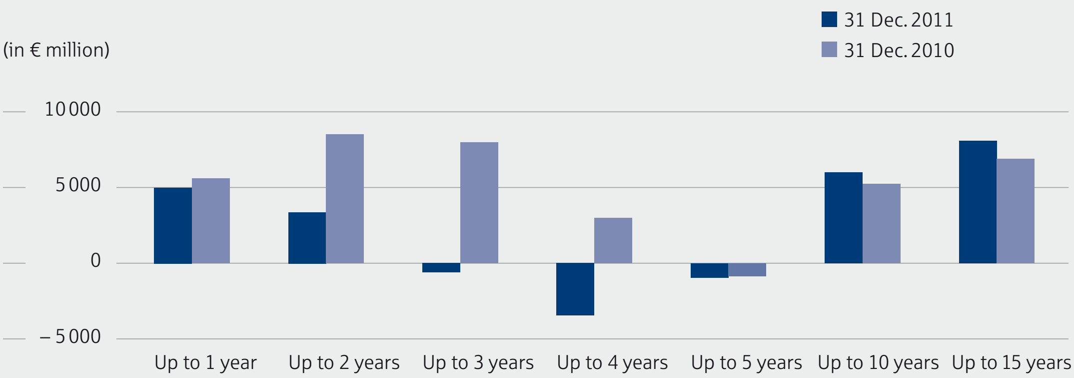
With the significant subsidiaries from a risk point of view, the relevant reports on traditional liquidity risk, refinancing risk and the liquidity situation are established in the status quo and under stress. These inform the controlling divisions, responsible Board Members resp. the entire Managing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

### Liquidity Risk – Development in 2011

The liquidity situation in the markets was characterised in 2011 by uncertainty with regard to the possible impact of the national debt crisis in Europe.

Notwithstanding this, the NORD/LB Group had sufficient liquidity at all times in 2011. 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.

**Accumulated liquidity maturities**




The forward-looking liquidity control in the market phases affected by the financial market crisis resulted in a slight reduction in liquidity which again resulted in low utilisation of the limits in virtually all maturity periods. The NORD/LB Group also 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 € 61 billion, 82 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 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. 2011 | 31 Dec. 2010 |
|---|---|---|
| NORD/LB | 1,73 | 1,39 |
| Bremer Landesbank | 1,74 | 1,52 |
| Deutsche Hypo | 2,09 | 1,45 |

[1)] NORD/LB Luxembourg and NORD/LB CFB are not required 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 MaRisk are also complied with.

The measurement and control processes were extended in 2011. The new processes included the consideration of a liquidity buffer in the liquidity risk instruments in the presentation of securities in accordance with MaRisk and the differentiated consideration of foreign-currency and cross-currency effects from refinancing of the most important currencies in the RBC reporting.

The analysis of contractual due dates for financial liabilities can be found in note 63.

**Liquidity Risk – Outlook**
Liquidity risk is not expected to increase significantly in 2012 due to the active liquidity control. Liquidity risk control will continue to be developed in the NORD/LB Group; for example a Liquidity Risk Cockpit will be introduced and greater consideration will be given to covered refinancing options by separating the liquidity maturity balance sheet into covered and uncovered shares.

Focus will also be placed in 2012 on the 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 Basell III concerning the Liquidity Coverage Ratio (LCR) and the 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 secondary 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 owners.

- Compliance risk defines the risks of penalties being handed out by courts, authorities or disciplinary bodies as a result of improper procedures, processes etc. (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 main aim is to avoid operational risks as far as this is economically viable. The NORD/LB Group protects itself against operational risks 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 NORD/LB Group possesses a suitable framework in the form of technical and organisational measures, contractual regulations, working instructions and other documentation in order to prevent operational risks from occurring as far as possible. This includes business continuation planning, recovery planning and appropriate insurance cover. The raising of risk awareness among all employees plays a key role in preventing operational risks in day-to-day business (risk culture).

The management of operational risks is supported by a methodical framework for risk identification and assessment so that specific measures can be quickly implemented.

With continual analysis of loss events, risk indicators and scenarios, causes of risk should be identified and concentrations of risk prevented. The internal control system (ICS) is reviewed regularly in relation to its appropriateness and effectiveness with regard to risk (ICS control cycle). Appropriate countermeasures are taken as and when required. Business continuation and recovery plans serve to limit damage in the case of extreme unexpected events.

*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 consistent business continuation and recovery planning which focuses on time-critical activities and processes.

The Risk Control Division is responsible for the central monitoring of operational risks and the independent reporting. The division is also responsible for specifying the rules for developing and implementing the methods used to control operational risks. All of the strategic and conceptual responsibilities relating to security and contingency management are concentrated in the Group Security division. 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 Risk Control Division of NORD/LB.

**Operational Risk – Control and Monitoring**

Process-related and structural organisational risks are countered with well-organised structures and procedures. If weaknesses in the organisation or in the control system are identified, appropriate countermeasures are taken immediately. The internal control system 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.

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.

Personnel risk is countered by an appropriate personnel level in terms of quality and quantity. The bank pays particular attention to employee qualifications and the qualification status is reviewed with the help of a system of job specifications and employee assessments. Personnel development measures can therefore be initiated in a targeted manner. 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/.

Criminal actions are countered in close cooperation with the criminal prosecution authorities. The Fraud Prevention Management which is located in the Compliance department, prevents internal and external acts of fraud as far as possible and continually improves the preventive measures. For this purpose a detailed risk analysis employing risk scenarios based on experience and internal control processes based on these are used throughout the institute. Employee awareness of risks is raised with classroom and online-based training, a regular newsletter and ad-hoc information on current risks. There is an informer system for employees and customers so that information can be passed on securely.

At the start of 2011 the new unit Regulatory Compliance department commenced operations. It should provide evidence in all divisions that NORD/LB complies with all applicable banking regulatory requirements.

In order to safeguard against legal risks, the respective Legal Department is to be consulted for example when legal action to be taken and when contracts which are not based on approved standard contracts are concluded.

The quality of external suppliers and service providers 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 materiality for risk aspects was installed in order to implement MaRisk requirements concerning outsourcing. For each material 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 material service outsourced.

The NORD/LB Group's insurance cover is appropriate. NORD/LB's insurance cover was subjected in the previous year to a full analysis with regard to its scope and effectiveness. The resulting optimisation measures were implemented in the year under review. Natural disasters and terrorist attacks are defined as force majeure. These risks are countered in contingency concepts.

**Operational Risk – Accounting-Related ICS**

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

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

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

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

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

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

**Operational Risk – Assessment**

NORD/LB has been collecting data on loss events resulting from operational risk since the beginning of 2003 and has classified these events by process, cause, and effect. There is no "insignificant" level; however there is a simplified reporting process for gross losses of less than € 2,500. Data in the loss databank 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 database Öffentliche Schadenfälle OpRisk (ÖffSchOR) 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, further improving measurement accuracy and enabling a more process-related view of the bank's operational risks.

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

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

An allocation process which combines size-related 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 used here were revised and extended in the year under review.

The methods and procedures implemented in the NORD/LB Group meet the requirements of § 272 of the 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 the standard approach in accordance with the German Solvency Regulation. The methods used in overall bank management and to establish the risk-bearing capacity are already based closely on the requirements of the German Solvency Regulation for an advanced measurement approach. However, further qualitative improvements to the methods for operational risk currently have priority over a regulatory certificate for the internal model.

**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 and at least once a year. All of the results are included in the quarterly RBC reporting.

**Operational Risk - Development in 2011**

In 2011 controls were further refined and harmonised in the NORD/LB Group. The system of risk indicators was updated on a regular basis in the year under review and also established in Bremer Landesbank, Deutsche Hypothekenbank, NORD/LB Luxembourg, NORD/LB CFB and the NORD/LB Asset Management Group.

The extension of the internal model to measure operational risks at Group level was completed at the start of the year under review. The model is therefore used consistently within the scope of risk-bearing capacity for all of the significant companies of NORD/LB from a risk point of view. At the level of NORD/LB the results were allocated to divisional level and linked to the contribution margin accounting for control purposes.

The ICS concept continued to be developed in 2011. Within the scope of a control inventory all of the key controls were tested for suitability and effectiveness. Here application of the ICS framework is currently being examined for other areas of the NORD/LB Group.

In the year under review an Ad-hoc Fraud Committee was implemented, which immediately analyses at management level important cases of criminal activity and coordinates reactions and preventive measures. In addition to this preventive measures were also revised on the basis of new legal regulations and rolled out throughout the Group in order to ensure common standards in the NORD/LB Group.

The responsibilities in the controlling of operational risks were switched in the fourth quarter from a method-based to a theme-based approach. The aim is to enable greater market proximity and a more holistic view of risks by pooling know-how.

With the extending of the security guidelines to the companies in the NORD/LB Group, the security level was further harmonised in the year under review. The organisation of contingency and crisis management was optimised particularly with regard to communication structures, infrastructure and updating situations. For the business continuation and recovery in the event of an emergency, an extensive control process was established.

The effectiveness of the contingency plans was checked for a range of failure scenarios with various emergency exercises. Among other things an extensive combined large-scale exercise for the scenario of the loss or failure of premises took place in NORD/LB; this involved completely clearing the main building and the continuation of time-critical processes and also considered the loss of key technology, such as the computer centre and loss of power. The exercise took place without notice during business hours and was completed successfully.

The Value-at-Risk as at 31 December 2011 for the operational risk based on the internal model is, with a confidence level of 99.9 per cent and a holding period of one year, € 256 million. There were no significant legal risks as at the reporting date.

**Operational Risk – Outlook**
In 2012 the integration of all divisions involved in the controlling and management of operational risks is to be continued. In this way synergy effects in the risk control instruments can be exploited and the existing reporting channels can be further improved. This also applies for the development of Group-wide evidence on matters relating to operational risk.

A further aim is to support the market and back office divisions more closely with regard to risk. For example, for greater preventive risk management at divisional and process level, the use of external data for operational risk should be intensified. Awareness-raising and training measures should create greater awareness of the issue at all levels of the NORD/LB Group and contribute towards a consistently high risk culture.

With regard to security-relevant threats affecting the bank's core resources, further developments in analysis and reporting are planned for 2012. In order to consolidate the new contingency and crisis organisation, training and crisis team exercises are planned.

With regard to criminal activity, the fraud risk analysis will be completely revised in 2012. The aim among other things is to achieve uniformity in the NORD/LB Group; this will be started this year.

## Summary

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

Quotients determined in the risk-bearing capacity model show that risks were covered at all times during the period under review. 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 2011. They also took due account of the regulations relating to large exposure 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 and the development of the euro countries. In addition to this, the high degree of market volatility, in particular for interest rates and credit spreads, against the joint background of the continuing discussions concerning the euro periphery countries, also affects future developments. NORD/LB will continue to monitor and analyse developments closely.

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

# CONSOLIDATED FINANCIAL STATEMENTS

→ *pages 155 – 259*

## Contents

# Income Statement

| | Notes | 1 Jan. – 31 Dec. 2011 (in € million) | 1 Jan. – 31 Dec. 2010*) (in € million) | Change (in %) |
|---|---|---|---|---|
| Interest income | | 12 994 | 12 520 | 4 |
| Interest expense | | 11 231 | 10 858 | 3 |
| **Net interest income** | 21 | **1 763** | **1 662** | **6** |
| Loan loss provisions | 22 | – 205 | – 642 | – 68 |
| Commission income | | 302 | 338 | – 11 |
| Commission expense | | 136 | 141 | – 4 |
| **Net commission income** | 23 | **166** | **197** | **– 16** |
| Trading profit/loss | | 287 | 130 | > 100 |
| Profit/loss from the use of the fair value option | | – 348 | – 168 | > 100 |
| **Profit/loss from financial instruments at fair value through profit or loss** | 24 | **– 61** | – 38 | **– 61** |
| Profit/loss from hedge accounting | 25 | 130 | 153 | – 15 |
| Profit/loss from financial assets | 26 | – 41 | 82 | > 100 |
| Profit/loss from investments accounted for using the equity method | 27 | – | – 73 | 100 |
| Administrative expenses | 28 | 1 091 | 1 070 | 2 |
| Other operating profit/loss | 29 | 69 | 48 | 44 |
| **Earnings before taxes** | | **730** | **319** | **> 100** |
| Income taxes | 30 | 194 | 5 | > 100 |
| **Consolidated profit** | | **536** | **314** | **71** |
| of which: attributable to the owners of NORD/LB | | 517 | 296 | |
| of which: attributable to non-controlling interests | | 19 | 18 | |

*) 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 2011 (2010) comprises the income statement and the income and expense recognised directly in equity:

| | 1 Jan. – 31 Dec. 2011 (in € million) | 1 Jan. – 31 Dec. 2010 *) (in € million) | Change (in %) |
|---|---|---|---|
| **Consolidated profit** | **536** | **314** | **71** |
| Increase/decrease from available for sale (AfS) financial instruments | | | |
| Unrealised profit/losses | – 940 | 42 | > 100 |
| Transfer due to realisation profit/loss | – 6 | 35 | > 100 |
| Changes in value investments accounted for using the equity method recognised directly in equity | 16 | – 18 | > 100 |
| Translation differences of foreign business units | | | |
| Unrealised profit/losses | 13 | 13 | – |
| Actuarial gains and losses for pensions for defined benefit obligations | – 41 | – 15 | > 100 |
| Deferred taxes | 338 | – 22 | > 100 |
| **Other profit/loss** | **– 620** | **35** | **> 100** |
| **Comprehensive income for the period under review** | **– 84** | **349** | **> 100** |
| of which: attributable to the owners of NORD/LB | – 98 | 321 | |
| of which: attributable to non-controlling interests | 14 | 28 | |

*) 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. 2011 (in € million) | 31 Dec. 2010*) (in € million) | Change (in %) |
|---|---|---|---|---|
| Cash reserve | 31 | 796 | 1 069 | – 26 |
| Loans and advances to banks | 32 | 32 928 | 36 734 | – 10 |
| Loans and advances to customers | 33 | 116 404 | 113 605 | 2 |
| Loan loss provisions | 34 | – 1 785 | – 2 018 | – 12 |
| Financial assets at fair value through profit or loss | 35 | 18 644 | 15 103 | 23 |
| Positive fair values from hedge accounting derivatives | 36 | 3 289 | 2 938 | 12 |
| Financial assets | 37 | 54 499 | 58 666 | – 7 |
| Investments accounted for using the equity method | 38 | 387 | 402 | – 4 |
| Property and equipment | 39 | 688 | 702 | – 2 |
| Investment property | 40 | 93 | 96 | – 3 |
| Intangible assets | 41 | 153 | 161 | – 5 |
| Assets held for sale | 42 | 1 | 1 | – |
| Current income tax assets | 43 | 60 | 70 | – 14 |
| Deferred income taxes | 43 | 721 | 484 | 49 |
| Other assets | 44 | 752 | 511 | 47 |
| **Total assets** | | **227 630** | **228 524** | **–** |

*) 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. 2011 (in € million) | 31 Dec. 2010[*] (in € million) | Change (in %) |
|---|---|---|---|---|
| Liabilities to banks | 45 | 56 584 | 60 962 | – 7 |
| Liabilities to customers | 46 | 63 322 | 60 742 | 4 |
| Securitised liabilities | 47 | 66 076 | 71 061 | – 7 |
| Adjustment item for financial instruments hedged in the fair value hedge portfolio | 48 | 733 | 390 | 88 |
| Financial liabilities at fair value through profit or loss | 49 | 20 529 | 16 596 | 24 |
| Negative fair values from hedge accounting derivatives | 50 | 3 422 | 2 269 | 51 |
| Provisions | 51 | 3 414 | 3 357 | 2 |
| Current income tax liabilities | 52 | 161 | 182 | – 12 |
| Deferred income liabilities | 52 | 4 | 6 | – 33 |
| Other liabilities | 53 | 756 | 568 | 33 |
| Subordinated capital | 54 | 6 086 | 6 590 | – 8 |
| **Equity** | | | | |
| Issued capital | | 1 494 | 1 085 | 38 |
| Capital reserves | | 3 175 | 2 597 | 22 |
| Retained earnings | | 2 480 | 2 090 | 19 |
| Revaluation reserve | | – 546 | 63 | > 100 |
| Currency translation reserve | | – 3 | – 8 | 63 |
| **Equity capital attributable to the owners of NORD/LB** | | **6 600** | **5 827** | **13** |
| Equity capital attributable to non-controlling interests | | – 57 | – 26 | > 100 |
| | | **6 543** | **5 801** | **13** |
| **Total liabilities and equity** | | **227 630** | **228 524** | **–** |

[*] 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 2010 and 2011 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 noncontrolling interests | Consolidated equity |
|---|---|---|---|---|---|---|---|---|
| **Equity as at 1 January 2010** | **1 085** | **2 597** | **2 037** | **24** | **– 49** | **5 694** | **104** | **5 798** |
| Adjustments according to IAS 8 | – | – | – 161 | – 3 | 29 | – 135 | – 32 | – 167 |
| **Adjusted equity as at 1 January 2010** | **1 085** | **2 597** | **1 876** | **21** | **– 20** | **5 559** | **72** | **5 631** |
| Consolidated profit | – | – | 296 | – | – | 296 | 18 | 314 |
| Increase /decrease from available for sale (AfS) financial instruments | – | – | – | 67 | – | 67 | 10 | 77 |
| Changes in value investments accounted for using the equity method recognised directly in equity | – | – | – 18 | – | – | – 18 | – | – 18 |
| Translation differences of foreign business units | – | – | – | – | 12 | 12 | 1 | 13 |
| Actuarial gains and losses for pensions for defined benefit obligations | – | – | – 16 | – | – | – 16 | 1 | – 15 |
| Deferred taxes | – | – | 5 | – 25 | – | – 20 | – 2 | – 22 |
| **Comprehensive income for the period under preview** | **–** | **–** | **267** | **42** | **12** | **321** | **28** | **349** |
| Distribution | – | – | – 47 | – | – | – 47 | – 4 | – 51 |
| Capital increases / decreases | – | – | – | – | – | – | 32 | 32 |
| Changes in the basis of consolidation | – | – | 10 | – | – | 10 | – 80 | – 70 |
| Consolidation effects and other changes in capital | – | – | – 16 | – | – | – 16 | – 74 | – 90 |
| **Equity as at 31 December 2010** | **1 085** | **2 597** | **2 090** | **63** | **– 8** | **5 827** | **– 26** | **5 801** |

| (in € million) | Issued capital | Capital reserves | Retained earnings | Revaluation reserve | Currency translation reserve | Equity attributable to the owners of NORD/LB | Equity attributable to noncontrolling interests | Consolidated equity |
|---|---|---|---|---|---|---|---|---|
| **Equity as at 1 January 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 | – | – | – | – 933 | – | – 933 | – 13 | – 946 |
| Changes in value investments accounted for using the equity method recognised 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** | **– 609** | **5** | **– 98** | **14** | **– 84** |
| 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 December 2011** | **1 494** | **3 175** | **2 480** | **– 546** | **– 3** | **6 600** | **– 57** | **6 543** |

For a more detailed account, the notes to the statement of changes in equity are referred to.

# Cash Flow Statement

| | 1 Jan. – 31 Dec. 2011 (in € million) | 1 Jan. – 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Consolidated profit** | **536** | **314** | **71** |
| Adjustment for non-cash items | | | |
| Depreciation, impairment and write-ups of property and equipment and financial assets | 524 | 1 196 | – 56 |
| Increase / decrease in provisions | 97 | 143 | – 32 |
| Gains / losses from the disposal of property and equipment and financial assets | – 39 | – 104 | – 63 |
| Increase / decrease in other non-cash items | 77 | 452 | – 83 |
| Other adjustments net | – 1 571 | – 1 554 | 1 |
| **Sub-total** | **– 376** | **447** | **> 100** |
| Increase / decrease in assets and liabilities from operating activities after adjustment for non-cash item | | | |
| Loans and advances to banks and customers | 1 204 | 2 879 | – 58 |
| Trading assets | – 3 784 | – 462 | > 100 |
| Other assets from operating activities | 2 225 | 5 315 | – 58 |
| Liabilities to banks and customers | – 1 813 | – 1 503 | 21 |
| Securitised liabilities | – 5 119 | – 8 279 | – 38 |
| Other liabilities from operating activities | 5 766 | – 783 | > 100 |
| Interest and dividends received | 8 590 | 8 628 | – |
| Interest paid | – 6 761 | – 7 089 | – 5 |
| Income taxes paid | – 42 | – 33 | 27 |
| **Cash flow from operating activities** | **– 110** | **– 880** | **– 88** |

| | 1 Jan. – 31 Dec. 2011 (in € million) | 1 Jan. – 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Cash receipts from the disposal of | | | |
| financial assets | 496 | 259 | 92 |
| property and equipment | 2 | 1 | 100 |
| Cash payments for acquisition of | | | |
| financial assets | – 57 | – 68 | – 16 |
| property and equipment | – 271 | – 118 | > 100 |
| Cash receipts from the disposal of consolidated companies and other business units | 1 | 167 | – 99 |
| **Cash flow from investing activities** | **171** | **241** | **– 29** |
| Cash receipts from equity contributions | 653 | 8 | > 100 |
| Cash payments to owners and non-controlling interests | – 5 | – | – |
| Increase / decrease in funds from other capital | – 526 | 214 | > 100 |
| Interest expense on subordinated capital | – 331 | – 326 | 2 |
| Dividends paid | – 130 | – 51 | > 100 |
| **Cash flow from financing activities** | **– 339** | **– 155** | **> 100** |
| **Cash and cash equivalents as at 1 January** | **1 069** | **1 844** | **– 42** |
| Cash flow from operating activities | – 110 | – 880 | 88 |
| Cash flow from investing activities | 171 | 241 | – 29 |
| Cash flow from financing activities | – 339 | – 155 | > 100 |
| **Total cash flow** | **– 278** | **– 794** | **65** |
| Effects of changes in exchange rates and in the basis of consolidation | 5 | 19 | – 74 |
| **Cash and cash equivalents as at 31 December** | **796** | **1 069** | **– 26** |

# 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 2011 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.

The consolidated financial statements as at 31 December 2011 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 to the consolidated financial statements. The segment reporting is shown in the notes (note (19) Segment reporting by business segment and note (20) Segment reporting by geographical segment). 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. The 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. 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, the assessment of risk provisions with regard to future cash flows the calculation of deferred tax assets relating to the recoverability of tax losses not yet utilised. If significant estimations were required, the assumptions made are presented. 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.

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 afterwards in brackets.

These consolidated financial statements were signed by the Managing Board on 13 March 2012 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 in the following areas:

As at 31 December 2010 loan processing fees for new loans and restructurings totalling € 13 million were not reported under interest income, but under commission income.

The resulting adjustments for the period of 1 January to 31 December 2010 are summarised as follows:

| 1 Jan. – 31 Dec. 2010 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| Interest income | 12 508 | 13 | 12 521 |
| Commission income | 351 | – 13 | 338 |

During a portfolio migration in October 2011, twelve transactions were identified as having been classified incorrectly with regard to security status in the financial year 2009. These are own issues which were classified as "unsecured" but should have been classified as "secured" issues. The incorrect classification resulted in an incorrect fair value being calculated for the assets and liabilities resulting from these transactions with a corresponding impact on earnings since 2009.

The following items were corrected in the balance sheet as at 31 December 2010:

| 31 Dec. 2010 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| **Assets** | | | |
| Deferred income taxes | 480 | 4 | 484 |
| **Liabilities** | | | |
| Financial liabilities at fair value through profit or loss | 16 587 | 9 | 16 596 |
| Deferred tax liabilities | 5 | 1 | 6 |
| Retained earnings | 2 173 | – 6 | 2 167 |

The adjustment had an effect on the following items in the income statement for the period of 1 January to 31 December 2010:

| 1 Jan. – 31 Dec. 2010 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| Profit/loss from financial instruments at fair value through profit or loss | – 52 | 3 | – 49 |
| **Earnings before taxes** | **236** | **3** | **239** |
| Income taxes | – | 1 | 1 |
| **Consolidated profit** | **236** | **2** | **238** |

As at the balance sheet dates for 2005–2010, severance obligations to an atypical silent partner were not calculated correctly.

The respective adjustments in the balance sheet and the income statement as at 31 December 2010 are summarised in the tables below:

| 31 Dec. 2010 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| **Assets** | | | |
| Other assets | 577 | – 66 | 511 |
| **Liabilities** | | | |
| Subordinated capital | 6 573 | 17 | 6 590 |
| Retained earnings *) | 2 167 | – 51 | 2 116 |
| Equity capital attributable to non-controlling interests | 6 | – 32 | – 26 |

| 1 Jan.–31 Dec. 2010 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| Interest income | 12 521 | – 1 | 12 520 |
| **Earnings before taxes*)** | **239** | **– 1** | **238** |
| Income taxes*) | 1 | – | 1 |
| **Consolidated profit*)** | **238** | **– 1** | **237** |

*) Terminal value after further adjustments.

In a special fund, the currency translation was not reported correctly with regard to the functional currency.

The effects on the balance sheet as at 31 December 2010 and the income statement for the period of 1 January to 31 December 2010 are summarised as follows:

| 31 Dec. 2010 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| **Liabilities** | | | |
| Retained earnings*) | 2 116 | – 26 | 2 090 |
| Currency translation reserve | – 37 | 29 | – 8 |
| Revaluation reserve | 66 | – 3 | 63 |

| 1 Jan.–31 Dec. 2010 (in € million) | Prior to adjust-ment | Adjustment | After Adjustment |
|---|---|---|---|
| Trading profit/loss | 119 | 11 | 130 |
| Foreign exchange gains | 52 | 11 | 63 |
| **Earnings before taxes*)** | **238** | **11** | **249** |
| Income taxes*) | 1 | – | 1 |
| **Consolidated profit*)** | **237** | **11** | **248** |

*) Terminal value after further adjustments.

The revised enterprise value of DnB Nord for 2009 results in a write-down requirement of € 55 million. The resulting changes in value and corresponding effects on earnings for 2009 and 2010 are summarised in the tables below.

| 1 Jan. – 31 Dec. 2010 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| Profit/loss from investments accounted for using the equity method | – 128 | 55 | – 73 |
| **Earnings before taxes*)** | **249** | **55** | **304** |
| Income taxes*) | 1 | – | 1 |
| **Consolidated profit*)** | **248** | **55** | **303** |

*) Terminal value after further adjustments.

In March 2010 specific valuation allowances were made for two exposures in the amount of € 15 million. These loan loss provisions should have been considered in 2009.

This resulted in the following changes in the income statement for the period of 1 January to 31 December 2010:

| 1 Jan. – 31 Dec. 2010 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| Loan loss provisions | – 657 | 15 | – 642 |
| **Earnings before taxes*)** | **304** | **15** | **319** |
| Income taxes*) | 1 | 4 | 5 |
| **Consolidated profit*)** | **303** | **11** | **314** |

*) Terminal value after further adjustments.

The respective adjustments were also taken into account in the following notes: (21) Net interest income, (22) Loan loss provisions, (23) Net commission income, (24) Profit/loss from financial instruments at fair value, (27) Profit/loss from investments accounted for using the equity method, (30) Income taxes, (43) Current income tax assets and deferred income taxes, (44) Other assets, (49) Liabilities at fair value through profit or loss, (55) Fair value hierarchy, (52) Current income tax liabilities and deferred income taxes, (54) Subordinated capital, (56) Carrying amounts by measurement category, (57) Net gains or losses by measurement category, (60) Derivative financial instruments, (63) Residual terms of financial liabilities and (69) Non-current assets and liabilities.

The aforementioned facts have the following effects on the financial year 2009:

| 31 Dec. 2009 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| **Loan loss provisions** | **– 1 792** | **– 15** | **– 1 807** |
| Specific valuation allowance | – 1 276 | – 15 | – 1 291 |
| German banks | – 6 | – 15 | – 21 |
| **Investments accounted for using the equity method** | **723** | **– 55** | **668** |
| Joint Ventures – Banks | 302 | – 55 | 247 |
| **Deferred income taxes** | **353** | **8** | **361** |
| **Other assets** | **1 808** | **– 66** | **1 742** |
| Loans and advances to atypical silent partners | 66 | – 66 | – |
| **Total assets** | **238 600** | **– 128** | **238 472** |
| **Financial liabilities at fair value through profit or loss** | **16 136** | **12** | **16 148** |
| Trading liabilities | 7 279 | 1 | 7 280 |
| Negative fair values from derivatives relating to | | | |
| interest rate risks | 5 624 | 1 | 5 625 |
| Financial liabilities designated at fair value | 8 857 | 11 | 8 868 |
| Liabilities to banks and customers | 5 012 | 11 | 5 023 |
| **Subordinated capital** | **5 931** | **16** | **5 947** |
| Silent participations | 2 389 | 16 | 2 405 |
| **Equity** | | | |
| Retained earnings | 2 037 | – 162 | 1 875 |
| Revaluation reserve | 24 | – 5 | 19 |
| Currency translation reserve | – 49 | 42 | – 7 |
| **Equity capital attributable to the owners of NORD/LB** | **5 694** | **– 125** | **5 569** |
| Equity capital attributable to non-controlling interests | 104 | – 31 | 73 |
| **Equity** | **5 798** | **– 156** | **5 642** |
| **Total liabilities and equity** | **238 600** | **– 128** | **238 472** |

| 1 Jan.–31 Dec. 2009 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| **Net interest income** | **1 380** | **7** | **1 387** |
| Interest income | 16 027 | 7 | 16 034 |
| Interest income from lending and money market transactions | 5 809 | 9 | 5 818 |
| Other interest income and similar income | 6 | – 1 | 5 |
| Interest expense from subordinated capital | 300 | 2 | 302 |
| Other interest expenses and similar expenses | 11 | – 2 | 9 |
| **Loan loss provisions** | **– 1 045** | **– 15** | **– 1 060** |
| Expenses for loan loss provisions | 1 316 | – 15 | 1 301 |
| Allocation to specific valuation allowance | – 862 | – 15 | – 877 |
| **Net commission income** | **177** | **– 9** | **168** |
| Commission income | 277 | – 9 | 268 |
| Other commission income | 36 | – 9 | 27 |
| **Profit/loss from financial instruments at fair value through profit or loss** | **421** | **– 13** | **408** |
| Trading profit/loss | 627 | – 2 | 625 |
| Foreign exchange gains | – | – 2 | – 2 |
| Profit/loss from the use of fair value option | – 206 | – 11 | – 217 |
| Profit/loss from valuation | – 191 | – 11 | – 202 |
| from liabilities to banks and customers | 74 | – 11 | 63 |
| **Profit/loss from investments accounted for using the equity method** | **– 200** | **– 55** | **– 255** |
| Shares in joint ventures | – 227 | – 55 | – 282 |
| Expenses | 228 | 55 | 283 |
| **Earnings before taxes** | **– 88** | **– 85** | **– 173** |
| Income taxes | 50 | – 8 | 42 |
| **Consolidated profit** | **– 138** | **– 77** | **– 215** |
| of which: attributable to the owners of NORD/LB | – 149 | – 75 | – 224 |
| of which: attributable to non-controlling interests | 11 | – 2 | 9 |

In the segment reporting for the period of 1 January to 31 December 2009 the following adjustments have been made:

| 1 Jan.–31 Dec. 2009 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| **Private and Commercial Customers** | | | |
| Profit/loss from investments accounted for using the equity method | – 238 | – 55 | – 293 |
| Earnings before taxes (EBT) | – 207 | – 55 | – 262 |
| Consolidated profit | – 207 | – 55 | – 262 |
| Segment assets (31 Dec. 2009) | 12 526 | – 55 | 12 471 |
| Segment liabilities (31 Dec. 2009) | 10 102 | – 55 | 10 047 |
| CIR | 178,9 % | 80,1 % | 258,9 % |
| **Financial Markets/Institutional Customers** | | | |
| Profit/loss from financial instruments at fair value through profit or loss | 260 | – 2 | 258 |
| Earnings before taxes (EBT) | 398 | – 2 | 396 |
| Consolidated profit | 398 | – 2 | 396 |
| CIR | 18,4 % | 0,1 % | 18,5 % |
| **Energy and Infrastructure Customers** | | | |
| Net interest income before loan loss provisions | 136 | 2 | 138 |
| Loan loss provisions | 41 | 11 | 52 |
| Net interest income after loan loss provisions | 95 | – 9 | 86 |
| Net commission income | 41 | – 2 | 39 |
| Earnings before taxes (EBT) | 104 | – 11 | 93 |
| Consolidated profit | 104 | – 11 | 93 |
| Segment assets (31 Dec. 2009) | 13 170 | – 8 | 13 162 |
| Segment liabilities (31 Dec. 2009) | 5 558 | – 8 | 5 551 |
| **Ships and Aircraft Customers** | | | |
| Net interest income before loan loss provisions | 276 | 5 | 281 |
| Net interest income after loan loss provisions | 119 | 5 | 124 |
| Net commission income | 33 | – 5 | 28 |
| **Real Estate Banking Customers** | | | |
| Net interest income before loan loss provisions | 219 | 2 | 221 |
| Loan loss provisions | 134 | 4 | 138 |
| Net interest income after loan loss provisions | 85 | – 2 | 83 |
| Net commission income | 21 | – 2 | 19 |
| Earnings before taxes (EBT) | 47 | – 4 | 43 |
| Consolidated profit | 47 | – 4 | 43 |
| Segment assets (31 Dec. 2009) | 22 393 | – 3 | 22 390 |
| Segment liabilities (31 Dec. 2009) | 11 139 | – 3 | 11 136 |
| **Group Management/Others** | | | |
| Net interest income before loan loss provisions | – 168 | – 2 | – 170 |
| Net interest income after loan loss provisions | – 497 | – 2 | – 499 |
| Earnings before taxes (EBT) | – 304 | – 2 | – 306 |
| Consolidated profit | – 304 | – 2 | – 306 |
| Segment assets (31 Dec. 2009) | – 31 919 | – 66 | – 31 985 |
| Segment liabilities (31 Dec. 2009) | – 22 677 | – 66 | – 22 743 |

| 1 Jan.–31 Dec. 2009 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| **Reconciliations** | | | |
| Profit/loss from financial instruments at fair value through profit or loss | – 48 | – 11 | – 59 |
| Earnings before taxes (EBT) | – 203 | – 11 | – 214 |
| Taxes | 50 | – 8 | 42 |
| Consolidated profit | – 253 | – 3 | – 257 |
| Segment assets (31 Dec. 2009) | – 3 310 | 4 | – 3 306 |
| Segment liabilities (31 Dec. 2009) | 7 892 | 4 | 7 896 |
| **NORD/LB Group** | | | |
| Net interest income before loan loss provisions | 1 380 | 7 | 1 387 |
| Loan loss provisions | 1 045 | 15 | 1 060 |
| Net interest income after loan loss provisions | 335 | – 8 | 327 |
| Net commission income | 177 | – 9 | 168 |
| Profit/loss from financial instruments at fair value through profit or loss | 421 | – 13 | 408 |
| Profit/loss from investments accounted for using the equity method | – 200 | – 55 | – 255 |
| Earnings before taxes (EBT) | – 88 | – 85 | – 173 |
| Taxes | 50 | – 8 | 42 |
| Consolidated profit | – 138 | – 77 | – 215 |
| Segment assets (31 Dec. 2009) | 238 600 | – 128 | 238 472 |
| Segment liabilities (31 Dec. 2009) | 238 600 | – 128 | 238 472 |
| Capital employed | 5 136 | – 166 | 4 970 |
| CIR | 47,3 % | 1,7 % | 49,0 % |
| RoRaC/RoE | – 2,6 % | – 1,8 % | – 4,4 % |

| 1 Jan.–31 Dec. 2009 (in € million) | Prior to adjustment | Adjustment | After Adjustment |
|---|---|---|---|
| **Regional breakdown** | | | |
| Earnings before taxes (EBT) | | | |
| Federal Republic of Germany | – 237 | – 30 | – 267 |
| Europe excluding Germany | 104 | – 55 | 49 |
| NORD/LB Group | – 88 | – 85 | – 173 |
| Segment assets (31 Dec. 2009) | | | |
| Federal Republic of Germany | 227 223 | – 128 | 227 095 |
| NORD/LB Group | 238 600 | – 128 | 238 472 |
| Segment liabilities (31 Dec. 2009) | | | |
| Federal Republic of Germany | 227 223 | – 128 | 227 095 |
| NORD/LB Group | 238 600 | – 128 | 238 472 |
| Capital employed | | | |
| Federal Republic of Germany | 4 349 | – 166 | 4 183 |
| NORD/LB Group | 5 136 | – 166 | 4 970 |
| CIR | | | |
| Federal Republic of Germany | 65,4 % | 0,6 % | 66,0 % |
| Europe excluding Germany | 16,3 % | – 7,8 % | 8,5 % |
| NORD/LB Group | 47,3 % | 1,7 % | 49,0 % |
| RoRaC/RoE | | | |
| Federal Republic of Germany | – 6,2 % | – 0,8 % | – 7,0 % |
| Europe excluding Germany | 18,0 % | 1,5 % | 19,5 % |
| NORD/LB Group | – 2,6 % | – 1,8 % | – 4,4 % |

**(3) Adopted IFRS**

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 2010 were adopted in these Consolidated Financial Statements.

The following amendments which are mandatory for the first time from 1 January 2011 were taken into account.

In November 2009 IASB published a revised version of IAS 24-Disclosure of Related Party transactions. As part of the review the definition of the Related Parties in particular was specified and amended. Furthermore an exemption clause concerning information to be published for government-related entities was implemented.

Due to the first application of IAS 24 (rev. 2009) NORD/LB's group of Related Parties was expanded by subsidiaries and joint ventures of Lower Saxony and SVN as well as by subsidiaries of joint ventures and affiliated companies of the Group. This explains the expansion of the business volume shown in the notes. The previous year's figures were adjusted accordingly (see note (75) Related Parties). The NORD/LB Group does not make use of the exemption clause of the revised standard concerning the information for government-related entities.

In May 2010 IASB published further modifications of the existing IFRS within the scope of its Annual Improvements Projects. These comprise both amendments to various IFRSs with effects on the approach, valuation and reporting of transactions and terminological or editorial adjustments. Most of the changes apply to financial years beginning on or after 1 January 2011.

Within these Consolidated Financial Statements all IFRS, interpretations and their respective amendments which have been accepted by the EU in the endorsement process and were relevant for the NORD/LB Group in the financial year 2011 were adopted.

The following amendments of the standard as at 1 January 2011 were taken into account for the first time:

In November 2009 the IASB published a revised version of IAS 24 – Related party disclosures. Within the framework of the revision the definition of the related parties was specified and further amended. In addition an exemption concerning the government-related entity disclosures was implemented.

Due to the fact that IAS 24 (rev. 2009) was taken into account for the first time the number of related parties increased by subsidiaries, joint ventures of Lower Saxony and of SVN as well as by subsidiaries of joint ventures and affiliated companies of the NORD/LB Group. For this reason the business volume stated in the notes rose. The previous year's figures were adjusted accordingly (see note (74) Related parties). The exemption concerning the government-related entities being part of the amended standard is not used by the NORD/LB Group.

In May 2010 the IASB published within the framework of its annual improvement projects further modifications of the existing IFRS. These comprise both amendments to various IFRSs with effects on the approach, valuation and reporting of transactions and terminological or editorial adjustments. Most of the amendments account for the years starting on or after 1 January 2011.

The amendments in line with the annual improvement projects have no material impact on the consolidated financial statements of NORD/LB Group.

As is allowed, we have not yet applied the following standards and amendments to standards which did not have to be implemented by the NORD/LB Group prior to 31 December 2011:

- **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.

  For the NORD/LB Group this results in changes in the recognition of costs and taxes relating to benefit plans and the recognition of liabilities for termination benefits. In addition to this, the expected income from plan assets with a fixed interest rate is to be calculated and extended disclosures are to be made in the notes.

- **IFRS 9 – Financial Instruments**
  As part of the project to replace IAS 39, a revised version of IFRS 9 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. Rating-induced changes in the value of financial liabilities will in future only be shown in other comprehensive income if the fair value option is applied. With regard to the other phases, publications by the IASB concerning the issues of impairment and hedge accounting are expected in the second half of 2012. Subject to EU endorsement, IFRS 9 will 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 recognition, measurement 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. The standard replaces the regulations of the former IAS 27 and SIC 12 that relate to this and will come into force for reporting periods commencing on or after 1 January 2013.

  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 2013. 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 the 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, associated 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 2013.

  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).

- **IFRS 13 – Fair Value Measurement**
  The IASB published IFRS 13 – Fair value measurement in May 2011. It is applicable for financial years commencing on or after 1 January 2013; adjusted reference figures do not have to be disclosed. 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 effects of the regulations of IFRS 13 on recognition, measurement and disclosures in the NORD/LB Group are currently being examined.

- **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, the tax amounts 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 what 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.

- **Amendments to IFRS 7 – Disclosures: Transfer of Financial Assets**
  The IASB published amendments to IFRS 7 – Financial instruments: Disclosures in October 2010 as part of its comprehensive review of off-balance-sheet transactions. The amendments will allow a better understanding of transfer transactions of assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets.

  The amendments will result in extended disclosure requirements which are applicable for the NORD/LB Group from 1 January 2012. Reference figures do not need to be disclosed in the first year of application.

- **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 are mandatory for interim periods and financial years commencing on or after 1 January 2013 with retrospective effect.

  The effects of the amendments to IAS 32 and IFRS 7 relating to the offsetting of financial instruments on the NORD/LB Group are currently being examined.

The following amended or new standards have also not been applied early:
- Amendments to IAS 12 – Deferred taxes: Recovery of underlying assets
- IAS 27 (rev. 2011) – Separate financial statements
- IAS 28 (rev. 2011) – Investments in associates and joint ventures

These amendments must be applied in the Group for financial years commencing on or after 1 January 2012 (amendments to IAS 12) or 1 January 2013.

The amendments to IAS 12, IAS 27 and IAS 28 are not expected to have a significant impact on NORD/LB's consolidated financial statements.

With the exception of the amendments to IFRS 7 – Disclosures: Transfer of financial assets, which was endorsed on 22 November 2011, the above-mentioned standards and amendments to standards are yet to be adopted into European law.

**(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 held by 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 associated company, profits and losses are eliminated in proportion with the shareholding of the Group in the respective company.

Deconsolidation is carried out from the date on which control or significant influence ceases to exist.

**(5) Basis of consolidation**

In addition to NORD/LB as the parent company, the consolidated financial statements include 49 (51) 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 (2) joint ventures and 13 (13) associated companies are accounted for using the equity method.

The basis of consolidation has changed as follows compared to 31 December 2010:

NORD/LB and Sparkasse Hannover have decided to end their joint venture KreditServices Nord GmbH, Hanover. On the basis of on a separation process, NORD/LB gained a controlling interest with effect of 1 January 2011. KreditServices Nord GmbH, which was previously accounted for using the equity method, is therefore categorised as a subsidiary which is to be fully consolidated and the transitional consolidation took place with effect of 1 January 2011.

As a result of the separation from the fully consolidated NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen, significant plots of land were transferred to NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen, which was recently established for this purpose. NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen, is a subsidiary of BLB Immobilien GmbH, Bremen, and is consolidated for the first time with the take-over of the plots of land as at 1 October 2011.

With effect of 31 December 2011 PANIMA GmbH & Co. Objekt Hannover KG, Pullach im Isartal, and PANIMA GmbH & Co. Objekte Braunschweig KG, Pullach im Isartal, which were previously included in the consolidated financial statements as subsidiaries, were merged with NORD/LB.

The previously fully consolidated fund NORD/LB AM VT Renten Classic was deconsolidated in the second quarter of 2011 with the return of all of the shares.

The fully consolidated funds NORD/LB AM 118 and NORD/LB AM 65 were merged on 1 October 2011.

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

Subsidiaries, joint ventures and associated companies included in the consolidated financial statements are shown in note (79) 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 31 December 2011. 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 profit or loss or using the equity method in accordance with reporting the profits or losses of such items.

The assets and liabilities of foreign subsidiaries with a currency other than the euro were translated at ECB reference exchange rates as at 31 December 2011. 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 consolidated equity. 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 that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. 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 the 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 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 reacquisition 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 had been classified on the date of acquisition:

Consolidated Financial Statements
Reports
Data/Glossary

*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) Provisions and (22) Loan loss provisions 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 and a fixed term are classified in this category if 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 gaining profits from short-term acquisitions and sales 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 measured 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 (35) Financial assets at fair value through profit or loss and in note (49) 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) cannot be determined with sufficient reliability. The result of measurement at fair value is recognised using the equity method in a separate equity item (revaluation reserve). 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.

Impairment is only carried out in the case of permanent 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 book value 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 equity. Appreciations in the value of equity instruments are recognised in equity unless they are measured at acquisition cost. With equity instruments, differences between the cost of acquisition and repayment amounts are amortised and recognised in profit or loss applying effective interest method.

*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 net profit or losses for each measurement category are presented in notes (56) and (57).

**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 option to reclassify.

**d) Establishing Fair Value**
In the NORD/LB Group the three-tier fair value hierarchy is applied with the 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 listed market prices or prices actually traded on the 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, e. g. when option price models are used.

Market data which forms the basis of risk control 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 2011 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 not an active market and for which measurement cannot 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 share of these parameters is restricted as far as possible and the inclusion of market-related data is given preference, i. e. basic signals from the market which are observed on the reporting date are included in the method.

The Level 3 method is essentially used to measure the Group's CDS and ABS/MBS portfolios 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 CDO tranches are also measured in accordance with Level 3.

All measurement models applied in the Group are reviewed periodically.

Further information on the fair value hierarchy and the fair values of financial instruments can be found in notes (55) and (58).

**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 (59) Fair value of financial instruments).

If participating interests 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 assigned in the fair value hierarchy in accordance with IFRS 7 to Level 3 (cf. note (55) 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 2011, a detailed plan for 2012 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 companies which are not listed on the stock exchange, comparison groups of similar titles traded on the stock exchange are formed. 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. 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 were previously dealt with using the percentage method. From the second quarter of 2011 the bottom-layer method has been used to calculate the notional disposal figure. This change did not have a significant impact (€ 2.9 million) on interest income. As the impact on subsequent periods will depend on future transactions, it is therefore not possible to calculate or disclose these.

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 (36) and note (50) Positive and negative fair values from hedge accounting derivatives). Amendments to measurement are reported through profit or loss (note (25) Profit/loss from hedge accounting). Changes in fair value resulting from the hedged risk of hedged assets or hedged liabilities must also be recognised through profit or loss in the profit/loss from hedge accounting item.

When employing hedge accounting for financial instruments in the annual financial statements 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 liability-side transactions related to the hedged risk are reported on the liabilities side of the balance sheet in the adjustment item for financial instruments hedged in the fair value hedge portfolio. Underlying transactions relating to AfS items carried as assets continue to be reported at their full fair value under financial assets. There are currently no assets under the AfS category 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 (61).

**h) Securities Sale and Repurchase Agreements and Securities Lending**

The transfer of securities assigned for sale or re-purchase in genuine security sale and repurchase agreements (repo transactions) does not result in derecognition of such securities since the transferring company essentially retains all the risks and rewards relating to ownership of the assigned item. 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 (65) Security sale and repurchase agreements 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 when 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) Risk 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 and considerable financial difficulties on the part of the debtor. The amount of the specific valuation allowance is calculated as the difference between the book value 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 provision. 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 are 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 is amortised over the following periods: Useful life in years |
|---|---|
| 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 in operating leases, 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 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 30 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 three to twenty 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 2011 or in 2010.

**(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 using the equity method in order to prevent the repayment of actuarial gains or losses which have not yet been accounted for through profit or loss from decreasing or increasing pension expenditure. Actuarial profits accumulated in equity in accordance with IAS 19.93A amount to € 373 million (€ 411 million) before taking into account deferred taxes and minority interests. Disposals in the year under review amount to € 39 million.

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.

The following actuarial assumptions serve as a basis for domestic and foreign calculations:

| (in %) | Actuarial assumptions |
|---|---|
| **Domestic** | |
| Actuarial interest rate | 5,10 |
| Increase in salaries | 2 – 4,50 |
| Increase in pensions (contingent on the occupational pension scheme) | 1 – 4,50 |
| Cost increase rate | – |
| Mortality, invalidity, etc. | Based on Heubeck 2005G mortality tables |
| Anticipated plan asset yield | 3,45 |
| **Abroad (weighted parameters)** | |
| Actuarial interest rate | 4,77 |
| Increase in salaries | 3,87 |
| Increase in pensions | 2,81 |
| Mortality, invalidity, etc. | USA 1994 GAM<br>GB AxC00 and PxCA00<br>Luxembourg Grand Ducal regulation of 15 January 2001 |
| Anticipated plan asset yield | 5,82 |
| Inflation | 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), (44), (51) and (53) 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 IFRS.

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 handling of underlying circumstances, deferred tax assets and tax liabilities are reported either through profit or loss or using the equity method.

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 item subordinated capital comprises secured and unsecured subordinated liabilities, participatory capital and silent participations. Most of the NORD/LB Group's silent participations are 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 basically 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 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).

## 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 currently 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.

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 to be allocated on the basis of regulatory provisions, 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 calculations in the segments include the contribution to income after risk provisions and valuation on committed capital (here 5 per cent of the higher value of the RWA limits and the amount called on). Calculation of the return on equity at Group level complies with the standard international definitions of financial ratios and refers to earnings before taxes (less interest expenses for silent investments in reported equity) on long-term equity under commercial law (issued capital plus capital reserves, retained earnings and minority interests less silent investments in reported equity).

A capital charge of five per cent of risk-weighted asset values is used to calculate the capital employed in the segments. These are based on 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 statement of financial position is shown separately at the end of the segment overview.

The following segments are reported by business segment in the segment reporting:

**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. It also includes the business conducted by Öffentliche Lebensversicherung Braunschweig and Öffentliche Sachversicherung Braunschweig, including restricted funds, and the share of the profit/loss from Bank DnB NORD A/S accounted for using the equity method for the last time in 2010.

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.

**Savings Bank Network**
In the business segment Savings bank network transactions with the public sector, institutional business with associated savings banks and syndicated business transacted with associated savings banks are reported. Products and services are offered 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. This includes the offer of all kinds of securities, currencies and derivatives as well as 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). These may also be designed in accordance with the savings banks' specifications. 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.

**Financial Markets/Institutional Customers**
This segment mainly includes the following divisions of the bank in Germany, in the foreign branches and in the Group companies: Markets, Corporate Sales, Portfolio Investments and Treasury. The Financial Markets business segment also includes NORD/LB COVERED FINANCE BANK S.A., Luxembourg, and NORD/LB Asset Management Holding GmbH, Hanover, including investments and allocated special funds and public funds.

In addition to standard products alternative products which are detached from retail banking including derivatives are offered. For example structured debt securities which offer various alternatives in respect of returns or type of repayment are included. The Financial Markets segment gears its product range and its sales towards demand and the needs of its customers. 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.

**Corporate Customers**
The Corporate Customers segment includes 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. 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 Corporate Customers 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. The remaining results (to 30 June 2011) of Skandifinanz AG, Zurich, are also shown in this segment for the last time.

In the Energy and Infrastructure Customers, Ship and Aircraft Customers and Real Estate 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 AöR 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 AöR 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 Customers**
Here NORD/LB AöR 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.

**Reconciliations**
Here the reconciliation items from internal accounting for the consolidated figures in the income statement are shown. 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.

**Regions**
The profit, segment assets and segment liabilities are allocated regionally based on the respective location of the branch or Group company. Consolidation issues are shown separately.

## (19) Segment reporting by business segment

| 31 Dec. 2011<br><br>(in € million) | Private and Commercial Customers | Savings Bank Network | Financial Markets / Institutional Customers***) | Corporate Customers | 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 | 297 | 62 | 421 | 234 | 153 | 401 | 245 | – 12 | – 37 | 1 763 |
| Loan loss provisions | 9 | – 6 | – 4 | 29 | 27 | 173 | 91 | – 115 | 1 | 205 |
| **Net interest income after loan loss provisions** | **288** | **68** | **425** | **205** | **126** | **227** | **154** | **104** | **– 38** | **1 559** |
| Net commission income | 32 | 20 | 31 | 29 | 47 | 51 | 14 | – 17 | – 41 | 166 |
| Profit/loss from financial instruments at fair value through profit or loss | 12 | 9 | – 200 | 16 | 5 | 13 | 4 | 33 | 47 | – 61 |
| Profit/loss from hedge accounting | – | – | – | – | – | – | – | 130 | – | 130 |
| Profit/loss from financial assets | – 3 | – | – 77 | 1 | – | – | – | 40 | – | – 41 |
| Profit/loss from investments accounted for using equity method | – | – | 2 | – | – | – | – | – 2 | – | – |
| Administrative expenses | 313 | 53 | 154 | 72 | 49 | 49 | 56 | 330 | 15 | 1 091 |
| Other operating profit/loss | 74 | 2 | 104 | – 2 | – | 1 | 3 | – 22 | – 90 | 69 |
| **Earnings before taxes (EBT)** | **90** | **47** | **130** | **177** | **128** | **243** | **118** | **– 65** | **– 138** | **730** |
| Taxes | – | – | – | – | – | – | – | – | 194 | 194 |
| **Consolidated profit** | **90** | **47** | **130** | **177** | **128** | **243** | **118** | **– 65** | **– 332** | **536** |
| Segment assets | 11 631 | 26 014 | 146 553 | 14 789 | 14 091 | 27 423 | 20 036 | – 28 339 | – 4 567 | 227 630 |
| of which: investments at equity | – | – | 33 | – | – | – | – | 354 | – | 387 |
| Segment liabilities | 9 858 | 6 726 | 197 971 | 6 841 | 4 324 | 3 573 | 13 234 | – 22 406 | 7 508 | 227 630 |
| Risk-weighted assets | 4 956 | 1 540 | 18 537 | 9 805 | 8 143 | 34 304 | 19 518 | 1 476 | – 13 480 | 84 800 |
| Capital employed*) | 263 | 77 | 928 | 490 | 407 | 1 715 | 976 | 47 | 1 466 | 6 369 |
| CIR | 75,4 % | 56,6 % | 43,1 % | 25,9 % | 24,0 % | 10,6 % | 21,2 % | | | 52,8 % |
| RoRaC/RoE**) | 33,0 % | 49,6 % | 9,8 % | 29,7 % | 23,9 % | 14,2 % | 11,1 % | | | 10,6 % |

| 31 Dec. 2010 (in € million) | Private and Commercial Customers | Savings Bank Network | Financial Markets / Institutional Customers***) | Corporate Customers | 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 | 293 | 63 | 511 | 226 | 160 | 374 | 248 | – 99 | – 115 | 1 661 |
| Loan loss provisions | 11 | 16 | 10 | 68 | 42 | 180 | 110 | 205 | 1 | 642 |
| **Net interest income after loan loss provisions** | **282** | **47** | **501** | **158** | **119** | **194** | **138** | **– 304** | **– 116** | **1 020** |
| Net commission income | 33 | 16 | 51 | 26 | 51 | 60 | 27 | – 55 | – 12 | 198 |
| Profit/loss from financial instruments at fair value through profit or loss | 7 | 7 | – 308 | 9 | 2 | 18 | 1 | 142 | 83 | – 38 |
| Profit/loss from hedge accounting | – | – | – | – | – | – | – | 151 | 2 | 153 |
| Profit/loss from financial assets | 1 | – | – 4 | – | – | – | – | 87 | – 3 | 82 |
| Profit/loss from investments accounted for using equity method | – 95 | – | 3 | – | – | – | – | 18 | – | – 73 |
| Administrative expenses | 326 | 52 | 149 | 71 | 42 | 45 | 67 | 299 | 18 | 1 070 |
| Other operating profit/loss | 79 | 1 | 10 | – | – | 2 | – | 14 | – 59 | 48 |
| **Earnings before taxes (EBT)** | **– 17** | **19** | **105** | **122** | **130** | **230** | **99** | **– 245** | **– 123** | **319** |
| Taxes | – | – | – | – | – | – | – | – | 5 | 5 |
| **Consolidated profit** | **– 17** | **19** | **105** | **122** | **130** | **230** | **99** | **– 245** | **– 128** | **314** |
| Segment assets (31 Dec. 2010) | 11 954 | 27 447 | 141 361 | 14 172 | 14 168 | 26 662 | 21 961 | – 25 851 | – 3 350 | 228 524 |
| of which: investments at equity | – | – | 32 | – | – | – | – | 370 | – | 402 |
| Segment liabilities (31 Dec. 2010) | 10 048 | 5 627 | 198 415 | 7 921 | 4 159 | 3 924 | 12 586 | – 26 117 | 11 961 | 228 524 |
| Risk-weighted assets | 5 167 | 1 761 | 21 909 | 10 721 | 8 967 | 34 840 | 21 396 | 4 595 | – 22 506 | 86 850 |
| Capital employed*) | 411 | 88 | 1 098 | 536 | 448 | 1 742 | 1 070 | 74 | – 716 | 4 751 |
| CIR | 102,2 % | 60,0 % | 55,8 % | 27,2 % | 19,8 % | 9,9 % | 24,3 % | | | 54,9 % |
| RoRaC/RoE**) | – 3,1 % | 19,8 % | 7,6 % | 18,6 % | 26,4 % | 13,2 % | 9,3 % | | | 5,6 % |

*) Reconciliation of long-term equity under commercial law to reported equity:

| (in € million) | 31 Dec. 2011 | 31 Dec. 2010 |
|---|---|---|
| Long-term equity under commercial law | 6 369 | 4 751 |
| Revaluation reserve | – 546 | 63 |
| Currency translation reserve | – 3 | – 8 |
| Accumulated profits | 585 | 177 |
| Silent participations in reported equity | 139 | 818 |
| **Reported equity** | **6 544** | **5 801** |

**) By business segment RoRaC: (earnings before taxes) / core capital employed (5 percent 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)

***) Sales income in 2011 not related to Financial Markets = € 59,2 million (€ 51,6 million)

### (20) Segment reporting by geographical segment

| 31 Dec. 2011 (in € million) | Federal Republic of Germany | Europe excluding Germany | America | Asia | Consolida-tion | NORD/LB Group |
|---|---|---|---|---|---|---|
| Earnings before taxes (EBT) | 430 | 30 | 169 | 42 | 59 | 730 |
| Segment assets | 226 299 | 28 881 | 7 523 | 6 245 | – 41 318 | 227 630 |
| Segment liabilities | 226 299 | 28 881 | 7 523 | 6 245 | – 41 318 | 227 630 |
| Risk-weighted assets | 72 111 | 7 387 | 5 735 | 2 372 | – 2 804 | 84 800 |
| Capital employed | 5 867 | 369 | 287 | 119 | – 273 | 6 369 |
| CIR | 55,9 % | 45,2 % | 22,5 % | 25,8 % | | 52,8 % |
| RoRaC/RoE *) | 7,3 % | 8,1 % | 59,1 % | 35,3 % | | 10,6 % |

| 31 Dec. 2010 (in € million) | Federal Republic of Germany | Europe excluding Germany | America | Asia | Consolida-tion | NORD/LB Group |
|---|---|---|---|---|---|---|
| Earnings before taxes (EBT) | 297 | – 58 | 9 | 42 | 30 | 319 |
| Segment assets | 225 197 | 30 963 | 7 523 | 7 292 | – 42 451 | 228 524 |
| Segment liabilities | 225 197 | 30 963 | 7 523 | 7 292 | – 42 451 | 228 524 |
| Risk-weighted assets | 68 067 | 10 027 | 7 095 | 2 811 | – 1 149 | 86 850 |
| Capital employed | 3 956 | 640 | 355 | 141 | – 340 | 4 751 |
| CIR | 60,1 % | 122,3 % | 41,3 % | 24,6 % | | 54,9 % |
| RoRaC/RoE *) | 7,5 % | – 9,1 % | 2,4 % | 29,6 % | | 5,6 % |

*) By business segment RoRaC:
(earnings before taxes)/core capital employed
(5 percent 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. 2011 (in € million) | 1 Jan.–31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Interest income** | | | |
| Interest income from lending and money market transactions | 5 020 | 5 197 | – 3 |
| Interest income from fixed-income and book entry securities | 1 490 | 1 496 | – |
| Interest income from financial instruments at fair value | | | |
| Interest income from trading profit/loss and hedge accounting derivatives | 6 186 | 5 373 | 15 |
| Interest income from fair value option | 77 | 90 | – 14 |
| Current income | | | |
| from shares and other variable-yield securities | 8 | 11 | – 27 |
| from investments | 77 | 17 | > 100 |
| Interest income from other amortisations | 127 | 326 | – 61 |
| Other interest income and similar income | 9 | 10 | – 10 |
| | **12 994** | **12 520** | **4** |
| **Interest expense** | | | |
| Interest expense from lending and money market transactions | 2 926 | 2 904 | 1 |
| Interest expense from securitised liabilities | 1 898 | 2 095 | – 9 |
| Interest expense from financial instruments at fair value | | | |
| Interest expense from trading profit/loss and hedge accounting derivatives | 5 541 | 4 741 | 17 |
| Interest expense from fair value option | 297 | 316 | – 6 |
| Interest expense from subordinated capital | 331 | 326 | 2 |
| Interest expense from other amortisations | 151 | 397 | – 62 |
| Interest expense from provisions and liabilities | 74 | 71 | 4 |
| Other interest expenses and similar expenses | 13 | 8 | 63 |
| | **11 231** | **10 858** | **3** |
| **Total** | **1 763** | **1 662** | **6** |

Interest income from lending and money market transactions includes interest income relating to impaired loans (unwinding) of € 56 million (€ 49 million).

The interest income includes € 6 637 million (€ 7 019 million) relating to income from financial instruments which are not measured at fair value through profit or loss. The interest expenses include € 5 306 million (€ 5 722 million) relating to expenses from financial instruments which are not measured at fair value through profit or loss.

## (22) Loan loss provisions

| | 1 Jan. – 31 Dec. 2011 (in € million) | 1 Jan. – 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Income from loan loss provisions** | | | |
| Reversal of specific valuation allowance | 330 | 264 | 25 |
| Reversal of lumpsum specific loan loss provisions | 16 | 20 | – 20 |
| Reversal of general loan loss provisions | 100 | 82 | 22 |
| Reversal of provisions for lending business | 108 | 43 | > 100 |
| Reversal of portfolio-based provisions for lending business | 50 | 5 | > 100 |
| Reversal of other provisions for lending business | 58 | 38 | 53 |
| Additions to receivables written off | 25 | 21 | 19 |
| | **579** | **430** | **35** |
| **Expenses for loan loss provisions** | | | |
| Allocation to specific valuation allowance | 625 | 660 | – 5 |
| Allocation to lumpsum specific loan loss provisions | 10 | 13 | – 23 |
| Allocation to general loan loss provisions | 11 | 297 | – 96 |
| Allocation to provisions for lending business | 53 | 76 | – 30 |
| Allocation to portfolio-based provisions for lending business | 10 | 21 | – 52 |
| Allocation to other provisions for lending business | 43 | 55 | – 22 |
| Direct write-offs of bad debts | 83 | 25 | > 100 |
| Premium payments for credit insurance | 2 | 1 | 100 |
| | **784** | **1 072** | **– 27** |
| **Total** | **– 205** | **– 642** | **– 68** |

## (23) Net commission income

| | 1 Jan. – 31 Dec. 2011 (in € million) | 1 Jan. – 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Commission income** | | | |
| Lending and guarantee business | 78 | 95 | – 18 |
| Account management and payment transactions | 43 | 42 | 2 |
| Trust activities | 40 | 57 | – 30 |
| Security transactions and custody service | 34 | 32 | 6 |
| Brokerage business | 30 | 23 | 30 |
| Insurance business | 9 | 8 | 13 |
| Other commission income | 68 | 81 | – 16 |
| | **302** | **338** | **– 11** |
| **Commission expense** | | | |
| Lending and guarantee business | 16 | 14 | 14 |
| Account management and payment transactions | 2 | 2 | – |
| Trust activities | 26 | 35 | – 26 |
| Security transactions and custody service | 24 | 24 | – |
| Brokerage business | 10 | 8 | 25 |
| Insurance business | 30 | 29 | 3 |
| Other commission expenses | 28 | 29 | – 3 |
| | **136** | **141** | **– 4** |
| **Total** | **166** | **197** | **– 16** |

Commission income includes income from financial instruments which are not measured at fair value through profit or loss in the amount of € 156 million (€ 170 million). Commission expenses include expenses from financial instruments which are not measured at fair value through profit or loss in the amount of € 41 million (€ 41 million).

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

| | 1 Jan.–31 Dec. 2011 (in € million) | 1 Jan.–31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Trading profit/loss** | | | |
| Realised profit/loss | | | |
| Profit/loss from debt securities and other fixed-interest securities | 23 | 43 | – 47 |
| Profit/loss from shares and other variable-yield securities | – 11 | 6 | > 100 |
| Profit/loss from derivatives | 54 | 853 | – 94 |
| Profit/loss from receivables held for trading | 25 | 47 | – 47 |
| | **91** | **949** | **– 90** |
| Profit/loss from valuation | | | |
| Profit/loss from debt securities and other fixed-interest securities | 36 | – 13 | > 100 |
| Profit/loss from shares and other variable-yield securities | – 8 | 4 | > 100 |
| Profit/loss from derivatives | 89 | – 844 | > 100 |
| Profit/loss from receivables held for trading | 75 | – 32 | > 100 |
| | **192** | **– 885** | **> 100** |
| Foreign exchange gains | – | 63 | – 100 |
| Other income | 4 | 3 | 33 |
| | **287** | **130** | **> 100** |
| **Profit/loss from the use of fair value option** | | | |
| Realised profit/loss | | | |
| from debt securities and other fixed-interest securities | – 58 | – | – |
| from liabilties to banks and customers | 123 | 93 | 32 |
| from securitised liabilties | 67 | – 70 | > 100 |
| | **132** | **23** | **> 100** |
| Profit/loss from valuation | | | |
| from loans and advance to banks and customers | 15 | 6 | > 100 |
| from debt securities and other fixed-interest securities | 78 | 11 | > 100 |
| from shares and other variable-yield securities | – 1 | 1 | > 100 |
| from liabilities to banks and customers | – 422 | – 169 | > 100 |
| from securitised liabilities | – 148 | – 40 | > 100 |
| from other activities | – 2 | – | – |
| | **– 480** | **– 191** | **> 100** |
| | **– 348** | **– 168** | **> 100** |
| **Total** | **– 61** | **– 38** | **– 61** |

Commission income from trading activities in the amount of € 4 million (€ 4 million) is reported under other 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. 2011 (in € million) | 1 Jan. – 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Profit/loss from micro fair value hedges** | | | |
| from hedged underlying transactions | 390 | 24 | > 100 |
| from derivatives employed as hedging instruments | – 358 | 8 | > 100 |
| | **32** | **32** | **–** |
| **Profit/loss from portfolio fair value hedges** | | | |
| from hedged underlying transactions | – 447 | – 179 | > 100 |
| from derivatives employed as hedging instruments | 545 | 300 | 82 |
| | **98** | **121** | **– 19** |
| **Total** | **130** | **153** | **– 15** |

### (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. 2011 (in € million) | 1 Jan. – 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Profit/loss from financial assets classified as LaR** | **– 33** | **– 18** | **– 83** |
| **Profit/loss from financial assets classified as AfS (excluding investments)** | | | |
| Profit/loss from the disposal of | | | |
| debt securities and other fixed-interest securities | 68 | 46 | 48 |
| shares and other variable-yield securities | 4 | 6 | – 33 |
| Profit/loss from allowances for losses on | | | |
| debt securities and other fixed-interest securities | – 103 | – 24 | > 100 |
| shares and other variable-yield securities | – 11 | – 11 | – |
| | **– 42** | **17** | **> 100** |
| **Profit/loss from shares in companies (not consolidated)** | **34** | **83** | **– 59** |
| **Total** | **– 41** | **82** | **> 100** |

**(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 associated companies accounted for using the equity method.

| | 1 Jan.– 31 Dec. 2011 (in € million) | 1 Jan.– 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Shares in joint ventures** | | | |
| Income | 4 | 2 | 100 |
| Expenses | – | 96 | – 100 |
| | **4** | **– 94** | **> 100** |
| **Shares in associated companies** | | | |
| Income | 39 | 33 | 18 |
| Expenses | 43 | 12 | > 100 |
| | **– 4** | **21** | **> 100** |
| **Total** | **–** | **– 73** | **100** |

## (28) Administrative expenses

| | 1 Jan.–31 Dec. 2011 (in € million) | 1 Jan.–31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Staff expenses** | | | |
| Wages and salaries | 454 | 440 | 3 |
| Social insurance contributions | 66 | 60 | 10 |
| Expenditure on pension schemes and other benefits | 33 | 33 | – |
| Other staff expenses | 7 | 7 | – |
| | **560** | **540** | **4** |
| **Other administrative expenses** | | | |
| Costs for IT and communications | 204 | 200 | 2 |
| Building occupancy costs | 47 | 44 | 7 |
| Expenses for marketing, communications and entertainment | 29 | 28 | 4 |
| Personnel-related material expenses | 27 | 30 | – 10 |
| Costs for legal, auditing, appraisal and consulting services | 64 | 75 | – 15 |
| Levies and contributions | 23 | 33 | – 30 |
| Expenses for operating and office equipment | 6 | 5 | 20 |
| Other services | 10 | 21 | – 52 |
| Other administrative expenses | 34 | 32 | 6 |
| | **444** | **468** | **– 5** |
| **Amortisation and depreciation** | | | |
| Property and equipment | 43 | 29 | 48 |
| Intangible assets | 42 | 31 | 35 |
| Investment properties | 2 | 2 | – |
| | **87** | **62** | **40** |
| **Total** | **1 091** | **1 070** | **2** |

Expenditure on pension schemes and other benefits includes expenditure for defined contribution plans in the amount of € 1 million (€ 1 million).

An amount of € 12 million (€ 0 million) for ships is Included in the depreciation of property and equipment. This scheduled depreciation relates to the subsidiary KMU Shipping Invest GmbH, Hamburg that was fully consolidated for the first time with effect of 31 December 2010 in relation to restructuring commitments.

## (29) Other operating profit/loss

| | 1 Jan.–31 Dec. 2011 (in € million) | 1 Jan.–31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Other operating income** | | | |
| from the reversal of provisions | 271 | 282 | – 4 |
| from insurance contracts | 450 | 447 | 1 |
| from other business | 292 | 154 | 90 |
| | **1 013** | **883** | **15** |
| **Other operating expenses** | | | |
| from allocation to provisions | 344 | 401 | – 14 |
| from insurance contracts | 343 | 291 | 18 |
| from other business | 257 | 143 | 80 |
| | **944** | **835** | **13** |
| **Total** | **69** | **48** | **44** |

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 (€ 375 million (€ 364 million)) and income from insurance contracts (€ 42 million (€ 50 million)).

Income from other business includes income from the disposal of receivables (€ 162 million (€ 18 million)), income from the chartering of ships relating to restructuring commitments in lending business (€ 50 million (€ 0 million)), reimbursements of costs (€ 15 million (€ 13 million)), rental income from investment property (€ 11 million (€ 11 million)), income from the redemption of the bank's own issues (€ 6 million (€ 12 million)) and income from IT services (€ 3 million (€ 3 million)).

Other operating expenses from insurance contracts mainly comprise indemnity expenses (€ 285 million (€ 234 million)) and expenses from reinsurance contracts (€ 50 million (€ 49 million)).

Expenses from other business essentially comprise expenses from the disposal of receivables (€ 78 million (€ 40 million)), expenses from the redemption of debt securities (€ 29 million (€ 49 million)), expenses to generate charter income from ships (€ 21 million (€ 0 million)), disposals of intangible and other assets (€ 4 million (€ 2 million)) and expenses from investment property (€ 2 million (€ 2 million)). Expenses from other business also include € 40 million (€ 0 million) for the bank levy provided for in the Restructuring Fund Act and adopted into national law in the 3rd quarter of 2011 with the separate Restructuring Fund Regulation.

## (30) Income taxes

| | 1 Jan.– 31 Dec. 2011 (in € million) | 1 Jan.– 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Current taxes on income and earnings | 76 | 159 | – 52 |
| Deferred taxes | 118 | – 154 | > 100 |
| **Total** | **194** | **5** | **> 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. 2011 | 1 Jan.– 31 Dec. 2010 |
|---|---|---|
| **IFRS earnings before taxes** | **730** | **319** |
| Anticipated income tax expenditure | 230 | 100 |
| **Effects of reconciliation:** | | |
| Effects of differing tax rates | 15 | – 9 |
| Taxes from previous years reported in the reporting period | – 41 | – 53 |
| Effects of changes in tax rates | – 2 | 1 |
| Non-creditable income taxes | – 1 | 1 |
| Non-deductible operational expenditure | 46 | 144 |
| Effects of tax-free earnings | – 62 | – 66 |
| Effect of permanent accounting-related effects | – 61 | – 76 |
| Effects of write-ups/write-downs/recognition adjustments | 45 | – 48 |
| Other effects | 25 | 11 |
| **Reported income tax expense** | **194** | **5** |

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 2011. 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 comprehensive income recognised directly in equity as follows:

| (in € million) | 1 Jan.– 31 Dec. 2011 Amount before taxes | 1 Jan.– 31 Dec. 2011 Income tax effect | 1 Jan.– 31 Dec. 2011 Amount after taxes | 1 Jan.– 31 Dec. 2010 Amount before taxes | 1 Jan.– 31 Dec. 2010 Income tax effect | 1 Jan.– 31 Dec. 2010 Amount after taxes |
|---|---|---|---|---|---|---|
| Increase / decrease from available for sale (AfS) financial instruments | – 946 | 326 | – 620 | 77 | – 27 | 50 |
| Changes in value investments accounted for using the equity method recognised directly in equity | 16 | – | 16 | – 18 | – | – 18 |
| Translation differences of foreign business units | 13 | – | 13 | 13 | – | 13 |
| Actuarial gains and losses for pensions for defined benefit obligations | – 41 | 12 | – 29 | – 15 | 5 | – 10 |
| **Other** | **– 958** | **338** | **– 620** | **57** | **– 22** | **35** |

## Notes to the balance sheet

### (31) Cash reserve

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Cash on hand | 233 | 329 | – 29 |
| Balances with central banks | 563 | 740 | – 24 |
| **Total** | **796** | **1 069** | **– 26** |

Of the balances with central banks, € 413 million (€ 628 million) are credit balances with Deutsche Bundesbank. The required minimum reserve was maintained at all times in the period under review and amounted to € 462 million (€ 387 million).

### (32) Loans and advances to banks

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Loans and advances resulting from money market transactions** | | | |
| German banks | 4 449 | 5 415 | – 18 |
| Foreign banks | 2 187 | 2 822 | – 23 |
| | **6 636** | **8 237** | **– 19** |
| **Other loans and advances** | | | |
| German banks | | | |
| Due on demand | 1 074 | 584 | 84 |
| With a fixed term or period of notice | 20 429 | 22 465 | – 9 |
| Foreign banks | | | |
| Due on demand | 223 | 298 | – 25 |
| With a fixed term or period of notice | 4 566 | 5 150 | – 11 |
| | **26 292** | **28 497** | **– 8** |
| **Total** | **32 928** | **36 734** | **– 10** |

Of the loans and advances to banks in Germany, € 10,884 million (€ 11,854 million) are loans and advances to associated savings banks.

### (33) Loans and advances to customers

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Loans and advances resulting from money market transactions** | | | |
| Domestic customers | 3 901 | 2 049 | 90 |
| Customers abroad | 30 | 26 | 15 |
| | **3 931** | **2 075** | **89** |
| **Other loans and advances** | | | |
| Domestic customers | | | |
| Due on demand | 2 493 | 1 804 | 38 |
| With a fixed term or period of notice | 79 432 | 79 072 | – |
| Customers abroad | | | |
| Due on demand | 334 | 260 | 28 |
| With a fixed term or period of notice | 30 214 | 30 394 | – |
| | **112 473** | **111 530** | **–** |
| **Total** | **116 404** | **113 605** | **2** |

## (34) Loan loss provisions

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Specific valuation allowance** | | | |
| German banks | 8 | 6 | 33 |
| Foreign banks | 10 | 83 | – 88 |
| Domestic customers | 907 | 905 | – |
| Customers abroad | 252 | 318 | – 21 |
| | **1 177** | **1 312** | **– 10** |
| **Lumpsum specific loan loss provisions** | | | |
| Domestic customers | 28 | 35 | – 20 |
| | **28** | **35** | **– 20** |
| **General loan loss provisions** | | | |
| Foreign banks | 1 | 4 | – 75 |
| Domestic customers | 461 | 548 | – 16 |
| Customers abroad | 118 | 119 | – 1 |
| | **580** | **671** | **– 14** |
| **Total** | **1 785** | **2 018** | **– 12** |

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) | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| **1 January** | **1 312** | **1 291** | **35** | **44** | **671** | **472** | **172** | **135** | **2 190** | **1 942** |
| Allocations | 625 | 660 | 10 | 13 | 11 | 297 | 53 | 76 | 699 | 1 046 |
| Reversals | 330 | 264 | 16 | 20 | 100 | 82 | 108 | 43 | 554 | 409 |
| Utilisation | 389 | 370 | 1 | 1 | – | – | 4 | 4 | 394 | 375 |
| Unwinding | – 56 | – 49 | – | – | – | – | – 1 | – 1 | – 57 | – 50 |
| Effects from currency translation and other changes | 15 | 44 | – | – 1 | – 2 | – 16 | 1 | 9 | 14 | 36 |
| **31 December** | **1 177** | **1 312** | **28** | **35** | **580** | **671** | **113** | **172** | **1 898** | **2 190** |

**(35) Financial assets at fair value through profit or loss**
This item contains the trading assets (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. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Trading assets** | | | |
| Debt securities and other fixed-interest securities | | | |
| Bonds and debt securities | | | |
| issued by public-sector borrowers | 470 | 782 | – 40 |
| issued by other borrowers | 2 403 | 2 272 | 6 |
| | **2 873** | **3 054** | **– 6** |
| Shares and other variable-yield securities | | | |
| Shares | 36 | 112 | – 68 |
| Investment certificates | 3 | – | – |
| | **39** | **112** | **– 65** |
| Positive fair values from derivatives | | | |
| Interest rate risks | 10 208 | 5 501 | 86 |
| Currency risks | 1 335 | 1 437 | – 7 |
| Share-price and other price risks | 54 | 83 | – 35 |
| Credit derivatives | 53 | 30 | 77 |
| | **11 650** | **7 051** | **65** |
| Trading portfolio claims | 2 244 | 2 502 | – 10 |
| Other trading assets | – 1 | – 1 | – |
| | **16 805** | **12 718** | **32** |
| **Financial assets at fair value through profit or loss** | | | |
| Loans and advances to banks and customers | 257 | 242 | 6 |
| Debt securities and other fixed-interest securities | 1 572 | 2 132 | – 26 |
| Shares and other variable-yield securities | 10 | 11 | – 9 |
| | **1 839** | **2 385** | **– 23** |
| **Total** | **18 644** | **15 103** | **23** |

For receivables designated at fair value there is a maximum default risk of € 257 million (€ 242 million).

The change in the fair value, which is attributable to changes in the credit risk of receivables designated at fair value, amounts to € –2 million (€ 0 million) in the period under review; the cumulative change is € 3 million (€ 5 million).

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.

### (36) 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. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Micro fair value hedge derivatives | 2 631 | 1 914 | 37 |
| Portfolio fair value hedge derivatives | 658 | 1 024 | – 36 |
| **Total** | **3 289** | **2 938** | **12** |

### (37) Financial assets

The item financial assets in the statement of financial position 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).

Investments in the equity of other companies are allocated to the category (AfS). In addition to the AfS category, some of the silent investments classified as debt are also allocated to the LaR category.

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Financial assets classified as LaR** | **4 829** | **4 910** | **–** |
| **Financial assets classified as AfS** | | | |
| Debt securities and other fixed-interest securities | | | |
| Money market instruments | | | |
| issued by public-sector borrowers | 34 | 30 | 13 |
| issued by other borrowers | 47 | 558 | – 92 |
| | **81** | **588** | **– 86** |
| Bonds and debt securities | | | |
| issued by public-sector borrowers | 18 609 | 18 236 | 2 |
| issued by other borrowers | 30 124 | 33 827 | – 11 |
| | **48 733** | **52 063** | **– 6** |
| Shares and other variable-yield securities | | | |
| Shares | 236 | 232 | 2 |
| Investment certificates | 121 | 139 | – 13 |
| Participation certificates | 14 | 15 | – 7 |
| Other | 1 | 2 | – 50 |
| | **372** | **388** | **– 4** |
| Shares in companies | 482 | 717 | – 33 |
| Other financial assets classified as AfS | 2 | – | – |
| | **49 670** | **53 756** | **– 8** |
| **Total** | **54 499** | **58 666** | **– 7** |

### (38) Investments accounted for using the equity method

The shares in joint ventures in terms of IAS 31 and associated companies in terms of IAS 28 accounted for using the equity method are broken down as follows:

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Joint ventures** | | | |
| Financial institutions | 26 | 26 | – |
| Other entities | – | 1 | – 100 |
| | **26** | **27** | **– 4** |
| **Associated companies** | | | |
| Banks | 162 | 185 | – 12 |
| Other entities | 199 | 190 | 5 |
| | **361** | **375** | **– 4** |
| **Total** | **387** | **402** | **– 4** |

The development of investments accounted for using the equity method is as follows:

| (in € million) | Joint ventures | Associated companies | Total |
|---|---|---|---|
| **1 January 2010** | **272** | **396** | **668** |
| Additions | 2 | 49 | 51 |
| Disposals | 247 | 61 | 308 |
| Depreciation | – | 9 | 9 |
| **31 Dec. 2010** | **27** | **375** | **402** |
| Additions | 2 | 58 | 60 |
| Disposals | 3 | 29 | 32 |
| Depreciation | – | 43 | 43 |
| **31 Dec. 2011** | **26** | **361** | **387** |

The share of profits/losses for joint ventures and associated 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 € 387 million (€ 402 million), a fall of € 15 million compared to the previous year. The development in the financial year 2011 is the result of the share of profits/losses in the amount of € 0 million (€ –128 million), changes recognised directly in equity in the amount of € 17 million (€ – 18 million) and distributions received in the amount of € – 28 million (€ – 23 million)) from joint ventures and associated 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 € 1 million.

In the financial year the carrying amount of equity was subject to unscheduled depreciation relating to LBS in the amount of € 43 million.

The table below summarises the financial information of joint ventures and associated 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. 2011 | Joint ventures 31 Dec. 2010 | Associated companies 31 Dec. 2011 | Associated companies 31 Dec. 2010 |
|---|---|---|---|---|
| Short-term assets | 58 | 67 | 790 | 831 |
| Long-term assets | 22 | 24 | 3 301 | 3 179 |
| Short-term liabilities | 37 | 55 | 361 | 314 |
| Long-term liabilities | 17 | 10 | 3 337 | 3 330 |
| Total income | 27 | 156 | 584 | 595 |
| Total expenses | 24 | 232 | 545 | 565 |
| Contingent liabilities | 138 | 140 | 44 | 42 |

## (39) Property and equipment

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Land and buildings | 345 | 310 | 11 |
| Operating and office equipment | 82 | 71 | 15 |
| Ships | 258 | 281 | – 8 |
| Other property and equipment | 3 | 40 | – 93 |
| **Total** | **688** | **702** | **– 2** |

## (40) Investment property

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Investment property | 93 | 96 | – 3 |
| **Total** | **93** | **96** | **– 3** |

The carrying amount of investment property is € 93 million (€ 96 million). The fair value of investment property is € 125 million (€ 126 million).

The profit/loss from investment property is summarised as follows:

| (in € million) | 1 Jan.– 31 Dec. 2011 | 1 Jan.– 31 Dec. 2010 |
|---|---|---|
| Rental income | 11 | 11 |
| Direct operating expenses | 2 | 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 2010** | **619** | **272** | **–** | **21** | **912** | **109** |
| Additions | 8 | 18 | – | 33 | **59** | 10 |
| Disposals | – | 6 | – | – | **6** | 7 |
| Transfers | 8 | – | – | – 8 | **–** | – |
| Change from the basis of consolidation | – | – 2 | 281 | – 5 | **274** | – |
| Changes from currency translation | – | 1 | – | – | **1** | – |
| **Total 31 December 2010** | **635** | **282** | **281** | **41** | **1 239** | **112** |
| **Accumulated depreciation as at 1 January 2010** | **311** | **202** | **–** | **4** | **517** | **16** |
| Depreciation | 12 | 17 | – | – | **29** | 2 |
| Write-ups | – | 1 | – | – | **1** | – |
| Transfers | – | – | – | – | **–** | – |
| Additions | 2 | – | – | – | **2** | – |
| Disposals | – | 6 | – | – | **6** | 2 |
| Change from the basis of consolidation | – | – 1 | – | – 3 | **– 4** | – |
| Changes from currency translation | – | 1 | – | – | **1** | – |
| **Total 31 December 2010** | **325** | **211** | **–** | **1** | **537** | **16** |
| **Closing balance as at 31 December 2010** | **310** | **71** | **281** | **40** | **702** | **96** |
| **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** | – |
| **Total 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 |
| **Total 31 December 2011** | **337** | **221** | **12** | **1** | **571** | **17** |
| **Closing balance as at 31 December 2011** | **345** | **82** | **258** | **3** | **688** | **93** |

## (41) Intangible assets

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Software** | | | |
| Purchased | 15 | 15 | – |
| Internally generated | 118 | 45 | > 100 |
| | **133** | **60** | **> 100** |
| Intangible assets under development | 8 | 77 | – 90 |
| Goodwill | – | 11 | – 100 |
| Other intangible assets | 12 | 13 | – 8 |
| **Total** | **153** | **161** | **– 5** |

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 2010** | **112** | **111** | **11** | **17** | **40** | **291** |
| Additions | 4 | 4 | – | – | 48 | 56 |
| Transfers | 1 | 11 | – | – | – 11 | 1 |
| Change from the basis of consolidation | – 5 | – | – | – | – | – 5 |
| **Total 31 December 2010** | **112** | **126** | **11** | **17** | **77** | **343** |
| **Accumulated depreciation as at 1 January 2010** | **93** | **60** | **–** | **3** | **–** | **156** |
| Depreciation | 9 | 21 | – | 1 | – | 31 |
| Change from the basis of consolidation | – 5 | – | – | – | – | – 5 |
| **Total 31 December 2010** | **97** | **81** | **–** | **4** | **–** | **182** |
| **Closing balance as at 31 December 2010** | **15** | **45** | **11** | **13** | **77** | **161** |
| **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 December 2011** | **15** | **118** | **–** | **12** | **8** | **153** |

The write-down of goodwill relates entirely to the goodwill generated in the acquisition of Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover.

**(42) Assets held for sale**

Assets held for sale in accordance with IFRS 5 as at 31 December 2011 include solely property and equipment (buildings) in the amount of € 1 million (€ 1 million).

**(43) Income tax assets**

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Current income tax assets | 60 | 70 | – 14 |
| Deferred tax assets | 721 | 484 | 49 |
| **Total** | **781** | **554** | **41** |

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 offset directly against equity amounted to € 473 million as at 31 December 2011 (€ 132 million).

Deferred income tax assets were established in respect of the following balance sheet items and with tax losses not yet utilised:

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 29 | 8 | > 100 |
| Loan loss provisions | 156 | 190 | – 18 |
| Financial assets at fair value through profit or loss | 534 | 769 | – 31 |
| Financial assets | 690 | 362 | 91 |
| Property and equipment | 41 | 21 | 95 |
| Other assets | 75 | 43 | 74 |
| **Liabilities** | | | |
| Liabilities to customers | 479 | 284 | 69 |
| Securitised liabilities | 142 | 101 | 41 |
| Financial liabilities at fair value through profit or loss | 322 | 271 | 19 |
| Negative fair values from hedge accounting derivatives | 943 | 574 | 64 |
| Provisions | 336 | 343 | – 2 |
| Other liabilities | 103 | 78 | 32 |
| Tax losses carried forward | 32 | 110 | – 71 |
| **Total** | **3 882** | **3 154** | **23** |
| Net | 3 161 | 2 670 | 18 |
| **Total** | **721** | **484** | **49** |

No deferred taxes were recognised on losses carried forward to the amount of € 177 million (corporation tax) and € 6 million (trade tax) due to a limited planning horizon and the resulting insufficient likelihood of their utilisation by 31 December 2011. There is no time limit on the utilisation of existing tax losses carried forward.

## (44) Other assets

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Loans and advances on interim accounts | 219 | 205 | 7 |
| Assets from insurance contracts | 145 | 150 | – 3 |
| Rights to reimbursement from defined benefit plans | 19 | 19 | – |
| Other assets including prepaid expenses | 369 | 137 | > 100 |
| **Total** | **752** | **511** | **47** |

The receivables in interim accounts primarily relate to receivables in lending business and transactions in payment accounts.

Assets relating to insurance contracts are assets from outwards reinsurance (€ 144 million (€ 150 million)) and direct insurance and reinsurance contracts (€ 1 million (€ 0 million)).

Reimbursement claims from defined benefit plans include allocated provisions for pensions to the benefit of parties outside the Group.

## (45) Liabilities to banks

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Deposits from other banks** | | | |
| German banks | 2 754 | 229 | > 100 |
| Foreign banks | 37 | 50 | – 26 |
| | **2 791** | **279** | **> 100** |
| **Liabilities resulting from money market transactions** | | | |
| German banks | 14 375 | 17 269 | – 17 |
| Foreign banks | 8 176 | 12 592 | – 35 |
| | **22 551** | **29 861** | **– 24** |
| **Other liabilities** | | | |
| German banks | | | |
| Due on demand | 1 688 | 2 015 | – 16 |
| With a fixed term or period of notice | 24 081 | 23 325 | 3 |
| Foreign banks | | | |
| Due on demand | 102 | 323 | – 68 |
| With a fixed term or period of notice | 5 371 | 5 159 | 4 |
| | **31 242** | **30 822** | **1** |
| **Total** | **56 584** | **60 962** | **– 7** |

Of the liabilities to banks in Germany, € 2,991 million (€ 2,629 million) are due to associated savings banks.

## (46) Liabilities to customers

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Savings deposits** | | | |
| With an agreed notice period of three months | | | |
| Domestic customers | 886 | 985 | – 10 |
| Customers abroad | 20 | 21 | – 5 |
| With an agreed notice period of more than three months | | | |
| Domestic customers | 561 | 455 | 23 |
| Customers abroad | 4 | 3 | 33 |
| | **1 471** | **1 464** | **–** |
| **Liabilities resulting from money market transactions** | | | |
| Domestic customers | 14 991 | 11 466 | 31 |
| Customers abroad | 2 881 | 3 062 | – 6 |
| | **17 872** | **14 528** | **23** |
| **Other liabilities** | | | |
| Domestic costumers | | | |
| Due on demand | 8 865 | 9 530 | – 7 |
| With a fixed term or period of notice | 33 354 | 33 541 | – 1 |
| Customers abroad | | | |
| Due on demand | 570 | 494 | 15 |
| With a fixed term or period of notice | 1 190 | 1 185 | – |
| | **43 979** | **44 750** | **– 2** |
| **Total** | **63 322** | **60 742** | **4** |

## (47) Securitised liabilities

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Issued debt securities** | | | |
| Mortgage bonds | 8 486 | 8 060 | 5 |
| Municipal debentures | 17 581 | 19 347 | – 9 |
| Other debt securities | 36 127 | 36 314 | – 1 |
| | **62 194** | **63 721** | **– 2** |
| **Money market instruments** | | | |
| Commercial paper | 3 246 | 4 691 | – 31 |
| Certificates of deposit | 453 | 1 560 | – 71 |
| Other money market instruments | 183 | 1 089 | – 83 |
| | **3 882** | **7 340** | **– 47** |
| **Total** | **66 076** | **71 061** | **– 7** |

*) Previous year's figures were adjusted.

Repurchased debt securities issued by the bank itself have been directly deducted from securitised liabilities to the amount of € 8,136 million (€ 8,398 million).

**(48) 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.

**(49) 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. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Trading liabilities** | | | |
| Negative fair values from derivatives relating to | | | |
| interest rate risks | 9 869 | 5 855 | 69 |
| currency risks | 1 471 | 1 287 | 14 |
| share-price and other price risks | 73 | 58 | 26 |
| credit derivatives | 550 | 520 | 6 |
| | **11 963** | **7 720** | **55** |
| Delivery obligations from short-sales | 179 | 235 | – 24 |
| | **12 142** | **7 955** | **53** |
| **Financial liabilities designated at fair value** | | | |
| Liabilities to banks and customers | 5 055 | 4 978 | 2 |
| Securitised liabilities | 3 306 | 3 638 | – 9 |
| Subordinated capital | 26 | 25 | 4 |
| | **8 387** | **8 641** | **– 3** |
| **Total** | **20 529** | **16 596** | **24** |

The change in the fair value of liabilities designated at fair value is the result of changes in the credit risk and amounts to € 130 million (€ 5 million) in the period under review; the cumulative change is € 146 million (€ 19 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 2011 is € 351 million higher (€ 2,123 million greater) 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.

### (50) 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. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Micro fair value hedge derivatives | 3 377 | 2 199 | 54 |
| Portfolio fair value hedge derivatives | 45 | 70 | – 36 |
| **Total** | **3 422** | **2 269** | **51** |

### (51) Provisions

Provisions are broken down as follows:

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Provisions for pensions and other obligations** | **1 437** | **1 355** | **6** |
| **Other provisions** | | | |
| Provisions in lending business | 113 | 172 | – 34 |
| Provisions for restructuring measures | 30 | 39 | – 23 |
| Provisions for contingent losses | 4 | – | – |
| Provisions for uncertain liabilities | 131 | 110 | 19 |
| Provisions for insurance contracts | 1 699 | 1 681 | 1 |
| | **1 977** | **2 002** | **– 1** |
| **Total** | **3 414** | **3 357** | **2** |

Provisions for pensions and similar obligations are derived as follows:

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Present value of defined benefit obligations | 1 498 | 1 414 | 6 |
| Less fair value of plan assets | – 61 | – 59 | 3 |
| **Total** | **1 437** | **1 355** | **6** |

With regard to the allocation for pensions, there is a reimbursement claim against LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover, in the amount of € 19 million (€ 19 million) and this is reported in other assets.

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. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Opening balance** | **1 414** | **1 364** | **4** |
| Current service cost | 25 | 24 | 4 |
| Interest expense | 73 | 73 | – |
| Actuarial gains/losses from the obligation | 39 | 18 | > 100 |
| Increase/decrease resulting from currency translation | – | 1 | – 100 |
| Benefits paid | – 62 | – 57 | 9 |
| Changes in the basis of consolidation | 7 | – 9 | > 100 |
| Effects from settlements/assignments (compensation payments) | 2 | – | – |
| **Closing balance** | **1 498** | **1 414** | **6** |

In addition to pension commitments, the present value of defined benefit obligations includes allowance payments in the amount of € 120 million (€ 106 million).

The defined benefit obligation is broken down as at the balance sheet date into amounts for defined benefit plans in the amount of € 1,162 million (€ 1,087 million) which are not financed through a fund and into amounts from defined benefit obligations in the amount of € 336 million (€ 328 million) which are either fully or partially financed through a fund.

Based on experience, adjustments were made to the liabilities of the plan in the amount of € – 13 million (€ 27 million) and to the assets of the plan in the amount of € – 2 million (€ 3 million).

The fair value of plan assets developed as follows:

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Opening balance** | **59** | **56** | **5** |
| Anticipated earnings from plan assets | 3 | 3 | – |
| Actuarial gains/losses from plan assets | – 3 | 3 | > 100 |
| Employer contributions | 14 | 11 | 27 |
| Contributions from participants of the plan | 3 | – | – |
| Benefits paid | – 15 | – 14 | 7 |
| **Closing balance** | **61** | **59** | **3** |

The fair value of plan assets is broken down as follows:

| (in %) | 31 Dec. 2011 | 31 Dec. 2010 |
|---|---|---|
| Equity instruments | 18 | 17 |
| Debt instruments | 56 | 63 |
| Real Estate | 4 | 4 |
| Other assets | 22 | 16 |

The fair value of plan assets includes the bank’s own debt instruments in the amount of € 34 million (€ 37 million), other internally utilised assets in the amount of € 13 million (€ 9 million) and own equity instruments in the amount of € 11 million (€ 10 million).

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.

The actual amount of income generated by plan assets was € 2 million (€ 6 million), with the resulting difference to expected income amounting to € –1 million (€ 4 million) or –33 per cent (150 per cent).

The figure for allocations to/withdrawals from plan including the benefit payments made directly by the Group is expected to be € 56 million (€ 55 million) in the next reporting period.

Pension costs comprise the following:

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Current service cost | 25 | 25 | – |
| Interest expense | 73 | 73 | – |
| Anticipated earnings from plan assets | – 3 | – 2 | 50 |
| Anticipated earnings from reimbursement claims | 2 | – | – |
| **Total** | **97** | **96** | **1** |

Overview of the amounts in the current period under review and previous reporting periods:

| (in € million) | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|---|
| Defined benefit obligation | 1 498 | 1 414 | 1 364 |
| Plan assets | – 61 | – 59 | – 56 |
| Deficit | 1 437 | 1 355 | 1 308 |
| Actuarial gains/losses | 373 | 411 | 429 |
| Experience adjustments to | | | |
| defined benefit obligation | – 13 | 27 | – 23 |
| plan assets | – 2 | 3 | – |

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. 2011 | Increase by 1 percentage point 31 Dec. 2010 | Decline by 1 percentage point 31 Dec. 2011 | Decline by 1 percentage point 31 Dec. 2010 |
|---|---|---|---|---|
| Effect on the obligation at the end of the year | 24 | 24 | – 19 | – 20 |
| Effect on total current service costs and interest expense for the past accounting period | 2 | 2 | – 2 | – 1 |

The payments relating to defined benefit plans also include obligations relating to early retirement schemes, partial retirement schemes and long-service awards. These obligations are reported in other provisions.

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** | **172** | **39** | **–** | **29** | **81** | **1 681** | **2 002** |
| Utilisation | 4 | 12 | – | 7 | 10 | 52 | 85 |
| Reversals | 108 | – | – | 1 | 5 | 266 | 380 |
| Allocations | 53 | 3 | 4 | 8 | 28 | 336 | 432 |
| Effects from changes in interest rates | – 1 | – | – | – | – | – | – 1 |
| Changes from currency translation and other changes | 1 | – | – | 8 | – | – | 9 |
| **31 December** | **113** | **30** | **4** | **37** | **94** | **1 699** | **1 977** |

Provisions for restructuring relate among other things to the implementation of the business model initiated in 2005.

Of the provisions for liabilities to personnel, provisions due to early retirement schemes account for € 16 million (€ 17 million) and provisions for long-service awards account for € 9 million (€ 9 million).

Insurance provisions mainly contain actuarial reserves in the amount of € 1,285 million (€ 1,265 million), provisions for known losses in the amount of € 226 million (€ 223 million) and provisions for the reimbursement of premiums in the amount of € 103 million (€ 115 million).

The remaining provisions are mainly due in the long term.

### (52) Income tax liabilities

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Current Income tax liabilities | 161 | 182 | – 12 |
| Deferred tax liabilities | 4 | 6 | – 33 |
| **Total** | **165** | **188** | **– 12** |

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 offset directly against equity amounted to € 204 million as at 31 December 2011 (€ 200 million).

Deferred tax liabilities relate to the following balance sheet items:

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 32 | 26 | 23 |
| Loans and advances to customers | 213 | 142 | 50 |
| Financial assets at fair value through profit or loss | 260 | 299 | – 13 |
| Fair values from hedge accounting derivatives | 851 | 702 | 21 |
| Financial assets | 623 | 333 | 87 |
| Intangible assets | 40 | 40 | – |
| Property and equipment | 10 | 10 | – |
| Other assets | 13 | 19 | – 32 |
| **Liabilities** | | | |
| Securitised liabilities | 19 | 18 | 6 |
| Financial liabilities at fair value through profit or loss | 921 | 903 | 2 |
| Provisions | 120 | 133 | – 10 |
| Other liabilities | 63 | 51 | 24 |
| **Total** | **3 165** | **2 676** | **18** |
| Net | 3 161 | 2 670 | 18 |
| **Total** | **4** | **6** | **– 33** |

## (53) Other liabilities

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Liabilities resulting from unsettled invoices | 50 | 33 | 52 |
| Liabilities from premiums | 2 | 1 | 100 |
| Liabilities from short-term employee remuneration | 54 | 44 | 23 |
| Deferred income | 43 | 46 | – 7 |
| Liabilities from payable taxes and social insurance contributions | 25 | 31 | – 19 |
| Liabilities from interim accounts | 282 | 222 | 27 |
| Liabilities from insurance contracts | 47 | 47 | – |
| Other liabilities | 253 | 144 | 76 |
| **Total** | **756** | **568** | **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 2012.

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 € 10 million (€ 3 million).

Due to an agreement with a minority shareholder, there is a liability to buy own equity instruments. The corresponding financial liability is reported at fair value (proportionate enterprise value) in the amount of € 48 million (€ 71 million) under other liabilities.

### (54) Subordinated capital

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Subordinated liabilities | 3 539 | 3 622 | – 2 |
| Participatory capital | 236 | 530 | – 55 |
| Silent participations | 2 311 | 2 439 | – 5 |
| **Total** | **6 086** | **6 591** | **– 8** |

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 € 3,309 million (€ 3,437 million) for attribution to supplementary capital in accordance with § 10 para. 2b of the German Banking Act. Interest expenses for subordinated liabilities amount to € 160 million (€ 143 million).

Participatory capital comprises solely registered participatory capital. The participatory capital meets the requirements of § 10 Paragraph 5 of the German Banking Act in the amount of € 218 million (€ 297 million) for attribution to supplementary capital in accordance with § 10 para. 2b of the German Banking Act. Within the scope of capital measures implemented in 2011 (cf. notes to the statement of changes in equity), participatory capital in the amount of € 79 million was converted into subscribed capital plus a premium. Interest expenses for participatory capital amount to € 20 million (€ 37 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 € 1,886 million (€ 2,037 million) in accordance with § 10 para. 2a clause 1 no. 10 of the German Banking Act. Interest expenses for silent participations amount to € 148 million (€ 144 million).

## Notes to the statement of changes in equity

The equity is made up as follows:

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Issued capital | 1 494 | 1 085 | 38 |
| Capital reserves | 3 175 | 2 597 | 22 |
| Retained Earnings | 2 480 | 2 090 | 19 |
| Revaluation reserve | – 546 | 63 | > 100 |
| Currency translation reserve | – 3 | – 8 | 63 |
| Equity capital attributable to the owners of NORD/LB | 6 600 | 5 827 | 13 |
| Equity capital attributable to non-controlling interests | – 57 | – 26 | > 100 |
| **Total** | **6 543** | **5 801** | **13** |

The composition of and changes to equity in 2011 were primarily due to the measures implemented to improve the regulatory capital structure.

Following the EU-wide bank stress test carried out by the European Banking Authority (EBA) in July 2011, in which contributions from silent partners were not recognised as hard core capital by the EBA contrary to the applicable regulations in the German Banking Act, the owners of NORD/LB decided to convert the contributions from silent partners and other capital instruments totalling € 1 146 million into subscribed capital plus a premium and a capital increase for cash in the amount of € 521 million.

This boosted subscribed capital by € 409 million and capital reserves by € 578 million. In this context it has to be considered that silent participations in the amount of € 700 million were part of the capital reserve under IFRS according to IAS 32. As at 31 December 2011 € 279 million of this had been called but not paid; the payment was made on 2 January 2012.

As a result of the capital measures there was a change in the shareholdings. As at 31 December 2011 the following shareholdings were held in the subscribed capital of NORD/LB: the federal state of Lower Saxony 56.03 per cent (41.75 per cent), the federal state of Saxony-Anhalt 6.00 per cent (8.25 per cent), the Association of the Savings Banks of Lower Saxony (SVN) 28.36 per cent (37.25 per cent), the Holding Association of the Savings Banks of Saxony-Anhalt (SBV) 5.67 per cent (7.53 per cent) and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania (SZV) 3.94 per cent (5.22 per cent).

The capital reserves include the amounts paid in capital increases by the owners of NORD/LB in addition to the subscribed capital and silent participations totalling € 139 million (€ 818 million), which due to their economic character represent equity in accordance with IAS 32. In the year under review a silent participation in the amount of € 700 million was converted into subscribed capital plus a premium as part of the capital measures described above. The capital reserves were also boosted by the issue of two new silent participations totalling € 21 million. The profit share for silent participations in capital reserves is € 53 million (€ 52 million).

Retained earnings include retained earnings from previous reporting periods, allocations from the profit for the period less the share of minority interests in profit, the offsetting of actuarial gains and losses directly in equity as well as the changes in equity relating to the shares in associated companies and joint ventures accounted for using the equity method and recognised directly in equity.

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 2011 it is proposed that no dividends are paid, but that the all of the profit is allocated to retained earnings to boost the hard core capital.

## 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, investing and financing activities.

Cash and cash equivalents are defined as the cash reserve (cash on hand and balances with central banks).

The cash flow statement is prepared using the indirect method, whereby the cash flow from operating activities is calculated on the basis of the consolidated earnings for the period. 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 investment 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.

With regard to liquidity risk control in the NORD/LB Group, we refer to the information in the risk report.

## Other disclosures

## Notes to financial instruments

**(55) Fair value hierarchy**

The table below shows the application of the fair value hierarchy for financial assets and liabilities at fair value recognised through profit or loss and directly in equity:

| | Level 1 | | Level 2 | | Level 3 | | Summe | |
|---|---|---|---|---|---|---|---|---|
| (in € million) | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 |
| Assets held for trading | 5 077 | 5 373 | 11 669 | 7 129 | 59 | 216 | 16 805 | 12 718 |
| Designated financial assets reported at fair value | 890 | 1 258 | 483 | 419 | 466 | 708 | 1 839 | 2 385 |
| Positive fair values from hedge accounting derivatives | – | – | 3 289 | 2 938 | – | – | 3 289 | 2 938 |
| Financial assets at fair value | 42 457 | 38 602 | 3 717 | 6 994 | 3 403 | 7 921 | 49 577 | 53 517 |
| **Assets** | **48 424** | **45 233** | **19 158** | **17 480** | **3 928** | **8 845** | **71 510** | **71 558** |
| Liabilities held for trading | 181 | 214 | 11 856 | 7 462 | 105 | 279 | 12 142 | 7 955 |
| Designated financial liabilities reported at fair value | 2 439 | 3 161 | 5 948 | 5 480 | – | – | 8 387 | 8 641 |
| Negative fair values from hedge accounting derivatives | – | – | 3 422 | 2 269 | – | – | 3 422 | 2 269 |
| **Liabilities** | **2 620** | **3 375** | **21 226** | **15 211** | **105** | **279** | **23 951** | **18 865** |

The trading assets and liabilities of Level 3 include among other things CDS for illiquid basic risks and CDS which were concluded on the basis of old ISDA framework agreements. The fair value of the latter is calculated based on the indicative spreads quoted for similar CDS in accordance with the new ISDA framework agreements. In the process security spreads of liquid bonds of reference entities are included. As a result when establishing the fair value it is considered that, in accordance with the old ISDA agreements, settlement is made physically in the event of a credit event, i.e. with the delivery of a bond.

The transfers within the fair value hierarchy are summarised as follows:

| 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 |

| 2010 (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 | – | 71 | – | 3 | 46 | 2 |
| Designated financial assets reported at fair value | – | 47 | 11 | 66 | 137 | 59 |
| Financial assets at fair value | 137 | 1 473 | 117 | 1 453 | 3 857 | 736 |
| Liabilities held for trading | – | – | – | 35 | – | 117 |
| Designated financial liabilities reported at fair value | – | – | 402 | – | – | – |

For the financial instruments the activity status of the parameters used for the measurement is reviewed on an individual transaction basis as described in note 7 d). The review as at the balance sheet date showed that there were hardly any transfers between the levels in all categories compared to the last reporting date (30 September 2011). The comparison with the figures as at 31 December 2010 shows that the market has since picked up. This has resulted in a shift in value towards near-market categories, with Level 1 values clearly dominating.

Financial assets and liabilities in Level 3 of the fair value hierarchy developed as follows:

| 2011 (in € million) | Assets held for trading | Designated financial assets reported at fair value | Financial assets at fair value | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| **1 January** | **216** | **708** | **7 921** | 8 845 |
| Effect on the income statement*) | – 9 | – 8 | 13 | – 4 |
| Effect on the equity capital | – | – | – 282 | – 282 |
| Addition from purchase or issuance | 154 | – | 47 | 201 |
| Disposal from sale | 200 | 61 | 236 | 497 |
| Repayment/exercise | – | 2 | 383 | 385 |
| Addition from Level 1 and 2 | – | 19 | 635 | 654 |
| Disposal to Level 1 and 2 | 102 | 207 | 4 346 | 4 655 |
| Increase/decrease resulting from currency translation | – | 17 | 34 | 51 |
| **31 December** | **59** | **466** | **3 403** | **3 928** |

*) Profit/losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement.

| 2011<br>(in € million) | Liabilities held for trading | Total |
|---|---|---|
| **Liabilities** | | |
| **1 January** | **279** | 279 |
| Effect on the income statement[*)] | 37 | 37 |
| Disposal from purchase | 25 | 25 |
| Repayment/exercise | 75 | 75 |
| Addition from Level 1 and 2 | 7 | 7 |
| Disposal to Level 1 and 2 | 118 | 118 |
| **31 December** | **105** | **130** |

*) Profit/losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement.

| 2010<br>(in € million) | Assets held for trading | Designated financial assets reported at fair value | Financial assets at fair value | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| **1 January** | **196** | **729** | **7 945** | 8 870 |
| Effect on the income statement[*)] | 6 | – 15 | 1 665 | 1 656 |
| Effect on the equity capital | – | – | 36 | 36 |
| Addition from purchase or issuance | – | – | 60 | 60 |
| Disposal from sale | 11 | 3 | 120 | 134 |
| Repayment/exercise | 1 | 1 | 70 | 72 |
| Addition from Level 1 and 2 | 74 | 113 | 2 926 | 3 113 |
| Disposal to Level 1 and 2 | 48 | 196 | 4 593 | 4 837 |
| Increase/decrease resulting from currency translation | – | 81 | 72 | 153 |
| **31 December** | **216** | **708** | **7 921** | **8 845** |

*) Profit/losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement.

| 2010<br>(in € million) | Liabilities held for trading | Total |
|---|---|---|
| **Liabilities** | | |
| **1 January** | **91** | 91 |
| Effect on the income statement[*)] | 246 | 246 |
| Addition from purchase or issuance | 25 | 25 |
| Repayment/exercise | 2 | 2 |
| Addition from Level 1 and 2 | 35 | 35 |
| Disposal to Level 1 and 2 | 117 | 117 |
| Increase/decrease resulting from currency translation | 1 | 1 |
| **31 December** | **279** | **279** |

*) 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 trading assets by € 10 million, financial assets designated at fair value by € 16 million and financial assets reported at fair value by € 45 million.

### (56) Carrying amounts by measurement category

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Financial assets held for trading | 16 805 | 12 718 | 32 |
| Financial assets designated at fair value through profit or loss | 1 839 | 2 385 | – 23 |
| Available for sale assets | 49 670 | 53 756 | – 8 |
| Loans and receivables*) | 152 380 | 153 242 | – 1 |
| **Total** | **220 694** | **222 101** | **– 1** |
| **Liabilities** | | | |
| Financial liabilities held for trading | 12 142 | 7 955 | 53 |
| Financial liabilities designated at fair value through profit or loss | 8 387 | 8 641 | – 3 |
| Other Liabilities*) | 192 086 | 199 357 | – 4 |
| **Total** | **212 615** | **215 953** | **– 2** |

*) Previous year’s figures were adjusted.

Fair values from hedge accounting as defined by IAS 39 and the cash reserve are not included since they are not allocated to any measurement category.

### (57) Net gains or losses by measurement category

| | 1 Jan.–31 Dec. 2011 (in € million) | 1 Jan.–31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Financial Instruments Held for Trading | 287 | 130 | > 100 |
| Financial Instruments designated at Fair Value through Profit or Loss | – 348 | – 168 | > 100 |
| Available for Sale Assets | – 8 | 100 | > 100 |
| Loans and Receivables | – 209 | – 800 | 74 |
| Other Liabilities | – 23 | – 37 | 38 |
| **Total** | **– 301** | **– 775** | **61** |

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 risk 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.

### (58) Impairments/reversals of impairment by measurement category

| | 1 Jan.–31 Dec. 2011 (in € million) | 1 Jan.–31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Available for Sale Assets** | | | |
| Profit/loss from impairment of AfS financial assets | – 114 | – 35 | > 100 |
| Impairment of shares in unconsolidated companies | – 20 | – 8 | > 100 |
| | **– 134** | **– 43** | **> 100** |
| **Loans and Receivables** | | | |
| Profit/loss from impairment of LaR financial assets | – 13 | – 22 | 41 |
| Profit/loss from impairment of loans and advances | – 258 | – 608 | 58 |
| | **– 271** | **– 630** | **57** |
| **Total** | **– 405** | **– 673** | **40** |

### (59) Fair value of financial instruments

Fair values of financial instruments are compared with the carrying amounts in the following table.

| (in € million) | 31 Dec. 2011 Fair Value | 31 Dec. 2011 Carrying amount | 31 Dec. 2011 Difference | 31 Dec. 2010 Fair Value | 31 Dec. 2010 Carrying amount | 31 Dec. 2010 Difference |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash reserve | 796 | 796 | – | 1 069 | 1 069 | – |
| Loans and advances to banks | 34 054 | 32 928 | 1 126 | 37 651 | 36 734 | 917 |
| Loans and advances to customers | 117 611 | 116 404 | 1 207 | 113 071 | 113 606 | – 535 |
| Loan loss provisions | – | – 1 785 | – | – | – 2 018 | – |
| **Sub-total of loans and advances to banks/customers (net after loan loss provisions)** | **151 665** | **147 547** | **4 118** | **150 722** | **148 322** | **2 400** |
| Financial assets at fair value through profit or loss | 18 644 | 18 644 | – | 15 103 | 15 103 | – |
| Positive fair values from hedge accounting derivatives | 3 289 | 3 289 | – | 2 938 | 2 938 | – |
| Financial assets not reported at fair value | 4 444 | 4 922 | – 478 | 5 040 | 5 149 | – 109 |
| Financial assets reported at fair value | 49 577 | 49 577 | – | 53 517 | 53 517 | – |
| Investment property | 125 | 93 | 32 | 126 | 96 | 30 |
| Other assets not reported at fair value | 4 | 4 | – | 10 | 10 | – |
| Other assets reported at fair value | 15 | 15 | – | 17 | 17 | – |
| **Total** | **228 559** | **224 887** | **3 672** | **228 542** | **226 221** | **2 321** |
| | | | | | | |
| **Liabilities** | | | | | | |
| Liabilities to banks | 56 930 | 56 584 | 346 | 61 249 | 60 962 | 287 |
| Liabilties to customers | 65 256 | 63 322 | 1 934 | 61 678 | 60 742 | 936 |
| Securitsed liabilities | 73 871 | 66 076 | 7 795 | 74 593 | 71 061 | 3 532 |
| Adjustment item for financial instruments hedged in the fair value hedge portfolio | *) | 733 | – | *) | 390 | – |
| Financial liabilities at fair value through profit or loss**) | 20 529 | 20 529 | – | 16 596 | 16 596 | – |
| Negative fair values from hedge accounting derivatives | 3 422 | 3 422 | – | 2 269 | 2 269 | – |
| Other liabilities not reported at fair value | 16 | 16 | – | – | – | – |
| Other liabilities reported at fair value | 3 | 3 | – | 1 | 1 | – |
| Subordinated capital**) | 6 513 | 6 086 | 427 | 6 496 | 6 591 | – 95 |
| **Total** | **226 540** | **216 771** | **10 502** | **222 882** | **218 612** | **4 660** |

*) 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.
**) Previous year's figures were adjusted.

It was not possible to reliably determine a fair value for € 93 million (€ 239 million) of financial instruments. These are mainly investments for which there is no active market. There is no intention to sell these investments.

**(60) 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 | | Fair values | | | |
|---|---|---|---|---|---|---|
| (in € million) | 31 Dec. 2011 | 31 Dec. 2010 | positive 31 Dec. 2011 | positive 31 Dec. 2010 | negative 31 Dec. 2011 | negative 31 Dec. 2010 |
| **Interest rate risk** | | | | | | |
| Interest rate swaps*) | 282 028 | 285 507 | 12 373 | 7 747 | 10 441 | 6 611 |
| FRAs | 6 781 | 17 258 | – | 2 | 1 | 5 |
| Interest rate options | | | | | | |
| Call*) | 3 465 | 2 890 | 634 | 195 | – | 1 |
| Put*) | 8 948 | 9 417 | 1 | 2 | 1 953 | 1 002 |
| Caps, Floors | 7 748 | 7 484 | 142 | 129 | 95 | 77 |
| Stock exchange contracts | 803 | 456 | 4 | 1 | – | 1 |
| Other forward interest rate transactions*) | 2 643 | 2 654 | 72 | 108 | 281 | 74 |
| | **312 416** | **325 666** | **13 226** | **8 184** | **12 771** | **7 771** |
| **Currency risk** | | | | | | |
| Forward exchange contracts | 16 857 | 16 564 | 303 | 246 | 405 | 265 |
| Currency swaps and interest rate/currency swaps | 52 916 | 55 548 | 1 254 | 1 407 | 1 556 | 1 341 |
| Currency options | | | | | | |
| Call | 736 | 415 | 48 | 38 | – | – |
| Put | 656 | 386 | – | – | 29 | 32 |
| Other currency transactions | 189 | 190 | 1 | 1 | 1 | 1 |
| | **71 354** | **73 103** | **1 606** | **1 692** | **1 991** | **1 639** |
| **Share price and other price risks** | | | | | | |
| Equity swaps | 572 | 892 | 19 | 18 | 22 | 16 |
| Stock options | | | | | | |
| Call | 241 | 1 159 | 33 | 64 | – | – |
| Put | 201 | 1 017 | – | – | 50 | 42 |
| Stock exchange contracts | 39 | 43 | 2 | 1 | 1 | 1 |
| | **1 053** | **3 111** | **54** | **83** | **73** | **59** |
| **Credit risk** | | | | | | |
| Assignor | 1 234 | 1 596 | 46 | 21 | 1 | 3 |
| Assignee | 7 929 | 8 167 | 7 | 9 | 549 | 517 |
| | **9 163** | **9 763** | **53** | **30** | **550** | **520** |
| **Total** | **393 986** | **411 643** | **14 939** | **9 989** | **15 385** | **9 989** |

*) Previous year's figures were adjusted.

The residual term is defined as the period between the balance sheet date and the contractual due date.

| Nominal values (in € million) | Interest rate risk | | Currency risk | | Share price and other price risk | | Credit risk | |
|---|---|---|---|---|---|---|---|---|
| | 31 Dec. 2011 | 31 Dec. 2010*) | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 |
| Up to 3 months | 25 226 | 47 206 | 17 447 | 18 996 | 86 | 187 | 359 | 87 |
| More than 3 months up to 1 year | 43 765 | 42 277 | 14 465 | 12 383 | 108 | 1 896 | 2 382 | 655 |
| More than 1 year up to 5 years | 130 893 | 127 345 | 23 434 | 22 665 | 520 | 684 | 4 503 | 6 736 |
| More than 5 years | 112 532 | 108 838 | 16 008 | 19 059 | 339 | 344 | 1 919 | 2 285 |
| **Total** | **312 416** | **325 666** | **71 354** | **73 103** | **1 053** | **3 111** | **9 163** | **9 763** |

*) Previous year's figures were adjusted.

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.

| (in € million) | Nominal values | | Fair values | | | |
|---|---|---|---|---|---|---|
| | 31 Dec. 2011 | 31 Dec. 2010 | Positive 31 Dec. 2011 | Positive 31 Dec. 2010 | Negative 31 Dec. 2011 | Negative 31 Dec. 2010 |
| Banks in the OECD | 345 022 | 369 262 | 11 636 | 8 244 | 14 108 | 9 417 |
| Banks outside the OECD | 823 | 860 | 3 | 4 | 20 | 33 |
| Public institutions in the OECD | 8 594 | 8 288 | 263 | 136 | 125 | 111 |
| Other counterparties (including stock exchange contracts)*) | 39 547 | 33 233 | 3 037 | 1 605 | 1 132 | 428 |
| **Total** | **393 986** | **411 643** | **14 939** | **9 989** | **15 385** | **9 989** |

*) Previous year's figures were adjusted.

**(61) Disclosures relating to selected countries**

The table below shows, in contrast to the regulatory exposure in the risk report, the reported values of transactions relating to selected countries. The disclosures by country include regional governments, municipalities and state-related public-sector companies.

| (in € million) | Financial Instruments held for trading | | Financial Instruments designated at Fair Value through Profit or Loss | | Available for Sale Assets | | Loans and Receivables | |
|---|---|---|---|---|---|---|---|---|
| | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 | 31 Dec. 2011 | 31 Dec. 2010 |
| **Greece** | | | | | | | | |
| Country | – 56 | – 30 | – | – | 36 | 101 | – | 51 |
| Financing institutions/ insurance companies | – | – | – | – | 17 | 18 | 25 | 50 |
| Companies/other | 4 | 5 | – | – | – | – | 324 | 387 |
| | **– 52** | **– 25** | **–** | **–** | **53** | **119** | **349** | **488** |
| **Ireland** | | | | | | | | |
| Country | – 56 | – 54 | 94 | 83 | 55 | 25 | – | – |
| Financing institutions/ insurance companies | 1 | – 48 | 11 | 5 | 484 | 478 | 701 | 1 064 |
| Companies/other | – 13 | 4 | 5 | 20 | 1 | 26 | 1 564 | 1 291 |
| | **– 68** | **– 98** | **110** | **108** | **540** | **529** | **2 265** | **2 355** |
| **Italy** | | | | | | | | |
| Country | – 13 | – 14 | 287 | 218 | 1 343 | 1 573 | 20 | 19 |
| Financing institutions/ insurance companies | – 66 | – 21 | – | 72 | 1 628 | 2 040 | 173 | 225 |
| Companies/other | 14 | 36 | – | – | 67 | 78 | 55 | 40 |
| | **– 65** | **1** | **287** | **290** | **3 038** | **3 691** | **248** | **284** |
| **Portugal** | | | | | | | | |
| Country | – 75 | – 20 | – | – | 142 | 261 | 15 | 15 |
| Financing institutions/ insurance companies | – 30 | – 42 | – | – | 144 | 308 | 20 | 254 |
| Companies/other | – | 9 | – | – | 13 | 20 | 103 | 69 |
| | **– 105** | **– 54** | **–** | **–** | **299** | **589** | **138** | **338** |
| **Spain** | | | | | | | | |
| Country | – 1 | 25 | – | – | 438 | 568 | 83 | 158 |
| Financing institutions/ insurance companies | 3 | 155 | – | – | 2 250 | 3 121 | 193 | 382 |
| Companies/other | 80 | 10 | – | – | 34 | 132 | 452 | 608 |
| | **82** | **190** | **–** | **–** | **2 722** | **3 821** | **728** | **1 148** |
| **Total** | **– 208** | **15** | **397** | **398** | **6 652** | **8 749** | **3 728** | **4 613** |

The nominal values of credit default swaps in the countries in the NORD/LB Group's portfolio are € 1883 million (2 621 million). Of this, states account for € 601 million, financing institutes/insurance companies for € 1198 million and companies/others for € 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 these credit default swaps is € – 356 million (€ – 352 million).

Greek credit default swaps are included with a nominal value of € 94 million and a fair value of € – 56 million.

For financial instruments categorised as available for sale with acquisition costs totalling € 7326 million (€ 8740 million), the cumulative valuation of the selected countries reported in equity totals € 1131 million (€ 374 million). In addition to this, a write-off of € 99 million (€ 1 million) was recognised in the income statement for the period. Of this, Greek bonds account for acquisition costs of € 124 million (€ 123 million) and a write-off recognised through profit or loss of € 91 million (€ 0 million); the fair value of these securities assigned to Level 1 in the fair value hierarchy is € 30 million (€ 87 million).

For receivables categorised as loans and receivables to financial institutions and other companies of the selected countries, specific valuation allowances totalling € 31 million (€ 3 million) and general loan loss provisions totalling € 12 million (€ 18 million) were made. The fair value of these receivables categorised as loans and receivables is € 1474 million (€ 1868 million).

For further information concerning the haircut on Greek government bonds, see supplementary report.

### (62) 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 (for the portfolio fair value hedge by reporting 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. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 1 338 | 1 638 | – 18 |
| Loans and advances to customers | 6 876 | 6 153 | 12 |
| Financial assets | 14 344 | 13 749 | 4 |
| **Total** | **22 558** | **21 540** | **5** |
| **Liabilities** | | | |
| Liabilities to banks | 1 322 | 1 439 | – 8 |
| Liabilities to customers | 9 946 | 9 496 | 5 |
| Securitised liabilities | 12 325 | 13 645 | – 10 |
| Subordinated capital | 1 124 | 1 097 | 2 |
| **Total** | **24 717** | **25 677** | **– 4** |

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. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Financial assets | 639 | 554 | 15 |
| **Total** | **639** | **554** | **15** |
| **Liabilities** | | | |
| Securitised liabilities | 8 773 | 13 517 | – 35 |
| **Total** | **8 773** | **13 517** | **– 35** |

## (63) Residual terms of financial liabilities

| 31 Dec. 2011<br>(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 | 12 016 | 12 424 | 9 040 | 12 976 | 10 406 | 56 862 |
| Liabilities to customers | 21 138 | 5 589 | 6 308 | 15 890 | 22 862 | 71 787 |
| Securitised liabilities | 3 957 | 5 598 | 9 558 | 51 425 | 6 824 | 77 362 |
| Financial liabilities at fair value through profit or loss (no derivatives) | 190 | 399 | 783 | 3 738 | 7 769 | 12 879 |
| 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 | 464 | 2 625 | 4 811 | 8 041 |
| 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** | **42 549** | **24 638** | **28 664** | **98 499** | **59 573** | **253 923** |

| 31 Dec. 2010<br>(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 | 23 817 | 9 999 | 5 825 | 12 946 | 9 918 | 62 505 |
| Liabilities to customers | 20 086 | 5 484 | 3 958 | 15 698 | 23 471 | 68 697 |
| Securitised liabilities | 2 709 | 7 065 | 9 965 | 51 003 | 9 293 | 80 035 |
| Financial liabilities at fair value through profit or loss (no derivatives)*) | 143 | 427 | 961 | 4 491 | 5 835 | 11 857 |
| Negative fair values from derivatives held for trading*) | 2 920 | 1 029 | 2 860 | 3 689 | 1 379 | 11 877 |
| Negative fair values from hedge accounting derivatives | 86 | 85 | 205 | 825 | 546 | 1 747 |
| Other liabilities (financial instruments only) | 3 | 1 | – | – | – | 4 |
| Subordinated capital*) | 302 | 60 | 472 | 2 534 | 4 382 | 7 750 |
| Financial guarantees | 3 843 | 43 | 87 | 360 | 545 | 4 878 |
| Irrevocable credit commitments*) | 1 491 | 42 | 566 | 6 396 | 2 424 | 10 919 |
| **Total** | **55 400** | **24 235** | **24 899** | **97 942** | **57 793** | **260 269** |

*) Previous year's figures were partly adjusted.

The residual term for undiscounted financial liabilities is defined as the period between the balance sheet date and the contractual due date.

**(64) NORD/LB Group as assignor and assignee**
The following financial assets have been pledged as collateral for liabilities (carrying amounts):

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Loans and advances to banks*) | 19 847 | 16 464 | 21 |
| Loans and advances to customers*) | 26 476 | 29 599 | – 11 |
| Financial assets at fair value through profit or loss | 1 012 | 2 786 | – 64 |
| Financial assets*) | 17 209 | 18 125 | – 5 |
| **Total** | **64 544** | **66 974** | **– 4** |

*) Previous year's figures were adjusted.

Collateral has been provided for borrowing undertaken within the scope of sale and repurchase agreements with obligatory retransfer (repos). Collateral has also been provided for refinancing funds for specific purposes, securities lending transactions and Eurex transactions.

Assets were assigned as collateral to the amounts shown for the following liabilities:

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Liabilities to banks*) | 7 813 | 11 687 | – 33 |
| Liabilities to customers | 2 169 | 2 318 | – 6 |
| Securitised liabilities*) | 27 875 | 31 385 | – 11 |
| Financial liabilities at fair value through profit or loss | 9 187 | 619 | > 100 |
| **Total** | **47 044** | **46 009** | **2** |

*) Previous year's figures were adjusted.

## (65) Repo transactions and securities lending

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Repurchase transactions as lender** | | | |
| Liabilities to banks | 9 976 | 12 992 | – 23 |
| Liabilities to customers | 3 225 | 2 838 | 14 |
| | **13 201** | **15 830** | **– 17** |
| **Reverse repurchase transactions as borrower** | | | |
| Loans and advances to banks | 1 559 | 1 319 | 18 |
| Loans and advances to customers | 2 839 | 1 014 | > 100 |
| | **4 398** | **2 333** | **89** |

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Securities sold under repurchase agreements** | | | |
| Securities sold under repurchase agreements at fair value through profit or loss | 277 | 1 460 | – 81 |
| Securities sold under repurchase agreements from financial assets | 9 777 | 12 210 | – 20 |
| | **10 054** | **13 670** | **– 26** |
| **Securities purchased under repurchase agreements** | **6 014** | **4 111** | **46** |

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Loaned securities** | | | |
| Loaned securities from financial assets | 20 | 26 | – 23 |
| | **20** | **26** | **– 23** |
| **Borrowed securities** | **548** | **688** | **– 20** |

## Other notes

**(66) 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
- Regulatory capital
- “Hard core capital” (since 2011) 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 in accordance with the German Solvency Regulation. Regulatory minimum capital ratios, which must be permanently maintained, are also in place for total regulatory core capital, regulatory capital and the hard core capital. For the total regulatory core capital this minimum ratio is 4.0 per cent and for regulatory capital 8.0 per cent to the end of 2012. These regulatory minimum capital ratios will gradually rise between 2013 and 2019 due to the changing regulatory requirements (Basel III). With regard to hard core capital, 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.

In the year under review 2011 the core task of capital management lay in optimising the capital structure and in implementing capital measures to achieve this requirement, and this is likely to remain the case in 2012.

Due to the Basel III regulations relating to minimum capital resources, the requirements on capital management will continue to increase in future. The crucial control variable is likely to be the hard core capital. In order to strengthen this, the capital structure of the Group will continue to be optimised.

In addition to this, within the scope of capital management, the actual development of the above capital figures and the related capital ratios will be regularly determined and reported to the bank’s management and supervisory bodies. Furthermore, if required, budgets and forecasts are prepared for these capital figures and ratios. If they indicate any risk for the defined target capital ratios either adjustment measures are taken in terms of risk-weighted assets or, on agreement with the owners of the bank, procurement measures will be taken for individual capital figures, or a combination of the two.

In 2011 and 2010 the bank maintained the regulatory minimum capital ratios at Group level at all times. The regulatory core capital ratio and the regulatory capital ratio (= overall ratio) at the end of the respective year are reported in note (67).

## (67) Regulatory data

The consolidated regulatory capital below was calculated in accordance with the regulations of the German Solvency Regulation.

| (in € million) | 31 Dec. 2011 | 31 Dec. 2010 |
|---|---|---|
| **Risk-weighted assets** | **84 800** | **86 850** |
| Capital requirements for credit risk | 6 108 | 6 468 |
| Capital requirements for market risks | 339 | 183 |
| Capital requirements for operational risks | 337 | 297 |
| **Capital requirements according to the SolvV** | **6 784** | **6 948** |

The following schedule shows the composition of regulatory equity for the Group in accordance with § 10 in conjunction with § 10a of the German Banking Act.

| (in € million) | 31 Dec. 2011 | 31 Dec. 2010*) |
|---|---|---|
| Paid-in capital | 1 500 | 1 213 |
| Further capital in accordance with § 10 2a Nr. 8 KWG | – | – |
| Other reserves | 3 998 | 2 823 |
| Special item for general banking risks in accordance with § 340g of the German Commercial Code | 1 425 | 1 082 |
| Other capital in accordance with § 10 2a Nr. 10 KWG | 2 003 | 2 855 |
| Other components | – 88 | – 28 |
| **Core capital** | **8 838** | **7 945** |
| Deductions from core capital | – 833 | – 1 116 |
| **Core capital for solvency reasons** | **8 005** | **6 829** |
| Non-current subordinated liabilities | 3 309 | 3 437 |
| Participatory capital liabilities | 218 | 297 |
| Other components | 29 | 152 |
| **Supplementary capital** | **3 556** | **3 886** |
| Deductions from supplementary capital | – 834 | – 1 116 |
| **Supplementary capital for solvency reasons** | **2 722** | **2 770** |
| **Modified available equity** | **10 727** | **9 599** |
| Tier three capital | – | – |
| **Eligible capital in accordance with § 10 of the German Banking Act** | **10 727** | **9 599** |

*) Previous year's figures were adjusted.

| (in %) | 31 Dec. 2011 | 31 Dec. 2010 |
|---|---|---|
| Overall ratio according to § 2 Paragraph 6 of the German Solvency Regulation (SolvV)*) | 12,65 | 11,05 |
| Core capital ratio**) | 9,44 | 7,86 |

*) Previous year's figures were adjusted.

**) Since 30 June 2011 the core capital ratio is calculated as follows:
Core capital for solvency reasons / risk-weighted assets. The previous year's figure was adjusted accordingly.

**(68) Foreign currency volume**

As at 31 December 2011 the NORD/LB Group had the following assets and liabilities in foreign currency:

| 31 Dec. 2011 (in € million) | USD | GBP | JPY | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash reserve | 171 | 3 | – | 13 | 187 |
| Loans and advances to banks | 1 358 | 77 | 63 | 386 | 1 884 |
| Loans and advances to customers | 25 596 | 3 567 | 2 046 | 2 560 | 33 769 |
| Loan loss provisions | – 224 | – 57 | – 30 | – 23 | – 334 |
| Financial assets at fair value through profit or loss | 7 934 | – 59 | 1 260 | 26 | 9 161 |
| Positive fair values from hedge accounting derivatives | 115 | 3 | 140 | 165 | 423 |
| Financial assets | 4 308 | 909 | 462 | 1 266 | 6 945 |
| **Total** | **39 258** | **4 443** | **3 941** | **4 393** | **52 035** |

| | | | | | |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Liabilities to banks | 9 207 | 1 904 | – | 1 142 | 12 253 |
| Liabilities to customers | 2 657 | 120 | 2 | 114 | 2 893 |
| Securitised liabilities | 3 546 | 48 | 1 813 | 2 152 | 7 559 |
| Financial liabilities at fair value through profit or loss | 22 735 | 914 | 2 015 | 819 | 26 483 |
| Negative fair values from hedge accounting derivatives | 785 | 94 | 180 | 176 | 1 235 |
| Subordinated capital | 24 | – | 10 | 42 | 76 |
| **Total** | **38 954** | **3 080** | **4 020** | **4 445** | **50 499** |

Existing exchange rate risks are eliminated by concluding transactions with matching maturities.

## (69) 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 12 months are shown below.

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | 18 565 | 20 822 | – 11 |
| Loans and advances to customers | 97 062 | 93 800 | 3 |
| Assets held for trading | 15 003 | 10 176 | 47 |
| Loans and advances to banks designated at fair value | 16 | 16 | – |
| Loans and advances to customers designated at fair value | 236 | 221 | 7 |
| Financial assets designated at fair value | 646 | 603 | 7 |
| Positive fair values from hedge accounting derivatives | 2 933 | 2 637 | 11 |
| Financial assets classified as LaR | 4 142 | 4 632 | – 11 |
| Financial assets classified as AfS | 37 885 | 41 054 | – 8 |
| Other assets | 31 | 31 | – |
| **Total** | **176 519** | **173 992** | **1** |
| **Liabilities** | | | |
| Liabilities to banks | 23 201 | 22 693 | 2 |
| Liabilities to customers | 36 635 | 36 271 | 1 |
| Securitised liabilities | 55 038 | 59 376 | – 7 |
| Adjustment item for financial instruments hedged in the fair value hedge portfolio | 710 | 390 | 82 |
| Liabilities held for trading | 10 696 | 6 677 | 60 |
| Liabilities to banks designated at fair value | 314 | 502 | – 37 |
| Liabilities to customers designated at fair value[*)] | 4 518 | 4 363 | 4 |
| Securitised liabilities designated at fair value | 3 074 | 3 638 | – 16 |
| Subordinated capital designated at fair value | 26 | 25 | 4 |
| Negative fair values from hedge accounting derivatives | 3 148 | 2 535 | 24 |
| Provisions | 1 557 | 1 522 | 2 |
| Other liabilities | 31 | 31 | – |
| Subordinated capital[*)] | 5 807 | 6 077 | – 4 |
| **Total** | **144 755** | **144 100** | **–** |

[*)] Previous year's figures were adjusted.

### (70) Contingent liabilities and other obligations

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Contingent liabilities** | | | |
| Liabilities from guarantees and other indemnity agreements | 6 998 | 7 026 | – |
| **Other obligations** | | | |
| Irrevocable credit commitments*) | 9 456 | 10 919 | – 13 |
| **Total** | **16 454** | **17 945** | **– 8** |

*) Previous year's figures were adjusted.

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 and Berlin
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 estimations of financial effects, uncertainty concerning the amount or the timing of outflows of capital and on possible equalisation payments is not given for reasons of practicality.

### (71) 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 paragraph 2 of the statute of the "Einlagensicherungsfond" (deposit protection fund) for the Deutsche Hypothekenbank (Actien-Gesellschaft). The participation of Deutsche Hypothekenbank (Actien-Gesellschaft) in the German banks' deposit protection fund was terminated as at 31 December 2008. In accordance with § 6 no. 8 of the statute of the deposit protection fund NORD/LB may still be liable for commitments previously entered into by Deutsche Hypothekenbank (Actien-Gesellschaft).

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, 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 € 14 million (€ 21 million).

The Group is also obliged to make additional contributions up to an amount of € 216 million (€ 258 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.

Membership in the regional reserve fund, established on 1 January 2007, and its agent funds, results, in the event of the restructuring of the affiliated institutes, in an obligation to make a maximum additional contribution of € 258 million (€ 259 million) if funds available in the savings bank's support fund are insufficient.

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 (€ 20 million).

Securities have been deposited as collateral relating to transactions on the Eurex, Frankfurt, and foreign forward markets in the nominal amount of € 422 million (€ 255 million).

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

## (72) 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. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| Loans and advances to banks and customers | 62 | 63 | – 2 |
| Financial assets*) | 987 | 968 | 2 |
| **Total** | **1 049** | **1 031** | **2** |

*) Previous year's figures were adjusted.

## (73) 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.

The Group's trust activities are broken down as follows:

| | 31 Dec. 2011 (in € million) | 31 Dec. 2010 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets held in trust** | | | |
| Loans and advances to banks | – | 3 | – 100 |
| Loans and advances to customers | 199 | 233 | – 15 |
| Financial instruments at fair value through profit or loss | 10 | 11 | – 9 |
| Financial assets | 47 | 47 | – |
| Other assets held in trust | 89 | 111 | – 20 |
| **Total** | **345** | **405** | **– 15** |
| **Liabilities held in trust** | | | |
| Liabilities to banks | 168 | 186 | – 10 |
| Liabilities to customers | 41 | 61 | – 33 |
| Other liabilities held in trust | 136 | 158 | – 14 |
| **Total** | **345** | **405** | **– 15** |

## Related parties

**(74) Number of employees**
The average number of employees in the Group for the period under review is shown as follows:

| | Male | | Female | | Total | |
|---|---|---|---|---|---|---|
| | 1 Jan.– 31 Dec. 2011 | 1 Jan.– 31 Dec. 2010 | 1 Jan.– 31 Dec. 2011 | 1 Jan.– 31 Dec. 2010 | 1 Jan.– 31 Dec. 2011 | 1 Jan.– 31 Dec. 2010 |
| NORD/LB | 2 093 | 1 976 | 2 172 | 2 065 | 4 265 | 4 041 |
| Bremer Landesbank sub-group | 543 | 543 | 555 | 537 | 1 098 | 1 080 |
| NORD/LB Luxembourg sub-group | 123 | 116 | 56 | 50 | 179 | 166 |
| Deutsche Hypothekenbank | 243 | 208 | 177 | 160 | 420 | 368 |
| ÖVB | 306 | 346 | 337 | 334 | 643 | 680 |
| Other | 241 | 77 | 106 | 44 | 347 | 121 |
| **Group** | **3 549** | **3 266** | **3 403** | **3 190** | **6 952** | **6 456** |

**(75) Related parties**
All the consolidated and unconsolidated subsidiaries, associated companies and joint ventures qualify as related parties. The subsidiaries of joint ventures and associated companies are included. The owners of NORD/LB, Hanoversche Beteiligungsgesellschaft mbH, Hanover, the provident funds and the companies under IAS 24.9 (b) (ii), (iv) and (vi) 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 2010 and 2011, excluding those to be eliminated under consolidation, can be seen in the following statements:

| 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 | 1 315 528 | – | 79 | 50 | 147 552 |
| **Total liabilities** | **807 558** | **1 354 522** | **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 | – 4 716 | – 21 495 |
| **Total contributions to income** | **165 724** | **– 93 834** | **130** | **62 362** | **– 4 647** | **– 19 222** |

| 31 Dec. 2010[*)] (in € 000) | Shareholders | Subsidiaries | Joint Ventures | Affiliated companies | Persons in key positions | Other related parties |
|---|---|---|---|---|---|---|
| Outstanding loans and advances | | | | | | |
| to banks | – | – | – | 1 030 614 | – | 152 063 |
| to customers | 3 000 218 | 68 529 | 17 313 | 246 061 | 2 077 | 399 577 |
| Other unsettled assets | 1 762 628 | 160 | – | 47 504 | – | 2 467 |
| **Total assets** | **4 762 846** | **68 689** | **17 313** | **1 324 179** | **2 077** | **554 107** |
| Unsettled liabilities | | | | | | |
| to banks | – | – | – | 359 818 | – | 141 996 |
| to customers | 998 384 | 52 974 | 133 410 | 159 074 | 2 809 | 313 541 |
| Other unsettled liabilities | 46 634 | 1 313 410 | – | 477 | – | 125 355 |
| **Total liabilities** | **1 045 018** | **1 366 384** | **133 410** | **519 369** | **2 809** | **580 892** |
| Guarantees/sureties received | 4 247 347 | 27 | – | 5 000 | – | – |
| Guarantees/sureties granted | 5 325 031 | 750 | 2 196 | 7 995 | – | 2 199 |

| 1 Jan. – 31 Dec. 2010[*)] (in € 000) | Shareholders | Subsidiaries | Joint Ventures | Affiliated companies | Persons in key positions | Other related parties |
|---|---|---|---|---|---|---|
| Interest expense | 107 713 | 94 049 | 5 132 | 21 858 | 41 | 19 254 |
| Interest income | 179 224 | 5 460 | 51 542 | 58 233 | 91 | 23 747 |
| Commission expense | 24 172 | – | – | – | – | – |
| Commission income | 200 | 261 | 160 | 303 | 1 | 68 |
| Other income and expenses | – 10 183 | 154 | – 22 619 | – 5 082 | – 4 904 | 668 |
| **Total contributions to income** | **37 356** | **– 88 174** | **23 951** | **31 596** | **– 4 853** | **5 229** |

[*)] Previous year's figures were adjusted due to a change in IAS 24.

As at the balance sheet date there are allowances for loans and advances to associated companies in the amount of € 2 million (€ 2 million).

In the item guarantees/sureties received from shareholders, guarantees in the amount of € 3,550 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 € 5,325 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 of and loans to governing bodies in accordance with commercial law are presented in note (77) Remuneration of and loans to governing bodies. Payments due in the short term to members of the committees who are related parties (other than members of the Managing Board or the Supervisory Board) amount to € 82,000 (€ 70,000).

## (76) Members of governing bodies and list of mandates

### 1. Members of the Managing Board

Dr. Gunter Dunkel
(Chairman)

Ulrike Brouzi
(since 1 Jan. 2012)

Eckhard Forst

Dr. Hinrich Holm

Dr. Johannes-Jörg Riegler

Christoph Schulz
(Deputy Chairman as at 31 Aug. 2011)

### 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

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)

Dr. Josef Bernhard Hentschel
Chairman of the Managing Board
Sparkasse Osnabrück
(until 31 Dec. 2011)

Frank Hildebrandt
Bank employee
NORD/LB Braunschweig

Dr. Gert Hoffmann
Mayor, City of Braunschweig

Martin Kind
Managing Director
KIND Hörgeräte GmbH & Co. KG

Walter Kleine
Chairman of the Managing Board
Sparkasse Hannover

Manfred Köhler
Salzlandsparkasse
(until 31 Jan. 2012)

Heinrich v. Nathusius
Managing Director
IFA Group

August Nöltker
Union Secretary
ver.di Vereinte Dienstleistungsgewerkschaft

Freddy Pedersen
ver.di Vereinte Dienstleistungsgewerkschaft

Ilse Thonagel
Bank employee
Landesförderinstitut
Mecklenburg-Western Pomerania

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

As at 31 December 2011 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<br>Continental AG, Hanover<br>Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover<br>Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel<br>Skandifinanz AG, Zurich (former: Skandifinanz Bank AG, Zurich) |
| Christoph Schulz | LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover<br>Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel<br>Toto-Lotto Niedersachsen GmbH, Hanover |
| Eckhard Forst | DEUTSCHE FACTORING BANK GmbH & Co. KG, Bremen<br>Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover |
| Dr. Hinrich Holm | Lotto-Toto Sachsen-Anhalt GmbH, Magdeburg (since 1 July 2011)<br>Investitionsbank Sachsen-Anhalt, Magdeburg<br>LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover<br>NORD/LB Capital Management GmbH, Hanover (since 4 Nov. 2011)<br>NORD/LB Kapitalanlagegesellschaft AG, Hanover (since 4 Nov. 2011) |
| Dr. Johannes-Jörg Riegler | Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover<br>LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover<br>Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen<br>Johannes Berenberg, Gossler & Co. KG, Hamburg<br>Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel |

## (77) Remuneration of and loans to governing bodies

| (in € 000) | 31 Dec. 2011 | 31 Dec. 2010 |
|---|---|---|
| **Emoluments paid to active members of governing bodies** | | |
| Payments due short-term | | |
| Managing Board | 3 376 | 3 922 |
| Supervisory Board | 867 | 412 |
| **Emoluments paid to former members of governing bodies and their dependants** | | |
| Payments due short-term | | |
| Managing Board | 4 126 | 4 163 |
| Payments after termination of employment | | |
| Managing Board | 364 | – |
| Provisions for pension obligations | | |
| Managing Board | 47 276 | 48 772 |
| Supervisory Board | 2 111 | 961 |
| **Advance payments, loans and contingencies** | | |
| Managing Board | 1 476 | 848 |
| Supervisory Board | 1 019 | 157 |

## (78) Group auditor’s fees

| (in € 000) | 31 Dec. 2011 | 31 Dec. 2010 |
|---|---|---|
| **Group auditor’s fees for** | | |
| the statutory audit | 5 945 | 5 832 |
| other audit-related services | 3 231 | 2 081 |
| tax services | 34 | 105 |
| other services | 380 | 405 |

## (79) Equity holdings

The list of equity holdings includes all of the companies includes in the consolidated financial statements, the non-consolidated companies, joint ventures, associated 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** | | |
| Beteiligungs-Kommanditgesellschaft MS „Buxmelody" Verwaltungs- und Bereederungs GmbH & Co., Buxtehude | – | – |
| BLB Immobilien GmbH, Bremen | 100.00 | – |
| BLB Leasing GmbH, Oldenburg | 100.00 | – |
| Braunschweig-Informationstechnologie-GmbH, Braunschweig | 100.00 | – |
| Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen | – | 92.50 |
| Bremische Grundstücks-GmbH, Bremen | 100.00 | – |
| DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Pöcking | – | – |
| Deutsche Hypothekenbank (Actien-Gesellschaft), Berlin-Hanover | – | 100.00 |
| 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 | – | – |
| KreditServices Nord GmbH, Braunschweig | – | 100.00 |
| MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Pullach im Isartal | – | 77.81 |
| 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 | – | – |
| 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 Immobilien-Holding GmbH & Co. Objekt Magdeburg KG, Pullach im Isartal | – | – |
| 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 [4)] | 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 |

| Company name and registered office | Shares (%) direct | Shares (%) indirect |
|---|---|---|
| „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 | – | – |
| Skandifinanz AG, Zurich/Switzerland | 100.00 | – |
| **ab) Investment funds included in the consolidated financial statements** | | |
| NORD/LB AM 9 | 100.00 | – |
| NORD/LB AM 52 | – | 100.00 |
| NORD/LB AM 56 | – | 100.00 |
| NORD/LB AM 65 | – | 100.00 |
| NORD/LB AM High-Yield | – | 94.13 |
| NORD/LB AM OELB | 100.00 | – |
| NORD/LB AM OESB | 100.00 | – |
| **ac) Companies/investment funds accounted for in the consolidated financial statements using the equity method** | | |
| **Joint ventures** | | |
| LHI Leasing GmbH, Pullach im Isartal | 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 Holding Unternehmensbeteiligungsgesellschaft mit beschränkter Haftung, Hanover | – | 40.00 |
| NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hanover | – | 28.66 |
| SALEG Sachsen-Anhaltinische-Landesentwicklungsgesellschaft mbH, Magdeburg | – | 56.61 |
| Toto-Lotto Niedersachsen GmbH, Hanover | – | 49.85 |
| **Investment funds** | | |
| Lazard-Sparkassen Rendite-Plus-Fonds | 49.18 | – |
| NORD/LB AM Emerging Markets Bonds | – | 34.64 |
| NORD/LB AM Global Challenges Index-Fonds | – | 28.05 |

| 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 Bremen GmbH & Co. KG, Bremen [7] | 100.00 | 2 090 | 174 |
| BGG Oldenburg GmbH & Co. KG, Bremen [7] | 100.00 | 8 615 | 914 |
| Braunschweig-Beteiligungsgesellschaft mbH, Braunschweig [6] | 100.00 | 8 597 | – |
| Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [2] [6] | 100.00 | 30 626 | – |
| Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen [7] | 100.00 | 4 980 | 790 |
| Deutsche Hypo Delaware Blocker Inc., Wilmington (Delaware)/USA [7] | 100.00 | 11 246 | – 2 894 |
| NBN Grundstücks- und Verwaltungs-GmbH, Hanover [9] | 100.00 | 1 148 | – 1 063 |
| NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover [9] | 90.00 | 1 894 | – 1 653 |
| Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hanover [6] | 100.00 | 15 191 | 31 |
| NORD/LB RP Investments LLC, Wilmington (Delaware)/USA [6] | 100.00 | 1 419 | – 390 |
| Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [2] [6] | 98.00 | 3 088 | – |
| Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen [6] | 100.00 | 1 082 | 12 |
| Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [6] | 100.00 | 35 513 | 2 796 |
| Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [2] [6] | 100.00 | 1 278 | – |
| Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hanover [6] | 72.70 | – 4 192 | 446 |
| Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Tiefgarage Stade Vermietungs KG, Hanover [6] | 90.00 | – 2 866 | 10 |
| Themis 1 Inc., Wilmington (Delaware)/USA [6] | 100.00 | 7 693 | 1 972 |
| **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** | | | |
| Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [3] | 49.00 | – | – |
| Bremer Toto und Lotto Gesellschaft mit beschränkter Haftung, Bremen [6] | 33.33 | 4 283 | 3 |
| Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [6] | 50.00 | 5 100 | 365 |
| Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [6] | 20.89 | 14 967 | 235 |
| Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [6] | 20.44 | 11 362 | 252 |
| Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [6] | 20.46 | 9 602 | 561 |
| Grundstücksgemeinschaft Escherweg 5 GbR, Bremen [7] | 50.00 | – 1 564 | – 382 |
| Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. – Objekt Zietenterrassen – KG, Göttingen [6] | 52.56 | 3 171 | 1 409 |
| INI International Neuroscience Institute Hannover GmbH, Hanover [9] | 22.67 | – 11 131 | – 1 066 |
| Medical Park Hannover GmbH, Hanover [6] | 50.00 | 1 841 | 328 |
| Medicis Nexus GmbH & Co. KG, Icking [6] | 66.01 | 10 696 | 117 |
| Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [6] | 26.00 | 9 182 | 671 |
| Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover [6] | 39.82 | 8 091 | 2 109 |

| Company name and registered office | Share of capital held (in %) | Equity[1)] (in € 000) | Profit/Loss (in € 000) |
|---|---|---|---|
| NBV Beteiligungs– GmbH, Hamburg [6)] | 28.57 | 19 558 | 1 905 |
| Öffentliche Versicherung Bremen, Bremen [6)] | 20.00 | 6 020 | 360 |
| USPF III Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf [5)] | 42.86 | 5 126 | – 1 498 |
| Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [6)] | 21.71 | 18 266 | 225 |

| 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** | |
| 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 |
| HALOR GmbH i. L., Pöcking | 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, Wilmington (Delaware)/USA | 100.00 |
| LHI Leasing GmbH & Co. Immobilien KG, Pullach im Isartal | 90.00 |
| NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover | 100.00 |
| NORDIG Norddeutsche Investitionsgesellschaft mbH, 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 |
| NORD/LB Project Holding Ltd., London/Great Britain | 100.00 |
| PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hanover | 100.00 |
| Ricklinger Kreisel Beteiligungs GmbH, Hanover | 100.00 |
| SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main | 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) Data as at 30 Sep. 2010 (deviating fiscal year).
6) Data as at 31 Jan. 2010.
7) Preliminary data as at 31 Jan. 2011.
8) The company is not excessively indebted.
9) Data as at 31 Jan. 2009.

## (80) Subsequent events

For subsequent events which occurred after the balance sheet date, the supplementary report is referred to.

# 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, 13 March 2012

Norddeutsche Landesbank Girozentrale

**The Managing Board**

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

# Auditor's Report

"We have audited the consolidated financial statements prepared by the Norddeutsche Landesbank Girozentrale, Hanover, Braunschweig and Magdeburg, comprising the consolidated income statement, statement of comprehensive income, consolidated balance sheet, statement of changes in equity, consolidated cash flow statement, notes to the consolidated financial statements including the consolidated segment reporting, and the Group management report for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a of the German Commercial Code (HGB), is the responsibility of the legal representatives of the parent company. 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 opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, and additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (HGB) 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, 16 March 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier
Wirtschaftsprüfer
[German Public Auditor]

Hultsch
Wirtschaftsprüfer
[German Public Auditor]

# 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.

# REPORTS

→ *pages 261 – 263*

## Contents

# 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 NORD/LB AöR and NORD/LB Group during the year under report. The Supervisory Board and its committees adopted resolutions on business matters presented to them and on other issues requiring decisions by these executive bodies in accordance with the statues and regulations pertaining to these articles. Fundamental issues relating to the business strategy and to operational areas were discussed in detail during several meetings.

The annual financial statements of NORD/LB AöR and NORD/LB Group for the 2011 accounting period were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft who issued joint and unqualified auditors' certification. The auditors also took part in the meeting of the Supervisory Board to discuss the annual financial statements, which was held on 18 April 2012, 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 of 18 April 2012 the Supervisory Board approved of the management report and the annual financial statements of NORD/LB AöR as at 31 December 2011; these have hence been adopted. The consolidated financial statements of NORD/LB Group were approved as well.

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

The following left the Supervisory Board:
as at 31 December 2011 Dr. Josef Bernhard Hentschel
as at 31 January 2011 Mr. Manfred Köhler

The following were appointed to the Supervisory Board:
as at 1 January 2012 Mr. Hans-Heinrich Hahne
as at 1 February 2012 Mr. Norbert Dierkes

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

Hanover / Braunschweig / Magdeburg
April 2012

Hartmut Möllring
Minister of Finance
State of Lower Saxony

# Report of the Owners' Meeting

In the year under review the Owners' Meeting performed the duties assigned to it by the state treaty and by the statutes. The Owners' Meeting agreed the appropriation of the profit for the year as proposed by the Supervisory Board and ratified the actions of the Managing Board and the Supervisory Board of the bank.

In its meetings in 2011 the Owners' Meeting made important decisions concerning the conversion of existing capital instruments into hard core capital in accordance with Basel III and further capital-boosting measures.

The following left the Owners' Meeting:
as at 11 April 2011 Dr. Helmut Stegmann
as at 5 June 2011 Mr. Thomas Webel
as at 30 November 2011 Mr. Thomas Brase
as at 31 December 2011 Mr. Hans-Heinrich Hahne

The following were appointed to the Owners' Meeting:
as at 6 June 2011 Dr. Michael Ermrich
as at 24 June 2011 Dr. Heiko Geue
as at 1 December 2011 Mr. Frank Doods
as at 1 January 2012 Mr. Ludwig Momann

The Owners' Meeting thanks the Supervisory Board, the Managing Board and the bank's employees for the work they have performed.

Hanover / Braunschweig / Magdeburg
April 2012

Thomas Mang
President
Association of Savings Banks in Lower Saxony

# DATA / GLOSSARY

→ *pages 265 – 273*

## Contents

# 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 23 November 2011 and 15 December 2011. The statutes entered into force on 29 December 2011.

### Legal Form

Institution incorporated under public law

### Guarantors

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)

Christoph Schulz
(Deputy Chairman up to 31 August 2011)

Ulrike Brouzi
(since 1 January 2012)

Eckhard Forst

Dr. Hinrich Holm

Dr. Johannes-Jörg Riegler

### Executive Vice Presidents

Ulrike Brouzi
(up to 31 December 2011)

Carsten Hüncken

Jürgen Machalett

Dr. Ulf Meier

Christoph Trestler

### Headquarters

Hanover (Hauptverwaltung)
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 10/10 A
19053 Schwerin

**Foreign Branches**

*(alphabetical)*

NORD/LB London
One Wood Street
London EC2V 7WT
Great Britain

NORD/LB New York
1114, Avenue of the Americas
20th Floor
New York, New York 10036

NORD/LB Shanghai
15F, China Insurance Building
166 east lujiazui road
Pudong New District
Shanghai 200120
PR China

NORD/LB Singapore
6 Shenton Way, 16–08
DBS BUILDING Tower 2
Singapore 068809

**Real Estate Office**

NORD/LB New York
1114, Avenue of the Americas
20th Floor
New York, New York 10036

**Deutsche Hypo**

Georgsplatz 8
30159 Hanover

**Branch of Deutsche Hypo**

Uhlandstraße 165/166
10719 Berlin

**Offices of Deutsche Hypo**

Königsallee 63–65
40215 Duesseldorf

Goetheplatz 2
60311 Frankfurt

Brodschrangen 4
20457 Hamburg

Georgsplatz 8
30159 Hanover

Widenmayerstraße 15
80538 Munich

Karl-Grillenberger-Straße 3
90402 Nuremberg

**Foreign Branch of Deutsche Hypo**

One Wood Street
London EC2V 7WT

**Representative Offices of Deutsche Hypo**

Strawinskylaan 625
Tower B, Level 6
1077 XX Amsterdam

María de Molina, 40,
1° Centro
28006 Madrid

23, Rue de la Paix
75002 Paris

**Representative Offices**

*(alphabetical)*

NORD/LB Moscow
Plotnikov per., 12, Office 114
119002 Moscow
Russian Federation

NORD/LB Beijing
C406, Beijing Lufthansa Center
50 Liangmaqiao Road
Chaoyang District
Beijing 100125
PR China

NORD/LB India
301, Madhava
Bandra Kurla Complex
Bandra – East
Mumbai 400 051
India

**Branches of the Braunschweigische Landessparkasse**

**Bad Gandersheim**
Markt 6–8

**Bad Harzburg**
Breite Straße 18 (SB-Center), Bündheim
Herzog-Wilhelm-Straße 2
Herzog-Wilhelm-Straße 72
Meinigstraße 48, Harlingerode

**Bevern**
Angernstraße 12

**Boffzen**
Mühlengrube 1

**Börßum**
Hauptstraße 63

**Braunlage**
Heinrich-Jasper-Platz 1
Hindenburgstraße 3, Hohegeiß

**Braunschweig**
Ackerweg 4a, Hondelage
Altstadtring 52
Am Mascheroder Holz 2, (SB-Center), Mascherode
Bevenroder Straße 134, Querum
Bohlweg 74 (SB-Center)
Borsigstraße 30 (SB-Center), Bebelhof
Brandenburgstraße 1, Wenden
Braunschweiger Straße 13, Rautheim
Bruchtorwall 20
Celler Heerstraße 313, Watenbüttel
Dankwardstraße 1
David-Mansfeld-Weg 26, (SB-Center), Kanzlerfeld
Elbestraße 30, Weststadt
Feuerbrunnen 1, Waggum
Friedrich-Wilhelm-Platz, Bürgerpark
Humboldtstraße/Gliesmaroder Straße 1
Große Grubestraße 30b, Broitzem
Im Remenfeld 5, Volkmarode
Kastanienallee 28/29
Lammer Heide 6 (SB-Center), Lamme
Ligusterweg 24b, Schwarzer Berg
Mühlenpfordtstraße 4/5 (SB-Center)
Neustadtring 9
Nibelungenplatz 16
Pfälzerstraße 35, Veltenhof
Querumer Straße 72, Gliesmarode
Saarplatz 6, Lehndorf
Sack 19 (SB-Center)
Stöckheimer Markt 1, Stöckheim
Thiedestraße 24, Rüningen
Tostmannplatz 18, Schuntersiedlung
Waisenhausdamm 7
Weimarstraße 10–12, Heidberg
Welfenplatz 5, Südstadt

**Büddenstedt**
Wulfersdorfer Straße 10

**Cremlingen**
Am Dorfplatz 11, Weddel
Hauptstraße 42a

**Delligsen**
Dr.-Jasper-Straße 56

**Eschershausen**
Steinweg 10

**Fürstenberg**
Neue Straße 2 (SB-Center)

**Golmbach**
Holenberger Straße 14 (SB-Center)

**Goslar**
Talstraße 11a, Oker

**Grasleben**
Bahnhofstraße 2a

**Groß Denkte**
Mönchevahlbergstraße 5 (SB-Center)

**Groß Twülpstedt**
Conringstraße 5

**Grünenplan**
Obere Hilsstraße 3

**Hahausen**
Neustadt 34

**Helmstedt**
Gröpern 1
Schöninger Straße 23
Vorsfelder Straße 52/54
Max-Planck-Weg 7 (SB-Center)

**Holzminden**
Am Wildenkiel 2, Neuhaus im Solling
Böntalstraße 9
Liebigstraße 22

**Jerxheim**
Scheverberg 2

**Kissenbrück**
Schlesierweg 10 (SB-Center)

**Königslutter**
Elmstraße 107

**Kreiensen**
Steinweg 22, Greene
Wilhelmstraße 13

**Langelsheim**
Bahnhofstraße 5
Goslarsche Straße 22b, (SB-Center), Astfeld

**Lauenförde**
Hasenstraße 1

**Lehre**
Boimsdorfer Straße 2a

**Lutter am Barenberge**
Gerichtstraße 1b

**Salzgitter**
Berliner Straße 148, Lebenstedt
Burgbergstraße 48d, Lichtenberg
Fischzug 1 (SB-Center), Lebenstedt
Gärtnerstraße 4, Salder
In den Blumentriften 64, Lebenstedt
Kurt-Schumacher-Ring 4, Fredenberg
Maangarten 32, Hallendorf
Schäferwiese 4a, Steterburg
Weddemweg 5, Gebhardshagen
Wildkamp 28, Lebenstedt
Wolfenbütteler Straße 5, Thiede

**Schöningen**
Markt 11–12

**Schöppenstedt**
Markt 4/5

**Seesen**
Katelnburgstraße 17a, Rhüden
Jacobsonstraße 1
Kampstraße 43 (SB-Center)
Thüringer Straße 10, Münchehof

**Sickte**
Bahnhofsstraße 19 A

**Stadtoldendorf**
Neue Straße 6A

**Süpplingen**
Steinweg 19

**Vechelde**
Hildesheimer Straße 83

**Velpke**
Grafhorster Straße 5

**Walkenried**
Harzstraße 7

**Wieda**
Otto-Haberlandt-Straße 28

**Winnigstedt**
Hauptstraße 4 (SB-Center)

**Wolfenbüttel**
Goslarsche Straße 14
Bahnhofstraße 6, 6 a / Goslarsche Straße 2 (SB-Center)
Holzmarkt 20
Jahnstraße 36
Lindener Straße 57

**Wolfsburg**
Gerta-Overbeck-Ring 7, Reislingen
Lange Straße 19, Vorsfelde
Meinstraße 79 (SB-Center), Vorsfelde

**Wolfshagen**
Hauptstraße 9

**Zorge**
Taubentalstraße 26

## Statement of holdings

Bremer Landesbank Kreditanstalt
Oldenburg Girozentrale
Domshof 26
28195 Bremen

Deutsche Hypothekenbank
(Actien-Gesellschaft)
Georgsplatz 8
30159 Hanover

Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG
Schinkelplatz
15320 Neuhardenberg

LINOVO Productions GmbH & Co. KG
Feldafinger Straße 5
82343 Pöcking

Nieba GmbH*
Friedrichswall 10
30159 Hanover

* *with the subsidiary*
*DekaBank Dt. Girozentrale*
*Mainzer Landstraße 16*
*60325 Frankfurt am Main*

NORD/LB Asset Management
Holding GmbH*
Calenberger Esplanade 2–4
30169 Hanover

* *with the subsidiaries*
*NORD/LB Kapitalanlagegesellschaft AG*
*Calenberger Esplanade 2–4*
*30169 Hanover*

*NORD/LB Capital Management GmbH*
*Calenberger Esplanade 2–4*
*30169 Hanover*

NORD/LB Luxembourg S. A.*
7, rue Lou Hemmer
L-1748 Luxembourg-Findel
Luxembourg

* *with the subsidiaries*
*Skandifinanz AG*
*Münsterhof 13*
*CH-8001 Zurich*

*NORD/LB Covered Finance Bank S. A.*
*7, rue Lou Hemmer*
*L-1748 Luxembourg-Findel*
*Luxembourg*

NORD Holding
Unternehmens-Beteiligungsgesellschaft mbH
Walderseestraße 23
30177 Hanover

Nord-Ostdeutsche
Bank-Beteiligungsgesellschaft mbH*
Friedrichswall 10
30159 Hanover

* *with the subsidiaries*
*LBS Norddeutsche*
*Landesbausparkasse*
*Berlin-Hannover*
*Kattenbrookstrift 33*
*30539 Hanover*

*LHI Leasing GmbH*
*Emil-Riedl-Weg 6*
*82049 Pullach i. Isartal*

Öffentliche Versicherung
Braunschweig
Theodor-Heuss-Straße 10
38122 Braunschweig

Toto Lotto Niedersachsen GmbH
Am TÜV 2+4
30519 Hanover

## Supervisory Board

*(As at 20 February 2012)*

**Chairman**
Hartmut Möllring
Minister of Finance
State of Lower Saxony

**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

Hermann Bröring

Norbert Dierkes
Vorsitzender des Vorstands
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
Vorsitzender des Vorstands
Sparkasse Schaumburg

Frank Hildebrandt
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Dr. Gert Hoffmann
Mayor
City of Braunschweig

Martin Kind
Managing Director
KIND Hörgeräte GmbH & Co. KG

Walter Kleine
Chairman of the Board of Management
Sparkasse Hannover

August Nöltker
Representative
United Services Union
(ver.di – Vereinte Dienstleistungsgewerkschaft)

Freddy Pedersen
United Services Union
(ver.di – Vereinte Dienstleistungsgewerkschaft)

Ilse Thonagel
Bank employee
Landesförderinstitut Mecklenburg-Western Pomerania

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

Heinrich von Nathusius
Managing Director
IFA Gruppe

**Owners' meeting**

*(as at 20 February 2012)*

**Chairman**
Thomas Mang
President
Association of Savings Banks in Lower Saxony

**First Deputy Chairman**
Peter Siebken
Chairman of the Board of Management
Sparkasse Neubrandenburg-Demmin

**Second Deputy Chairman**
Dr. Michael Ermrich
Landrat
Landkreis Harz

**For the State of Lower Saxony**

Frank Dods
Managing Director
Hannoversche Beteiligungsgesellschaft mbH

Cora Jeanette Hermenau
Undersecretary
Ministry of Finance
State of Lower Saxony

**For the State of Saxony-Anhalt**

Dr. Ingolf Lange
Principal
Ministry of Finance
State of Saxony-Anhalt

Dr. Heiko Geue
Undersecretary
Ministerium der Finanzen des Landes Sachsen-Anhalt

**Savings banks holding association in Saxony-Anhalt**

Jürgen Kiene
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
Vorsitzender des Vorstands
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 effective loss from expected loss.

**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.

Imprint:

NORD/LB
Norddeutsche Landesbank Girozentrale
Friedrichswall 10
30159 Hannover
Phone: +49 (0) 511/361-0
Fax: +49 (0) 511/361-2502

www.nordlb.de

Concept and composition:
wirDesign Berlin Braunschweig

Print and production management:
types.Fotosatz GmbH, Hannover

Photography:
Thomas Gasparini, Peine
Biotronik SE & Co. KG, Berlin (page 11)
Christiane Richter, Würzburg (page 64)
dreamstime (page 37)
Getty Images (cover twice, page 11, 26)
iStock (page 2, 8, 9, 33, 49)
Janko Woltersmann, Hannover (page 56, 71)
Patrice Kunte, Hannover (page 45)
Shutterstock (page 37, 70)
Trilux GmbH & Co. KG, Arnsberg (page 14)

Lithography:
Pixatura, Silke Sauritz, Liebenburg
Rolf Neumann, Braunschweig

We would like to thank all our colleagues of NORD/LB Group
providing their photos for this report.

NORD/LB

Die norddeutsche Art.

NORD/LB
Norddeutsche Landesbank Girozentrale
Friedrichswall 10
30159 Hannover
Phone: +49 (0) 511 / 361-0
Fax: +49 (0) 511 / 361-2502

www.nordlb.de

Finanzgruppe