Annual Report 2013

NORD/LB

Die norddeutsche Art.

RESPONSIBLE BANKING

Creating value. Protecting value.
A bank provides reliability.

Finanzgruppe

NORD/LB GROUP AT A GLANCE

	1 Jan.–31 Dec. 2013	1 Jan.–31 Dec. 2012[1)]	Change (in %)
In € million			
Net interest income	1 931	1 959	– 1
Loan loss provisions	846	598	41
Net commission income	163	168	– 3
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	73	– 122	> 100
Profit/loss from financial assets	11	– 5	> 100
Profit/loss from investments accounted for using the equity method	33	– 14	> 100
Administrative expenses	1 166	1158	1
Other operating profit/loss	69	– 99	> 100
Earnings before reorganisation and taxes	268	131	> 100
Reorganisation expenses	– 38	– 34	– 12
Expenses for Public Guarantees related to Reorganisation	69	19	> 100
Earnings before taxes	**161**	**78**	**> 100**
Income taxes	– 84	– 4	> 100
Consolidated profit	**245**	**82**	**> 100**
Key figures in %			
Cost-Income-Ratio (CIR)	51.4	61.2	
Return-on-Equity (RoE)	2.1	1.0	

	31 Dec. 2013	31 Dec. 2012[1)]	Change (in %)
Balance figures in € million			
Total assets	200 845	225 550	– 11
Liabilities to customers	54 861	55 951	– 2
Loans and advances to customers	107 661	114 577	– 6
Equity	8 190	7 700	6
Regulatory key figures			
Core capital for solvency reasons in € million	8 112	8 451	– 4
Regulatory equity in € million	9 811	10 776	– 9
Risk-weighted assets in € million	68 494	77 863	– 12
Total capital ratio in %	14.32	13.84	
Core capital ratio in %	11.84	10.85	

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

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

Rating agency	Rating	Date of rating
Moody's	A3/P–2/D	12 March 2014
Fitch Ratings	A/F1/bbb–	30 July 2013

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

CONTENTS

Please find the detailed Corporate Governance Report at https://www.nordlb.com/legal-information/legal-notices/corporate-governance/

WHO WE ARE AND WHAT SERVICES WE PROVIDE

As a **commercial bank,** NORD/LB offers a comprehensive range of attractive financial services to Private, Corporate and Institutional customers and the public sector in Northern Germany and well beyond this core region. It is involved in structured financing for international projects – particularly in the areas of energy, infrastructure, shipping, aircraft and real estate. With Braunschweigische Landessparkasse, NORD/LB performs the function of a savings bank in the Braunschweig region with around 100 branches.

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

In Mecklenburg-Western Pomerania, Saxony-Anhalt and Lower Saxony, NORD/LB is also a partner to all local **savings banks** in its role as the central savings bank. In addition, it acts as a service provider to other savings banks in other Federal States, for example, in Schleswig-Holstein. NORD/LB offers all the services that savings banks require for their activities. The NORD/LB Group‘s national and international networks enable optimum solutions to be created for customers in the savings bank financial group.

NORD/LB acts as the **parent company**, managing all business activities in accordance with strategic goals, generating synergies, strengthening customer divisions and pooling services.

Braunschweigische Landessparkasse
Ein Unternehmen der NORD/LB

NORD/LB Luxembourg

DEUTSCHE HYPO
Ein Unternehmen der NORD/LB

BREMER LANDESBANK

>7,000 employees

700 aircraft financed

8,500 agricultural customers

>5,000 properties financed

>80 savings banks in the savings bank network

1,750 ships financed

106 branches in the Braunschweig area

GRI

Note:
You can find additional information about topics marked with this symbol in our sustainability report, which is based on the Global Reporting Initiative (GRI).

RESPONSIBLE BANKING

Taking responsibility forms the core of daily banking. We take responsibility every day: for our customers, our employees, our region. Beginning with solid finances for secure investments and extending well beyond sustainable operations for the future of our employees. We scrutinise our decisions constantly and subject them to critical review. In doing so, our primary focus is on how to best fulfil the trust bestowed in us and how to best realise our customers' wishes, visions and plans – every day.

EXTENDED GROUP MANAGING BOARD

CHRISTOPH SCHULZ
Born 1960

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

ECKHARD FORST
Born 1959

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

HARRY ROSENBAUM
Born 1958

Chairman of the Managing Board
of NORD/LB Luxembourg

DR. STEPHAN-ANDREAS KAULVERS
Born 1956

Chairman of the Managing Board
of Bremer Landesbank

From left to right: Christoph Schulz, Eckhard Forst, Harry Rosenbaum, Dr. Stephan-Andreas Kaulvers, Dr. Hinrich Holm, Ulrike Brouzi, Dr. Gunter Dunkel, Thomas S. Bürkle, Andreas Pohl

DR. HINRICH HOLM
Born 1965

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

ULRIKE BROUZI
Born 1965

Chief Financial Officer (CFO); Chief Operations Officer (COO); Finance / Tax, Organisation and IT, Corporate Services, Group Security Division, Compliance as well as Landesförderinstitut and Relationship Mecklenburg-Vorpommern

DR. GUNTER DUNKEL
Born 1953

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

THOMAS S. BÜRKLE
Jahrgang 1953

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

ANDREAS POHL
Jahrgang 1957

Speaker of the Board of Managing Directors of Deutsche Hypo

INTRODUCTION

by the Chairman of the Managing Board

Dr. Gunter Dunkel
Chairman of the Managing Board of NORD/LB, Hanover
"Equipped with a business model that has proved its worth for yet another year, we can strengthen our customers."

Ladies and Gentlemen,

Annual reports provide a review of the past financial year – what went well, what could have gone better, what were our successes and what do we expect for the coming year? The most important theme in this Annual Report: We are living with and learning from the crisis, but we will not allow it to dominate us. Yes, developments in the shipping markets are an ongoing concern for us. More specifically, they are of concern to us because they are a burden on our customers and pose a threat to the survival of ship owners and many other companies from the maritime economy in our region. We know that there is also no sign of relief on the horizon in 2014. However, we also know that at some point the cycle will start heading in the right direction again and that people involved in these markets will be able to breathe freely once again. Until this happens, we take our special responsibility to our customers seriously.

As a bank and financial partner, we continue to steer a course that is safe enough that we can continue to support our customers. We have achieved strong results across in all other business divisions of the bank. Our diversified business model has proved its value for yet another year. Our owners fully support us and our employees demonstrate not only know-how and expertise, but also a strong sense of commitment and personal responsibility.

What is the legacy of 2013? Our financial statements show that it was yet another successful year for a solid bank that is firmly rooted in the real economy in Northern Germany. While this might not sound spectacular, it creates the right combination of trust, responsibility and realism that we want to offer our customers.

Sincerely,

Dr. Gunter Dunkel

INTRODUCTION

by the Chairman of the Supervisory Board

Peter-Jürgen Schneider
Minister of Finance, State of Lower Saxony and
Chairman of the Supervisory Board of NORD/LB, Hanover
“NORD/LB's business model is based on responsibility
and responsibility always has a future.”

Ladies and Gentlemen,

The outbreak of the global financial crisis is already several years behind us. And in spite of this, we are still dealing with its enormous consequences. The collapse of some banks changed the world, and as a consequence also brought about some fundamental changes in the world of banking. With its conservative business model, NORD/LB played no part in emerging this crisis. Nevertheless, it did not remain uneffected and is therefore forced to reorient itself in what is a changed world.

The capital resources of NORD/LB, for example, have strengthened significantly over the past few years. As a result, the bank has reacted to the upcoming requirements of Basel III, but also to the Europe-wide stress tests and EU capital requirements implemented as a consequence of the financial crisis. The owners of the bank have taken responsibility, and the bank has fulfilled its responsibility as a public company and an important lender.

Another consequence of the financial crisis is the new, Europe-wide banking authority of the ECB. As a bank of systemic importance, NORD/LB will also submit to the ECB Balance Sheet Assessment. This is also a challenge. However, the bank has proved to be robust and stable in the past, and its strengthened capital basis and conservative risk policy put it on a sound footing for this assessment.

As owners of the bank, we know that the toughest stress test for NORD/LB was and is reality. From the financial crisis, to the European debt crisis and the shipping crisis – the bank's business model has withstood all of these stresses. For this reason, we have confidence in the bank and its business model, which can also be described as follows: It is responsible minded – to the owners, to the customers, to the employees and to the public. And a responsible minded business model of this type will always have a future.

Kind regards,

Peter-Jürgen Schneider

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

REPORT

of the Supervisory Board

The Managing Board of the bank regularly informed the Supervisory Board and the committees set up by the Supervisory Board on business developments and on the position of the bank during the year under review. The Supervisory Board and its committees adopted resolutions on business matters presented to them and on further issues requiring decisions by these executive bodies in accordance with the statues pertaining to these articles.

Furthermore the Supervisory Board concentrated on NORD/LB's business and risk strategy. Questions of principle according to the business policy and business areas were intensively discussed in several meetings. The Supervisory Board also dealt with capital development at the bank.

The annual financial statements of NORD/LB and the NORD/LB Group for the 2013 accounting period were audited by KPMG AG Wirtschaftsprüfungsgesellschaft who issued joint and unqualified auditors' certification. The auditors also took part in the meetings of the Supervisory Board to discuss the annual financial statements, which were held on 21 March and on 24 April 2014, and reported on the results of their audit.

The Supervisory Board has approved the results of the audit carried out by the auditors; the results of a conclusive examination carried out by the Supervisory Board did not give any cause for objections. In its meeting on 21 March 2014, the Supervisory Board approved the financial statements as at 31 December 2013 and proposed the appropriation of the profit for the year to the owners meeting. On 24 April, NORD/LB Group's IFRS consolidated financial statements as of 31 December 2013 were approved and it was proposed to the owners meeting to ratify the actions of the Managing Board.

The following left the Supervisory Board:

On 19 February 2013	Mr Hartmut Möllring
On 26 April 2013	Ms Mirja Viertelhaus-Koschig
On 30 June 2013	Mr Klaus-Peter Wennemann

The following were appointed to the Supervisory Board:

On 19 February 2013	Mr Peter-Jürgen Schneider
On 1 May 2013	Ms Prof. Dr. Susanne Knorre
On 1 July 2013	Ms Antje Niewisch-Lennartz

The Supervisory Board would like to thank the Managing Board for its cooperation based on mutual trust, and the bank's employees for the work they have carried out in 2013.

Hanover / Braunschweig / Magdeburg
April 2014

Peter-Jürgen Schneider
Minister of Finance
State of Lower Saxony

REPORT
of the Owners' Meeting

In the year under review the Owners' Meeting performed the duties assigned to it by the state treaty and by the statutes. The Owners' Meeting agreed the appropriation of the profit for the year as proposed by the Supervisory Board.

Furthermore, the Owners' Meeting decided on capital measures for 2014 and 2015 in its meetings in 2013.

The following left the Owners' Meeting:

On 28 February 2013	Ms Cora Jeanette Hermenau
On 31 May 2013	Mr Dr Michael Ermrich

The following were appointed to the Owners' Meeting:

On 1 March 2013	Mr Ulrich Böckmann
On 28 October 2013	Mr Harri Reiche

The Owners' Meeting thanks the Supervisory Board, the Managing Board and the bank's employees for their work.

Hanover / Braunschweig / Magdeburg
April 2014

Thomas Mang
President
Association of Savings Banks in Lower Saxony

TRANS-NATIONAL TRANSPARENCY

How the European Banking Union aims to counter risk in the financial sector

The euro crisis highlighted the importance of a stable financial system for Europe. Since 2009, many countries have had to spend large sums in order to prop up their domestic banks. As a consequence of these experiences, the EU has embarked on what can only be described as a mammoth project: the European Banking Union. It aims to identify risks at an early stage, thereby preventing difficulties in national financial systems from spreading at European level.

THE THREE PILLARS OF THE EUROPEAN BANKING UNION:

European Banking Authority (EBA)

- A central banking authority for all banks of systemic importance in the 17 euro countries under the umbrella of the European Central Bank (ECB) with the three preparatory stages of risk assessment, balance sheet assessment and stress test

System for Bank Liquidation

- Uniform regulations stipulating how banks of systemic importance are to be restructured or liquidated in an emergency – combined with the rule governing internal guarantee plans by the institutes, the submission of a liquidation plan by the regulatory authority and the definition of a chain of liability in the event of liquidations

Protection of Deposits

- Agreement of a uniform minimum level of protection for deposits and of standards for the individual protection funds

Interview with NORD/LB Board Member Dr. Hinrich Holm

Dr. Holm, beyond backing by their owners, NORD/LB is one of the few banks that did not have to avail of State aid. Nevertheless, your bank made commitments to the EU Commission in connection with the equity measures implemented in 2013. Can you provide a brief explanation?

As part of the most recent stress test, we were required to strengthen our equity. In this context, we initiated a range of measures including the conversion of equity holdings of the Federal State of Lower Saxony into share capital. Any time a public sector institution acts in this manner, a State aid process is automatically triggered. The commitments made correspond as far as possible with the medium-term planning up to 2016 on which our business model is based. To date, the trustee set up by the EU has certified that we are meeting these commitments. We are confident that we will also fulfil them until the end of the monitoring period in 2016.

An essential aim of the European banking oversight in 2014 is to rebuild trust. How is this going to be achieved?

Europe has made great strides towards creating an economic area over the last 15 years – not least through the introduction of the euro. However, the same progress has not been made in the areas of fiscal policy and financial markets. This situation must now be redressed and, in the context of a single European market, makes sense.

Another theory arising from the financial crisis is that of the bail-in proposed by the EU Commission, which is currently the subject of much discussion. Can you explain the background to this guideline?

The EU Commission is proposing to establish resolution mechanisms to allow the restructuring or liquidation of banks that get into financial difficulty. As a result, the shareholders and creditors of an indebted bank will be required to contribute to efforts to rescue such banks. The purpose of this bail-in model is to ensure that a bank can be liquidated in the worst case scenario without threatening the stability of the financial markets or imposing a burden on the tax payer.

And how would the bank's liabilities be covered in such a scenario?

The directive, which has yet to be submitted to the European Parliament, defines a hierarchy of liability in the event of insolvencies. It extends step-by-step from the equity in the bank through to subordinate and senior liabilities all the way to bank deposits of more than € 100,000. For NORD/LB, this is preceded a joint liability scheme with the savings banks. Deposits up to € 100,000 will be excluded along with certain other liabilities such as Pfandbriefe or employee wages and pension entitlements.

The Single Supervisory Mechanism (SSM) is due to start its work in November 2014. Many European banks must undergo a test beforehand. What's that all about?

The ECB wants to gain an overview of possible risks and liabilities at the banks. A total of 128 banks from the euro zone, including 24 German banks will undergo a comprehensive assessment – including NORD/LB. This comprehensive assessment is expected to take 12 months and consists of the risk assessment, balance sheet assessment and stress test. The balance sheet assessment, in particular, involves examining the quality of the respective balance sheet assets.

How has NORD/LB prepared for this?

We dealt with the new requirements at an early stage because we expected a significant extra workload. Particularly for the risk assessment and balance sheet assessment, some topics and tasks such as the shipping portfolio or preparations for data queries were dealt with by special teams. Given that additional and deviating provisions had to be applied in some cases and that others will only come into force later on, our expectations of higher workloads have already been proved correct.

Finally, let us return to the issue of trust. How is NORD/LB ensuring responsible company management structures?

We have always taken this issue seriously. In passing the Group Sustainability Strategy 2020, we set clear objectives in 2013. The strategy regulates central aspects of our company management as well as the way in which we perceive our responsibility to our customers, employees, society and the environment. We are convinced that sustainable management strategy is the only one that can be successful in the future in view of the global requirements. What is more, we know from experience that sustainability also pays off in economic terms for the NORD/LB Group.

Interview with NORD/LB Chief Operating Officer Ulrike Brouzi

Board Member Ulrike Brouzi explains the consolidated profit against the background of the shipping crisis and the pending balance sheet assessment by the European regulatory authority.

Ms. Brouzi, how would you rate the annual net profit of the NORD/LB Group?

In view of the general environment in which we are operating, it is a good result. Although we must still contend with significant difficulties arising from the shipping crisis, we are well able to withstand these because the other business segments of the Group are performing very well. This applies in particular to corporate customer business, project financing in the area of renewable energies, aircraft financing, commercial real estate financing as well as the capital market business for institutional customers.

How do you rate the shipping portfolio and what impact will this have on risk provisioning for 2014?

Our ship portfolio is of a high quality overall due to our cautious policies and conservative financing principles to date. Our problematic exposures are already largely covered by risk provisioning. But of course, the crisis is far from over and we only expect the first signs of recovery in individual segments in 2015. For this reason, we will also be making additional provisions in 2014. However, our proven business model is generating sufficient yields on the market to cover these risk provisioning.

How do you see the overall NORD/LB position for the remainder of the year? You are facing into the balance sheet assessment as well as a stress test …

The earnings side looks positive; earnings in our core business areas are strong. And despite increasing regulatory requirements, we also have a firm grip on costs. And with regard to the risk side, we have subjected our portfolios to intensive risk analyses and have made appropriate provisions based on our conservative business policy. Our capital ratios also continue to rise. Consequently, we believe we are well equipped for the stress test. After all, we emerged unscathed from the greatest stress test of the last few years – the financial market crisis.

SUSTAINABLE BUSINESS PAYS DIVIDENDS

The term “sustainability” stands for lifestyles and consumption behaviours that enable current and future generations to enjoy a good quality of life while at the same time conserving natural resources. Consequently, sustainability is the vision for a society that can remain viable into the future and, for us, a fundamental principle of responsible business.

In a widely diversified Group such as NORD/LB, we are also committed to pursuing further goals: We seek to conclude transactions with a sense of proportion. We intend to be a reliable partner to our customers. We strive to represent a worthwhile investment for our investors and for our owners and to be a good employer. And we want to contribute to the development of our social environment, which is not just where our company happens to be located: Our employees call it home. Systematically meeting all these objectives over the long term: This is our understanding of a sustainable business strategy and it creates added value for our company and for society.

This is why the Managing Board of NORD/LB approved the Group Sustainability Strategy 2020 in 2013. In it, we address the central aspects of the global transition for the NORD/LB Group and its customers and clarify how we will realise the opportunities presented by this transformation while at the same time managing the associated risks responsibly. With the Group Sustainability Strategy 2020, we are committed to the idea of responsible company management in order to secure the long-term success of our company and to fulfil our responsibility as corporate citizens.

https://www.nordlb.com/fileadmin/redaktion_en/branchen/nachhaltigkeit/pdf/Sustainability_Report.pdf

We provide regular information about the implementation status of our sustainability goals in our Sustainability Report, which conforms to the higher-level standards of the Global Reporting Initiative and contains the progress report for the UN Global Compact.

The aims of our sustainability strategy

Governance: We conduct a systematic dialogue with our stakeholders and are committed to responsible action.

Customers: We enhance the competitive edge of our customers and focus on their needs with tailored financing solutions. In doing so, we also contribute to the financing of a green economy.

Staff: Staff: We create the conditions for optimum professional, technical and personal development. We encourage diversity and are increasingly utilising the management potential of women to steer our corporate success.

Society: We are pro-actively engaged in social discourse and bring our expertise in financial issues to bear. We purposefully promote art, culture and science as well as the voluntary activities of our employees, thereby helping to shape a future region worth living in.

Environment: We are continuously driving down the resource consumption and environmental impact of our banking operations and are increasing our energy efficiency.

The financing volume of the NORD/LB Group in the area of renewable energies wind, solar and biogas amounts to **€ 7.7 billion**. As a result, the NORD/LB Group is helping save approximately **9.5 million tonnes of CO_{2e}** in an energy production from coal and gas.

PRIME IN CORPORATE RESPONSIBILITY

The rating agency oekom research AG also rated the sustainability of NORD/LB in 2013. We are proud to have retained our Prime status of previous years in the corporate responsibility rating for financial institutes.

NORD/LB also continues to rank among the best-in-class in the sustainability assessment of Pfandbrief issuers conducted by imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH and in the ESG (Environmental, Social, Governance)-based sustainability assessment of Public and Private Banks issued by Sustainalytics AG.

These assessments document and verify our above-average involvement in areas such as the environment and social care. They serve both as affirmation and motivation, and they verify that we are on a sound footing in terms of sustainability.

Corporate Responsibility Prime rated by oekom research

imug

SUSTAINALYTICS

Interview: Eckhard Forst, Board Member of NORD/LB

Mr Forst, NORD/LB has been largely spared from criticism over the past few years. What makes it so stable and trustworthy?
We are firmly anchored in our regions. We know our customers. Our customers know us. This ensures that we keep our feet on the ground. The customers know that they can rely on us. They know that we keep our promises – often simply due to the fact that we have been cooperating successfully for generations. Continuity and the active implementation of values have always strengthened the relationship between customers and the bank. We also look at things very closely, never losing sight of the risks associated with our actions, in addition to the opportunities. For this reason, we are less affected by crises than others. This is certainly also due to some degree to the balanced nature of our business model.

Do your customers acknowledge this responsible approach to risk?
Our customers trust us when it comes to their financial matters. They are also well informed and know that the crisis did not affect us as much as other banks. For this reason, they value our stability and reliability today even more than a few years ago.

NORD/LB scored very highly in the sustainability rating. Does this also say something about customer satisfaction?
Yes, it does because the rating also evaluates issues relating to company management and corporate responsibility. In addition, it also examines whether we are innovative and have the capacity to turn megatrends into opportunities. Our customers expect us to provide solutions today for the world of tomorrow. This in turn is the necessary condition for good and long-term customer relationships. What's important for us in this context is that we don't lose sight of the risks. Our ESG guidelines therefore provide our customers and employees with the parameters for successful and responsible action, while taking into account aspects of risk.

How do responsibility and sustainability contribute to future business?
They are the prerequisites for gaining the trust of customers and society – a cornerstone of our business for us as a bank – and therefore the key to our future success. By pursuing responsible and sustainable practices, we are promoting the bank's capacity to pick up on new trends such as the energy transition in a responsible manner and to translate them into new business models for our customers and for us. Ultimately, our customers can profit from the global transition if we provide the support they need.

HIGHLIGHTS OF **2013**

1 | 2013

NORD/LB finances "Krughütte" solar park in Saxony-Anhalt

NORD/LB arranges project financing for the "Krughütte" solar park with a financing volume of approximately € 35 million. The solar park with a nominal output of around 30 megawatts can cover the electricity needs of some 7,500 four-person households.

2 | 2013

US-Dollar Promissory Note arranged

NORD/LB and HSBC have cooperated for the first time to arrange US-Dollar Promissory Note ("Schuldscheindarlehen") for the Hamburg-based Neumann Coffee Group, the world's leading provider in the area of green coffee. The total financing volume is $ 70 million. Along with NORD/LB, the circle of underwriting banks is comprised exclusively of internationally active institutions.

Structured financing in The Netherlands

NORD/LB is involved in the project SAA – A1/A6 (expansion of the Schiphol-Amsterdam-Almere motorway), which was singled out as the EMEA Road Deal 2013. It marks the first public-private partnership transaction for NORD/LB in the Netherlands. The lender is NORD/LB COVERED FINANCE BANK S.A., Luxemburg (NORD/LB CFB). Due to the public sector character of the project, the commitment qualifies for the Luxembourg cover pool. This allows long-term funding for the transaction to be issued at competitive terms.

3 | 2013

€ 20 million for new residential area in Braunschweig

Braunschweigische Landessparkasse provided just under € 20 million to finance the first construction phase of a new luxury residential area in Braunschweig city centre: the Oker Marina Resort. It includes exclusive city apartments – grouped around a branch of the Oker River that was once filled in but is now re-opened.

Loan for Hamburg office and hotel real estate

Deutsche Hypo finances as sole lender the acquisition of an office and hotel property in Hamburg's fashionable St. Georg district. Out of a total purchase price of around € 109 million, Deutsche Hypo is providing € 49.77 million. The term of the financing is ten years.

5 | 2013

NORD/LB with further expansion of agricultural banking business

Financial year 2012 saw total lending at the bank's Agricultural Banking jump more than 10 percent – thus consolidating NORD/LB's position as Germany's leading finance provider in the agricultural sector. The number of Agricultural Banking account managers has been increased by 30 percent to ensure sustained growth in the coming years.

UN Global Compact signed

By signing the United Nations Global Compact, NORD/LB is committed to incorporate the ten internationally recognised principles of the Global Compact from the areas of human rights, working conditions, environmental protection and corruption into its business activities.

6 | 2013

Outstanding ship financing

Marine Money Magazine presented NORD/LB with its respected Marine Money Offshore Award for 2012 in the category 'Leasing Deal of the Year' for financing the offshore construction ship Vidar by HOCHTIEF. HOCHTIEF is the lessee and is using the ship for constructing wind turbines. NORD/LB helped to structure the transaction as part of a club deal, taking on the role of the paying agent.

8 | 2013

Excellent custodian bank business

NORD/LB had its custodian bank business qualified once more by Telos GmbH as part of a follow-up rating. The result is excellent (1–) and it confirms the outlook provided by the preceding rating.

9 | 2013

Capital market license for Shanghai

Following the awarding of a capital market license by the central bank in Shanghai, NORD/LB is further expanding its liquidity management in the Chinese currency Yuan. This is an important step as foreign banks operating in China are subject to different refinancing restrictions.

11 | 2013

NORD/LB with further issue of US-Dollar public sector Pfandbrief

The Pfandbrief with a term of five and a quarter years has a volume of $ 1 billion. The Pfandbrief was issued world-wide with a volume of $ 1 billion at the start of November under the management of a consortium. Moody's and Fitch awarded their top ratings of Aaa and AAA to the issue.

12 | 2013

Group Sustainability Strategy 2020 approved

The Group Sustainability Strategy 2020 focuses on the central aspects of the global transition for the NORD/LB Group and its customers and identifies how opportunities will be realised and risks responsibly managed. As a result, the primary emphasis of the Group Sustainability Strategy is on the customers and employees of NORD/LB.

Handover of Bremer Landesbank construction site

The demolition works at the 'Domshof' and behind the historical façade of the original company offices on Unserer Lieben Frauen Kirchhof have been completed on schedule. The foundation stone for the new Bremer Landesbank building was laid on 9 January 2014. Bremer Landesbank hopes to open its doors again for business at the 'Domshof' by mid-2016.

New Chief Risk Officer

Thomas S. Bürkle appointed new Chief Risk Officer of NORD/LB. Until December 2013, Mr Bürkle was Chairman of the Managing Board of Deutsche Hypothekenbank, a subsidiary of NORD/LB. Mr Bürkle took over from the outgoing Chief Risk Officer Dr. Johannes-Jörg Riegler on 1 January 2014. As member of the Managing Board since October 2005, Dr. Riegler was responsible for a range of areas that included Credit Risk Management as well as Finance and Risk Control. From the beginning of 2013, he was also Vice Chairman of the Managing Board of NORD/LB.

TURNING IDEAS INTO REALITY

"The start-up climate in Braunschweig is extremely positive and inspiring. We also successfully took an idea and created a company from it, thanks not least to the trust placed in us by Braunschweigische Landessparkasse. Our start-up a3Ds is well on its way to success. After just a short time, we had eight employees and this trend is set to continue."

David Skuratowicz,
Managing Director and founder of a3Ds GmbH

Braunschweigische Landessparkasse has always had a special interest in fostering young talent. Promising start-up companies can find valuable support here.

Anyone who sets up a company must be well organised and needs to consider numerous different aspects. So it's all the better if one can rely from the outset on the knowledge and experience of a professional partner. Braunschweigische Landessparkasse (BLSK) supports start-ups throughout all phases of establishment – from opening the first business account all the way to answering the important questions relating to company foundation: Is the business plan plausible? Will the project prosper? Is the project viable? Is the financing concept sound? Is it possible to receive public funds or start-up grants for this purpose? How are occupational and private pension provisions taken care of? For these and other important issues, the BLSK works with the start-ups to find tailored solutions.

Once again in 2013, numerous company founders availed of this service offering: Enquiries in Braunschweig alone, were in the three-figure range. Many of the innovative start-up projects derive from the region's strength in the research and technology sectors. The scope of financial requirements in this context is extremely broad, with enquiries ranging from € 1,000 to € 10 million. Development programmes administered by the strong Braunschweig founder network, to which the BLSK also belongs, have already yielded successful companies such as Capical GmbH (first cable-free ECG device), Symeda GmbH (software system for networking in the healthcare sector) and a3Ds GmbH.

Every two years, Braunschweigische Landessparkasse and Braunschweig Zukunft GmbH award the Start-up Prize. It is awarded in recognition of successful start-ups and outstanding companies. The decisive factor is the exemplary function performed by the development of new business ideas and setting up of companies.

www.deutscher-gruenderpreis.de

a3Ds GmbH specialises in automated optical 3D measurement technology. It offers 3D scanning systems and the installation of complex robot measurement systems. Braunschweig natives David and Arthur Skuratowicz, both graduates of the Ostfalia University of Applied Sciences, founded the company in October 2011. In addition to providing standard banking services, the Braunschweigische Landessparkasse provided the start-up with the necessary finance to purchase a scanning system.

Motivate little ones to do something big

The many faces of social participation. From education, sports, culture or social care, the most diverse projects are initiated or supported financially to promote young people in particular. Some programmes use an interactive model to teach young people how to manage finances, while others offer career guidance support. The promotion of young professionals within the company is also an important priority. After completing their apprenticeship, most apprentices continue their career at NORD/LB.

GRI

"Our commitment also forms part of the Group Sustainability Strategy 2020. By getting involved in diverse projects, we are making our financial expertise available directly to society. In our core regions, we promote art, culture, education, sport and social care and encourage the voluntary activities of our employees. In doing so, we are contributing to society and creating benefits for the NORD/LB Group."

Christoph Schulz, Board Member of NORD/LB and Chairman of the Managing Board of Braunschweigische Landessparkasse

WERK STATT N PROJEKT 2013
Ausgezeichnet durch den NACHHALTIGKEITSRAT

Sei dein eigener Held! (Be your own hero!)

With this campaign, Braunschweigische Landessparkasse has been motivating young people since 2010 to get involved in voluntary activities. Schoolchildren develop concepts for sustainable social commitment. The best of these are awarded prizes and put into practice. For example, the "WIR REDEN" project – which deals with AIDS, HIV, sex and courage, which was launched in 2013 to provide information and raise awareness among schoolchildren. "Sei dein eigener Held" was also awarded the German Sustainability Award 2013.

€ 15,000

Bringing history to life

The Schöninger Spears discovered in 1994 are the oldest completely preserved hunting weapons used by humans. The paläon Research and Experience Centre Schöninger Spears exhibits the discovery in its historical context for visitors and experts from around the world. Braunschweigische Landessparkasse supports the paläon with € 15,000 – and invites 1,600 schoolchildren to take a tour and attend a workshop at this exhibition steeped in history.

On Saturdays, the main auditorium is reserved for children

The campus is open to young scientists: On Saturdays, the largest auditorium at the Technical University of Braunschweig opens its doors to schoolchildren aged between eight and twelve years. Just like their older counterparts, participants at the children's university are issued with student identity cards. Each lecture visited is documented with a stamp. Those who attend all five to six lectures held throughout a semester receive a certificate at the end of the programme. The exciting university experience is free of charge for the children – as it is sponsored by Braunschweigische Landessparkasse.

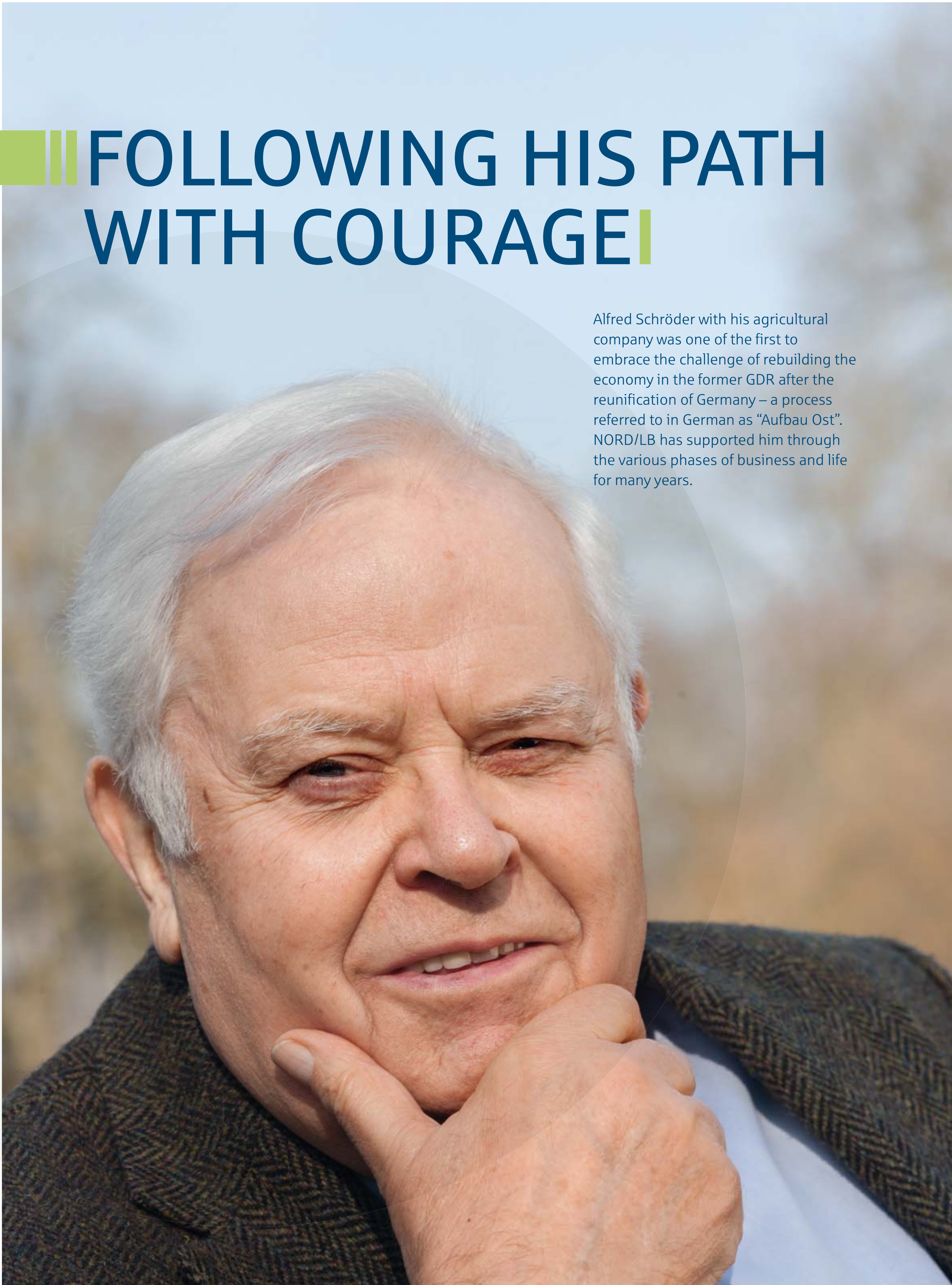
A long tradition of support: The BLSK has for a quarter of a century acted as regional sponsor of "Jugend forscht" ["Young Researchers"], Europe's largest talent competition in the area of natural science and technology.

PARTNERING WITH "JUGEND FORSCHT" FOR 25 YEARS

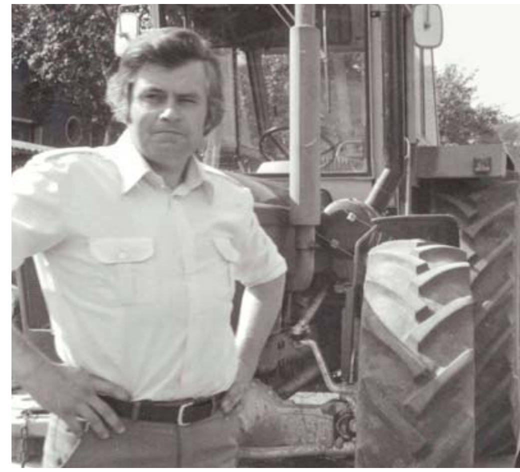
Each year, the Braunschweigische Landessparkasse invests around € 50,000 in the competition, which in the Braunschweig region also includes the "Schüler experimentieren" ["School Students Experiment"] section for participants up to the age of 14 in addition to the "Jugend forscht" section. The young researchers can submit projects from the specialist areas of the working world, biology, chemistry, mathematics / computer science, physics, technology and geography and regional sciences. The consistently impressive results of this competition point to the strong spirit of research in young people that is just waiting to be awakened.

FOLLOWING HIS PATH WITH COURAGE

Alfred Schröder with his agricultural company was one of the first to embrace the challenge of rebuilding the economy in the former GDR after the reunification of Germany – a process referred to in German as “Aufbau Ost”. NORD/LB has supported him through the various phases of business and life for many years.



Alfred Schröder's eventful history has been played out at two main venues: the municipality of Elxleben in Thuringia and the district of Lüchow-Dannenberg in the east of Lower Saxony. Though separated by just under 300 kilometres, these two locations were nevertheless worlds apart for many decades. With the inner-German border, two completely different political systems and ideologies separated Alfred Schröder's place of birth from his subsequent home in the West. Today, Germany is reunited – and for the Schröder family, the journey between their businesses in Thuringia and Lower Saxony lasts little more than four hours by car.



"Trust needs fertile soil in which to grow."

Mr Schröder, you are among the group of people referred to as "Wiedereinrichter". Can you explain briefly what this means?
The term "Wiedereinrichter" refers to the East German farmers who after reunification successfully reclaimed the land that had been confiscated due to the forced collectivisation that led to the creation of agricultural cooperatives (LPGs). In our case, this involved a farm that my family had operated for many years in Elxleben, where I grew up. The repression imposed by the GDR regime in the wake of collectivisation forced my mother to flee to the West in 1954. Back then, I was 16 years old when we started our new life with nothing in Lower Saxony.

As early as 1989, Alfred Schröder returned to his birthplace in Thuringia as a "Wiedereinrichter" (farmers taking over land they previously worked). And for 20 years, NORD/LB has stood by him – from the very outset of his cherished venture.

How did things progress after that?
I remained true to the family tradition and completed an agricultural apprenticeship. In 1958, I started work on the leased farm Rehbeck near Lüchow. In the beginning, we had 26 hectares. Today, the farm has developed into a highly competitive tillage operation extending to 500 hectares. Those were tough times, starting from scratch in the West, but we overcame them successfully. Nevertheless, I realised during the early stages of reunification that I had to return to my home in Elxleben.

You were one of the first farmers to tackle the reconstruction process – did you carry out pioneering work?
I think it's fair to say that we were pioneers. As it transpired, it was a good thing that we reacted at such an early stage. Everything happened very quickly back then – those who came too late lost out in every sense. Naturally, there were some hurdles to overcome, but there was also a powerful spirit of optimism. We used to own two farms in the village, which we sold after reunification. Instead, we set up a new farm and renovated the old barns that came with it.

It sounds like you needed a lot of finance ...
Particularly during such major changes, it is enormously important to have a trusting relationship with your bank. And this is what has united us with NORD/LB for over 30 years now. In addition to facilitating capital procurement, it's also important, for example, to decide on the right form of enterprise or to manage the succession planning for the business. For both my nephew and business partner and for me, we have already begun to pass on the business to the next generation.

Landmarks in a successful partnership

1979 NORD/LB becomes the main bank for the Alfred Schröder's agricultural business in the district of Lüchow-Dannenberg. In its role as financing partner, it supports several expansions to the business.

1989/90 In the wake of the collapse of the GDR, Alfred Schröder plans his return to Elxleben. Together with NORD/LB, he developed a financing concept that also took full advantage of the available public funds.

1991 Alfred Schröder and his nephew Gerhard Heubach set up Heubach & Schröder GbR for the management of agricultural land in Elxleben. The farms in Lüchow-Dannenberg and Elxleben were integrated into the GbR (civil partnership). In the years that follow, NORD/LB finances construction projects in particular, such as the DEM 3.2 million reconstruction of the grain hall, as well as the purchase of agricultural land.

1994 Heubach & Schröder OHG is founded as a provider of cereal processing and agricultural services.

2010 The GbR is converted into a KG (limited partnership). As the majority shareholder, Alfred Schröder acts as the general partner of the KG. The newly organised company structure also includes the company successor Mark Heubach, son of Gerhard Heubach. His father retains a 2 per cent limited partner's share.

2014 After completing her agricultural studies in Kiel, Alfred Schröder's daughter Dorothee will manage the business in Elxleben jointly with her father. In the summer, she is due to become a shareholder in the company.

Partner to the agricultural and food economy

NORD/LB is a partner to 3,700 middle-market corporate customers and 10,000 agricultural businesses as well as being one of the most important special financiers in Agricultural Banking in Germany. Corporate customer advisers from NORD/LB provide professional support for projects of all sizes.

The start of every financing solution involves carrying out an analysis to determine the form in which stated objectives can be reconciled with the actual situation. Iljana Raute, corporate customer adviser at NORD/LB, explains how this can function in practice based on the example of AGRAVIS Raiffeisen AG.

Promissory Notes offer room for manoeuvring

Ms Raute, what financing request did your customer come to you with?
AGRAVIS Raiffeisen AG has been a customer of ours since 2008. Growth at the company led to rising financing needs. The customer's wishes included a desire to diversify its circle of investors and to distribute the financing volume over several maturity periods.

Where was the challenge in this case?
Large parts of the financial assets were tied up as hedging instruments as part of other financing arrangements. In such a case, this involves structural subordination of the Promissory Note with respect to the existing financing arrangements. The claims of the promissory note holders are therefore only taken into account after the realisation of pledged assets.

What form did this solution take in the final analysis?
Under specific premises (protection based on contractual agreements), it was possible to heal the structured subordination from an investor's perspective, thereby facilitating a highly successful issue. These prerequisites include, in particular, a high profile and credit rating on the part of the issuer, pricing in line with the higher risk and a favourable market environment.

The agreement of a quorum provided additional security for the promissory note holder. It bypasses each individual investor's right of approval as it was stipulated that any contract change requires an approval rate of 90 per cent of the outstanding promissory note volume. This option provides the issuer with a degree of security during difficult phases throughout the term of the Promissory Note.

AGRAVIS RAIFFEISEN AG

We help growth – this is the guiding principle by which AGRAVIS operates its business as one of the largest and most profitable agricultural, retail and service companies in Germany. The company employs approximately 5,500 people. The main emphasis of the business is on the conventional agricultural divisions of cereals, oil seed, fodder and fertilisers, plant protection and seeds. Additional business areas are agricultural technology and energy. AGRAVIS supplies farmers directly through its subsidiaries. The company also operates a retail business in the Raiffeisen markets.

IT STARTED WITH A SHIP

A new business model based on a proven formula. Two young ship owners in Hamburg display entrepreneurial courage in what is a challenging sector. NORD/LB is fully on board with the project.

Cast off!

Is it wise to set up a shipping company in the middle of a shipping crisis? Lucius Bunk and Alexander Tebbe certainly think so: "Periods of change offer the ideal conditions to try something new." While other shipping companies were being forced under by the crisis, the two qualified shipping agents founded Auerbach Schifffahrt GmbH & Co. KG in October 2010. To date, their fleet consists of three used bulkers valued at over € 10 million each; they have already raised the capital for a fourth vessel. NORD/LB has acted as financing partner to Auerbach since the second shipping deal.

"Periods of upheaval offer the ideal conditions to try something new."

The business model

'Back to the old ways' is the strategy at Auerbach. Bunk and Tebbe are adopting the practices of ship owners in former times: They buy their own vessels, organise the cargo themselves and send the vessels across the oceans. In this case, representation of the entire value-added chain of a shipping company is planned for the long term. Their business is open to investors: "In this regard, we rely on experienced business people", explains Lucius Bunk. "Our investors become active co-partners in the company, not in the ships."

The financing concept

Armed with experience of the international shipping business, a convincing business plan and, not least, with a healthy dose of enthusiasm, the young shipping agents attracted a select group of business people to act as an advisory council for their project. As co-partners, they also provide the equity. Financing is arranged together with NORD/LB among others.

The vessels

The shipping company is trying to avail of the currently favourable construction prices and is developing financing concepts jointly with NORD/LB to expand its fleet.

In so doing, Auerbach is deliberately focusing on bulkers that can be used to transport bulky items such as generators or wind turbines. The planned new vessels will also deliver the key advantages of fuel savings and bigger cargo hatches. "In the long term, we are focusing primarily on the Chinese market because it is producing increasing volumes of large industrial goods for export," says Alexander Tebbe. The fact that Lucius Bunk speaks Chinese also helps when it comes to setting up business activities on the ground.

GRI

In the area of shipping finance, NORD/LB takes sustainability aspects into account: International standards form the framework for the guideline for sustainable shipping finance.

Holding a steady course in rough seas

Thanks to its many years of experience in shipping finance as well as long-standing customer relationships based on mutual trust, NORD/LB was able to implement sustainable restructuring solutions again in 2013 – in some cases, for entire fleet networks of up to 60 ships.

The consequences of the crisis continue to determine business activities in the area of shipping finance. Consequently, the focus during 2013 was on restructuring finance and re-marketing ships. Ships were also incorporated into platform solutions.

Viable financing structures for all

The main emphasis will be on the remodelling and adjustment of existing financing structures. This includes, for example, extending the repayment structure, granting grace periods or facilitating the injection of equity. The process of working with the customer to develop and agree on a modified financing structure that is equally acceptable to both sides represents both the target and challenge in this case.

Improving existing fleets with modern ships

If simple remodelling and adjustment of existing financing structures does not promise to bring about the desired efficiencies, NORD/LB frequently opts for what are referred to as "Black Pearl" or package solutions. In this scenario, the bank provides additional finance for new ships, which can be purchased at the current low market level in order to support one or more weak existing ships.

New equity investors

As part of the re-marketing strategy, NORD/LB also supports the transfer of ships to new equity investors. In the past financial year, these were attracted particularly in Germany, Asia, the US and Greece. Furthermore, new business relationships were developed – also with private equity companies with long-term investment horizons, which likewise featured in the circle of new equity investors.

Overall, the re-marketing of ships along with Black Pearl package solutions made an important contribution to transforming distressed finance arrangements into viable solutions.

In the sixth year of the crisis, the management of risks associated with shipping financing presents us with particular challenges. The NORD/LB shipping portfolio is subject to ongoing intensive assessments and analyses. Thanks to the traditionally conservative risk policy of NORD/LB, the bulk of our portfolio remains highly stable. For this reason, although the crisis does impose burdens on us, we are in no danger of being capsized. With regard to the distressed exposures, we are working hard to achieve our objective of reaching solutions that are viable both for the bank and for the customer. In the vast majority of cases, we succeed in doing so.

Thomas S. Bürkle, Chief Risk Officer (CRO) of NORD/LB

This sample scenario shows how a Black Pearl package solution is implemented with a customer:

- Due to financial difficulties at a charter company, a ship financed by NORD/LB had run into problems in the previous financing structure; the existing financing arrangement could no longer be serviced.
- As part of a new financing structure, the ship was taken over at a purchase price based on its earning power. Since this exceeded its current achievable market price, it was possible to cover the entire loan amount under the old financing structure in this way. In this case, the purchase price for the portfolio vessel was only partially refinanced by NORD/LB. The customer financed the remainder from his own resources.
- This portfolio ship was then incorporated into a Black Pearl structure, whereby NORD/LB simultaneously provided the customer with a loan to acquire a new build. The customer also contributed to the cost of the new build from his own resources.
- All in all, this strategy enabled NORD/LB to stabilise the value of the ships and regulate its distressed exposures on the one hand, while at the same time transferring the portfolio ship together with the new build into a long-term and viable overall financing structure on the other.

Platform solutions becoming increasingly important

Another means of minimizing financial damage to the bank is to develop structured solutions whereby a new company evolves out of bankruptcy proceedings. Alternative financing structures of this type are becoming more widespread given the current economic situation. Previously, the fund model was the predominant method used to supply equity for the shipping sector in Germany.

Structured rescue solutions are an opportunity to retain the value of the ship, to participate in a future market recovery and, consequently, to fully recoup the finance issued as the market environment improves. In addition, a financing platform facilitates the participation of third-party banks as well as new investors. With regard to the financed ships, the capacity to meet principal repayments can be stabilised if incomes are bundled and ship types combined.

IN THE MIDST OF LIFE

Our society is changing. From living during old age, scarce residential space for families or the ever-increasing proportion of people living alone – all of these are issues of importance to NORD/LB. In the multi-generation houses owned by the HaWoGe in Finckehof in Halberstadt, people from all age groups live together under one roof.

One large house in which the grandmother lives with her son, her daughter-in-law and grandchildren and all of them look after each other: These kinds of living arrangements used to be commonplace but have become the exception today. Almost 40 per cent of German households consist of just one person, with senior-citizen households accounting for the largest and continuously growing proportion of these.

As a consequence of this demographic change, the requirements associated with living arrangements are also changing. Older people want to remain in their own four walls for as long as possible, while young families need space but often only have a limited budget. Added to this is the trend for urban living and rising levels of apartment vacancy in economically underdeveloped areas. In the town of Halberstadt in Saxony-Anhalt, the gateway to the Harz Mountains, NORD/LB together with the Halberstädter Wohnungsgesellschaft (HaWoGe) and the Diakonie (social welfare organisation of Germany's Protestant churches) realised a living concept that takes all of these requirements into account.

From a collection of disused buildings dating back to the years from 1871 to 1980, the Finckehof multi-generation houses were constructed. A total of 100 apartments were modernised and, in some cases, converted to make them wheelchair-accessible. Today, the Finckehof development, located directly in the city centre, is fully let. Residents of all ages live in their own apartments but also collectively as part of one large housing community. In particular, the apartments for senior citizens were designed to facilitate independent living – without flat-rate charges for care services and as genuine alternatives to a retirement home. Tenants can avail of the care and support services of the Diakonie flexibly depending on their needs.

From renovation project to show-piece development: Thanks to the forward-looking concept of the HaWoGe, Finckehof currently offers an urban living environment for the young and the elderly.

100 1 to 4-BEDROOM APARTMENTS FORM THE FINCKEHOF COLLECTION OF BUILDINGS IN HALBERSTADT.

A model for other regions

Finckehof represents a successful example in several respects. Many people with completely different needs and living situations have found an attractive home here in a living housing community. The collection of buildings, some of them historic, has been upgraded to the latest energy standards and radiates a new image – a genuine asset to the townscape of the locality, which has applied to be included on the world heritage list.

The experience that NORD/LB gained with its project partners in Halberstadt is also valuable for projects in other regions. Like many districts in the federal states in Eastern Germany, municipalities in the West – such as Saarbrücken, Duisburg, Cuxhaven – are experiencing depopulation. Improved housing and living conditions can help reverse this trend. Projects such as Finckehof open up new future prospects for cities and their inhabitants.

What characterises life in a multi-generation house?
Finckehof residents explain:

"It reassures me to live among people I know instead of an anonymous residential complex. In my apartment, I have my own personal space where I can relax in peace. If I want company, I only have to step outside my door or go to the residents' café in our courtyard to see a familiar face."

Erika Kölbl, 82 years old

"I have problems in walking. For people like me, many apartments are simply out of the question from the start. In Finckehof, however, many of the apartments have been converted to make them fully accessible. Apart from that, I can also use the services provided by Diakonie. For the time being, the laundry service is all I need, but it's good to know that I can continue living here even if I need more intensive care."

Bernd Meixelsberger, 50 years old

"We had already considered moving away from Halberstadt. Then, we received the offer from HaWoGe to move into Finckehof. Not only does the building have a beautiful façade, it's location in the old town makes it ideal in terms of transport. We get on very well with our neighbours. We'll often go shopping for them"

Christiane Pusch, 50 years old, with her sons Florian and Olaf

Sustainable urban development

Residential Housing is an important business area for NORD/LB. Since the start of the 1990s, the Magdeburg location, in particular, has gradually established itself as a centre of expertise for housing-related financing. One focus is on cooperation with municipal companies and housing associations. Finance is provided for investments in age-appropriate living, multi-generation houses as well as measures to boost energy efficiency. In this way, NORD/LB is making a contribution to sustainable urban development. “We believe it is our social responsibility to give a broad section of the population access to attractive residential space,” says Dirk Moschner, customer adviser at the Magdeburg location. “With our expertise, we can support municipalities in this task – thereby also supporting the process of demographic change.”

NORD/LB is active in these areas of the residential housing market:

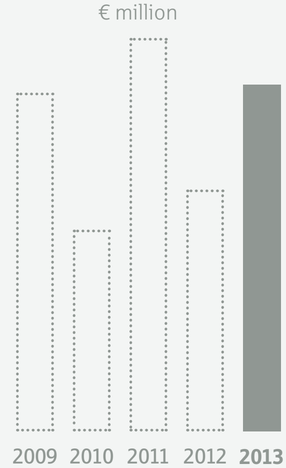
- Traditional corporate financing
- New construction projects for revitalising city centres
- Project financing for age-appropriate and assisted living
- Structured leasing financing for household consolidation of municipal owners
- Project financing for building schools as part of public-private partnerships
- Acquisition financing of housing portfolios to strengthening municipal occupancy rights (Berlin)
- Restructuring of formerly securitised financing

Success year 2013

Since 2008, NORD/LB has supported customers from the residential housing market throughout Germany – and the number of housing companies now exceeds 190. The current financing portfolio is approximately € 3.56 billion.

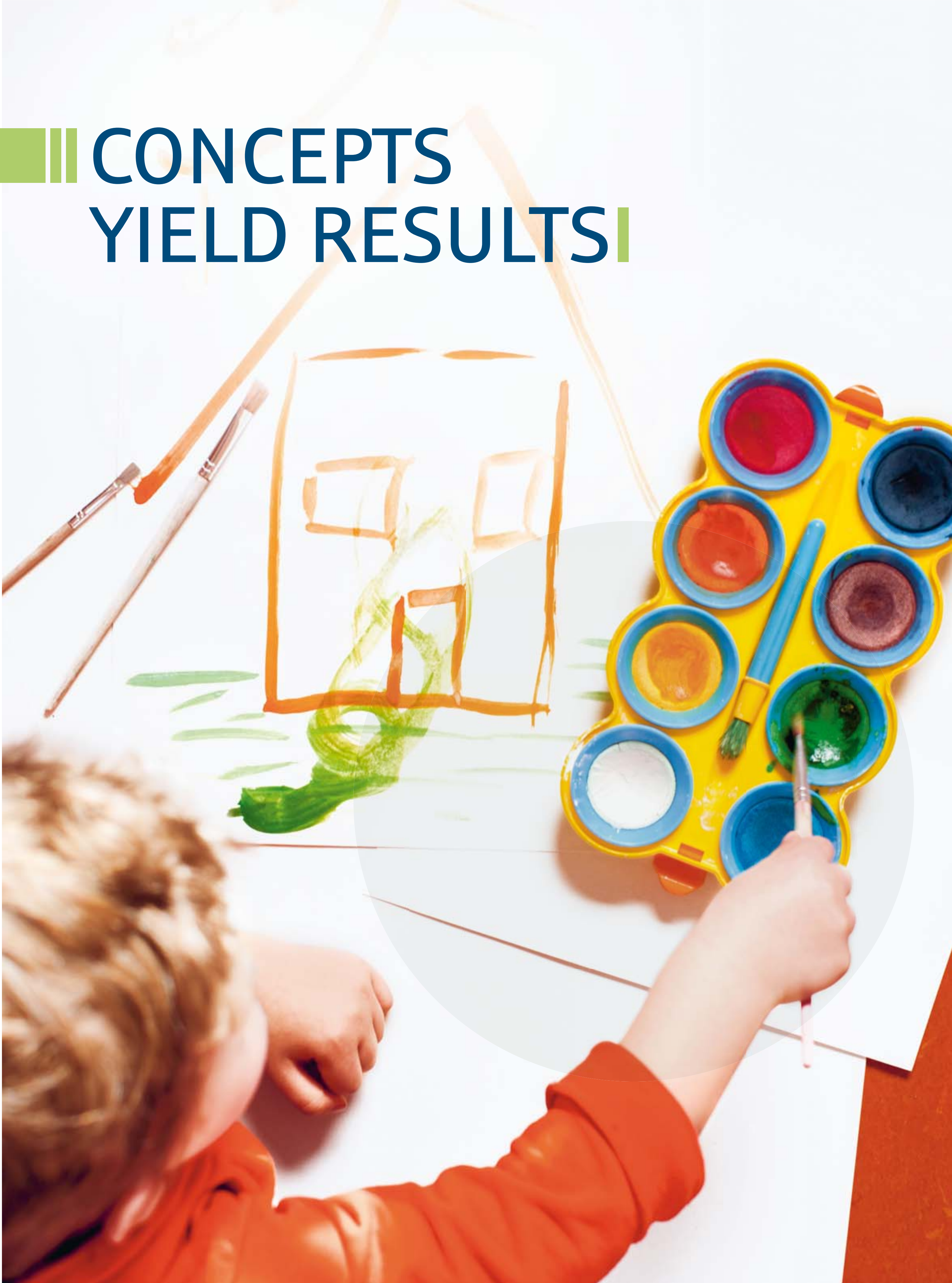
With € 639 million in new business, 2013 was once again a successful year in the residential housing business.

New business 2013:
639
€ million



- Nationwide, robust residential real estate portfolio
- Excellent average rating of customers
- Strong placement power with banking partners and, with an eye to the future, also with insurance companies

CONCEPTS YIELD RESULTS



Urban development, infrastructure, investments – and all in these times of chronically tight budgets: Particularly in economic terms, municipalities must contend with major challenges. As a reliable partner, NORD/LB helps the public sector perform the tasks required of it to the best of its ability – with solutions that are as unique as the municipalities themselves.

Specifically, the NORD/LB product range for the public sector focuses primarily on a large number of municipal financing options. In this case, it makes no difference whether a long-term investment project is pending or a short-term liquidity requirement needs to be met. Naturally, the possibility of using funding from the Federal Government and the Federal States is examined.

In addition, NORD/LB can on request develop concepts for a modern administrative organisation, helps arrange efficient management of municipal real estate and supports the introduction of professional debt/cash management systems.

GRI

Constructive dialogue is a prerequisite for successful solutions. NORD/LB maintains intensive contacts with its interest groups, of which the municipalities are also important members. The systematic interaction with interest groups was expanded in 2013 by the introduction of a binding guideline for all employees.

As a partner to the public sector, NORD/LB also supports the modernisation of municipal facilities such as kindergartens and schools.

MAGDEBURG: MAJOR RENOVATION PROGRAMME FOR SCHOOLS

To clear the backlog of necessary upgrade work for schools as quickly as possible, the city of Magdeburg renovated a total of 20 school facilities between 2007 and 2012 as part of a public-private partnership. The extensive building measures were distributed across four packages. NORD/LB arranged financing for three of these packages, which have a volume of between € 22 and € 41 million.

Trust in NORD/LB from the outset

If it doesn't exist, just to do it yourself – at least, that's what Ramona Parise-Mattulat from Braunschweig thought. In her case, it was a children's day nursery that could meet her expectations and high standards in the area of child care. Following the birth of her son in 2008, she looked both for a new job and for a suitable nursery for her son. In the beginning, she found both as a child-minder in her own four walls. But in the long run, the model was not professional enough for the qualified nursery school teacher. Then in 2012, she had the idea of setting up a children's nursery herself. This courageous decision became a matter very close to her heart, for which she fought with total dedication and active support from NORD/LB. With great success: Her Karamba nursery opened on 1 July, 2013.

Ms Parise-Mattulat, for a private individual, you have undertaken a huge project. How did you go about it?
I approached the city council and the state authorities with my concept and I was very well received. The legal situation also helped me cause a great deal. That's because all parents are legally entitled to a childcare place for their children since August 2013. And at my chosen location of Ost-Braunschweig, there was demand, which is why my project was considered particularly deserving of funding.

How did NORD/LB become involved?
I approached several banks, but from the outset I trusted NORD/LB the most – also simply because it operates promotion business. My first meeting with my contact Mr Canosa, fully confirmed this impression.

To what extent?
Getting from idea to implementation was no easy task. However, Mr Canosa was just as enthusiastic about my plans as I was. He was always on and at my side. Added to this is the fact that I myself am not intimidated by numbers. When you're looking at a project volume of some € 800,000, that is certainly an important advantage.

And how did the implementation actually take place?
I purchased the building in which the nursery has now opened with the help of Federal, State and city funding, a commercial loan and a private loan. I lease it to the association that I set up in order to run the nursery. In turn, the city of Braunschweig gave me cost assurances for 25 years if I provide the nursery places for that length of time.

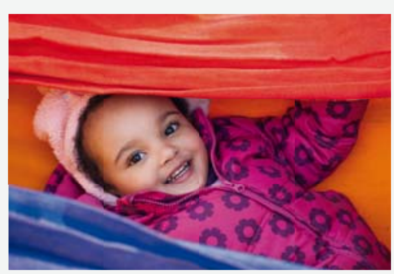
In retrospect, was it a good decision?
Despite all the hurdles and hard work, I can honestly say yes. Watching the children running around today in the nursery that I set up – that alone is a really special feeling.

“As a bank, we feel that start-ups are extremely important because ultimately we are getting involved with the companies of tomorrow. The climate for start-ups in Braunschweig is good!”

Franco Canosa, bank adviser at NORD/LB

KARAMBA NURSERY

The nursery in Friedrich-Voigtländer Straße can accommodate up to 40 children. The very flexible opening hours from 7:00 to 18:00 are particularly suitable for working parents. If necessary, children can even stay overnight in the nursery. This facility is as unique in Braunschweig as the option of bilingual education in German and Spanish.



GOOD RELATIONSHIPS WITH THE SME SEGMENT

The business with SMEs and savings banks has a long tradition at NORD/LB. In close cooperation with regional savings banks, we support common customers from our business region. What companies value in particular: NORD/LB seeks to match the solution to the customer. The corporate advisers continue to work meticulously until they have found an optimum financing concept. Many SMEs are familiar with this approach from their own day-to-day operations – and for this reason regard NORD/LB as an equal partner.

> Since NORD/LB is both a savings bank and commercial bank, it can maintain close relationships with its customers and with the savings banks while at the same time supporting them worldwide with their projects.

Our focus is on stability

Interview: Michael Stöcker, corporate customer adviser at NORD/LB

What services do you offer to SMEs?
We offer our customers a broad spectrum of services across all industries, always precisely tailored to their specific needs. Many years of experience have made us familiar with the situation of SMEs in Germany which means, we can advise them accordingly. For this purpose, we have established close links between all business divisions at NORD/LB. When helpful, the responsible adviser draw upon on the expertise of product specialists.

What characterises the cooperation between NORD/LB, the savings banks and the SMEs?
Our customers and the savings banks know that our focus is not on short-term earnings, but on developing a long-term business relationship that benefits all sides. With regard to the savings banks, this means that both sides bring their respective strengths to bear on behalf of the customer. As in every good relationship, the same applies in this case: If all parties have known each other for a long time and are focused on stability, they can withstand cyclical upheavals or change processes together.

Can you give us an example?
One of our long-standing customers is the frischli Milchwerke creamery. The company, our colleagues from the Sparkasse Nienburg and NORD/LB have worked for many years as a tightly-knit team. However, growth within the group and the financial commitment have reached a scale that calls for the redefinition and redistribution of tasks within the team.

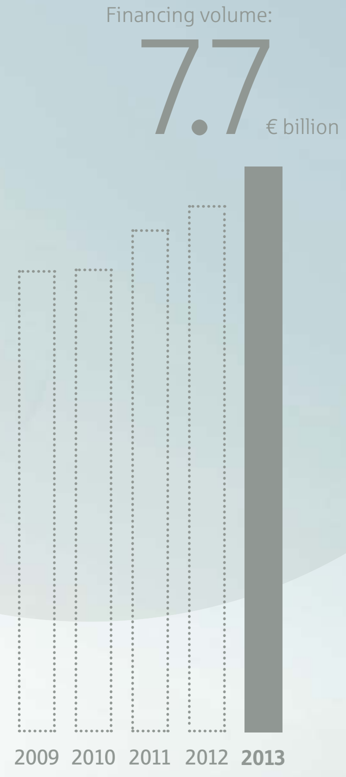
How will you all cooperate in the future?
In terms of external relations, NORD/LB has taken over as head of the syndicate and is responsible in particular for the area of long-term finance and for all special topics such as interest and currency management or all products from the corporate finance sector. As a key regional contact, the Sparkasse Nienburg will take on a central role, particularly for financing working capital and in domestic payment transactions. Irrespective of this allocation of responsibilities, all decisions within our banking syndicate are taken collectively and by mutual agreement. In our capacity as main banks, this enables us to provide optimum support to our customer as he continues along the path to success and to react quickly and flexibly with tailored financing concepts for all financial issues.

ABOUT FRISCHLI-MILCHWERKE

The owner-operated creamery company frischli with its head office in Rehburg/Loccum just outside Hanover has specialised in the production of milk and other dairy products for over 100 years. The company employs more than 600 people and processes approximately 800,000 tons of milk annually. Their key customers include companies from the food retail and discounter sector, food service wholesalers as well as industrial customers. The export business is a growing segment.

TWICE THE BENEFIT

In its business with structured financing, NORD/LB had already set its sights clearly on renewable energies by the mid-90s. Particularly in the area of wind power, it carried out pioneering work on numerous projects and today ranks as one of the top arrangers of wind farm financing on the European market. But why concentrate on renewables when project financing is still such a broad field?



Heiko Ludwig, Department Head Energy Europe new business at NORD/LB

"As a credit bank, we prefer to be convinced by facts. In this respect, renewable energies have quite a lot to offer. From a global perspective, the Kyoto Protocol, and from a national perspective, the energy transition delivered a boost to this segment. For the first time, the Kyoto Agreement laid down binding targets for greenhouse gas emissions in the industrialised nations. The German energy transition also defines specific targets. Achieving these targets will require us to fundamentally realign our energy systems. Today, renewable energies are already a growth market – and they will remain so in the long term. This translates into a correspondingly high demand for project finance in this business area.

Specialisation pays off

It made sense for NORD/LB to focus its expertise fully on this area and to develop it into a core field of expertise. The mixture of experience and well-founded expertise is valued by our many project partners such as wind farm operators or plant manufacturers, who can be found in large numbers particularly in Northern Germany. But also for our own business, we have identified a good risk-return ratio in this segment. As a result, there are good earnings prospects below the line along with strong links to our home market in North Germany.

Contribution to global climate protection

However, there is an additional dimension to the business with renewable energies. In this context, we step back slightly from sober facts in order to concentrate on our responsibility for the environment and society. Financing projects also involves providing the impetus required to realise them. By doing so, we making an important contribution to the expansion of clean energy generation. This makes us part of a bigger, global project: climate protection. Our financing concepts are therefore more than just a lucrative business and deliver added value within the meaning of positive banking. We call this the double benefit."

4,200 MW

GRI

By arranging a finance volume of some € 5.4 billion, NORD/LB supports the operation of wind turbines with a installed total output of approx. 4,200 MW.

Wind power
Record financial year for NORD/LB in Europe

NORD/LB provides its customers with professional support to enable them to realise their projects. Unlike virtually any bank, it is able to carry out far-sighted evaluations of opportunities and risks. Thanks to our many years of experience and our widespread network in the area of renewable energies, customers can rely on our ability to deliver suitable solutions to their financing needs. Possible subsidies are included in the financing arrangement.

2013

The year 2013 not only proved to be a good one, but the most successful financial year to date in the Energy Europe department. In this area, NORD/LB structured and concluded financing arrangements for 18 large and medium-sized projects. The bank financed all transactions as mandated lead arranger.

A SELECTION OF PROJECTS IMPLEMENTED IN 2013:

France

NORD/LB implemented an innovative financing vehicle for a German customer following two years of structuring. This vehicle allows project sponsor to bundle several wind farm projects in order to finance their construction, operation and marketing phase – even if they are in different project phases. These projects can then be sold on completion and removed from the vehicle.

In Picardy in Northern France, NORD/LB financed a large portfolio that included four individual projects for a major Japanese Group and a French energy supplier. The project was one of the biggest investments in wind farms in France during 2013. NORD/LB was in charge of structuring and coordinating the banking syndicate.

Great Britain

NORD/LB structured several major wind power projects in the United Kingdom in 2013. At the Burton Pidsea wind farm, a German developer called on the bank's expert knowledge of the UK market for the fifth time – which means he has realised almost his entire UK project pipeline using financing concepts from NORD/LB.

Germany

With a total investment volume of around € 86 million in a wind farm for a major German energy provider, NORD/LB completed one of the largest wind farm financing arrangements in the German onshore market.

Another large-scale project with a financing volume of around € 50 million was arranged for a customer from Bremen.

Ireland

For a global investor, NORD/LB structured an onshore project in County Tipperary with a financing volume of approximately € 70 million. This project marked the first time that financing with cover provided by Euler Hermes Kreditversicherungs AG was arranged on the Irish market.

GRI

"Guiding projects in renewable energies to long-term success is an integral component of our Group Sustainability Strategy 2020. With this in mind, we have developed specific guidelines on a range of issues including project financing, climate change and the environmental consequences of our corporate activities."

Thomas Stephan, Department Head of Energy Europe Existing Business at NORD/LB

SUPPORTING DEVEL-OPMENTS – BUILDING ON STRENGTHS

"By and in himself a man can accomplish very little; he is like Robinson Crusoe on a desert island. It is only in society that a man's powers can be called into full activity." This famous quote from philosopher Arthur Schopenhauer gets to the heart of the notion of "cooperation", as it is also practised at NORD/LB. A functioning team achieves excellent results – and gives each individual an opportunity to reach their full potential.

2013
Starting signal: Freiraum für Leistung

What makes a good employer?
At NORD/LB, the attractive overall package includes development prospects, fairness, team spirit, respect and the willingness to take responsibility. In addition, employees are given the necessary space to perform. This is the slogan used for NORD/LB's employer brand. The eponymous campaign "Freiraum für Leistung" (space to perform) was launched in 2013. This was designed to raise awareness of the performance culture at the bank.

SIGNAL EFFECTS EXTERNALLY AND INTERNALLY

With workshops, distributors in the company, advertising motifs, films on internal communication channels and on social networks, NORD/LB is sending out signals internally on the one hand while strengthening its external image on the other. This is particularly important with regard to the demographic change and the ever-increasing shortage of skilled personnel. Retaining employees over the long term and continuing to attract highly qualified and motivated junior staff will become a key strategic task. NORD/LB is already addressing these future challenges today.

A job at NORD/LB means …

- working both in Germany and abroad at one of the top 10 banks in Germany
- achieving success in a challenging environment
- creating individual solutions for a collective performance

A vibrant forum

NORD/LB employs over 7,000 people. The suggestions and opinions of this broad range of people are of fundamental importance for the development of the bank. Ultimately, the Group's existence is dependent on its corporate culture, which must remain open and accepting of change at all times. To involve employees more closely in internal procedures and to relay their feedback to management on a continuous basis, NORD/LB established the "WirZweiNull" working group. Employees from all departments in the company use it to exchange ideas across all hierarchy levels in order to address and promote issues such as barrier-free information flows, open communication and knowledge management.

2012

"We see ourselves as the engine for change in our corporate culture. In performing this function, we want to identify which success factors are relevant to a collaborative organisation like ours – and how these can be implemented as part of an open corporate culture."

Ron Große, WirZweiNull

The "WirZweiNull" working group dedicated to motivating staff by a process of inclusion commenced its work in 2012. In addition to its fixed group of participants, it also thrives from the input provided by a steady stream of new faces. This guarantees a continuous supply of fresh ideas. The working group collectively develops suggestions on how to increase employee identification with the Group, and how to boost initiative and motivation.

Representing diversity and equal opportunities

Promoting diversity has always been an important value at NORD/LB. Central to this is the provision of a working environment that is free of prejudices. This is the way that the bank can profit fully from the knowledge and skills of its employees.

All employees of NORD/LB should feel appreciated – irrespective of their gender, nationality, ethnic background, religion or ideology, disability, age, sexual orientation and identity. In accordance with this philosophy, NORD/LB signed up to the initiative "Diversity as an Opportunity – The Diversity Charter of Companies in Germany" in 2013. The patron of the initiative is Federal Chancellor Angela Merkel.

Equality extends to management level

In implementing the diversity charter, the initial focus at NORD/LB is not just on improving the position of women by significantly increasing the percentage of women – but also on ensuring greater diversity and equality in all areas of NORD/LB. This includes continuing to support work/life balance measures with the aim of also reaching an agreement for men to allow these aspects to be shared equally between men and women.

Women in management

22.7 %

The percentage of female managers at NORD/LB in 2013

With the "Women in management" initiative, NORD/LB has added emphasis to its goal of increasing the percentage of female managers at all hierarchy levels. The bank has already achieved a figure of 22.7 percent – a positive milestone. These sober figures reflect a positive career environment for women, which NORD/LB supports with special career guidance services and structured mentoring programmes. The focus for the next few years is on a voluntary commitment to reach a defined percentage of women in management positions at the bank.

Parental leave for fathers is becoming increasingly commonplace.

And although it is still unusual to see a male executive taking parental leave, a growing number of fathers are deliberately opting to take this step. One such father is Frank Gloe. He has worked at NORD/LB for fifteen years, five of which as head of organisational unit at the Credit and Securities Management Division. For the 44-year-old legal expert, parental leave was an entirely positive experience.

Mr Gloe, how did your manager react to your request to take parental leave?
My department head Mr Tornow was very open-minded from the outset and was fully supportive of my plans. We discussed the situation and agreed that I would split my planned two months of parental leave into two phases, rather than taking it in one chunk. This not only benefited the bank, but me as well because it gave me the opportunity to participate in two completely different phases of my son's early life – once immediately after the birth and later, when he was almost one year old.

What feedback did you receive from colleagues?
Also absolutely positive. In 2010, I was one of a few male managers to avail of this option. However, the issue of parental leave has since become much more commonplace for fathers. Based on my own experience, I can also contribute to this actively to this trend, as I understand the motivation.

Particularly for employees in senior management positions, this raises the question of how to deal with temporary replacement.
During my absence, my deputy covered my duties as well. Although two months is not that long, it goes without saying that I was nevertheless thankful that the work was handled with such flexibility by the team.

Would you also recommend to other male colleagues that they take parental leave?
Absolutely! Fathers should make us of this opportunity. Getting involved in the baby's daily routine gives you a completely different connection to your child. And NORD/LB is an employer that is very open to this and is also committed to family-friendly work practices at other levels. What I found more surprising was the amount of bureaucracy it involves, dealing with offices and authorities. In contrast, the internal procedures here were very straightforward.

Ready to help with donations and action

Flooded houses, burst dams, countless sand bags. Central Germany in particular was affected by the destructive flood waters that unexpectedly caused enormous damage. River levels from the Danube to the Elbe were higher than they had been for 500 years, with many locations recording unprecedented water levels. Along with countless other helpers, NORD/LB also knew: this situation calls for immediate action!

100,000 €

DONATIONS FOR FLOODWATER AID
IN SAXONY-ANHALT

"For those affected in the flooded regions, it was very important to have direct contact to us, the contact partners at their bank. And for us, it wasn't just about helping with formalities such as applying for flood aid. In many cases, it was simply a few words of comfort and encouragement that people needed from us after the terrible ordeal they had endured. Again and again, I experienced just how important cooperation on the ground is during my stints of emergency service helping the fire brigade in Pretzien."

Christian Ballerstedt,
adviser at Investitionsbank Sachsen-Anhalt

Enterprising collection campaigns

Together with Investitionsbank Sachsen-Anhalt, NORD/LB supported the fund-raising campaign initiated by the "Magdeburger Volksstimme" newspaper and the Paritätische association of social movements to provide assistance to the victims of flooding. In addition to private donations, the companies launched initiatives such as tombolas and auctions to support the good cause. In addition, some departments and locations cancelled their office parties or paid for these themselves. NORD/LB and Investitionsbank Sachsen-Anhalt then rounded the total sum collected up to € 100,000.

Tackling problems on the ground

However, Investitionsbank Sachsen-Anhalt and NORD/LB provided more than just financial assistance. During the flooding, many employees from Saxony-Anhalt were also at work in their communities, helping to prevent damage or carrying out reconstruction work. Those who had to protect their property or wanted to offer their services on a voluntary basis were immediately relieved of their office duties with full pay. Colleagues – even those who were not affected themselves – carried out important work on the ground where it counted.

GROUP MANAGEMENT REPORT

THE NORD/LB GROUP – BASIC INFORMATION

BUSINESS MODEL

NORD/LB Norddeutsche Landesbank Girozentrale (hereafter NORD/LB or the bank) is a registered public institute with registered offices in Hanover, Braunschweig and Magdeburg. Its head office is in Hanover. The owners of the bank are the federal states of Lower Saxony and Saxony-Anhalt, the Association of the Savings Banks of Lower Saxony (Sparkassenverband Niedersachsen, SVN) in Hanover, the Holding Association of the Savings Banks of Saxony-Anhalt (Sparkassenbeteiligungsverband Sachsen-Anhalt) and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania (Sparkassenbeteiligungszweckverband Mecklenburg-Vorpommern).

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

NORD/LB is a business bank, landesbank (state bank) and a central bank for the savings banks operating in Northern Germany and beyond with core regions with branches in Hamburg, Munich, Düsseldorf, Schwerin, London, New York, Shanghai and Singapore and a representative office in Moscow.

- As a business bank, NORD/LB offers financial services to private customers, corporate customers, institutional customers and the public sector. 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 participates in the structured financing of international projects, particularly in the energy, infrastructure, ship, aircraft and real estate sectors.

- As a landesbank for the states of Lower Saxony and Saxony Anhalt, it performs the functions of a central and clearing bank for the savings banks (Girozentrale). 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 acts as a central bank for the savings banks in Mecklenburg-Western Pomerania, Saxony Anhalt and Lower Saxony and is the partner for all of the savings banks in these states. It also acts as a service provider for savings banks in other German states such as Schleswig-Holstein. NORD/LB provides all of the services which the savings banks require for their activities.

In the NORD/LB Group, NORD/LB acts as the parent company, controlling all of the business activities in line with the strategic objectives, creating synergy effects, reinforcing customer divisions and bundling service offerings. The NORD/LB Group comprises among others

- Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen (hereafter Bremer Landesbank),
- Norddeutsche Landesbank Luxembourg S.A., 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 short for Öffentlichen Versicherungen Braunschweig: ÖVBS).

The bank also holds other investments as shown in the disclosures of the notes.

STRATEGIC DEVELOPMENT OF NORD/LB

In the annual strategy process NORD/LB develops and reviews as the parent company together with its subsidiaries Bremer Landesbank, Deutsche Hypothekenbank and the sub-group NORD/LB Luxembourg the strategic direction for the next five years. The strategy is developed at business segment level, ensuring that each business segment is focused on appropriately. The business segment strategies are developed by the aforementioned individual institutes for the business activities for which they are responsible. As a result particular attention is given to regional particularities and institute-specific competences. Next the strategies developed at individual-institute level are aggregated in an overall Group strategy. For example, in order to prepare the Group strategy for the Real Estate Banking Customers business segment, Deutsche Hypothekenbank develops a strategy for commercial real estate finance and Bremer Landesbank develops a strategy for community interest properties, before these are then brought together. Against the background of the different strategy-development levels, the strategic goals and the measures to achieve the goals are set at individual-institute level. The responsible institute representatives for the business segments are, however, organised in Konzernsteuerungskreise (Group Control Committees) which are responsible for developing and monitoring the Group strategies. The strategic direction is decided by the Erweiterter Konzernvorstand (Extended Group Managing Board) and the Gesamtvorstand (General Managing Board) for the individual institutes. In order to ensure the necessary transparency and the consistent control of the Group, NORD/LB participates in the supervisory bodies of its subsidiaries and investments.

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

The NORD/LB Group expects to continue to benefit from the high level of diversification in its business portfolio, which is characterised by management with the help of asset classes with varying market cycles. The savings bank network business, which is important for NORD/LB as a landesbank, the retail banking and the very granular and profitable corporate banking business will be reinforced in the business model. Renewable energies business will also play an important role in NORD/LB's business model. Here NORD/LB can point, not least of all due to its regional location in Northern Germany, to many more years of success and experience than its competitors. The financing of ships and aircraft will continue to be the mainstays of the business model. The importance of the overall portfolios in these business segments will be re-scaled with an eye to the future in order to obtain an even more balanced risk structure. Overall the NORD/LB Group aims to achieve in the long term a business mix which provides a balance between large-volume special finance business with ship and aircraft customers, energy and infrastructure customers and real estate banking customers on the one hand granular business with private and corporate customers, institutional customers and savings banks on the other.

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

In December 2013 the Managing Board approved the Sustainability Strategy 2020, which defines a common direction for the Group's activities. The strategy covers aspects of our corporate governance and the awareness of our responsibility towards customers, staff, society and the environment. NORD/LB wants to make use of the opportunities presented by global change, manage reputation and business risks in a responsible manner and in so doing remain a good investment for its investors. The Group Sustainability Strategy should ensure that the Group will remain successful in the long term and that it will meet its responsibilities as a "corporate citizen". The Sustainability Report, which complies with the standards of the Global Reporting Initiative (GRI), informs regularly about the progress made with the sustainability targets and also includes a progress report on its commitment for the ten principles of the UN Global Compact.

CONTROL SYSTEMS

Outline of the Control System

NORD/LB's control system is based on an annual process in which the strategic objectives are confirmed or revised in the spring by the Managing Board, based upon which the targets for the plan for the following year are set in the autumn. In a two-way process, the top-down/bottom-up planning is synchronised and completed by the year-end.

The key control indicators here are

Return on Equity (RoE)	RoE = Earnings before taxes / Long-term equity under commercial law (= reported equity capital – equity capital – revaluation reserve – earnings after taxes) Earnings before taxes = Operating result after risk provisioning, less extraordinary profit / loss, less servicing of silent participations
Return on Risk-adjusted Capital (RoRaC) and at business segment level	RoRaC = Earnings before taxes / Committed core capital (8 per cent (7 per cent) of the higher of the RWA limit and the amount called on) RWA = Risk-Weighted Assets
Cost-Income-Ratio (CIR)	CIR = Administrative expenses / (Total earnings including balance of other income / expenses)
Earnings before taxes	

RISK MANAGEMENT

The following description of risk management and the extended risk report were prepared based on IFRS 7. Furthermore, the provisions of the German Commercial Code (Handelsgesetzbuch, HGB) and the more specific German Accounting Standard DRS 20 are taken into consideration.

Integrated into these reports are parts of the qualitative risk reports of the NORD/LB Group according to § 26 a of the German Banking Act (Kreditwesengesetz, KWG) 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 https://www.nordlb.com/investor-relations/reports/.

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.

Consideration 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 2012, these include

- the parent company NORD/LB

and the subsidiaries

- Bremer Landesbank
- NORD/LB Luxembourg
- Deutsche Hypo
- 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.

General Risk Management

Fundamentals

The business activities of a bank inevitably involve the conscious 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. Risk management is primarily based on the controlling of risks.

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 and AT 4.5. The overall risk profile comprises the risk types relevant for the NORD/LB Group. A distinction is also made between material and non-material risks. Material in this context are all relevant risks which could have a negative impact on the NORD/LB Group's capital resources, earnings, the liquidity position or the achievement of NORD/LB 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, reputation risk, syndication risk and model risk. All material risk types are controlled by the NORD/LB Group's risk-management system. The material risk types consider all relevant risks.

Basic conditions for structuring this risk management process are specified for banks and groups of banks in the Minimum Requirements for Risk Management on the basis of § 25a of the German Banking Act. In accordance with these requirements, proper business organisation includes the specification of strategies on the basis of procedures for ascertaining and securing risk-bearing capacity, which comprises both risks and the capital available for covering these risks.

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

The fourth amendment of the Minimum Requirements for Risk Management published in December 2012 resulted in new requirements for risk management. Suitable measures have been taken for those new requirements where there was a need for action in order to ensure that they are implemented in due time.

The Managing Boards of NORD/LB and Deutsche Hypo decided on 30 June 2013 to announce the use of the waiver option by Deutsche Hypo in accordance with §2a no. 1 in the version of the German Banking Act applicable at this time. The profit and loss transfer agreement concluded for an indefinite period of time by Deutsche Hypo and NORD/LB constitutes the basic prerequisite for this. At the individual-institute level of Deutsche Hypo, following the announcement of the regulatory banking regulations concerning capital adequacy requirements at institute level, the requirements concerning the reporting of large exposures, the calculation and ensuring of risk-bearing capacity, the formulation of strategies and the establishment of processes to identify, assess, control, monitor and communicate risks no longer apply. The aforementioned requirements are, against the background of the regulatory management of Deutsche Hypo by NORD/LB, transferred to NORD/LB as the parent company.

As part of the realignment of the sub-group NORD/LB Luxembourg, in 2012 all of the market and back-office activities of NORD/LB CFB were integrated into NORD/LB Luxembourg. With the approval of the CSSF as, NORD/LB CFB's business activities are conducted by NORD/LB Luxembourg's market divisions. It is also fully integrated into the risk control of NORD/LB Luxembourg, which for its part is responsible for the implementation of the relevant risk control mechanisms in both companies. Capital adequacy is consequently reported on in a report for the NORD/LB Luxembourg Group.

Strategies

The responsible handing of risks is the uppermost priority in the business policy of the NORD/LB Group. The Group risk strategy, drafted with this in mind, overrides the risk strategies of the significant companies of the NORD/LB Group from a risk point of view. With regard to the organisation of risk management and the risk sub-strategies, the Group risk strategy is substantiated in the risk strategies of the significant companies from a risk point of view taking into account the respective business models.

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 and as and when required. All risk strategies contain information on the principles of risk strategy, the organisation of the risk management and on sub-strategies for risks relating to the material risk types.

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

The maximum risk capital is also allocated to the material risk types in the risk strategies on the basis of the RBC model. Most of the cover pool 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 2013 and discussed with the Supervisory Board after being passed by the respective Managing Board.

The risk strategies aim to achieve the efficient management of all material risk types and to achieve the transparent presentation of these risks to the management, the supervisory bodies and other third parties with a justified interest. Based on this, the significant companies of the NORD/LB Group from a risk point of view have a range of further instruments at operational level which ensure that there is sufficient transparency of the risk situation and structure the required limitation and portfolio diversification in a way which can be controlled and monitored. These instruments are described in detail in the NORD/LB Group's risk handbook and in the risk handbooks and relevant documents of the individual companies.

Furthermore, the NORD/LB Group has also made commitments in the restructuring plan agreed with the EU which are considered in the risk management.

Structure and Organisation

Responsibility for the NORD/LB Group's risk management lies with the Managing Board of NORD/LB. The Managing Board coordinates the Group risk strategy and its amendments in the Erweiterter Konzernvorstand (Extended Group Managing Board), which also includes the Chairmen of the Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo. NORD/LB CFB, as a subsidiary of NORD/LB Luxembourg, is represented by NORD/LB Luxembourg in the Erweiterter Konzernvorstand. After the Group risk strategy has been passed by the Managing Board of NORD/LB, it is submitted to the Supervisory Board of NORD/LB for its information and discussed with it.

The responsible Chief Risk Officer (CRO) in the Managing Board of NORD/LB bears, in concert with the heads of the market departments, responsibility for drawing up and monitoring the Group risk strategy. This includes the monitoring of material risks including the risk reporting at Group level. At individual institute level responsibility lies with the respective Managing Board member or the risk officer.

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

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

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

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

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

- RWA(+) Board: The RWA(+) Board is responsible for generating impetus in the operational control of risk-weighted assets (RWA). In addition to the Head of the Finance and Risk Control Division and the representatives of the market divisions of NORD/LB, among others the representatives of the Credit Risk Management Division, Finance Division and the significant subsidiaries from a risk point of view have voting rights. In this committee the relevant information on RWA and shortfall development and on economic and regulatory equity is analysed and combined in a forecast. In the RWA(+) Board possible measures are compiled, assessed and controlled in respect of their implementation.

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

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

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.

The Group audit is carried out in addition to the internal audits in the subsidiaries. The focus is on the consistency of the subsidiaries' business and risk strategies with the business and risk strategy of the NORD/LB Group, Group-wide risk-bearing capacity, structures, procedures, risk management processes and risk control processes within the scope of Group-wide risk management, Group reporting, Group accounting, finance and risk reporting to the Konzernvorstand the effectiveness of the subsidiaries' Internal Audit departments. The scope, objectives, tasks, role and instruments of the Group audit are defined in the Group Audit 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 NPP.

The essential aim of 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-Bearing Capacity Model

The RBC model constitutes the methodical basis for monitoring compliance with the NORD/LB Group's risk strategies. This monitoring is carried out at group level by NORD/LB's Finance and Risk Control Division and by the respective risk control divisions at individual institute level. The Finance and Risk Control Division's Strategy and Models Department is responsible for the overall control and development of the Group-wide RBC 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 pillars of going concern, gone concern and regulatory framework, in which the respective material risks (risk potential) are compared with the defined risk capital.

The RBC model assumes the going-concern scenario to be the decisive approach. The overriding objective of this control committee is the independent continuation of the business as a going concern based on the NORD/LB Group's current business model even if all of the available cover pool is consumed by risks that have materialised. In the going-concern scenario risk potentials that are economically-calculated using a uniform confidence level of 95 per cent are compared with a risk capital which is calculated for the scenario of a bottleneck of available capital in accordance with the German Solvency Regulation (Solvabilitätsverordnung, SolvV) with fixed minimum ratios (total capital and core capital) and adjusted for various aspects.

The second consideration level is the gone-concern scenario, which represents a secondary requirement in the RBC model. The gone-concern scenario considers a higher confidence level from a risk potential point of view of 99.9 per cent and compares the corresponding economically-calculated risk potentials with a risk capital that is based on the full regulatory capital.

The third consideration level of the RBC model is the regulatory framework and the official notification of capital adequacy in accordance with the German Solvency Regulation. It considers the risk potentials calculated in accordance with regulatory requirements. The regulatory consideration is a strict supplementary condition in the RBC model.

On the capital side, both in the gone-concern scenario and in the regulatory framework, tests are based on equity and equity-like components which according to banking regulations are to be classed as equity. In the gone-concern scenario the risk capital is adjusted to take into account various aspects (e.g. with the consideration of hidden liabilities). In the event of the capital required to cover risks in the gone concern scenario being consumed, it would basically no longer be possible for the bank to continue under otherwise changed assumptions.

The configuration of the RBC model ensures that the gone-concern scenario can provide stimulus for the going-concern scenario, which is relevant for the assessment of the risk-bearing capacity. However, impetus directly relevant for control is provided by the going-concern scenario. 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 scenario.

When calculating risk-bearing capacity, risk calculations 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 Groups risk situation. These risk concentrations are reported and monitored on a regular basis in the context of risk-bearing capacity with targeted stress tests.

In an extensive interview process, which covers a range of positions in the bank, issues are addressed behind which distinct concentrations might lie. These are prioritised and, if they are deemed significant, are subjected to a detailed scenario analysis. This scenario analysis is initially triggered by the assumptions concerning concentration and diversification made in the measurement of risk potentials. In this respect this process constitutes a further independent method for assessing concentrations. The aim is to develop scenarios in which all of the material consequences can be captured in the bank's relevant key indicators.

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 Finance and Risk Compass prepared on a quarterly basis and the preliminary summary of the risk situation of NORD/LB and the risk-bearing capacity reports (RBC reports) prepared in the subsidiaries on at least a quarterly basis constitute the key instrument for the internal reporting of risks 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.

Credit Risk

Credit risk is a component of counterparty risk and is broken down into traditional credit risk and counterparty risk in trading. Traditional 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 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.

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 lending business and it positions itself with its customers accordingly.

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

New lending business focuses on concluding agreements with customers with a good credit rating. The NORD/LB Group also concentrates on business with borrowers of good standing in the capital market business. Business is only conducted with customers who fall outside of the above credit rating focus only after careful consideration of their opportunity and risk profiles.

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. In accordance with the business strategies of the NORD/LB Group and NORD/LB, the focus in industries is on commercial shipping, aircraft, energy, the automotive industry (including automotive banks), real estate and the continually reducing portfolios of credit institutions, which are limited strategically to prevent risk concentrations.

The NORD/LB Group strives to achieve a highly diverse business portfolio by managing it with asset classes in different market cycles. Here NORD/LB aims to achieve in the long term a business mix which provides a balance between large-volume special finance business with ship and aircraft customers, energy and infrastructure customers and real estate banking customers on the one hand granular business with private and corporate customers, institutional customers and savings banks on the other. This mix should prevent cluster risks and make the portfolio on the whole less vulnerable to cyclical risks. At the level of the NORD/LB Group, no business segment should make up more than one quarter of the RWA and income of the NORD/LB Group. On the income side, in the long term a fifty-fifty mix between special finance and other business activities is sought.

Structure and Organisation

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

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

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

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

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

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

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

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

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

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

At Bremer Landesbank independent back office tasks are carried out by the Back Office Financing department. 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 risk provisioning, and shapes the policies and procedures for the lending business. Exposures beyond the scope of rating categories 1 to 8 are supervised more intensively or are handed over for restructuring to the unit bearing the same name. This unit is principally responsible for deciding on how an exposure is to be monitored in future or whether it is to be cancelled and coercive measures are to be implemented by a separate back office unit. The tasks relating to independently monitoring risks at portfolio level and to independent reporting are the responsibility of the Risk Control Division in the area of overall bank management and the Back Office Management group.

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

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

Securities

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

The securities are assessed both at the time the loan is granted and during the subsequent ongoing (normally at least yearly) monitoring as to whether they appear to be disposable at the assumed value based on foreseeable economic developments during the (remaining) term of the loan. They are therefore reviewed on a case-by-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, chattel 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. In addition to this, external legal opinions are obtained and the preparation of contracts is assigned to authorised law firms. At the same time the relevant legislation is monitored continually. For foreign collateral, monitoring is performed by international law firms.

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 borrowers 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, as having risk concentration or having strong risk concentration. The exposure limits are based on the risk-bearing capacity of the NORD/LB Group.

Securitisations
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 banks own books can transferred to other market participants (the NORD/LB Group as an originator) or additional credit risks are taken (the NORD/LB Group as an investor or sponsor). As a sponsor, the NORD/LB Group makes liquidity facilities available in order to improve the credit quality of the institute's own asset-backed commercial paper conduit programme Hannover Funding. The NORD/LB Group also conducts securitisation activities as an arranger of structured transactions in the interest of customers.

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. The NORD/LB Group uses a risk classification system authorised by the regulatory authorities in accordance with the German Solvency Regulation as well as other approaches to assess the risk of securitisation transactions. The NORD/LB Group pursues a conservative exposure strategy in its role as investor and sponsor.

NORD/LB's exposure strategy focuses on a reduction portfolio and customer-oriented new business. Here the new business concentrates on bigger, selected customers of NORD/LB and offers the financing of receivables with the conduit Hannover Funding. The reduction business concentrates on sales and the reduction of RWA while safeguarding profit interests.

NORD/LB Luxembourg acted for the first time in the year under review as a sponsor and investor of two securitisation transactions. As a sponsor, it provides a liquidity facility for the conduit Hannover Funding, as an investor the bank purchased receivables; this purchasing of receivables was guaranteed fully by NORD/LB. When measuring the value of securitisations, the bank uses the standard regulatory approach or the internal ratings-based approach (IRBA).

Bremer Landesbank and Deutsche Hypo have no longer acted as investors in recent years in securitisation transactions. Bremer Landesbank no longer has a securitisation portfolio as at 31 December 2013; there is a strategy to reduce the remaining portfolio of Deutsche Hypo. Securitisation business has so far not been relevant for NORD/LB CFB.

Securitisation positions held by the NORD/LB Group are mainly classified low risk and were reduced further in the period under review.

Assessment

Credit risk is quantified with the key risk figures expected loss and unexpected loss. Expected loss is determined on the basis of probability of default taking into account recovery rates. The risk premium, which must be collected in order to cover expected loss, is calculated using the same methods throughout the Group.

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

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

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

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

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

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

Reporting

NORD/LB's Finance and Risk Control Division draws up among other things the Finance and Risk Compass for NORD/LB which shows and analyses all the significant structural features and parameters required for controlling the credit portfolio of NORD/LB. The Finance and Risk Compass also 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 (CRM).

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

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

Investment Risk

Investment risk is another component of counterparty default 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).

Strategy

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

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

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

Structure and Organisation

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

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

The result of the 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 companies from a risk point of view) are considered in the internal reporting of the NORD/LB Group at the level of individual risk type. The significant investments based on qualitative reasons of the NORD/LB Asset Management group and the Öffentliche Versicherungen Braunschweig group are reported together with the important and other investments as investment risk, but are subjected to closer analysis by the divisions included in Investment Management.

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

Control and Monitoring

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

Generally all investments are monitored centrally by NORD/LB's Investment Management. However, some subsidiaries, in particular Bremer Landesbank, have their own Investment Management Department.

The Erweiterter Konzernvorstand the Konzernsteuerungskreise control all significant investments.

Assessment

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

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

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

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.

Reporting

Investment Management reports to the Managing Board and the supervisory bodies of NORD/LB twice a year on the investment portfolio. The report includes among other things an analysis of current development and the strengths and weaknesses of the investments.

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

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

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

Market-price risk

Market-price risk is defined as the potential losses which may be incurred as a result of changes in market parameters. With market-price risk a distinction is made between interest-rate risk, currency risk, share-price risk, fund-price risk, volatility risk, credit-spread risk in the banking book and raw-material 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 portfolio and the liquidity reserve in accordance with the German Commercial Code.

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

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

Strategy

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

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

Credit investments in securities and credit derivatives result across the group in significant credit spread risks in the banking book. The NORD/LB Group generally aims to use the credit spreads to maturity and to gradually reduce the amount of these credit investments by trimming down the portfolio.

Structure and Organisation

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

The strategic control of market-price risks is supported by the Asset Liability Committee (ALCO). The ALCO is an advisory body that generally 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 action are developed as a basis for decision-making for the Financial Markets Director. The members of NORD/LB's ALCO with voting rights are, in addition to the director responsible for Financial Markets, the Managing Director of the ALCO and the heads of the trading divisions. Representatives of the Finance and Risk Control Division, the Research/Economy Division, the Finance/Tax Division and the director responsible for the Finance and Risk Control Division also take part. The group's ALCO also includes the representatives of the significant companies from a risk point of view. The measures passed by the Managing Board are implemented by the Bank Assets Allocation and Treasury divisions and the relevant units of the subsidiaries.

Market-price risks are monitored in NORD/LB by the Risk Control Department in the Finance and Risk Control Division, which in accordance with MaRisk operates independently of divisions responsible for market-price risk control in terms of both function and organisation and performs comprehensive monitoring, limiting and reporting activities for NORD/LB (including its foreign branches) and the NORD/LB Group. This also includes calculating amounts eligible based on the internal risk model for the quarterly SolvV report. The responsibility for the development and validation of the risk model also lies with the Risk Control Department.

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

Control and Monitoring

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

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

The Financial Markets units also include the respective Treasury Divisions, which plan for each institute the interest-rate, liquidity and currency risks from lending and deposit business in the banking book. The planning is generally done on a macro-control basis. Securities, interest derivatives and money and foreign exchange products are used as hedges. Details on the accounting treatment of hedging instruments and the type of hedges can be found in the notes (in particular in Note (7) g Hedge accounting and Note (66) Underlying transactions in effective hedges).

Assessment

The VaR ratios are calculated daily using the historical simulation method. In the year under review the methodology and risk system in the NORD/LB Group were standardised. A unilateral confidence level of 95 per cent and a holding period of one trading day are used across the group. At the end of each quarter NORD/LB also prepares a VaR calculation for the NORD/LB Group based on the above parameters when calculating the risk-bearing capacity.

The VaR calculation is based on historical changes to risk factors over the previous twelve months. The models take account of correlation effects between risk factors and sub-portfolios. The calculation of credit spread risks in the banking book was also switched in the year under review to a VaR model across the group for operational control.

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

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

The validation of the VaR model shows an improvement in the number of backtesting exceptions in NORD/LB's banking book in the period under review, which was mainly attributable to technical improvements. The remaining exceptions result primarily from fundamental risks, i. e. differences in the scope of movements in the various swap curves within the same currency leading to higher daily fluctuations in the cash value in the Treasury Division. Until the planned inclusion of these risks in the VaR model, a reserve item will be considered in the RBC model. The validation of the risk model in the NORD/LB CFB shows in addition that there is need for action regarding the risk assessment of bond options in the investment book. Until the presentation of these options in the VaR model has been corrected, a conservative add-on amount will be calculated and added to the VaR of NORD/LB CFB.

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. The risk factors observed were selected in such a manner that material risks relating to the entire portfolio of NORD/LB and to the individual sub-portfolios of the trading divisions are covered.

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

NORD/LB also uses as an individual institute the VaR model for calculating equity capital required for general interest-rate risks and for general and special share-price risks in accordance with the German solvency regulation at all relevant locations. For the remaining types of risk from a regulatory point of view, in particular interest-rate risk and for the subsidiaries, the standard method is applied.

Reporting

In compliance with the Minimum Requirements for Risk Management, the Risk Control Department, which is independent of the divisions responsible for the positions, reports daily on market-price risks to the respective Director. In addition to this, the market-price risks under a gone concern scenario, which also include the credit spread risks in the banking book, are reported on at least a monthly basis. The Managing Board is informed in detail once a month about NORD/LB's and the NORD/LB Group's market-price risks and profit/loss position of the trading divisions.

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.

Liquidity Risk

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

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

- Refinancing risk constitutes potential declines in profit/loss resulting for the NORD/LB Group from the worsening of the banks 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. By considering the individual currencies, spread risks from cross-currency swaps will also be considered.

- Market liquidity risk defines the 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.

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 funding strategy is derived from the risk strategy and the risk-bearing capacity of NORD/LB and allows term transformation to contribute to earnings.

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

In the Global Group Liquidity Policy the business policies for liquidity risk management in the NORD/LB Group are specified. The individual institutes of the NORD/LB Group also have liquidity control policies which describe the basic strategic guidelines for ensuring a sufficient supply of liquidity. Liquidity management measures in cases of emergency and in crisis situations are specified in contingency plans.

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

Structure and Organisation

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

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

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

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

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, the sub-group NORD/LB Luxembourg and Deutsche Hypo 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.

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 progress is also considered 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, as at the reporting date describing a market environment which is characterised by economic problems in the periphery countries as well as the risk of high loan losses, particularly in the area of ship financing. Analysis is based on liquidity cash flows and covers the coming twelve months on a daily basis. For products without fixed liquidity flows, optional components (e. g. from irrevocable credit commitments), planned new business and refinancing opportunities, assumptions are made in accordance with the market situation which are subject to regular validation.

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

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

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 Pfandbriefe.

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

Assessment

The NORD/LB Group calculates the utilisation of volume structure limits for the various maturity bands on the basis of a liquidity maturity balance sheet for the entire item, which essentially reflects the standard case. Liquidity risk is quantified in a risk-bearing capacity concept resulting from a present-value consideration of the funding risk.

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

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

Reporting

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

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

The Managing Board is informed in detail in the monthly report on market and liquidity risks of the NORD/LB Group's liquidity risk situation. Information is also provided on a quarterly basis in NORD/LB's Finance and Risk Compass.

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 the German Liquidity Regulation for the entire bank and each location is submitted to the Bundesbank, the control divisions and to the Managing Board of NORD/LB once a month.

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

Operational Risk

Operational risks are possible and from the viewpoint of NORD/LB unintended events which occur as a result of the inadequacy or failure of internal procedures, employees and technology or as a result of external events and result in a loss or have a very negative consequence for the NORD/LB Group (e.g. infringement of the law). Legal risks are included, strategic risks and business risks are not.

In accordance with this definition, legal risks, risks due to a change in law, compliance risks, outsourcing risks, dilution risks, fraud risks and vulnerabilities in contingency and crisis management are included in operational risk.

- 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. The risk of a change in law is the risk of a loss due to new laws or regulations, a disadvantageous change to existing laws or regulations or their interpretation or implementation by the courts. Legal risk only exists in the banks external relations.

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

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

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

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

Strategy

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

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

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

Structure and Organisation

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

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

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

The operational risks of Bremer Landesbank, the sub-group NORD/LB Luxembourg and Deutsche Hypo 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 controlling of operational risks for Deutsche Hypo has been largely outsourced to NORD/LB. The methods and guidelines which apply throughout the Group are defined by the Finance Risk Control Division of NORD/LB.

Control and Monitoring

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

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

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

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

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

Staff risk is countered by an appropriate level of staff in terms of quality and quantity. In order to ensure that there is an appropriate level of staff, the NORD/LB Group pays particular attention to training and further education as well as its target number of employees. The aim is to ensure that all employees have the required skills so that they can perform their tasks properly and efficiently.

Staff shortages are included in the contingency planning. Staff-related risks are reduced by a range of measures. The requirements of the Institute Remuneration Act (Institutsvergütungsverordnung) are met in the NORD/LB Group. The remuneration report can be found at https://www.nordlb.com/investor-relations/reports/.

A balance between work and family life is supported by a family-friendly personnel policy which should encourage staff to remain with the NORD/LB Group long term. Ensuring that staff stay healthy is a top priority, because it is only with healthy and capable staff that the bank can continue to provide its customers with high-quality services in the long term. Besides offering a wide range of personal preventive health measures, the bank's health management focuses on improving working conditions as required with the involvement of management.

In order to prevent criminal acts, money laundering, the financing of terrorism and other risks to compliance, the Group has established comprehensive protection and prevention measures. These are verified continually by a range of control and monitoring activities and developed continually on the basis of institute-specific risk analyses. If significant shortcomings should be revealed, corrective measures will be taken and their implementation tracked.

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

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

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

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

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
- ensuring the effectiveness and efficiency

of the accounting

The accounting-related ICS is integrated into NORD/LB's overall ICS concept and consists of a hierarchy of controls and key controls which are to be carried out periodically or as and when required and the results of which are to be documented. The key controls are reviewed annually with regard to their appropriateness and effectiveness.

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 / Tax Division of NORD/LB. Many accountable facts are already recorded in the market and back-office divisions in upstream systems of NORD/LB and its subsidiaries and are already subjected there to controls with regard to verification, completeness and assessment. There are also controls here with regard to the correct recording of data which control the reporting of facts and the preparation of the disclosures in the notes.

The accounting processes of NORD/LB, its foreign branches and significant subsidiaries from a risk point of view are basically structured independently and they have their own accounting-related control processes.

The closing entries of all of the companies included in the consolidation are provided online and consolidated via a SAP module for business consolidation. The consolidation process is subject to a documented catalogue of controls. Manual processes are subject to the four-eyes principle.

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

The accounting process is monitored in the Finance / Tax 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.

Assessment

The NORD/LB Group collects data on losses from operational risks in a loss event database, there is a minimum limit of € 1,000. Data in the loss database provides the basis for analyses in support of risk management and is an important element of the statistical / mathematical risk model developed by the bank. The significant companies from a risk point of view of the NORD/LB Group and the NORD/LB Asset Management group are included in the collection of loss events.

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

With the help of the risk assessment method applied in NORD/LB, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo, NORD/LB CFB and the NORD/LB Asset Management group, the recording of data concerning past losses is supplemented with future components. Expert appraisals on the impact of specific scenarios provide a detailed insight into the risk situation of the individual bank divisions so that relevant measures can be derived if necessary. The scenarios and areas where data is gathered are selected on a risk-oriented basis and on the basis of an analysis of various data sources (e. g. loss events and audit reports). The results are included in the internal model and as a result improve the measurement accuracy.

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

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

An allocation process which combines size indicators with risk-sensitive elements is used to distribute the model results to the individual institutes. The models parameters are regularly subjected to a comprehensive validation and stress tests. Mitigation effects due to insurance or other instruments used to transfer risk are currently not considered in the quantification model. The NORD/LB Group considers the use of customary insurance products to be part of active risk control.

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

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 (via the Finance and Risk Compass) and the responsible divisions as and when required and at least once a year.

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

ECONOMIC REPORT

GENERAL ECONOMIC AND INDUSTRY-SPECIFIC ENVIRONMENT

Rate of global economic growth increased during the course of 2013.

In 2013 global economic growth started off at only a moderate rate. After a poor start to the year, positive economic forces gained the upper hand and global industrial production picked up again from the middle of the year. The eurozone came out of the stubborn recession in the spring. What helped here was that, unlike in previous years, there was no dramatic relapse concerning the debt crisis. The sentiment indicators improved during the course of the year in the major currency regions and reflect the increasing optimism among businesses and consumers. International trade also gathered momentum in the second half of the year as production picked up.

German economy recovered quickly from economic dip in 2013.

Germany

After a heavy fall in gross domestic product at the end of 2012, economic output stagnated in the first quarter. This was due not only to the moderate economic growth, but in particular to the weather conditions. In the remainder of the year the German economy recovered from the economic dip; in spring growth was supported by the catch-up effects following the long winter. What has also helped here is that the eurozone came out of recession in spring and has since maintained its recovery, albeit at a moderate rate.

Private consumption was again the mainstay of the economy in 2013. Private consumption expanded by 0.9 per cent compared to the previous year and contributed half a percentage point to GDP growth. Real purchasing power benefited from the significant slowdown in price inflation to 1.6 per cent for the year, measured against the Harmonised Index of Consumer Prices. In particular employment developed very positively. The number of people in gainful employment rose due to the high level of immigration and recorded the highest level since reunification.

Eurozone

Eurozone has come of recession.

As expected, the eurozone came out of the recession that began in the autumn of 2011. Following a very weak final quarter in 2012, economic output only contracted slightly in the first quarter of 2013 compared to the previous quarter. This fall in GDP at the start of the year was moderate given the dampening effect of the extreme weather conditions in large parts of Europe on production. This then resulted in catch-up effects in many European economies in spring. However, as Italy and Spain were still in recession in at least the second quarter, real GDP for the whole eurozone only rose by a moderate 0.3 per cent in the second quarter. By the end of the year economic output picked up again and the economic recovery broadened.

USA

Government policies have had a very dampening effect on the economy. While fiscal policy initially resulted in a degree of consumer reticence and reluctance to invest, it was specifically the end of tax relief and the automatic reduction in spending that were felt in the private sector in the first quarter of 2013. The inability of the politicians in Washington to compromise resulted on the one hand in a massive brake on growth of an estimated good one percentage point, but it also resulted in a significant reduction in the budget deficit on the other. When a solution was not found to the budget dispute in October, a government shutdown with the temporary closure of public authorities took place for 16 days. Agreement was finally achieved, putting an end to this period of extreme uncertainty.

In order to boost the economy, the Federal Reserve had continued its expansive monetary policy with a $ 85 billion bond-buying programme (Quantitative Easing 3, QE3). After the Federal Reserve indicated in May that it would cut back on QE3 in the remainder of the year, the announcement of its reduction that had been expected in September was not made until 18 December and this can, in view of the good economic data for the US, be considered to be appropriate.

Growth rate accelerates in the second half of the year in the USA.

The USA continues to fair positively compared to many other regions in the world and its moderate recovery has even sped up of late.

ECB continued expansive monetary policy.

Financial Markets and Interest Rates

The recovery in the financial markets that had already begun in 2012 stabilised. The fact that the situation in the financial markets had such a settling effect is due to much of the policy of the European Central Bank (ECB) since 2012. In 2013 its policy was no longer characterised so much by acute measures to combat the crisis, but above all by the sluggish economic recovery and significant reduction in inflationary pressure in the past year. The ECB subsequently lowered the tender rate and reacted surprisingly quickly in November to the significant fall in the rate of inflation to 0.7 per cent compared to the previous month with a further reduction in the interest rate for main refinancing operations to just 0.25 per cent. The ECB once again refrained from setting a negative interest rate for the deposit facility and left it at zero per cent, only the rate for the marginal lending facility was lowered in line with this by 25 basis points. ECB President Mario Draghi also announced that the main refinancing operations will continue to be conducted until July 2015 as fixed-rate tender procedures with full allotment. There will also be no changes for longer-term refinancing operations with a term of up to three months until at least mid-2015.

Share markets recorded significant gains in 2013 – yields on German bonds recovered and briefly climbed to above 2 per cent.

In 2013 many share indices recorded new highs. On 30 December the German share index DAX reached 9,589 points (closing price) and was therefore almost 1,800 points above the level recorded at the start of the year. Yields of German government bonds with ten-year residual terms fluctuated between 1.17 per cent recorded at the start of May and the high for the year of 2.05 percent, which was recorded for a brief period in mid-September. Yields of German government bonds subsequently fell gradually, particularly following the surprising delay in the slight reduction in monthly asset purchases by the Federal Reserve originally expected for September. Additional pressure was also placed on the yields by the significant fall in inflation in October and the prompt reaction to this by the ECB. However, good economic data had a positive impact in December, and as a result yields on ten-year German government bonds finished the year at 1.92 per cent. The swap curve in the eurozone moved basically parallel to the yield structure curve for German government bonds, whereby government swap spreads contracted slightly towards the end of the year. The rise in yields of US government bonds with longer maturities was much more pronounced. From the start of May to the end of December the yield of ten-year bonds rose by a good 140 basis points from 1.6 per cent to a good 3.0 per cent. The development of the US swap curve was closely linked to the movements in the market for US government bonds. The spreads of other European government bonds German government bonds narrowed further in 2013. Money market rates remained largely stable as expected in the past year. Since mid-January the 3-month-Euribor was just above 0.2 per cent, only at year end rose somewhat to almost 0.3 per cent.

The tense liquidity situation marked in particular in 2008 and 2011 by the leap in spreads between unsecured and secured money market rates has calmed significantly in the European interbank market in the past year. In this environment, and favoured by the improved credit standing of banks in the eurozone, EUR/USD cross currency basis swap spreads have narrowed across all maturities. The US dollar liquidity required by banks in addition to funding in order to refinance their exposures in foreign currencies was therefore much more readily available and at more favourable rates than at the peak of the European financial market and national debt crisis. The standing swap agreements concluded from the end of October by the major issuing banks, including the ECB, and the Federal Reserve Bank also provided a significant degree of planning reliability for institutes requiring US dollar liquidity. For the time being the banks were able to fall back on liquidity-generating transactions with one-week and three-month maturities. The EUR/USD cross currency basis swap spreads have since stabilised across the entire curve in a band between –5 and –10 basis points. The ECB subsequently suspended the supply of liquidity with three-month transactions.

Aircraft

Positive development in the commercial aviation industry in 2013.

The commercial aviation industry can look back on an on-the-whole pleasing 2013. In particular global passenger transport (domestic and international) (RPK) performed strongly in 2013 in line with the forecasts made by the International Air Transport Association (IATA) with growth of 5.2 per cent.

Growth in the air freight sector remained fragile in 2013. According to the IATA, global air freight (FTK) is likely to have grown moderately by 1.4 per cent in 2013. The significant increase in capacity with additional freight capacity (belly capacity) following the delivery of new passenger aircraft depressed the market. However, average utilisation in the air freight sector rose slightly in 2013 to an estimated 45.3 per cent (2012: 45.2 per cent).

Increase in overall profit for airlines worldwide.

According to estimates by the IATA, the net profit of airlines worldwide is expected to have been $ 12.9 billion in 2013, while the net margin is expected to have been approx. 1.8 per cent. Structural and efficiency improvements had a positive impact on profitability in the airline industry.

High level of order activity at Airbus and Boeing in 2013.

Order activity was high in the market for civil aircraft with more than 100 seats in 2013.

Shipping

2013 was another crisis-ridden year for the shipping sector.

2013 was another crisis-ridden year for the shipping sector. The Chinese market remained slightly below original growth expectations, while the economy in Europe was unable to provide any impetus. On top of this, there was also the uncertain environment in the Mediterranean. In the USA, the issue of energy supply received a lot of attention, and this had an effect in particular on the tanker market.

In particular the container sector had to endure another difficult year with overcapacity, the commissioning of an increasing number of new large container vessels, the resulting domino effects and continuing pressure on the charter market.

The tanker sector only started to show signs of recovery towards the end of the year. Hitherto the market has been affected by the continuing problems in the North African oil fields, rising oil production in the US and the associated reduction in imports and the change in China's demand behaviour.

In the bulk goods sector China once again proved to be a key factor, with its increase in coal stocks and iron ore imports having an impact. The Baltic Dry Index tripled, driven primarily by the increase in demand in the Capesize segment and also supported temporarily by the smaller bulk segments (in particular Panamax). Slight increases in the prices of newbuilds with at the same time an increase in order book numbers in the bulker sector fuelled hopes that the market was bottoming out.

In contrast to the three core sectors, the cruise ship sector continued to enjoy a high level of interest, with all of the participants having a positive year. This niche industry was boosted by stable order book data, booming demand in Europe and rising levels of consumption.

Real Estate

With a total volume of $ 549 billion, global investment in commercial real estate in 2013 was 18 per cent above the previous year's figure, the highest level in the last seven years.

Global investment in commercial real estate rose by 18 per cent in 2013.

The German commercial real estate market achieved an investment volume of € 30.7 billion in 2013, more than one fifth above the previous year's result.

Germany – Investment market recorded best result since 2007.

The stable environment compared to the rest of Europe, the low interest rate policy of the ECB and the search for profitable investment opportunities were the significant drivers of the further increase in turnover. The share of foreign investors was around one third of the total volume and was, in relative terms, a little lower than in the previous year.

€ 154 billion was invested in the European commercial real estate markets in the past year. This equates to an increase of around 20.3 per cent compared to the previous year.

Investments in European commercial real estate have risen.

Great Britain consolidated its position at the top of the European investment market. The transaction volume totalled € 55.7 billion. Office properties continue to account for most of the transaction volume, whereby investors are increasingly considering other types of use in their investment decisions in order to diversify the risks of their portfolios.

In France the economic recovery kept everyone waiting in 2013. Poor economic growth and the fall in the number of people in employment have resulted in suppressed demand of late in the office letting markets.

The Benelux countries increased their investment volume in 2013 compared to the previous year.

In Poland, economic development in recent years has been continually above the European average. Due to the robust economic situation, the Polish investment market for commercial properties has become increasingly established among foreign investors.

SIGNIFICANT EVENTS IN THE FINANCIAL YEAR

Capital Measures

In 2013 NORD/LB continued the capital-boosting programme launched in 2011. This mainly concerned capital measures in NORD/LB in the year under review. In NORD/LB's significant subsidiaries (Bremer Landesbank, Deutsche Hypo, NORD/LB Luxembourg and NORD/CFB) there were no significant capital measures.

In the spring of 2011 NORD/LB introduced a capital-boosting programme with which the bank prepared for the increased minimal capital requirements placed on banks (Basel III). These requirements have since been adopted in EU law with the EU Capital Requirements Regulation (EU CRR) which entered into force at the start of 2014. Significant components of the capital-boosting programme were extensive measures to optimise the capital structure and to boost the core tier 1 capital that were successfully implemented in 2011 and 2012, limiting of risk-weighted assets (RWA), the retention of profits and the sale of investments. With the implementation of in particular the capital measures in 2011 and 2012, NORD/LB has created the conditions at group level so that the minimum requirements of the EU CRR and possible additional banking regulatory requirements of concerning the required level of core tier 1 capital can be met.

In order to boost its equity ratio, however, NORD/LB also further reduced its RWA and retained earnings from 2012. In addition, in order to optimise the capital structure, a number of silent participations held by special purpose entities totalling € 400 million were cancelled in 2013. At the same time capital notes which had been issued by these special purpose entities in order to refinance the silent participations and purchased by NORD/LB in 2012, were called in and paid back by the special purpose entities.

In order for the capital measures to be implemented in 2011 and 2012, the measures needed to be reviewed and approved by the EU Commission on the basis of a restructuring plan submitted by NORD/LB. This plan includes commitments by NORD/LB which define the framework conditions and restrictions that are to be complied with in order for NORD/LB's targets to be met. In accordance with one of these commitments, NORD/LB tendered an offer in 2013 to the holders of the remaining capital notes held by the aforementioned special purpose entities in order to reduce the burden of servicing the silent participants/capital notes at Group level. In reaction to the offer, NORD/LB was offered some of the remaining capital notes for purchase.

Before the offer to purchase the capital notes, NORD/LB took on subordinated liabilities in the amount of € 300 million in 2013 in order to implement a banking regulatory requirement; it had to ensure that it had adequate replacement capital in accordance with regulatory law for the silent participations lost due to the purchase of the capital notes.

In addition to the capital-strengthening programme, the states of Lower Saxony and Saxony-Anhalt have provided a guarantee since August 2012 for the mezzanine tranche of a credit portfolio of NORD/LB brought into a securitisation structure. This guarantee is of a purely precautionary nature and may in principle be used by NORD/LB if needed until the end of 2014. The guarantee was not utilised by the bank in 2013.

However, from the viewpoint of NORD/LB, the guarantee loses its potential equity-relief effect as the maturity rises and therefore also loses its economic efficiency. Therefore the bank concluded a guarantee for a largely identical credit portfolio with a private guarantor in 2013 which is expected to take effect in the first half of 2014 and will initially reduce RWA significantly. From the time this guarantee becomes effective, the guarantee provided by the states of Lower Saxony and Saxony-Anhalt will no longer be able to be drawn on by the bank due to the largely identical nature of the underlying credit portfolio.

Efficiency Improvement Programme

NORD/LB decided at the start of 2011, with the agreement of its owners, to stabilise the administrative expenses of the NORD/LB Group at € 1.1 billion. NORD/LB has made a commitment to the EU Commission to reduce the NORD/LB Group's operating costs (not including special effects) to € 1.07 billion by the end of 2016. NORD/LB must make a significant contribution to this. In order to achieve this goal, NORD/LB launched an efficiency improvement programme in March 2011 to reduce both the cost of materials and staff expenses. In 2013 provisions for contractual agreements concerning the termination of contracts of employment were made in the amount of € 27.8 million (€ 22.7 million). Severance payments have also been made; the amount of these was negligible.

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

In order for the capital measures implemented in 2011 and 2012, the measures needed to be reviewed and approved by the EU Commission. The capital measures were approved on the basis of a restructuring plan agreed in 2012 by the bank, its owners, the German Government and the EU Commission, which included the presentation of the business strategy and the business model, a medium-term business plan and a detailed explanation of all of the relevant measures and commitments made to the EU Commission.

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

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

In the year under review, the commitments were amended with the agreement of all of the aforementioned parties. This involved in particular the commitment to set up a buyback programme for certain hybrid capital bonds, which took place in the fourth quarter of 2013.

An independent trustee set up by the EU Commission will monitor whether the commitments that have been made are being kept and report to the EU Commission. The bank believes that the commitments were met in full in 2013.

Based on the commitments that apply to 2014 and at most to the end of 2016, NORD/LB can continue to focus on its proven business model. The few adjustments to the business model that were required, for example in the form of the agreed closure of a few representative offices and the restriction of business activities, have largely been completed.

REPORT ON THE EARNINGS, ASSETS AND FINANCIAL POSITION

(In the following text the previous year's figures for the financial year 2012 or as at 31 December 2012 are shown in brackets.)

Earnings Position

The recovery in the real economy has continued, supported by the continuing expansive monetary policy of the central banks. This development has, in conjunction with the balanced business model of the NORD/LB Group, also had a positive effect on the earnings position of the NORD/LB Group.

Net interest income is almost at the previous year's level, despite the continued low level of interest rates and measures to reduce risk-weighed assets. The increase in risk provisioning, which was primarily due to the crisis in the shipping sector, was more than compensated by an increase in the profit/loss from financial instruments at fair value through profit or loss and an increase in other operating profit/loss. Profit/loss from financial instruments at fair value through profit or loss including hedge accounting improved due to the positive development in profit/loss from the use of the fair value option. The development in other operating profit/loss was driven primarily by the profits realised from the sale of promissory notes and registered bonds.

Despite the continuing crisis in the shipping sector, NORD/LB's earnings rose to € 245 million.

The financial year 2013 closed with an earnings of € 245 million.

The figures for the income statement are summarised as follows:

	1 Jan.–31 Jan. 2013 (in € million)	1 Jan.–31 Jan. 2012[1] (in € million)	Change (in %)
Net interest income	1 931	1 959	– 1
Loan loss provisions	846	598	41
Net commission income	163	168	– 3
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	73	– 122	> 100
Profit/loss from financial assets	11	– 5	> 100
Profit/loss from investments accounted for using the equity method	33	– 14	> 100
Administrative expenses	1 166	1 158	1
Other operating profit/loss	69	– 99	> 100
Earnings before reorganisation and taxes	**268**	**131**	**> 100**
Reorganisation expenses	– 38	– 34	12
Expenses for public guarantees related to reorganisation	69	19	> 100
Earnings before income taxes	**161**	**78**	**> 100**
Income taxes	– 84	– 4	> 100
Consolidated profit	**245**	**82**	**> 100**

[1] In accordance with IAS 8 the adjustments made to the previous year's figures are taken into account (cf. Note (2) Adjustment of figures for the previous year in the notes to the consolidated financial statements).

The individual income items are shown as follows:

	2013 (in € million)	2012[1)] (in € million)	Change (in %)
Interest income	9 787	12 280	– 20
Interest expenses	7 856	10 321	– 24
Net interest income	**1 931**	**1 959**	**– 1**

[1)] In accordance with IAS 8 the adjustments made to the previous year's figures are taken into account (cf. Note (2) Adjustment of figures for the previous year in the notes to the consolidated financial statements).

Net interest income has fallen slightly compared to the previous year by € 28 million to € 1,931 million. The fall in interest income from lending and money market transactions is largely due to the low interest rate and declining loans and advances to banks and customers and the reduction of the bank's security portfolios. Interest expense also fell on account of the low interest rate and the reduction in money market transactions as well as securitised liabilities. Interest income and interest expenses from financial instruments at fair value through profit or loss also declined.

Net interest income almost at the previous year's level.

Expenses related to **loan loss provisions** increased by € 248 million compared to the same period of the previous year to € 846 million. This is primarily due to the net allocation to general loan loss provisions in the amount of € 55 million, compared to a net reversal of € 131 million in the same period of the previous year. The net allocation to specific valuation allowances also rose, by € 54 million to € 694 million. The increase in valuation allowances is mainly attributable to ship financing.

Risk provisioning affected by risk provisioning in the area of ship finance business segment.

	2013 (in € million)	2012 (in € million)	Change (in %)
Commission income	270	277	– 3
Commission expenses	107	109	– 2
Net commission income	**163**	**168**	**– 3**

Net commission income fell slightly compared to the previous year by € 5 million to € 163 million. The € 7 million reduction in commission income is seen alongside a € 2 million reduction in commission expenses.

	2013 (in € million)	2012 (in € million)	Change (in %)
Profit/loss from debt securities and other fixed-interest securities	– 66	123	> 100
Profit/loss from shares and other non fixed-interest securities	4	2	100
Profit/loss from derivatives	– 80	302	> 100
Interest-rate risks	– 130	199	> 100
Currency risks	– 108	– 243	– 56
Shares and other price risks	57	62	– 8
Credit derivatives	101	284	– 64
Profit/loss from receivables held for trading	– 41	79	> 100
Profit/loss from other trading transactions	2	–	–
Foreign exchange result and other profit/loss	45	11	> 100
Trading profit/loss	– 136	517	> 100
Profit/loss from the fair value option	219	– 640	> 100
Profit/loss from hedge accounting	– 10	1	> 100
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	**73**	**– 122**	**> 100**

Profit/loss from financial instruments at fair value through profit or loss including hedge accounting affected by a fall in trading profit and positive development in profit/loss from the fair value option.

The **profit/loss from financial instruments at fair value through profit or loss including hedge accounting** totals € 73 million and is € 195 million up on the same period of the previous year. This effect is mainly attributable to a fall in trading profit compared to the same period of the previous year and a positive contribution to profit/loss from the fair value option, which more than compensated for the fall in trading profit/loss. The trading profit/loss was primarily affected by the negative development in the income from debt securities, promissory notes, interest derivatives and the fall in income from credit derivatives. Compared to the same period of the previous year, income from currency derivatives has risen due to a narrowing of the EUR/USD base spread which is significant for the valuation. The positive contribution to profit/loss of share derivatives reflects the positive development in stock markets. The profit/loss from the use of the fair value option is affected significantly by inverse interest-induced effects compared to the trading profit/loss and rose to € 219 million.

The **profit/loss from financial assets** is € 11 million and therefore € 16 million above the previous year's figure. This is attributable in particular to an increase in income from the disposal of debt securities and other fixed-interest securities as well as a slight reduction in valuation allowances.

The **profit/loss from investments accounted for using the equity method** rose by € 47 million to € 33 million in the period under review. The previous year's result was affected by the write-down of an associated company.

	2013 (in € million)	2012 (in € million)	Change (in %)
Wages and salaries	490	492	– 0
Social contributions expenditure on pension schemes and other staff expenses	126	111	14
Staff expenses	**616**	**603**	**2**
Other administrative expenses	472	466	1
Depreciation and impairments	78	89	– 12
Administrative expenses	**1 166**	**1 158**	**1**

Administrative expenses slightly above the previous year's level.

Administrative expenses rose by € 8 million compared due to the previous year due in particular to the increase in staff expenses, which was due to negotiated wage increases, and other administrative expenses. This was partly compensated for by the reduced level of depreciation.

Compared to the previous year, **other operating profit / loss** rose by € 168 million. The profit / loss from the disposal of assets rose by € 100 million. This is primarily due to profits realised from the sale of promissory notes and registered bonds. In addition, following a tax audit that has been completed, provisions in the amount of € 23 million have been reversed. The profit / loss from insurance business also improved compared to the previous year by € 14 million. The earnings of ships reported under other operating profit / loss in the balance sheet was € 9 million in 2013. In 2013 a bank levy in the amount of € 37 million was paid; this was reported under other operating profit / loss.

The **reorganisation expenses** of € – 38 million comprise in the amount of € 35 million allocations made to reorganisation provisions as part of the efficiency improvement programme for contractual agreements already concluded as at the balance sheet date concerning the termination of contracts of employment.

Included in the item **expenses for public guarantees related to reorganisation** are the premiums for the guarantee measures of the federal states of Lower Saxony and Saxony-Anhalt as part of the capital-boosting programme. The increase in expenditure is primarily due to measures taken to restructure the guarantees.

	2013 (in € million)	2012 (in € million)	Change (in %)
Current taxes on income and earnings	20	103	– 81
Deferred taxes	– 104	– 107	– 3
Income taxes	**– 84**	**– 4**	**> 100**

The positive **profit / loss** from income taxes is primarily due to taxes for previous years and to the estimate for tax losses carried forward. The current tax expenses for the financial year 2013 in the amount of € 81 million is seen alongside tax rebates and income from the reversal of tax provisions in the amount of € 61 million after an audit for previous years was completed. The deferred tax income is due in particular to the capitalisation of additional losses carried forward.

Assets and Financial Position

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Loans and advances to banks	27 481	34 378	– 20
Loans and advances to customers	107 661	114 577	– 6
Risk provisioning	– 2 248	– 1 949	15
Financial assets at fair value through profit or loss	13 541	17 920	– 24
Positive fair values from hedge accounting derivatives	3 872	4 924	– 21
Financial assets	47 043	52 423	– 10
Investments accounted for using the equity method	306	318	– 4
Other assets	3 189	2 959	8
Total assets	**200 845**	**225 550**	**– 11**
Liabilities to banks	59 181	65 079	– 9
Liabilities to customers	54 861	55 951	– 2
Securitised liabilities	50 228	60 619	– 17
Financial liabilities at fair value through profit or loss	15 131	20 724	– 27
Negative fair values from hedge accounting derivatives	3 344	4 908	– 32
Provisions	4 303	4 137	4
Other liabilities	894	1 599	– 44
Subordinated capital	4 713	4 833	– 2
Reported equity including non-controling interests	8 190	7 700	6
Total liabilities and equity	**200 845**	**225 550**	**– 11**

Total assets fallen by € 24.7 billion due to the strategic reduction in total assets.

Compared to 31 December 2012, **total assets** have fallen due to the strategic reduction of total assets together with the reduction in risk assets by € 24.7 billion. On the assets side this was due in particular to a reduction in loans and advances to banks and customers, financial assets and financial assets at fair value through profit or loss. On the liabilities side the fall in the balance sheet total is reflected in a fall in securitised liabilities, liabilities to banks and financial liabilities at fair value through profit or loss.

Loans and advances to banks fell by € 6,897 million compared to the previous year. This change is mainly due to the reduction in loans and advances to banks in Germany.

Loans and advances to customers are still the largest balance sheet item at 54 per cent (51 per cent). Compared to the previous year, this item has reduced by € 6,916 million. This reduction is seen in particular in the reduction in receivables from money market transactions from customers in Germany and the reduction in other receivables.

Due to the increase in loan loss provisions in the area of ship financing, **risk provisioning** increased by € 299 million compared to the previous year to € 2,248 million.

Financial assets at fair value through profit or loss comprise trading assets and financial assets designated at fair value and are € 4,379 million below the previous year's level. This change is also reflected on the liabilities side.

Due to the reduction in available for sale (AfS) financial assets as a result of the reduction in risk-weighted assets (RWA), the balance of **financial assets** compared to the previous year has reduced by € 5,380 million and now totals € 47,043 million.

Liabilities to banks have fallen by € 5,898 million compared to the previous year. The fall is primarily due to the reduction in liabilities from money market transactions and other liabilities to banks in Germany.

Liabilities to customers have also fallen compared to the previous year by € 1,090 million; this is mainly due to the fall in other liabilities.

The reduction in **securitised liabilities** of € 10,391 million to € 50,228 million is attributable to the maturity of Pfandbriefe and other debt securities. New issues were not made at the same level in 2013.

Financial liabilities at fair value through profit or loss comprise trading liabilities and financial liabilities designated at fair value. Compared to the previous year a fall of € 5,593 million has been recorded, which is also reflected on the assets side.

Increase in provisions affected by insurance contracts.

The slight increase in **provisions** compared to the previous year is due primarily to the change in provisions for insurance contracts, which have risen by € 121 million compared to the previous year. Restructuring provisions for contract agreements covered by the efficiency improvement programme were increased in the year under review by € 29 million to € 56 million. Provisions for pensions and similar obligations have been reduced due the positive development in the actual interest.

Due to maturities for subordinated liabilities and the repayment of silent participations, **subordinated capital** has fallen in the period under review by € 120 million.

The increase in **reported equity** is due among other things to the positive development in the revaluation reserve. The change in the revaluation reserve is attributable to reductions in AfS securities and valuation changes.

DEVELOPMENT OF THE BUSINESS SEGMENTS

NORD/LB operates in the following segments:

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

Private and Commercial Customers

NORD/LB

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, Hanover and Hamburg. In this business segment NORD/LB assumes the role in the Braunschweig region of a savings bank in the form of Braunschweigische Landessparkasse, founded on 1 January 2008 as an institute with partial legal capacities, a so-called "Anstalt in der Anstalt", or "AidA" for short, translated as an institute within an institute.

Braunschweigische Landessparkasse is a sales savings bank with approximately 217,000 private current accounts and 20,600 business current accounts (as at 31 December 2013) and has an extensive presence throughout the Braunschweig, Wolfenbüttel / Bad Harzburg, Helmstedt / Vorsfelde, Salzgitter / Seesen and Holzminden regions. As a member of the savings bank financial group it has access to its range of services. As an integral part of NORD/LB it also has direct access to the full range of an international Landesbank.

Introduction of the Deka asset concept.

In private customer business, the new Deka Asset Concept (Deka Vermögenskonzept, DVK) has been offered to the customers of Braunschweigische Landessparkasse since the spring of 2013 in cooperation with the network partner Deka Bank Deutsche Girozentrale Luxembourg S. A. With their very individual portfolios, customers receive modern and attractive fund asset management, which Deka Bank also offers nationwide via other savings banks.

Braunschweigische Landessparkasse set up its own insurance agency on 1 April 2013, laying the foundation for the sustained and reliable development of insurance business within Braunschweigische Landessparkasse.

Successful resumption of real estate agency business.

The bank strengthened its market position regarding property-related services due in large part to its resumption of real estate agency business in Braunschweig and Wolfenbüttel, which was very successful from the outset, and the provision of comprehensive advice taking into account funding options including explaining the legal requirements.

The young customer segment remains of great strategic importance. Recent market surveys show that the Braunschweigische Landessparkasse has extended its reach among young customers in its business region in the last three years.

Investment advice in private customer business has also been geared more to the interests and needs of customers. In accordance with the ever-increasing legal requirements, an optimised current-situation assessment has been introduced together with recommendations that have been adapted based upon technically-supported asset structuring. The aim is to convince customers with high-quality advice and service here as well.

In Private Banking the range of services has been further refined to a high level and adapted to meet the current needs and requirements of wealthy private customers. Regular customer surveys show a high level of and increasing satisfaction with the advice provided by Braunschweigische Landessparkasse in this segment.

Activities in Hamburg increased.

In November 2013 the Hamburg office was expanded and now has its own Individual Customers Centre and a Commercial Customer division. Organisationally the new unit is annexed to Hanover's Private Customers division. The target group in the Individual Customers Centre are customers in the Private Banking segment. In addition, high-end corporate and business customers are looked after in Hamburg.

In 2013 the level of investment loans issued in Braunschweigische Landessparkasse's middle-market corporate customers business was again successful. In line with demand, public loan funds and modern financing instruments in the form of derivatives were used.

Focus on freelancer business.

In 2013 freelancers were targeted with special offers such as a specially-developed service and advice package as well as campaigns. Here the focus was on new customer acquisition and the activation of existing customer relationships. The particular demands of this customer group were analysed in a focus group survey.

The focus for all customer groups remained on providing comprehensive advice, use of the S-finance concept and the involvement of specialist advisers.

Customers were informed by means of various communication measures and at various events about the changes which were to take place with effect of 1 February 2014 to create a Single European Payments Area (SEPA) and support was provided for the measures required by the change.

Bremer Landesbank

The global financial market crisis is continuing to have a very noticeable effect on private customer business. Investors only made cautious use of the very successful year in the capital markets with new highest levels in the indices, customer behaviour was still characterised by uncertainty and restraint. With the national debt crisis only improving slowly, interest rates remained at a low level. As a result customers have a greater need for information concerning investment opportunities, which Bremer Landesbank actively meets with its professional customer management.

The demand for excellent customer support was also shown by a further significant increase in assets under management. The asset management portfolio managed by the Asset and Portfolio Management competence centre impressed with the SIP® investment process developed and implemented here. The results of the SIP® investment process had an impact in particular on asset management, the SIP® fund family and on the advisory process.

The systematic implementation of an integrated advisory approach is a key element of the business strategy. This is ensured in Private Banking by a strictly defined advisory process that is the subject of continual quality assurance and methodically supported by an asset concept that takes into account financial planning.

In addition to their private life situation, the business situation of entrepreneurs is also taken into account as part of the comprehensive advice. Here the Private Customers business segment cooperates very closely with the bank's other market divisions. As a result, the bank's business banking, i.e. its advisory approach for entrepreneurs, has expanded and Bremer Landesbank's existing customer relations have been strengthened.

The awards received in 2013 underline the top quality of Private Banking, particularly in the bank's core competence of providing comprehensive advice. Bremer Landesbank has once again been awarded the sought-after "Summa Cum Laude" by the Elite-Report from Munich and Handelsblatt and is one of the top five asset managers in the German-speaking world. Bremer Landesbank moved up once again in the Perennial Best List (Ewigen Bestenliste) of the Fuchsbrief Report to 6th place. These major awards are proof of Bremer Landesbank's performance in Private Banking and its claim to quality leadership in private customer business.

In lending business Bremer Landesbank focused on the activities of individual investors and freelancer business. Here the current low interest rates and the intense level of competition, which have resulted in negative trends in standard business, were countered by the advisory know-how and the integrated advisory approach, and customers were convinced by what was on offer.

NORD/LB Luxembourg

The Private Banking activities of the NORD/LB Group are controlled uniformly by the Private Banking Board. Under the lead of NORD/LB Luxembourg, the representatives of the relevant Group units work together on the strategic direction of the Private Banking segment and coordinate the Group-wide framework and initiatives.

The Private Banking Division at NORD/LB Luxembourg offers customers interested in international investments a comprehensive service. As part of their traditional customer advice service, experienced specialists develop holistic investment concepts with the customer on a partnership-like basis. These are geared individually to the needs of customers in respect of investment style, time frame and risk preference depending on their professional and private life situation. The customer also has the choice of a range of asset management concepts which were developed based on many years of experience and sustained success in portfolio management. The product portfolio in Private Banking is rounded off by loans. Here the focus is on the secured private customer loan, which is secured by securities, deposits and life and annuity insurance.

Active customer management resulted in improved profitability of customer portfolios.

In the year under review customers focused primarily on annuity and fund investments, which provided the prospect of a return with the currently very moderate inflation rate. Record levels in some share indices resulted in restrained direct investment in shares. Despite the sideways movement in the volume of deposits, net commission income improved significantly compared to the previous year. In lending business the volume of new loans was pleasing. The results for deposit products were well below those of the previous year. This is attributable in part to falling volumes due to the switch to securities business, though mainly to the erosion of the interest rates used to measure value in the short maturity bands.

Growth in sales due to strong property insurance and one-time business in life insurance.

Öffentliche Versicherung Braunschweig

Öffentliche Sachversicherung Braunschweig's (ÖVBS) premium income in 2013 was higher than in the previous year. This growth in sales was attributable in particular to the above-average performance of property insurance and the once again strong performance of one-time business in the life insurance segment.

Increased expense for insurance losses.

The expense for insurance losses rose significantly compared to the previous year. This rise was due in particular to the floods in May and the hailstorms in July 2013. Around 11,000 claims for hailstorm damage were made by customers of Öffentliche Versicherung Braunschweig alone. The total claim for hailstorm damage was, at around € 32.5 million, around 80 per cent or € 14.5 million above the losses caused by the hundred-year storm Kyrill in 2007.

As part of the reforms of the EU Solvency II insurance regulation, it is expected that compliance guidelines for insurance sales will be defined more narrowly in 2014 or 2015. ÖVBS is also acting proactively here and in 2013 produced its own code of conduct for the exclusivity organisation and gave all of its sales staff training in the form of seminars on the new regulatory conditions. The compliance issues in insurance sales range from data protection to contribution limits and complaints management. Over 450 office and field staff received training.

With Öffentliche Lebensversicherung's new "GenerationenDepot" product, the customer invests a lumpsum in a life insurance policy which is due to be paid out upon the death of the insured person. The possible applications of the product lie in among other things security-oriented investment, tax optimisation or in preventing a shortage of liquidity in the case of inheritance. Since September 2013 ÖVBS has offered this product in particular to wealthy and security-oriented customers so that they can transfer their assets onto the next generation.

The "TopZins-Tresor" (Top Interest Vault) is a lumpsum deferred annuity policy. At the start of 2013 a further tranche of the "TopZins-Tresor", which was limited to € 35 million, was offered. The whole tranche was issued to customers within just a few weeks.

2013 was characterised by an on the whole friendly development in stock markets as well as rising interest rates, which resulted in a fall in prices in bond markets. For life insurance this environment resulted not only in a fall in reserves for the "Rentendirektbestand" (direct pension portfolio), but also a positive development in the OELB master fund. Due among other things to the disposal of several titles in the "Rentendirektbestand" or their transfer to the OELB master fund, extraordinary income was achieved.

The multi-product strategy initiated a few years ago in the motor insurance market again proved successful for Öffentliche Sachversicherung in the past financial year. Sales in this segment rose by around 6 per cent, a development which is well above average for the industry. The number of motor insurance policies at the end of the year totalled close to 7,000 more than at the end of the previous year.

The respected map-Report again awarded Öffentliche Versicherung Braunschweig's motor insurance the top rating of "mmm" in 2013, rating it as the third best motor insurer in the country.

In 2013 around 87,330 damage events reported by customers were assessed and processed. Around 61 per cent of all damage events involved vehicle damage, around 30 per cent of all damage reported involved buildings and household contents insurance and approx. 8 per cent of all damage reported involved third-party insurance.

As with life insurance, a fall in direct portfolio reserves for property insurance and therefore an associated reduction in the IFRS revaluation reserve were also seen in 2013. Extraordinary income was also achieved by transferring the Salzgitter AG shares to the master fund. In accordance with IFRS, the value of the Salzgitter AG share had to be written down in the OESB master fund, which is why the annual profit under IFRS is not as strong here as in the OELB fund.

Earnings Performance in the Private and Commercial Customers Business Segment

Earnings before taxes in the Private and Commercial Customers business segment rose significantly by € 23 million to € 38 million. The contribution to net interest income was slightly above the previous year's figure by € 3 million and was reflected by higher margins in sight and savings deposits business, which was characterised by special sales campaigns in 2012. Reversals of risk provisioning in the amount of € 2 million also had a positive impact on earnings in the past financial year.

Significant increase in earnings with private and commercial customers.

Net commission income rose by around € 6 million compared to the previous year. This was largely due to both the positive developments in the capital markets, which encouraged in particular small investors to invest and was reflected in an increase in earnings from securities and an improved sales performance in brokering.

Both the profit / loss from financial instruments at fair value through profit or loss and the profit / loss from financial assets are largely influenced by ÖVBS's special fund. Both moved in opposite directions in the past year, resulting in a net fall in the segment result compared to the previous year of € 7 million.

The administrative expense rose due to an increase in allocations to pension provisions and an increase in cost of materials, the cost of which was reduced in the previous year by a reimbursement. This was compensated for in part by a fall in internal costs reallocations by NORD/LB, and as a result administrative expenses only rose by a total of around € 5 million to € 329 million.

Other operating profit / loss includes major elements of ÖVBS's insurance business. This developed positively in 2013 primarily due to higher premium income in life insurance and property insurance, and here in particular in motor insurance. However, higher compensation for and participation in losses in property insurance as a result of major damage events (flooding and hailstorms) had a negative impact in the year under review. Reversals of provisions in NORD/LB also had a positive impact on these income items, and as a result other operating profit / loss rose overall in this segment from € 9 million to € 32 million.

Overall the business segment's earnings in 2013 were influenced significantly by other operating profit / loss, as the other effects on income were almost in balance with the development in administrative expenses. As a result the business segment's earnings before taxes increased significantly from € 15 million to € 38 million. Due to the significant increase in earnings in this business segment, a RoRaC of 8 per cent above the previous year's figure was achieved. The CIR also improved compared to the previous year to currently 94 per cent despite the slight increase in administrative expenses due to the increase in earnings.

Corporate Customers & Markets

Corporate Customers Sub-segment – NORD/LB

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

Even with fierce competition in middle-market business and the associated impact on the margins that can be achieved, the bank was able to further expand its corporate customer business in 2013 and consolidated its position as a core bank. Nationwide NORD/LB stepped up its activities and also opened an office to look after corporate customers in Munich. Overall the level of new customer acquisition was pleasing, particularly in the second half of the year. The basis for growth was in particular the strategic realignment of corporate customer business which has been implemented in recent years. In the area of acquisition financing, in addition to the financing of acquisitions and recapitalisations in existing business, attractive new transactions were conducted successfully in particular in the second half of 2013 under the lead of NORD/LB in a highly competitive environment.

Corporate customer business expanded in 2013 despite intense competition.

In close cooperation with the Corporate Finance product division, focus on individual, innovative solutions and cross-selling was intensified. NORD/LB issued further promissory notes very successfully in the capital market for its customers in 2013, whereby the subscription volume was around 1.6 times the intended issue volume. For customers, this form of finance, with which funds are obtained without having to declare the purpose, represents an interesting opportunity to gain first experience in the capital market and to make themselves known to external investors. This significantly increases their entrepreneurial and financial flexibility in competition.

In addition, finance solutions such as factoring, reverse factoring and borrowing base financing provided NORD/LB's customers not only with the required liquidity, but at the same time optimised the structure of their balance sheets.

In the area of residential housing NORD/LB has established itself nationwide as a provider of special finance. Demographic change, new demands in the area of energy efficiency, increasing newbuild activity and the acquisition of major portfolios to provide residential housing require special expertise in residential finance. For example, NORD/LB is financing in Märkisches Viertel in Berlin the upgrading of the energy systems of 4,000 residential units in order to optimise running costs and improve living standards. With individual financing and structuring concepts, NORD/LB supports its Real Estate Banking Customers to optimise their finance with the help of funding, to actively control interest-rate risks, improve their rating and release liquidity for further investment by reducing capital costs.

NORD/LB also consolidated its market position as the most important special financer in Agricultural Banking in the year under review with approx. 8,500 customers. The use of agricultural economists with specific knowledge of the structures, production processes and market parameters in the agricultural sector is making an impact nationwide. NORD/LB has expanded its activities particularly in the federal states of Schleswig-Holstein, Hesse and Rhineland-Palatinate as well as in Southern Thuringia and Northern Bavaria. For example, NORD/LB helped its agricultural customers to implement necessary adjustment processes such as the specialisation of businesses. However, the investment trend of building new biogas plants near to farms declined sharply. The reasons for this development were among other things the amended Renewable Energies Act (EEG 2012), which places more complex demands on newly constructed biogas plants. For many agricultural businesses such investments are therefore now proving to be uneconomical. However, investment in expanding existing facilities such as the installation of heating networks was a major issue.

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

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

The Corporate Sales segment is actively involved in NORD/LB's corporate customer initiative and follows the Corporate Customers segment when it enters new regions with products for the capital market. Here not only traditional financial and currency transactions, but also a strategic approach to interest and currency management is becoming increasingly important. The Corporate Sales experts use NORD/LB's expertise and competitiveness successfully and support growth in this business segment.

Corporate Customers Sub-segment – Bremer Landesbank

The Corporate Customers segment of Bremer Landesbank focuses on business with companies in the North West region and is a reliable and innovative financial services partner to its customers.

In 2013 its sales activities remained at a high level. Interest income was down slightly compared to the previous year. This was due in particular to an increase in the level of competition and associated slight reduction in margins. Service business is also below the previous year's level, due to foreign and guarantee business being somewhat restrained.

Trading profit also fell compared to the previous year. The reason for this is that an exceptional derivative was concluded with a real estate transaction in 2012. As expected, there was no similar transaction in 2013.

There was a pleasing development in risk provisioning, which were almost halved compared to the previous year, which had been affected by a valuation allowance for an exposure in the solar industry.

Corporate Customers Sub-segment – NORD/LB Luxembourg

Lending represents a major part of NORD/LB Luxembourg's earnings. As an experienced and efficient quality service provider of finance for corporate customers and structured transactions, the bank provides added value to the NORD/LB Group. Lending business in Luxembourg comprises cooperation lending with other Group divisions and savings bank network business (lending guaranteed by savings banks). The lending services of NORD/LB Luxembourg and NORD/LB CFB within the NORD/LB Group are of a complementary nature and in so doing enhance the range of services offered by the Group.

Cooperation lending is the major component of the credit portfolio. Consistently high service quality, many years of expertise and efficient business processes provide the foundation for a successful lending business in Luxembourg. The most important partners are the Corporate Customers and Energy and Infrastructure Customers divisions of NORD/LB.

The year under review was also characterised by a very satisfying development in new business, which was well above the volumes of previous years and more than compensated for repayments in the portfolio. In particular the purchase of receivables (individual and pool purchases) should be highlighted. These are made within the NORD/LB Group exclusively by NORD/LB Luxembourg and were further increased in 2013.

Development in new business above the volumes of previous years.

Lending business with municipal companies, which is primarily undertaken by NORD/LB CFB, is also of key importance. These receivables can be covered by covered bonds under Luxembourg law (lettres de gage), with the result that this customer group can be offered attractive and competitive terms in Luxembourg. The volume was increased compared to the previous year.

Markets Sub-segment – NORD/LB

The Markets segment primarily provides advice and support to other business segments and is responsible for selling to institutional customers. Significant drivers of the overall result were transactions with institutional customers and savings banks in traditional capital market products, the issuing of bonds and expansion into alternative asset classes. In particular in real estate business, but also in other asset classes such as infrastructure and renewable energies, the development and issuing of loan products were successful.

In the Origination/Syndication segment, NORD/LB was one of the few banks to record growth in a market environment characterised by among other things reductions in the total assets of Pfandbrief issuers, particularly in the public-sector Pfandbrief segment.

NORD/LB acted for the first time as a joint lead arranger for a 7-year benchmark bond from the French unemployment insurer UNEDIC with a volume of € 1.5 billion, which is guaranteed by the government and was structured specifically for institutional investors in Germany. For the first time an issue was made by this government issuer completely outside of France.

In the German bonds segment NORD/LB is now one of the top 7 arrangers, in the Pfandbrief segment it is among the top 20 arrangers. A major consequence of these market activities was the increase in lead mandates acquired and the significant increase in the number of private placements completed for foreign issuers, both from the Financial Institutions segment and the SSA segment (Sub-Sovereigns, Supranationals and Agencies). The “Origination Corporates” segment also developed successfully due to the increase in demand from companies for capital-market-oriented financing solutions.

The total number of issues in which NORD/LB acted as the syndicated leader or co-lead manager rose yet again compared to the previous year.

After its first successful issue in the autumn of 2012, Norddeutsche Landesbank issued its second public US-Dollar Pfandbrief in October 2013. The Pfandbrief with a term of 5 ¼ years has a volume of $ 1 billion. The issue, rated “Aaa” and “AAA” by Moody’s and Fitch respectively, was place under the lead of an international consortium. In accordance with the US Securities Act, the Pfandbrief could also be directly acquired by qualified institutional investors in the USA. After just a few hours the order book for the advised benchmark volume of $ 1 billion was well oversubscribed and closed early.

Successful issue of second public US-Dollar Pfandbrief.

NORD/LB’s product range in the Markets segment also includes promotional business, which is used by almost all of the associated savings banks. Here the previous year’s high level was maintained with the transfer of loans from the KfW.

Both close and longstanding customer relationships and new customer relationships resulted in a further increase in sales compared to the previous year. Due to the continued low level of interest rates, customers focused on the same types of investment as in the previous year. The need for customer-specific solutions in particular in the form of structured products increased in 2013. These structured products were primarily issued in the form of registered and bonded securities as well as bearer bonds. Due to the continued expansion and reorganisation 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 a further increase in custodian bank activities.

For the State of Lower Saxony, NORD/LB supplemented the Agreement for the Future (Zukunftsvertrag) and will take on further finance in 2015.

Markets Sub-segment – Bremer Landesbank
The Markets Division of Bremer Landesbank provides market access to national and international financial markets for private and institutional customers.

The operational money and capital market business was conducted in 2013 in a market environment that was again largely characterised by the international and inter-institutional efforts to limit the consequences of the euro crisis in the financial and real markets. From the middle of the year onwards it was noticeable that the situation was starting to settle with positive medium to long-term indicators for the real economy. The sustained low level of interest rates was accompanied by record levels in many major stock markets.

The trading and sales activities of Bremer Landesbank's Markets Division were pleasingly stable despite the difficult market environment. Trading focused on providing commercial customers with money and capital market products.

The business segment's sales units again recorded a high level of demand for advice and support in money, currency and derivative products in 2013 with restrained sales due to the state of the economy.

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

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

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

NORD/LB Asset Management
The NORD/LB Asset Management group is responsible for providing asset management services for institutional customers within the NORD/LB Group. Here NORD/LB Kapitalanlagegesellschaft AG, Hanover, offers services for the administration of financial instruments and in particular the administration of open institutional funds and public funds, master investment company and other services (for example institutional savings bank reports, IFRS accounting for securities and risk management reports). NORD/LB Capital Management GmbH, Hanover, offers services for the management of financial instruments (insourcing the management of fund assets and administration of individual assets).

The NORD/LB Asset Management group concentrates in particular on investors from insurance companies, pension funds, foundations and banks (in particular savings banks).

In 2013 both assets under administration and assets under management increased significantly. Compared to the previous year, their development has been stable, with the volume of assets under administration increasing by 11 per cent in 2013 and assets under management increasing by 10 per cent. The growth of public funds in both segments has been considerable, more than 50 per cent compared to the previous year. Driven by the good performance of assets under administration and assets under management, commission income rose by 12 per cent compared to the previous year. While remuneration for administration and management rose by 9 per cent and 18 per cent respectively, commission income from other services fell by 9 per cent.

Major drivers of the positive performance of assets under administration were the high level of demand from investors for spread products such as covered and corporate bonds and the positive market development in bond and stock markets, which resulted in a rise in assets under administration.

The positive performance of assets under management is attributable in particular to the strong inflows into the corporate bonds segment. The performance of public funds was also very pleasing. Here in particular the NORD/LB AM Corporate Bond fix and the NORD/LB AM Global Challenge Index Fund stand out, almost doubling the volume of funds in the year under review. With the issue of the index fund NORD/LB AM Far East ex. Japan, the NORD/LB Asset Management group offered its investors the opportunity to invest in Asian shares for the first time. The NORD/LB AM Deutschland long/short share fund issued at the start of 2013 with a volume of € 50 million also had a good start. By focusing investment strategy on short maturities with a high spread and long maturities on highly liquid investments with the highest credit ratings, a pleasing performance for the years was achieved for customers.

Municipal Business Sub-segment

NORD/LB's municipal business concentrates on Northern Germany and in particular on its owners' regions. Overall, new business and portfolio business fell in 2013. This was due in part to the municipal debt-reduction programmes implemented by individual federal states.

In addition to its traditional municipal business, NORD/LB provides municipalities with comprehensive advice on all matters concerning municipal finance. NORD/LB is also involved in nationwide projects to develop the collaboration with municipalities. In this respect interest and debt management needs to be mentioned. NORD/LB offers municipalities continuous support on the way to optimising their interest charges.

Earnings Performance in the Corporate Customers & Markets Business Segment

Although the result for the Corporate Customers & Markets business Segment was good in 2013, it was not as good as the previous year's very good result. The contribution to earnings before taxes fell compared to 2012 by € 21 million to € 332 million. This is due in particular to the significant reduction in the profit/loss from financial instruments at fair value (€ –57 million) due to a fall in income realised and negative valuation effects in the Markets sub-segment.

Positive effects resulted from an improvement in net commission income, which were increased for the segment by € 8 million compared to the previous year in the Markets segment and in the NORD/LB Asset Management group, as well as the € 41 million reduction in risk provisioning in particular in the Corporate Customers business segment.

Income in the Corporate Customers & Markets segment was also affected by an increase in administrative expenses (€ 11 million), staff expenses and cost of materials. The reasons for this were the investments in the corporate customer initiative and project expenses for migrations from trade systems.

Overall, the segment's CIR increased by 5 percentage points compared to the previous year to 43 per cent due to the increase in administrative expenses and the fall in fair value profit/loss in the Markets segment. The RoRaC was reduced due to the increased equity requirements and the fall in earnings before taxes from 26 per cent to 20 per cent.

Energy and Infrastructure Customers

NORD/LB

Many years of expertise in the renewable energies sector.

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

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

NORD/LB has maintained its market position as one of the leading financers of renewable energies in Europe and in particular in Germany and Ireland. In Germany, NORD/LB successfully concluded one of its biggest projects in the area of onshore, a wind park portfolio. The French market has continued to gain in importance. Here, in addition to a major wind park portfolio, among other things an innovative financing vehicle was structured by NORD/LB in the wind energy sector, which allows the project developer involved to finance and implement its projects in France more quickly and more flexibly. NORD/LB is therefore not only helping to export German project development expertise, but also to export German turbine technology to those locations that have excellent wind resources.

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

The entry of additional competitors into this market segment underlines on the one hand its attractiveness and increases the competitive pressure on NORD/LB on the other. In this respect, the customer relationships established by NORD/LB over many years as a result of its expertise are proving important for the generation of new business.

The market position in the Infrastructure segment was maintained and expanded in 2013 by the structuring and financing of projects in Great Britain, France and Germany. For example, among other things several projects in the area of waste incineration in Great Britain were finalised. In addition, the Public Private Partnership (PPP) market in the Netherlands has become more attractive. Here NORD/LB successfully participated as a mandated lead arranger with a consortium in a PPP tender for a road.

For project finance in the Energy and Infrastructure Customers segment, national and international customers use NORD/LB's expertise and competitiveness in interest and currency management. Here planning reliability has been obtained with long-term interest hedging strategies based on the historically low level of interest rates.

Special Financing – Bremer Landesbank

The Energy and Infrastructure Customers business segment at Bremer Landesbank comprises the refinancing of companies leasing moveable assets and factoring companies and renewable energies with the segments of wind power, biogas and photovoltaics.

Competence centre for financing middle-market leasing companies.

Growth has been more moderate in the business segment since the start of the financial market and economic crisis, whereby in particular renewable energies share of the portfolio is increasing due to the exploitation of existing business potential.

Onshore wind energy in Germany including the increasing share of repowering was again the main driver of vibrant new business in the renewable energies segment. Here Bremer Landesbank was able to consolidate its strong market position. 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. Photovoltaics finance recorded the expected fall in new business in the second half of the year due to the amendment of the Renewable Energies Act (EEG), but it still exceeded forecasts.

Competence centre for biogas and photovoltaics.

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

Earnings Performance in the Energy and Infrastructure Customers Business Segment

Overall, the segment's contribution to earnings before taxes is at € 144 million above the previous year's figure by € 25 million.

Earnings before taxes with energy and infrastructure customers increased.

The contribution to net interest income fell due to lower margins due to weather-related reasons by € 8 million to € 159 million, but this was more than compensated for by the increase in net commission income from € 51 million to € 56 million and rating-induced valuation effects from derivatives in the profit/loss from financial instruments at fair value.

Risk provisioning was, at € 8 million, € 22 million below the previous year's level and therefore below the long-term average for the segment. The € 2 million increase in operating costs to € 79 million is, with at the same time a slight fall in staff expenses, primarily the result of an increase in internal cost reallocations.

The overall development of the income items resulted in the RoRac rising compared to the previous year due in particular to the reduction in risk provisioning to 19 per cent (18 per cent). The CIR remained at 34 per cent and was therefore still at a low level.

Ship and Aircraft Customers

Ship Customers – NORD/LB

NORD/LB has been involved in ship financing (commercial and specialist ships) for over 45 years and has become one of the world's leading providers in this global market, which has an established customer structure.

Ship finance still in rough seas, but first signs of hope can be seen.

The shipping sector was in its fifth year of crisis in 2013. During the course of this the overall market exhibited a number of facets. Pressure on the cost side was moderate thanks to a slight change in bunker prices and efficient improvement measures implemented, which at least had a somewhat positive effect on results. Although not on a broad scale, the losses of market participants in some sectors were reduced and in some cases small profits were achieved.

Freight rates were again below expectations in the container segment.

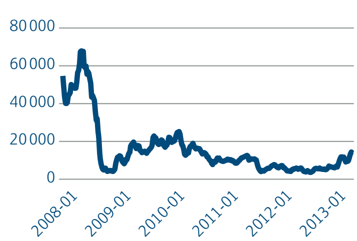
In the container sector for example, nine of the 20 biggest carriers reported profits in the second half of 2013. The peak season may not have met original expectations, but compared to the previous year it was also not entirely poor. The freight rate increases hoped for by line operators did not take place in the summer, with rate levels for the major Trans-Pacific and Far East-Europe axes volatile in 2013 and almost ending the year on the low level of December 2012. Accordingly, there was no sign of a sustainable recovery in the charter market.

Crude oil tanker market reacted to increase in US oil production.

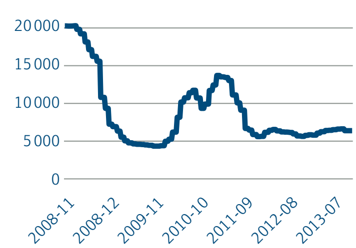
In the tanker market, the lull persisted for a long time, until demand picked up slightly in the last few months of the year particularly in the VLCC (Very Large Crude Carrier) segment and had a positive impact on rate levels. In the crude oil tanker market, though, shifts in the market were seen rather than a sustained recovery. While the Suezmax category suffered from the fall in US oil imports from West Africa, the VLCC market benefited from substitution effects due to the slight increase in demand from the Far East. The effects of the continued increase in US domestic production are becoming more and more evident. However, the tanker market is still characterised overall by overcapacity. Things looked much better in the product tanker sector due to the expected increase in demand.

The charts below illustrate how charter rates have developed in recent years:

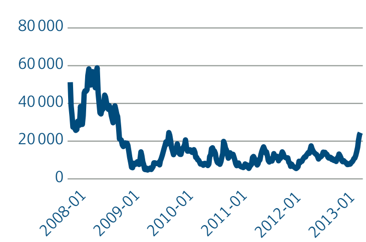
BULKER (USD/day)



CONTAINER (USD/day)



TANKER (USD/day)



Highly volatile demand in the bulk goods sector.

While the first half of 2013 in the bulk goods sector was well below expectations despite the recovery in the Panamax segment caused by record harvests, the Baltic Dry Index experienced extreme fluctuations in the last two quarters. Driven by Chinese demand for iron ore and coal, the most important bulker segment, Capesize ships, picked up and led the index in December with highs for the year. However, the significant increase in the order book in this class provides little cause for optimism as the market still has surplus supply. One bright spot of late though is the increase in newbuild prices in this segment.

Despite the continuing crisis in the shipping sector, the shipping financing business remains an important part of the business model and NORD/LB will continue to support its customers. Although in some sub-markets initial signs of a slight recovery have been seen, against the backdrop of the crisis, business activities will continue to focus on supporting existing customers and an active portfolio and risk management. Here priority was placed in particular on restructuring finance and re-marketing ships.

Crisis in the shipping sector determined business activities.

A major focus of activities in this respect was on the re-modelling, negotiation and adjustment of existing finance. The aim was and is to develop and agree in cooperation with customers a new financing structure which is equally acceptable to both sides and sustainable. The particular challenge lay in bringing the various parties involved in the financing project together in a joint solution. Due to many years of experience in this business segment and long-standing trusting customer relationships, sustainable restructuring solutions have been implemented, in some cases for whole fleets with as many as 60 ships.

Priority placed on the restructuring of finance …

The restructuring occurred to a not insignificant degree within the scope of so-called “black pearl” or package solutions. In this case, NORD/LB grants additional finance for new, favourable ships in order to support one or more weak existing ships, i. e. ships which are not earning enough to service their finance. If the package is put together effectively, the result is a sustainable financing package within which the new ships can support the existing ships.

In some cases, in which the continuation of the finance was not possible either in the original form or within the scope of restructuring, in order to reduce NORD/LB’s and the customers’ financial losses, new owners or equity sponsors for the ships concerned were sought. Here NORD/LB benefited from its global network in the maritime cluster, and new owners were found in particular in Germany, Asia, the USA and Greece. In this respect it was also possible to establish new customer relationships with private equity companies with long-term investment horizons and which also belonged to the group of sponsors.

… and the remarketing of ships.

In addition to supporting restructuring cases as a result of the crisis, NORD/LB also only selectively took on new business in the shipping sector this year and under strict conditions. Here too the focus was on supporting existing customer relationships. Extraordinary importance was attached to distinctly conservative financing structures, preferably covered by an export credit agency (ECA), whereby NORD/LB was able to deepen and expand its collaboration with the two Asian export credit agencies (ECA) K-Sure and Sinosure. In order to further diversity the portfolio, in addition to ECA-covered finance, business outside of the traditional commercial shipping segments of container ships, bulker ships and oil tankers was pushed. The focus here was in particular on the Offshore Oil & Gas segment. In the Offshore Oil & Gas segment the bank supported a few transactions for international projects. NORD/LB’s many years of expertise was underlined when it was awarded the “Marine Money Offshore Award” for the financing of an offshore jack-up vessel.

New business only taken on selectively with distinctly conservative financing structures.

Overall, the selective taking on of new business since mid-2007 as part of an active portfolio management and in line with the intended reduction in the NORD/LB Group’s total assets has resulted in a shrinking portfolio. The quality of the portfolio is shown by among other things a comparatively good loan-to-value on a portfolio basis, a comparatively moderate loans in default rate, finance stabilised by restructuring and new equity investors and the low average age of the ships financed.

Planned reduction of the existing portfolio on course.

In line with NORD/LB’s risk policy, risk provisioning for shipping financing were increased once again. Against this background, the earnings performance in the area of interest, which was positive despite volume effects (resulting in particular from a further increase compared to the previous year in the net credit margin as a result of risk-adjusted pricing) was unable to compensate for the effect of the risk provisioning on profit / loss.

Profit / loss with shipping customers affected by risk situation.

Ship finance – Bremer Landesbank

The Ship Customers segment of Bremer Landesbank, like the Ship Customers segment of NORD/LB, is in the fifth year of crisis and faces the problem of charter income not being enough to service capital and historically low ship values.

In 2013 many shipping lines were no longer able to support their ships. The sideways movement of the markets did not take place to the degree expected. Against the background the bank analyses the financing portfolio on an ongoing basis as part of its rigorous risk management and has allocated to risk provisioning stringently above the originally planned level. Due to the granularity of the overall portfolio, the earnings position of Bremer Landesbank was only affected slightly.

A major focus of activities in 2013 was on the restructuring of finance. New business with conservative structures is only be taken on very selectively against the background of crisis management. Here too the focus was on supporting existing customer relationships. The close support given to customers is proving to be prudent and sustainable.

The selective taking on of new business since mid-2007 as part of an active portfolio management and in line with the intended reduction in the NORD/LB Group's total assets has also resulted in a shrinking portfolio. In Bremer Landesbank the earnings performance in the shipping segment is dominated by this portfolio reduction and the loan loss provisions.

The ship financing business is an important part of the Bremer Landesbank's business model and it will therefore continue to be a reliable partner for its customers.

Earnings Performance in the Ship Customers Sub-segment

The negative impact on earnings of the fall in business volume due to the targeted portfolio control was compensated for by a risk-adequate increase in the credit margin in various credit commitments, with the result of a moderate fall in interest income (€ –13 million). Net commission income fell sharply due to the crisis (€ –23 million). The very difficult situation in the shipping markets is reflected most clearly in risk provisioning. Compared to the previous year they have risen significantly by € 178 million to € 676 million. In combination with a € 12 million increase in administrative expenses due to higher costs for restructuring activities and allocated overheads, earnings before taxes fell by € 213 million to € –340 million.

Aircraft Customers

Global passenger transport performed better in 2013 than had been expected at the start of the year. Growth in airfreight on the other hand proved to be fragile, as forecasted, and was below expectations.

Further increase in passenger transport.

In 2013 global passenger transport (RPK) grew despite rising oil prices and relatively poor economic growth in accordance with the forecasts of the IATA by 5.2 per cent, with capacity growth (ASK) of 4.8 per cent. Given the restrictive capacity expansion, average global utilisation should rise in 2013 to 79.5 per cent (79.2 per cent). For global air freight (FTK) the IATA is expecting slight growth of 1.4 per cent. The net profit of airlines worldwide is expected to have been $ 12.9 billion in 2013, while the net margin is expected to have been approx. 1.8 per cent.

High level of order activity at Airbus and Boeing in 2013.

Order activity was higher in 2013 in the market for civil aircraft with more than 100 seats than had been expected by NORD/LB at the start of the year. Airbus achieved a significant increase in orders compared to the previous year, defying forecasts with orders for 1,300 aircraft (833). Although Boeing was unable to achieve this with orders for only over 1,000 aircraft (1,228), its order activity was still high. Narrowbodies again accounted for the majority of these orders in 2013, with most of these for the upgraded versions. The A320 and B737 families were again particularly in demand. Widebody aircraft (including from Airbus the A330 and A330 families and from Boeing the 777 and 787 families) were also in demand.

As one of the longstanding market leaders in the area of aircraft finance, NORD/LB offers its customers a wide range of financing solutions for marketable passenger and freight aircraft. Its expertise lies in particular in the area of operating leases. Here NORD/LB is in line with the general trend, with the share of this finance growing steadily in recent years in the air transport market. According to forecasts, experts believe that soon 50 per cent of the global fleet's financing requirements will be covered by lease finance.

NORD/LB defended good market position thanks to business with operating leases.

In 2013 global competition in the aircraft financing market continued to grow. The segment is comparatively attractive from a return point of view and in the past has had verifiably low risk patterns even in times of crisis. Familiar competitors have therefore forced themselves back into the cyclical market. A number of new competitors, particularly from Asia, are also competing for open finance positions, and as a result credit margins remained under pressure in the past year.

In this highly competitive market environment NORD/LB managed to defend its good ranking position among the world's aircraft financers while at the same time meeting return targets. Here NORD/LB's special expertise in the leasing market and the resulting advantageous cooperation with well-known aircraft leasing customers should be highlighted as particular income drivers.

Earnings Performance in the Aircraft Customers Sub-segment

Interest income was down due to the fall in volume due to the concentration on achieving the balance sheet targets (€ –7 million), but was compensated for by an improvement in trading profit/loss (€ +6 million). Due to the very pleasing reduction in risk provisioning (€ –1 million) and a slight reduction in administrative expenses (€ –1 million), earnings before taxes (€ 98 million) remained practically unchanged.

Earnings Performance in the Ship and Aircraft Customers Segment

Overall, earnings before taxes were very negative in 2013 at € –242 million and fell once again compared to the previous year by € 213 million. This fall in earnings is attributable to almost all of the income and cost components in the area of ship financing, and in particular risk provisioning. Increases were only recorded in trading profit and other operating profit. Earnings in the area of aircraft financing remained on the whole stable.

Accordingly, the segment's RoRaC is negative. With a significant increase in costs as a result of the high level of resources tied up and allocated overheads during the crisis in the shipping sector and at the same time a fall in income, the CIR rose to 21 per cent (18 per cent).

Real Estate Banking Customers

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

Pooling of commercial real estate finance in Deutsche Hypo.

NORD/LB

Between 2009 and 2013 most of the existing business was transferred from NORD/LB to Deutsche Hypo. This asset transfer is now complete. Credit commitments which have not been transferred, i. e. those for which NORD/LB will be liable until the end of the agreement, will be managed by Deutsche Hypo within the scope of a mandate.

The real estate portfolio, which was on the books of NORD/LB in the year under review, comprises existing financing projects in the target markets of Germany and Western Europe as well as the USA, which since 2012 is no longer defined as a target market. The portfolio includes office and retail properties, multi-storey residential properties, hotels and logistics properties. Borrowers are professional real estate banking customers who primarily generate their cash flow from real estate business or regularly make major real estate investments. NORD/LB no longer takes on new business involving commercial property.

Deutsche Hypothekenbank

In the Commercial Real Estate Finance segment the focus is on business with professional, financially-sound real estate investors. Here the bank finances office and retail properties, multi-storey residential properties, hotels and logistics properties. As a German real estate bank with a European focus, its core markets are Germany, Great Britain, France, Benelux and Poland. No more new business was transacted in the USA and Spain in the year under review. The phasing out of the portfolios for both of these countries is progressing according to plan. The strong performance of the German real estate market due to the robust state of the economy ensured that there were sufficient opportunities in the domestic market in the year under review. Examples of this are the financing of an office complex in Hamburg-Altona in the amount of € 50 million and a syndicated loan for one third of the total volume of finance in the amount of € 170 million for a shopping centre in Leipzig. New commitments in 2013 totalled € 2.7 billion and were therefore 8 per cent above the previous year's volume of € 2.5 billion.

In interest and currency management the cooperation with NORD/LB's Corporate Sales product division continued. Corporate Sales supports all of the national and international teams in the area of real estate finance with products for the capital market.

Bremer Landesbank

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. After new business had been slow in the first half of the year, lending business picked up and was able to meet its forecast. Accordingly, the level of income achieved was pleasing. Demographic trends and the growing need for in-patient nursing highlight the strategic importance and potential of this segment.

Earnings Performance in the Real Estate Banking Customers Business Segment

Low risk provisioning made an important contribution to the good result with real estate banking customers.

Compared to the previous year the Real Estate Banking Customers business segment's earnings before taxes have risen significantly by € 51 million to € 128 million (€ 77 million). This development is primarily attributable to the significantly lower risk provisioning. Due to the portfolio reduction in NORD/LB and the asset transfer from NORD/LB to Deutsche Hypo, Deutsche Hypothekenbank made the largest contribution to the overall result.

The contribution to net interest income was € 258 million (€ 268 million) in the Real Estate Banking Customers business segment in 2013. The significant fall in interest income in NORD/LB's Real Estate Banking Customers business due to the portfolio reduction was only partly compensated for by the increase in new business compared to the previous year and higher new business margins in Deutsche Hypo. Income from services is at € 4 million (€ 13 million) below the previous year's result and is dominated in particular by the changed in reporting method for commitment fees in Deutsche Hypo's net interest income, the effect of a guarantee premium for a securitisation transaction and falling income from services in the NORD/LB portfolio. Profit/loss from financial instruments at fair value benefited from rating-induced valuation effects from derivatives in the year under review.

Risk provisioning was at € 79 million (€ 132 million) in the year under review much lower than in 2012. The reduction is the result of a significantly lower requirement for risk provisioning in NORD/LB's old real estate portfolio; there was also a reduction in allocations to loan loss provisions in Deutsche Hypo.

Administrative expenses in the Real Estate Banking Customers segment are at € 74 million (€ 76 million) slightly below the previous year's level and are attributable to lower costs in both NORD/LB and Deutsche Hypo.

The CIR of 26 per cent (27 per cent) is at the previous year's level. The RoRaC developed positively due in particular to the reduction in risk provisioning and is 10 per cent (6 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".

In detail, these concern in particular income for the entire bank which is not allocated to the profit centres due to their lack of influence over such income, such as investment / financing revenue (among others, revenue from investments), general loan loss provisions, non-allocated service centre items, projects covering the entire bank, the profit / loss from other financial instruments (in particular from central valuation effects), from financial assets, hedge accounting, other investments, consolidation items and expenses relating to the restructuring and guarantees provided by the states. Elements of other operating profit / loss such as the bank levy and certain provisions are also allocated to this segment.

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

NORD/LB

As the key division responsible for controlling interest, exchange rate and liquidity risks, NORD/LB's Treasury Division was again affected by the impact of the financial market crisis and the EU debt crisis in the financial year 2013. The continuing phase of low interest rates and the restrictive investment opportunities have had a significant impact on the Treasury Division's business and earnings performance. The resulting negative impact on profit / loss was compensated for by proactive interest rate management in interest rate change and liquidity control.

The expansion of the refinancing mix initiated in previous years also had a positive impact in the year under review. The second successful issue of a US dollar Pfandbrief helped to achieve a further diversification and widening of the investor base. The possibility of being able to attract US dollars independently in the capital markets at market prices has also boosted the bank's liquidity management.

Second successful issue of a US dollar Pfandbrief.

The alignment of Bank Assets Allocation to the needs of overall bank control and RWA management was almost completed in 2013. It is responsible solely for portfolios in the banking book, which all fall under the control of NORD/LB's Asset Liability Committee. The Corporate Investments group has the task of providing operational support to the bank's management of RWA. In January 2013 short-term investments were again made in credit default swaps and corporate bonds with a maximum term of 27 months on the basis of agreed parameters within the scope of overall bank control. Nevertheless, Bank Assets Allocation was able to contribute overall to the reduction of NORD/LB's RWA with maturities and sales. The Fund Investments group has completed the reorganisation of the existing fund investments in the banking book so that they meet the needs of overall bank control.

Both groups contributed with their net interest income and trading profit/loss to the segment's very good result. The Corporate Investments group achieved positive profit/loss due to active portfolio management and credit-spread reductions and reversals of impairments over time (pull-to-par effect). The Fund Investments group also benefited from the positive capital market environment and reversals of impairments in the asset class asset-backed securities.

Bremer Landesbank

The Treasury Division of Bremer Landesbank provides access to national and international finance markets and carries out Bremer Landesbank's long and short-term refinancing measures.

For the short-term refinancing and liquidity control, in 2013 Bremer Landesbank again continually used the various instruments of the European Central Bank in addition to the interbank market and the repo market.

The Treasury Division's activities focused on controlling liquidity and interest-rate risks and securing the continuous liquidity of the bank.

The results of the Treasury Division's activities were pleasing despite the difficult market environment.

Deutsche Hypothekenbank

In its capital market business Deutsche Hypo, following a change in strategy in reaction to the European national debt crisis, is only taking on limited new business in order to control liquidity and the cover fund. In the year under review new business in the total amount of € 1.2 billion (€ 1.7 billion) was taken on. Deutsche Hypo's refinancing activity ensures that it will remain competitive in lending business for the long term. In the year under review two benchmark Pfandbriefe, each in the amount of € 500 million, were issued on the capital market with attractive conditions. The take-up is proof that demand for high-quality investments remains high.

NORD/LB Luxembourg

Funding, bank control and customer-oriented services are the core activities of NORD/LB Luxembourg's Financial Markets division. The pooling and expanding of sales capacity in Europe remains a priority for the NORD/LB Group. Internal trading-related service functions are performed by Asset Liability Management/Treasury. These functions are complemented by Cover Pool Management, which is responsible for the new issue business of Luxembourg cover bonds via NORD/LB CFB. Lettres de gage represent a further source of covered refinance for the NORD/LB Group through which long-term funds can also be acquired.

The general economic environment remained a challenge in 2013. The economic sentiment indicators in the eurozone were initially disappointing, but recovered by the end of the year. With the associated subdued price development and generous central bank policy, interest rate curves remained at an extremely low level. Financial Markets countered the challenging market environment in 2013 with effective interest management and generated satisfactory profit/loss from transformations, although profit/loss was below the previous year's level. The central banks provide the markets with ample liquidity and in so doing boosted the bond markets. This was reflected in the securities portfolios used for liquidity control and resulted in a significant improvement in the revaluation reserve. Sales made in line with the conservative portfolio management had a positive impact on the profit/loss from financial assets.

Fixed Income / Structured Products Sales recorded a successful year with the sale of standard financial products. In its collaboration with NORD/LB in primary market transactions, NORD/LB Luxembourg raised its profile further in this still young initiative. The results of its secondary market business were also pleasing. The sale of structured products is directly dependent on the products provided by the Group and experienced a moderate year.

Corporate Sales was given further regional responsibility in the year under review and now looks after not only customers in the West of Germany, but also in parts of South Germany. Business performance was stable due to the low interest rates.

Earnings Performance in the Group Controlling / Others Business Segment

Earnings before taxes in Group Controlling/Others improved by € 266 million to € –179 million. The positive development is attributable in particular to the improvement (€ +271 million) in profit / loss from financial instruments at fair value, which was only € –13 million (€ –284 million). Positive factors such as interest-rate and credit-rating-induced valuation effects with derivatives almost compensated for the negative impact of the narrowing of the EUR/USD base spread for currency derivatives and valuation losses in the fair value option following the improvement in NORD/LB's own credit spread. The significant improvement compared to the previous year is also largely due to valuation effects in these key factors.

Significant improvement in income in Group Controlling / Others Business Segment.

In addition, other operating profit / loss in the segment was € 126 million higher than in the previous year (due among other things to income realised from the sale of AfS items, the reversal of provisions and settlement payments). Positive effects (€ 55 million) were recorded in net interest income due in particular to the improved result of interest-rate change risk control and amortisation effects. The profit / loss from financial assets also improved due to proceeds from sales by € 31 million and the profit / loss from shares in companies accounted for using the equity method (€ +47 million; 2012 was affected by valuation adjustments in the at equity investment portfolio). The profit / loss from hedge accounting fell by € 20 million.

In particular risk provisioning had a negative impact (€ –217 million); following reversals in 2012, these were affected by allocations to general loan loss provisions in 2013.

Administrative expenses fell by € 24 million (in the previous year administrative expenses were affected negatively by a donation of € 21 million to a culture foundation following the sale of the "Tulips" sculpture). Furthermore, in 2013 reorganisation expenses were € 4 million higher and expenses related to public guarantees for restructuring were € 51 million higher than in the previous year (only a pro-rata amount was included in 2012).

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.

PERSONNEL REPORT

As at 31 December 2013 a total of 7,590 people were employed by the NORD/LB Group. Therefore the number of people employed in all Group divisions has only risen slightly compared to the previous year due to the increase in the number of staff at Bremer Landesbank by 51 or 0.7 per cent.

Reporting date	31 Dec. 2013	31 Dec. 2012	Change absolute terms	Change percentage
NORD/LB	4 529	4 534	– 5	0
Bremer Landesbank sub-group	1 252	1 184	68	6
NORD/LB Luxembourg sub-group	228	228	0	0
ÖVBS sub-group	809	822	– 13	– 2
NORD/LB Asset Management	82	73	9	12
Deutsche Hypo	419	440	– 21	– 5
NORD/FM	73	72	1	1
KreditServices Nord	198	186	12	6
Total employees	**7 590**	**7 539**	**51**	**1**

TARGET / ACTUAL COMPARISON

Key targets met.

The NORD/LB Group met its key targets in 2013 and in so doing produced a positive result. Income before risk provisioning and the CIR were better than in the plan, although earnings before taxes and the RoE were below target.

Earnings exceeded expectations.

As expected, earnings were above the previous year's level in 2013 and were even above target by approx. 6 per cent. In particular net interest income, profit / loss from financial instruments at fair value and other operating profit / loss contributed to this. In net interest income the bank benefited, with income from deposit business and interest rate change risk control just below target due to interest rates, from amortisation effects with hedge derivatives. In the profit / loss from financial instruments at fair value, customer business and the valuation result developed positively due to the change in the counterparty-specific default risk of derivatives and profit / loss from interest derivatives, while other operating profit / loss was above target due to the reversal of provisions, reimbursements and settlement payments. In net commission, however, the targets were missed by a clear margin, due in particular to below-target restructuring fees relating to shipping and commission from brokerage business.

Risk provisioning well above budget due to the crisis in the shipping sector.

The assessment that there would be a reduced need for risk provisioning in 2013 compared to 2012 was incorrect. The ongoing crisis in the shipping markets resulted instead in high risk provisioning which was more than half over budget. Customers in the shipping sector accounted for over 90 per cent of risk provisioning in 2013 (including the allocations to general loan loss provisions reported under Group Controlling / Others). All of NORD/LB's other customer groups remained well below their budgeted risk provisioning.

Administrative expenses in line with budget.

Administrative expenses were only slightly above target by 1 per cent and therefore in line with budget in 2013. Under staff expenses, current wages and salaries including social security contributions were below budget due to the efficiency improvement programme. Other administrative expenses including depreciation on the other hand were slightly above budget. Savings in material costs for personal expenses and marketing expenses were opposed by additional expenditure on consultancy / opinions and audit costs.

Reorganisation expenses, which includes expenses for reorganisation and commission expenses for guarantees provided by the states, are almost twice as high as in the plan. The reason for this is twofold: Firstly, the level of reorganisation expenses is dependent directly on the number of employees who, as part of the reorganisation measures, have concluded contractual agreements concerning the termination of contracts of employment. It is not possible to predict precisely the number of persons concerned due to the structure of the service agreement and it was higher than expected in the plan. Secondly, the expenses for guarantees provided by the states exceeded the figure in the plan relating to an intended restructuring of this guarantee.

Due to the high, above-budget risk provisioning, earnings before taxes were well below expectations in 2013. Apart from the shipping sector, whose contribution to the operating result after risk provisioning and valuation was very negative, and the Private and Commercial Customers segment due to the weather-related damage effects affecting ÖVB in 2013, all of the bank's other business segments exceeded their budgeted contributions profit/loss and in so doing more than compensated for the adverse cyclical effect of the shipping sector.

The development of the key figures compared to their targets was mixed. While the CIR was at 51 per cent around 3 percentage points above target due to the good earnings performance, the RoE was at 2 per cent around 3 percentage points below target due to the high risk provisioning. At business segment level the picture is as follows: With the RORAC, all of the bank's segments exceeded their targets, apart from Ship and Aircraft Finance, which had a negative RORAC, and the Private and Commercial Customers segment. The CIR in 2013 was in most business segments below and therefore better than in the plan, in the Ship and Aircraft Customers segment the same is in the plan and in the Private and Commercial Customers segment higher than in the plan.

Due to positive one-time effects relating to the tax position, earnings before taxes are exactly as planned.

OVERALL ASSESSMENT

Despite the difficult conditions, the business performance is considered to be on the whole satisfactory. Earnings before taxes were much higher than the previous year at € 161 million despite much higher risk provisioning. Due to tax revenue as a result of special effects, earnings before taxes totalled € 245 million. The Group's total profit/loss rose compared to the previous year by € 160 million to € 495 million. In addition, the Group's equity was increased further as a result of the capital measures implemented in 2013, resulting in a much-improved core capital ratio of 11.84 per cent.

SUPPLEMENTARY REPORT

After the balance sheet date of 31 December 2013, no events occurred which might be of significance for the reporting period of 1 January to 31 December 2013.

FORECAST, RISK AND OPPORTUNITIES REPORT

GENERAL ECONOMIC DEVELOPMENT

Strong recovery expected for Germany – moderate recovery in the eurozone.

Economic Forecast for the Eurozone and Germany

The outlook for economic development in the eurozone is currently as good as it has been since 2011. The most important sentiment indicators continued to improve to the start of 2014 and are currently rising. Although the wide growth gap will remain in the eurozone in the current year, more and more countries will come out of recession in Southern Europe as well and be on target for at least a moderate economic recovery. However, this growth will not be strong enough for a notable reduction in the high level of unemployment for the time being. The debt crisis remains, despite the financial markets having been stable for more than one year, the greatest economic risk for the eurozone. Besides those successes already achieved, such as the reduction in balance of payments deficits, for many countries reducing financial deficits and the government debt ratio remain challenging tasks. The eurozone's deficit ratio will fall back below 3 per cent of GDP in 2014 thanks to the consolidation efforts.

… Strong recovery expected for Germany.

The German economy has started a new, strong recovery. Both businesses and consumers are very optimistic about the near future. In the manufacturing sector export expectations have risen significantly, which should herald a higher rate of export growth. German exports will be able to benefit from the improvement in the global economy. Overall NORD/LB is expecting GDP growth for 2014 in Germany of 2 per cent compared to the previous year. Germany will therefore remain the engine of economic growth in the eurozone.

The inflation rate will be lower in the eurozone than in Germany in 2014. This is entirely desirable as part of the structural adjustments within the eurozone. However, the annual rate has been below 1.0 per cent since October 2013 and is therefore far off the medium-term inflation target of the European Central Bank (ECB) of below but close to 2.0 per cent. In order to prevent fears of deflation from even surfacing, the ECB is also willing to alter its monetary policy so that it is even more expansive than before if necessary. As the scope for action with base rates has been largely exhausted, in such a case above all conventional measures would come back onto the agenda. It is still possible, though, that the tender rate could be lowered once again and also that a negative interest rate is introduced for the deposit facility. After very low price inflation in the first half of the year, during the course of the year the rate of inflation for consumer prices should return to above 1 per cent compared to the previous year in the eurozone as well. Due to the very weak monetary growth, inflation will though remain subdued in the medium term.

Economic Forecast for the USA

For 2014, NORD/LB is expecting the economic recovery in the USA to speed up. GDP is expected to increase by almost 3 per cent compared to the previous year. On the one hand the fiscal policy will be less restrictive, while on the other hand consumers should be much more willing to consume with further improvements in the job market and the recovery of the real estate market. Although the tapering of the monthly purchase of bonds by the Federal Reserve represents a risk factor, it should manage to reduce the monthly purchases gradually and at the same time cautiously.

Global Economic Outlook

Global economy picking up again in 2014.

The outlook for the global economy gradually improved in 2013, and this was also underlined by an improvement in the economic data. Global industrial production has picked up significantly and the development of most early indicators suggest stronger growth, and as a result the global economic dip can be considered to be over. Although risks for the global economy remain with the gradual turnaround in the monetary policy of the Federal Reserve and the still high structural adjustment requirements in the eurozone, these are though not so high as in previous years, particularly in view of the noticeable stabilisation of the financial markets.

Financial Market Development and Interest Rate Forecast

US monetary policy will initially be determined in the current year by the gradual tapering of additional bond purchases. As there is unlikely to be an increase in the base rate in 2014 despite the robust state of the economy, monetary policy will remain very expansive throughout the whole year. A rate increase by the Federal Reserve cannot be expected until 2015 at the earliest. Therefore there is only limited potential for a rise in the yield of ten-year US treasuries, although NORD/LB expects that they will rise gradually to over 3 per cent as the economy picks up. The exchange rate of the euro against the US dollar will fall slightly in 2014 due to the significant differences in growth between the USA and the eurozone. NORD/LB forecasts that the euro exchange rate against the US dollar will be $ 1.27 at the end of 2014.

The EUR/USD cross currency basis swap spreads have since stabilised across the entire curve in a band between –5 and –10 basis points. The ECB subsequently suspended the supply of liquidity with three-month transactions. For the remainder of this year we expect the spread to remain steady and move by around –10 basis points. The stronger US dollar exchange rate against the euro expected by us and the improved credit standing of European banks will largely cancel each other out in terms of their influence on the development of spreads. However, for this to be the case it is necessary that there is no further liquidity tension in the banking market.

In the financial markets the issue of the debt crisis has taken a back seat in the eurozone. Basically NORD/LB is expecting market sentiment to remain positive. However, the tapering by the Federal Reserve might result in divestment in some energing markets. For German government bonds NORD/LB is expecting yields to rise gradually during the course of the year, after the very low inflation at the start of the year slowly loses its dampening effect. Due to the for the time being only moderate economic recovery, weak monetary growth and very low inflation, the ECB's monetary policy will remain expansive until well into 2015. The weak growth in lending in many countries of the eurozone might result in the use of so-called non-standard measures. The ECB will most certainly take decisive action against any unjustified increase in money market interest rates. A change in course towards a more restrictive monetary policy is also not on the agenda of the other major issuing banks (Bank of England, Swiss National Bank) in 2014.

Moderate increase in yields expected – monetary policy will remain expansive.

Banking Market Development

Europe

The European banking market continues to experience market adjustment, accompanied by consolidation measures, risk reduction, capital boosting and tighter regulation of the financial market. There is limited potential for growth; the environment of low interest rates is affecting the development of interest margins. The associated reduction in earnings potential will require rigorous cost management and the continued concentration on core business segments. However, the progress that has been made, particularly in the banking markets in the peripheral countries of the eurozone, is undeniable. Proof of this is also provided by the increasing investor confidence in these markets, even though, against the background of the uncertain economic developments, there is no prospect of a sustained turnaround before the end of 2014.

The European banking market continues to experience market adjustment, accompanied by consolidation measures, risk reduction, capital boosting and tighter regulation of the financial market.

With regard to the regulation of the banks, 2014 will provide the European financial institutes, in particular the systemically important ones, with further challenges. The transfer of responsibility for financial supervision to the ECB (banking union) will be accompanied by an intensive risk review and a further stress test. There is uncertainty concerning the potential consequences, and particularly concerning the issue of capital adequacy.

USA

The picture for the development of the US banking market is dualistic. Although the major banks, despite the high costs of legal disputes, weak demand for loans and a continuing environment of low interest rates, impressed with record results particularly in the first three quarters of 2013, on the whole the upward potential is limited. The US banking market will therefore be characterised by further strict cost management in 2014. Overall the US banks are under increasing pressure. The extent to which the institutes will be able to build up sustainable resistance from this starting position will depend not only on them coping with the difficult operating environment, but also on them implementing in particular successful capital-strengthening measures and constant reducing balance sheet risks.

With regard to regulation, the focus of the US banking market will be on the implementation of further measures as a result of the Dodd-Frank Act. Here in particular the tighter capital requirements and the strict requirements concerning the debt and liquidity ratio will provide the US banks with additional challenges.

Asia

The Asia / Pacific banking markets were largely stable in 2013. The outlook for 2014 is also widely positive. The fast-growing countries of recent years might experience a slight slowdown in 2014. Such a slowdown of the in some cases rapid credit portfolio growth rates might have the positive side effect that some economic sectors that are already under heavy pressure in some countries, such as the construction sector or the real estate sector, will be saved from overheating. Some banking systems already reached their growth limits in their core markets in the past year. This resulted in efforts to expand into other markets in Asia, as well as into market niches in other parts of the world. This trend is likely to continue in the coming year. The implementation of new regulatory requirements, here in particular the new capital and liquidity requirements are referred to, will not present a problem in most banking systems in the Asia / Pacific region. Some banks in this economic region already satisfied the future requirements in 2013.

Shipping

Despite the forecast for strong economic growth in 2014, it is not yet possible to sound the all-clear for the shipping sector.

The forecasts for the global economy predict stronger economic growth compared to 2013 and moderate support in the shipping markets. However, the marginal improvement in demand and commerce data will again be countered by a high tonnage supply in some sectors. Based on current forecasts, a sideways movement in fuel prices is likely. However, NORD/LB considers the scope for further cost reduction measures to be limited, therefore it is not yet possible to sound the all-clear for the sector in 2014. It is expected that the second half of the year will be stronger.

A high wave of deliveries will have to be absorbed by the container market in 2014.

The container sector will continue to be characterised overcapacity. Up until the last quarter of 2013 the number of container ships withdrawn from the market was less than twelve months previously. On top of this, the container sector will continue to be affected by the continued delivery of in particular vessels with very high TEU capacity. It is expected that the number of carriers between 7,500 TEU and 10,000 TEU delivered onto the market will be at approximately the same level as 2013, while the number of new giant container vessels up to 18,500 TEU in 2014 will be 65 per cent up on the number of such vessels on the world's oceans in 2013, equating to an increase in capacity of approx. 0.8 million TEU. Following the constant increases in recent years, fleet growth is expected to rise to approx. 6.6 per cent in the whole container sector in 2014. As a consequence of this, in 2014 further cascade effects will have a negative impact especially on in particular the medium-sized segments such as Panamax vessels. A further factor of uncertainty for the development of freight and as a result charter rates remains the practicality of the new alliance of the three biggest container liner companies, which will start in the second quarter of 2014. One of the top priorities of the newly allied market leaders will be to stabilise rate levels.

China remains the driving force in the bulker sector.

Key for developments in 2014 will be China in the bulker sector and Capesize demand. The raw materials of coal and iron ore required for the constantly growing Chinese economy will be mainly shipped using Capesize bulkers. If China relaxes its current port policy and allows these mega-bulkers of the Brazilian company Vale, this could have a negative effect on Capesize rates. For the time being, the improved prospects for the global economy compared to 2013 suggest a period of moderate stabilisation in the bulker segments. Seasonal fluctuations due to the harvest months in the granary of the world and the exploitation of raw materials prices (e. g. iron ore) and the building up of stocks will ensure a degree of volatility in the rates in the coming months.

In the tanker sector, the expansion of US oil production, continued geopolitical uncertainty in North Africa in 2014, the relaxation of the embargo policy towards Iran and the expected increases in global economic growth will be major factors for demand. As only a slight rise in world oil demand is forecasted (according to OPEC from 89.7 to 90.8 million barrels / day), the short-term prospects for the sector remain negative. Scrapping remains the Achilles' heel for reducing overcapacity in the market; for example 29 VLCC (9.2 million dwt) will be delivered to the market, which is similar to the number of carriers delivered to the market in 2013. In addition, India and Pakistan would also need to step up their scrapping activity; however, there is no sign of this happening in the foreseeable future. Steady freight rates for crude carriers would in our opinion be a success for the sector in 2014.

Tanker market remains under pressure.

In the product tanker segment the order books have continued to grow. Against the background of the new refinery capacity in the Middle and Far East and the increasing level of oil production in the USA, an increase in global demand for transport is expected. Accordingly, despite continuing new orders and an increasing number of deliveries in 2014, a level of demand which is sufficient for adequate utilisation is expected.

Within the niche markets, the prospects for the cruise market remain positive. An increase in ocean cruise passenger numbers worldwide is boosting the sector, whose order book for 2014 includes five new ships with a high number of berths. In addition, orders have been placed for between six and eight new cruise ships per year to 2016.

In the offshore market, after the seasonal fall in rate levels in the winter months in the northern hemisphere, rising rate levels are expected from the second quarter of 2014. The dominance of state-owned companies (South America, Middle East) will increase in the medium term, as major private oil companies are reducing their investments. However, this will do little to change the rising demand for the necessary high-performance material. Therefore the renewal requirements in the oil and gas offshore industry will remain. Despite more efficient methods and falling consumption figures in developed countries, the demand for oil due to increases in demand in the prosperous countries of Asia and Latin America will ensure high raw materials prices and further deep-see exploration in the medium term.

Aircraft

Further increases in air transport are expected for 2014. According to the IATA forecast, passenger traffic (RPK) will increase by 6.0 per cent and capacity will expand by 5.2 per cent. Average global utilisation should therefore rise to 81.3 per cent in 2014. The demand for airfreight volume is expected to increase in 2014 (2014e: 2.1 per cent), although at the same time profits are expected to fall (2014e: −2.1 per cent). The positive trend concerning the profitability of airlines worldwide of 2013 should continue in 2014, the net profit of airlines worldwide is therefore expected to rise to $ 19.7 billion (net margin approx. 2.6 per cent).

Positive development again expected in air transport in 2014.

From 2012 to 2017 the IATA is forecasting an average annual growth rate for global passenger transport of 5.4 per cent (RPK) and for airfreight of 4.4 per cent (FTK). For the same period an annual average growth rate for international passenger transport of 6.2 per cent (RPK) and for international airfreight of 4.9 per cent (FTK) is expected by the IATA.

Based on the increase in production capacity at Airbus and Boeing, NORD/LB Group is expecting an increase in the number of deliveries in 2014.

For 2014 NORD/LB is expecting that order activity will settle down and that as a result the number of new orders should fall in the market for civil aircraft with more than 100 seats.

Real Estate

Real estate – further growth in investment volume expected

As in previous years, global investment in commercial real estate is expected to rise in 2014. The increasing confidence of investors should also result in an increase in investment compared to 2013 in Europe. At the same time it is expected that the pressure to invest in core markets such as Germany and Great Britain will contribute to an increase in investment activity in the recovery crisis countries.

The expectations for the German retail market remain positive for 2014. It is expected that the transaction volume will remain approximately the same or rise slightly.

In Great Britain, growing demand in the commercial real estate market is expected in the current year due to the continuing economic recovery. The expected rise in the number of people in employment will bring about a further rise in space turnover in the office sector. In view of the shortage of supply, the high level of demand in particular in London will result in rising prices and rents. Falling top returns will probably result in a shift in investment activity in favour of secondary locations and regional centres.

The economic recovery that is slowly starting to take effect in France should have a positive effect on the commercial real estate market.

In addition to the core European markets, the increased interest of investors in secondary markets such as Amsterdam, Brussels and Luxembourg should continue in 2014. The 1A office space in Brussels and Luxembourg remains in short supply and as a result top rents will stabilise at a high level.

After economic growth in Poland slowed somewhat in the past year, the forecast for 2014 is much more positive. The demand for new and centrally-located office space in the major cities, and in particular in Warsaw, will continue to increase against the background of the improving economic environment.

BUSINESS DEVELOPMENT OF NORD/LB

Key Planning Assumptions

In line with the strategic policy of NORD/LB, 2014 was planned on the basis of the current diversified business model which is characterised by the financing of different asset classes in the different business segments in opposing cycles.

The binding premise for everyone involved in the decentralised planning process is the central medium-term economic forecast produced by NORD/LB Research. The forecasts stated in this for the development of the economy, interest rates, exchange rates, price inflation and financial markets are included in NORD/LB's planning. For 2014 it is assumed that interest rates in the short-term will be slightly and in the long 10-year term 40 basis points above the previous year's interest rates. In addition, an average exchange rate of 1.27 $/€, a rise in consumer prices of 1.7 per cent, GDP growth of 2.0 per cent and a further slight improvement in the iTraxx are assumed in the planning. More detailed information can be found in the section dealing with general economic development.

For the planning of risk provisioning, NORD/LB has reacted to the intensity of the crisis in the shipping sector and an expected further delay in market recovery by adjusting its risk model. In order to consider the various market recovery phases in the respective market segments, the parameters in the cash flow model used to calculate the loan loss provisions based on current market developments was reviewed and partially adjusted.

This year's plan is also based on the targets set by the Managing Board for 2014 (earnings before risk provisioning, earnings before taxes, regulatory RWA, cost development). These targets were supported in the decentralised planning process by the profit and service centres with measures.

At the start of 2014 the EU Capital Requirements Directive (CRD) and EU Capital Requirements Regulation (CRR) entered into force. The planning of NORD/LB's risk-weighted assets and regulatory capital for 2014 considers the relevant changes resulting from the EU CRR and the transition rules concerning capital requirements and the qualitative and quantitative requirements for capital adequacy.

The NORD/LB Group is expecting to face difficult challenges in 2014. The global crisis in the shipping sector is still not over, although it is expected to pass its peak in 2014. In many markets there will be increasing pressure from the competition and the Balance Sheet Assessment by the ECB and the subsequent stress test will together with various other regulatory requirements tie up capacity and therefore result in pressure on earnings and costs. On the other hand a stronger improvement in the economy and a sustained improvement in the national debt crisis could have a positive impact on the bank's results with an increase in income and lower risk provisioning.

The global crisis in the shipping sector is still not over, although it is expected to pass its peak in 2014.

The NORD/LB Group – Planning for 2014

Overall the NORD/LB Group is expecting, with earnings remaining fairly stable, lower administrative expenses and significantly lower risk provisioning, earnings before taxes to be significantly higher in 2014 than in the previous year.

The stable earnings in the plan for 2014 are primarily attributable to the ambitious plan in net commission income and changes in market parameters in the profit/loss from financial instruments at fair value. In the plan net interest income falls slightly by approx. 6 per cent due in particular to the restriction of new business due to the regulatory capital/RWA requirements and the intended further reduction in total assets. Here business segments with increases (in particular Private and Commercial Customers, Energy and Infrastructure Customers and Aircraft Customers) only partly compensate for segments with lower earnings (Group Controlling/Others) in net interest income. In addition, expenses related to the planned inclusion of subordinated capital have a negative effect on net interest income.

Risk provisioning remain high when compared over several years and are once again primarily influenced by the shipping portfolio, however NORD/LB is expecting a reduction of around 25 per cent compared to 2013.

Administrative expenses are estimated in the plan for 2014 at slightly below the previous year's level as a result of the cost project. A slight fall in staff expenses is seen alongside a slight rise in other administrative expenses in the plan for 2014 due to rising rents, cost allocations and consultancy costs.

The other operating profit/loss is reduced significantly in the plan compared to the previous year; in 2013 there were positive special effects relating to the reversal of provisions, reimbursements and settlement payments. The amounts for the bank levy are stable.

It is expected that, as a result of the cost-reduction programmes, reorganisation expenses will approx. 25 per cent below the previous year's level in 2014, while expenses for public guarantees are much lower in the plan for 2014 due to the increase in the figure reported for 2013.

In the plan for 2014 the CIR is at around the same level of the previous year, while the RoE rises due to lower risk provisioning and slightly higher earnings by around 3 percentage points.

RWA increase by approx. 12 per cent in the plan for 2014. This increase is primarily due to effects as a result of the EU-CRR and the recalibrations in the shipping portfolio. These increases are partly compensated for by relief from a guarantee with a private guarantor.

The planned development in regulatory capital in 2014 is also largely determined by the new requirements of the EU-CRR. With the EU-CRR, the new capital quality of "core tier 1 capital", which will in future be the key regulatory capital control variable, will enter into law. In 2014 deductions, which up until the end of 2013 were deducted half from core capital and half from supplementary capital (e.g. the shortfall in valuation allowances, which is expected to be much lower in 2014), will be deducted from core capital. In addition, the planned regulatory capital for 2014 is based on the international accounting regulations of IFRSs, while up until the end of 2013 NORD/LB's regulatory capital was based on the regulations of the German Banking Act and German Commercial Code. Due largely to these structural changes, the core tier 1 capital is much lower in the plan for 2014 than the core capital based on the German Banking Act as at the end of 2013. However, taking into account these structural changes, NORD/LB still expects to meet in 2014 the minimum requirements of the EU-CRR and possible additional regulatory requirements concerning the required level of regulatory capital.

BUSINESS SEGMENT FORECAST WITH OPPORTUNITIES AND RISKS REPORT

Private and Commercial Customers

Earnings Plan in the Private and Commercial Customers Business Segment

The expected increases in income will result in a further improvement in earnings before taxes in the Private and Commercial Customers segment in 2014.

There is a slight increase in earnings in the Private and Commercial Customers business segment in the plan. Interest income should increase in particular. The area of lending due to an increase in margins as well as in other interest income of Öffentliche Versicherung Braunschweig. An increase in net commission income compared to the previous year from securities transactions and brokering business (insurance and real estate) is also planned. In risk provisioning, following reversals in the previous year, provisions in the mid-single-digit range will be made in 2014. The slightly lower administrative expenses in the plan is primarily the result of a reduction in material costs.

The expected increase in earnings in lending and deposit business and the slight reduction in administrative expenses should more than compensate for the anticipated increase in risk provisioning in this segment in 2013, with the result that an approx. 20 per cent increase in earnings before taxes is planned. This improvement will also have a corresponding impact on the CIR and RoRaC.

Opportunities and Risks in the Private and Commercial Customers Business Segment

Opportunities will arise due to the recovery of the German economy since mid-2013, which will continue to be felt and result in an increased willingness to invest by and demand for loans from businesses and self-employed persons. Wage increases and the strong state of the job market are the basis for stronger growth in disposable income. This has a positive impact on private consumption and involves opportunities to increase consumer loans. In addition, the historically low interest rates support the sustained growth in housing construction loans.

For many investors, the security and liquidity considerations outweigh their needs in terms of returns. This results in high levels of liquidity being maintained and offers the opportunity for further growth in customer deposits. At the same time pressure will increase on margins in deposit business due to the continuing phase of low interest rates. In addition, the rising level of competition with strong pressure on conditions (in particular for short-term financial investments) entails the risk of a decline in portfolio business and/or reduced margins.

For Öffentliche Versicherung Braunschweig there is a risk of higher compensation for losses due to weather events and the opportunity of lower compensation for losses in a year where the level of damage is low.

Corporate Customers & Markets

Earnings Plan in the Corporate Customers & Markets Business Segment

Earnings before risk provisioning should increase by 5 per cent in the plan year 2014. This is due to a much higher trading profit and net commission income in the Markets segment due to the increase in securitisation and customer business and expected increase in interest income in the Corporate Customers segment due to the planned growth in business. A slight increase in administrative expenses due to the business initiatives in the Corporate Customers & Markets segment and a significant increase in risk provisioning in the amount of the imputed risk premium estimated in the plan result in a slight fall in the contribution to earnings before taxes in the plan compared to the previous year. Both the RoRaC (due to the reduced equity commitment in the segment) and the CIR (due to the increase in earnings) are slightly better in the plan for 2014 than in the previous year.

Increase in earnings expected due to business initiatives in the Corporate Customers & Markets business segment.

Opportunities and Risks in the Corporate Customers & Markets Business Segment

Challenges and risks will be presented not only by the general interest rate changes, but in particular also by numerous regulatory requirements that will have an effect on customer business such as the higher capital adequacy requirement relating to derivatives under Basel III or the regulatory impact of the introduction of central counterparties under the European Market Infrastructure Regulation (EMIR) and the implementation of the Dodd Frank Act (DFA). On the other hand there is also the opportunity of intensifying customer relationships and developing new customer relationships with new product initiatives in order to gain market share.

In the Corporate Customers segment the challenges will be in realising the segment's planned growth with qualified personnel and in the more competitive situation in Germany. Risks will also arise due to further regulatory requirements of the regulatory authorities. Opportunities exist to improve the good market position due to the increased trust in regional institutes and the strong positioning of its Agricultural Banking and Housing segments.

For the NORD/LB Asset Management group opportunities will arise with new asset classes being added to the product range on both the bond and share side. Challenges in the next year will be presented by the reduced risk appetite of customers and tighter regulatory requirements, which might result in the liquidation of some funds, and the risk of losing some major customers together with the resulting potential loss of earnings.

Energy and Infrastructure Customers

Earnings Plan in the Energy and Infrastructure Customers Business Segment

On the income side margins are expected to remain in new business, while the volume of newly concluded transactions should increase, and as a result a significantly higher contribution to net interest income is expected in 2014 compared to the previous year. Net commission income is reduced significantly in the plan for 2014 due to a fall in commission in securities business. Overall income should grow by around 4 per cent.

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

Due to the good diversification of the portfolio and the stable market environment, it is expected that risk provisioning will be around the same level as the calculated risk premium. Compared to 2013, in which below-average risk provisioning were made, an increase of between € 15 million and € 20 million is expected for 2014.

In view of the new business, the absence of large-scale rating migration effects and the continual focus on equity-friendly structures, there should only be a slight increase in risk-weighted assets.

For 2014 an increase in operating costs of almost 10 per cent is expected; this will mainly be attributable to secondary costs, as well as staff expenses and material costs. The background to this is an increase in the number of staff with the focus on generating additional new business.

Earnings before taxes fall, despite the increase in net interest income, by approx. 13 per cent due mainly to the increase in risk provisioning. This effect is reflected in the RoRaC, which falls slightly. Due to investments in this segment, the CIR will rise by approx. 2 percentage points.

Opportunities and Risks in the Energy and Infrastructure Customers Business Segment

This significant challenges in the Energy and Infrastructure Customers segment lie in the increasing competition. Competitors, some of which are institutional organisations, are increasingly providing customers with alternative financing options and in so doing are placing increase pressure on volumes, margins and commission. There is also the risk of a change in technological, legal, economic and political circumstances. For example, numerous proposals have been made concerning the reform of the Renewable Energies Act (Erneuerbare Energien Gesetz, EEG) in Germany. Potential is seen in this segment which can be realised by exploiting NORD/LB’s many years of expertise and good market position and by intensifying customer relationships.

Ship and Aircraft Customers

Earnings Plan in the Ship and Aircraft Customers Business Segment

Stable earnings performance expected for aircraft financing.

Reduced but still high risk provisioning for ship finance.

The risk provisioning are affected by the crisis in the shipping sector and will remain high in 2014, although NORD/LB is expecting a significant reduction compared to 2013. Despite the expected stable earnings performance for aircraft in 2014 and the expected high level of risk provisioning in ship lending, a negative contribution to earnings before taxes in the low-double-digit range is planned in the overall segment, which equates to a significant increase compared to the previous year. For the Ship Finance sub-segment, NORD/LB is again expecting a clearly negative contribution to profit / loss in 2014, although this is improved by three quarters compared to the previous year.

In 2014 RWA are expected to reduce slightly due to the volume reduction in ship financing. It is anticipated that the RoRac for the segment, which was negative in 2013, will remain negative, but at a much better level than in the previous year. The CIR rises in the plan due to a further increase in operating costs as a result of the crisis by three to four percentage points, but remains at a low level.

Opportunities and Risks in the Ship and Aircraft Customers Business Segment

The earnings performance in the Ship Customers segment continues to be affected significantly by the crisis in the shipping sector. The market recovery may take effect at a different time and to a different degree than assumed in the plan with corresponding risks, and opportunities, for earnings performance in this segment.

In the Aircraft Customers segment, however, the increased competition in the banking and capital markets will be one of the major challenges for this business segment. On the one hand there is comparatively limited scope for increased margins in standard business, on the other hand additional business opportunities may also arise due to NORD/LB’s good reputation.

Real Estate Banking Customers

Earnings Plan in the Real Estate Banking Customers Business Segment

In the Real Estate Banking Customers business segment, net interest income in 2014 is expected to be slightly below the previous year's level. Deutsche Hypo is expecting that the volume of new business will increase significantly compared to the previous year. However, the increase in new business in the plan for Deutsche Hypo does not fully compensate for the ongoing reduction of NORD/LB's remaining real estate portfolio.

Deutsche Hypo the competence centre for commercial real estate finance.

Overall, for 2014 an increase in risk provisioning of € 10 to 15 million compared to the previous year is expected in the Real Estate Banking Customers business segment. This is based primarily on a conservative assessment of the development of existing exposures.

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

Overall, the contribution to earnings before taxes in the Real Estate Banking Customers segment in 2014 are expected to be around 25 per cent below the contribution to earnings in the past financial year. This development is attributable to the increase in risk provisioning and fall in income.

It is expected that CIR and RoRaC will be at the same level as the previous year in 2014.

Opportunities and Risks in the Real Estate Banking Customers Segment

Deutsche Hypo sees opportunities in the target real estate markets, untroubled by the European national debt crisis, remaining robust and continuing to grow, accompanied by a further pleasing improvement in margins. There is a general business risk that Deutsche Hypo is unable to generate the expected new business for the planned margins, whereby reduced income in one submarket might be compensated for to a degree by an increased in income in another submarket. The bank has in respect of property types a diversified financing portfolio.

For NORD/LB remaining real estate portfolio there is both the opportunity and the risk that the existing exposures will develop better or worse than expected and that risk provisioning will as a result be lower or have to be increased.

Group Controlling / Others / Reconciliation

This segment covers all units that have no direct contact with customers such as Treasury and Bank Assets Allocation (BAA) with earnings from interest rate change risk control, the balancing provision, liquidity management and self-induced assets.

This segment also covers all other performance data that is directly related to business activities and is not the direct result of customer business and therefore not allocatable to the segments: income from investments and financing not allocated to the profit centres, costs of the corporate and service centres which have not been allocated, major projects, consolidation items and reconciliations.

The other operating profit / loss of this segment includes among other things the bank levy. Included in the expenses related to public guarantees for restructuring are the expenses for the guarantee provided by the states. Reported separately are the restructuring expenses for efficiency measures in the efficiency improvement programme.

Earnings Plan in the Group Controlling / Others / Reconciliation Business Segment

The planned increase in income in this segment is primarily due to the expected increase in net commission income due to the phasing out of commission expenses for NORD/LB GMTN S.A., the increase in sales commission in NORD/LB Luxembourg and the increase in the profit / loss from financial instruments at fair value due to improved market parameters. Against this, a fall in net interest income is planned, which is the result of higher expenses for subordinated capital and the planned portfolio reduction in the NORD/LB segments reported here. Risk provisioning will develop positively due to the much lower planned allocation to general loan loss provisions.

It is expected that total administrative expenses in this segment will be approx. € 30 million less than in the previous year due in particular to much lower staff expenses as a result of the efficiency improvement programmes and higher internal cost reallocations to the market divisions.

The negative contribution to profit / loss should be much lower in 2014.

Although the contribution to profit / loss in this segment improves significantly in the plan for 2014 due to the expected significant increase in income, lower allocation to general loan loss provisions and noticeable reduction in operating costs, it is still negative.

Opportunities and Risks in the Group Controlling / Others / Reconciliation Business Segment

In Bank Asset Allocation, opportunities and risks arising from rating-induced sale transactions with a corresponding effect on profit / loss are seen. Opportunities and risks for the Treasury Division primarily arise as a result of market parameters (interest rate and currency fluctuations) deviating from the forecast and the associated effect on earnings in the transformation process.

NORD/LB Planning for 2014 and Overall Assessment

In the financial year 2013 the NORD/LB Group has already absorbed huge risk provisioning in its income. The bank is expecting that the overall situation will remain satisfactory in 2014 due to the balanced business model, despite the continued high level of risk provisioning.

EXTENDED RISK REPORT

Development of Risk-Bearing Capacity in 2013

The utilisation of risk capital in the going concern scenario improved slightly in the year under review and is 38 per cent as at the reporting date. The fall is primarily attributable to a reduction in RWA which, with an improvement in capital ratios and an increase in available equity capital, resulted in a increase in risk capital.

Of the significant risk types included in the model, namely credit, investment, market-price, liquidity and operational risk, credit risk is the most significant. A fall in credit and liquidity risk is countered by an increase in market-price risk. The utilisation of risk capital in the going concern can be seen in the table which shows risk-bearing capacity for the NORD/LB Group:

(in € million) [1]	Risk-bearing capacity 31 Dec. 2013		Risk-bearing capacity 31 Dec. 2012	
Risk capital	**3 846**	**100 %**	**3 388**	**100 %**
Credit risk	857	22 %	890	26 %
Investment risk	42	1 %	44	1 %
Market-price risk	502	13 %	354	10 %
Liquidity risk	102	3 %	114	3 %
Operational risk	75	2 %	72	2 %
Other[2]	– 103	– 3 %	– 98	– 3 %
Total risk potential	**1 476**		**1 376**	
Risk capital utilisation		**38 %**		**41 %**

[1] Total differences are rounding differences.
[2] Includes adjustment items for the comparison between the regulatory and economic loss expectations.

Overall utilisation is well below the internally specified maximum value of 80 per cent. The specifications of the risk strategy concerning the allocation of risk capital to risk types were also complied with.

Credit Risk – Development in 2013

The maximum default risk for on-balance-sheet and off-balance-sheet financial instruments as at the reporting date is € 214 billion and has fallen in the year under review by 10 per cent. The reductions took place in all balance-sheet-relevant categories and in particular loans and advances to customers and banks.

Risk-bearing financial instruments (in € million)	Maximum default risk 31 Dec. 2013	Maximum default risk 31 Dec. 2012[1)]
Loans and advances to banks	27 478	34 375
Loans and advances to customers	105 416	112 631
Adjustment item for financial instruments hedged in the fair value hedge portfolio	– 171	– 3
Financial assets at fair value through profit or loss	13 541	17 920
Positive fair values from hedge accounting derivatives	3 872	4 924
Financial assets	47 043	52 423
Sub-total	**197 179**	**222 270**
Liabilities from guarantees, other indemnity agreements and irrevocable credit commitments	17 081	14 559
Total	**214 260**	**236 829**

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

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

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

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 2013 amounts to € 213 billion and has therefore fallen compared to the previous year's value by 8 per cent. The reduction in the volume is above all the result of the reduced total exposure in NORD/LB and Deutsche Hypo, particularly in the area of financial institutes. Most of the total exposure continues to lie in the very good to good rating classes.

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

The Rating Structure table shows the breakdown of the total exposure in the NORD/LB Group by IFD rating class and product type.

Rating structure [1) 2)] (in € million)	Loans [3)] 31 Dec. 2013	Securities [4)] 31 Dec. 2013	Derivates [5)] 31 Dec. 2013	Other [6)] 31 Dec. 2013	Total exposure 31 Dec. 2013	Total exposure 31 Dec. 2012
very good to good	94 441	41 093	9 423	13 711	158 669	171 867
good / satisfactory	12 384	3 302	1 008	1 132	17 826	19 934
reasonable / satisfactory	9 027	948	344	1 246	11 565	14 315
increased risk	7 459	931	269	388	9 047	10 210
high risk	2 947	308	30	72	3 357	4 465
very high risk	4 242	92	94	38	4 466	5 127
default (=NPL)	7 649	23	43	56	7 770	6 337
Total	**138 149**	**46 697**	**11 210**	**16 642**	**212 698**	**232 257**

1) The allocation is made based on the IFD rating classes.
2) Total differences are rounding differences.
3) Includes utilised and committed loans, sureties, guarantees and other non-derivative off balance sheet assets, whereby, as in the internal reporting, the irrevocable credit commitments are generally included at 43 per cent (45 per cent) and revocable credit commitments at 38 per cent (25 per cent). The conversion factors are validated annually.
4) Includes the own stocks of securities issued by third parties (banking book only).
5) Includes derivative financial instruments such as financial swaps, options, futures, forward rate agreements and currency transactions.
6) Includes other products such as transmitted loans and loans administered for third-party account.

In line with the fall in in total exposure, the items in the rating class Very good to good fell in the year under review by 8 per cent. The very high share of these best rating categories in the total exposure of 75 per cent (74 per cent) is explained by the great importance of business with public authorities and with financing institutes with a good credit rating and therefore at the same time reflects the conservative risk policy of the NORD/LB Group.

While the exposure in all other rating categories (good / satisfactory to very high risk) fell significantly in the year under review, the exposure in non-performing loans (NPL) rose significantly due to rating migrations. The reason for this is in particular the ongoing shipping crisis.

The breakdown of total exposure by industry group shows that business conducted with financing institutes and with public administrations, which basically remains low risk, accounts for 58 per cent (60 per cent) and still constitutes a considerable share of the total exposure.

Industries [1) 2)] (in € million)	Loans [3)] 31 Dec. 2013	Securities [4)] 31 Dec. 2013	Derivates [5)] 31 Dec. 2013	Other [6)] 31 Dec. 2013	Total exposure 31 Dec. 2013	Total exposure 31 Dec. 2012
Financing institutes / insurance companies	34 811	25 380	7 432	8 452	76 076	86 630
Service industries / other	59 944	18 953	2 254	1 920	83 071	87 379
– Of which: Land, housing	18 219	–	383	476	19 078	20 584
– Of which: Public administration	27 341	18 595	1 511	123	47 571	52 620
Transport / communications	23 224	830	464	245	24 762	30 566
– Of which: Shipping	16 139	0	201	55	16 395	18 316
– Of which: Aviation	3 986	–	23	0	4 009	7 853
Manufacturing industry	5 499	595	396	249	6 739	6 980
Energy, water and mining	8 066	771	426	4 383	13 645	12 768
Trade, maintenance and repairs	3 709	97	134	296	4 236	3 924
Agriculture, forestry and fishing	797	27	4	1 023	1 851	1 684
Construction	2 098	45	100	75	2 318	2 325
Total	**138 149**	**46 697**	**11 210**	**16 642**	**212 698**	**232 257**

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

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

Regions [1) 2)] (in € million)	Loans [3)] 31 Dec. 2013	Securities [4)] 31 Dec. 2013	Derivates [5)] 31 Dec. 2013	Other [6)] 31 Dec. 2013	Total exposure 31 Dec. 2013	Total exposure 31 Dec. 2012
Euro countries	116 309	39 516	7 114	16 542	179 482	194 389
– Of which: Germany	100 193	25 657	4 161	15 917	145 928	160 553
Other Europe	8 109	3 003	2 753	74	13 938	15 208
North America	5 819	2 708	1 169	16	9 712	12 987
Middle and South America	2 389	165	10	0	2 564	3 046
Middle East / Africa	1 189	–	2	0	1 191	1 167
Asia / Australia	4 334	1 305	162	10	5 811	5 460
Total	**138 149**	**46 697**	**11 210**	**16 642**	**212 698**	**232 257**

1) The figures are reported, as in the internal reporting, by the country in which the borrower is legally domiciled.
2) to 6) See the previous chart on the rating structure.

Overall the exposure in Greece, Ireland, Italy, Portugal and Spain fell by 12 per cent to € 10 billion (€12 billion). Their share in the total exposure is constant at 5 per cent. The share of receivables owed by the respective countries, regional governments and municipalities fell to € 2.8 billion (€ 2.9 billion) and remains 1 per cent of the total exposure.

Exposure in selected European countries 1) 2) (in € million)	Greece 31 Dec. 2013	Greece 31 Dec. 2012	Ireland 31 Dec. 2013	Ireland 31 Dec. 2012	Italy 31 Dec. 2013	Italy 31 Dec. 2012	Portugal 31 Dec. 2013	Portugal 31 Dec. 2012	Spain 31 Dec. 2013	Spain 31 Dec. 2012	Total 31 Dec. 2013	Total 31 Dec. 2012
Sovereign Exposure	0	0	289	294	1 792	1 894	350	350	344	394	2 774	2 932
– Of which: CDS	–	–	184	189	73	76	193	194	–	–	449	459
Financing institutes / insurance companies	–	–	568	845	1 272	1 784	292	305	2 099	2 408	4 232	5 342
Corporates / Other	224	243	2 262	2 185	133	150	144	192	488	575	3 252	3 345
Total	**225**	**243**	**3 120**	**3 324**	**3 197**	**3 828**	**786**	**847**	**2 931**	**3 377**	**10 258**	**11 619**

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

The NORD/LB Group has an exposure of € 1.2 billion in Cyprus in the Corporates / Others category. This primarily concerns a shipping exposure whose economic risk lies outside of Cyprus. The NORD/LB Group does not have any sovereign exposure or exposure to financing institutes and insurance companies in Cyprus.

In Hungary the NORD/LB Group has an exposure of € 412 million (€ 322 million sovereign exposure, € 41 million financing institutes and insurance companies, € 49 million corporates / others), and in Slovenia € 56 million (€ 31 million sovereign exposure, € 25 million financing institutes and insurance companies). The exposure in Egypt and Ukraine is of minor significance.

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. Further details can be found in Note (65) Disclosures on selected countries.

Sovereign Exposure in selected European countries by maturity 1) 2) (in € million)	Greece 31 Dec. 2013	Ireland 31 Dec. 2013	Italy 31 Dec. 2013	Portugal 31 Dec. 2013	Spain 31 Dec. 2013	**Total 31 Dec. 2013**
up to 1 year	–	–	36	10	92	**139**
more than 1 up to 5 years	–	87	475	126	221	**909**
more than 5 years	0	203	1 280	214	31	**1 727**
Total	**0**	**289**	**1 792**	**350**	**344**	**2 774**

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

In addition to direct exposure, the reported exposure also comprises indirect exposure (primarily credit default swaps). The calculation 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.

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 other earnings, in particular from the realisation of collateral. Risks provisioning 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 through profit or loss.

The continuation of the shipping crisis resulted in a further increase in valuation allowances on exposures and risk provisioning in this sector in 2013. The balance of specific valuation allowances, lumpsum specific lrisk provisioning and loan loss provisions increased in the NORD/LB Group due primarily to an increase in valuation allowances for the shipping portfolio of NORD/LB and Bremer Landesbank (see also Note (36) Risk provisioning 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 loan loss provisions to the maximum default risk of on-balance-sheet and off-balance-sheet financial instruments rose in the period under review from 0.71 per cent to 0.90 per cent.

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 risk provisioning before the inclusion of collateral. 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).

The share of total NPLs in the total exposure rose in the period under review and is as at 31 December 2013 3.7 per cent (2.7 per cent).The increased exposure in the amount of € 5.5 billion (€ 4.7 billion) makes up 2.6 per cent (2.0 per cent) of the total exposure.

Industries [1) 2)] (in € 000)	Total exposure of impaired receivables [3)] 31 Dec. 2013	31 Dec. 2012 [4)]	Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2013	31 Dec. 2012
Financing institutes/ insurance companies	152 159	191 605	113 610	119 650
Service industries/other	1 153 328	1 461 321	429 566	523 720
Transport/communications	3 794 910	2 509 158	1 124 300	749 895
Manufacturing industry	204 476	279 962	136 320	115 585
Energy, water and mining	90 995	111 082	58 777	62 481
Trade, maintenance and repairs	48 795	48 739	16 652	24 004
Agriculture, forestry and fishing	11 706	13 805	6 644	7 338
Construction	44 698	118 916	42 114	81 826
Total	**5 501 066**	**4 734 588**	**1 927 982**	**1 684 499**

1) Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria and under consideration of the IFRS financial reporting.
2) Total differences are rounding differences.
3) For information purposes: the gross book value of NPLs requiring allowances is € 5 266 million (€ 4 425 million).
4) Previous year's figures were adjusted.

31 Dec. 2013 **Industries** [1) 2)] (in € 000)	Total exposure of overdue, unimpaired receivables Up to 1 month	1 up to 3 months	3 up to 6 months	More than 6 months	Total	General loan loss provisions
Financing institutes/ insurance companies	1 027 938	284 197	0	1 544	1 313 679	5 630
Service industries/other	212 327	138 653	4 993	30 329	386 303	95 517
Transport/ communications	330 540	97 623	126 368	436 430	990 961	376 728
Manufacturing industry	31 599	109	11 246	776	43 730	20 448
Energy, water and mining	215 981	554	–	918	217 454	19 948
Trade, maintenance and repairs	68 550	352	365	4 768	74 036	6 604
Agriculture, forestry and fishing	26 438	1 783	138	1 335	29 694	4 480
Construction	7 770	48	4	1 304	9 126	5 735
Total	**1 921 144**	**523 319**	**143 115**	**477 405**	**3 064 982**	**535 089**

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

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

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

Regions[1)2)]	Total exposure of impaired receivables		Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business	
(in € 000)	31 Dec. 2013	31 Dec. 2012[3)]	31 Dec. 2013	31 Dec. 2012
Euro countries	4 953 479	3 982 306	1 790 699	1 440 586
Other Europe	191 738	435 421	73 741	158 575
North America	107 051	259 265	20 900	66 460
Middle and South America	181	13 383	1 046	8 750
Middle East/Africa	188 366	–	35 683	–
Asia/Australia	60 251	44 214	5 914	10 127
Total	**5 501 066**	**4 734 588**	**1 927 982**	**1 684 499**

1) Allocated in accordance with the internal reporting by economical criteria and under consideration of the IFRS financial reporting.
2) Total differences are rounding differences.
3) Previous year's figures were adjusted.

31 Dec. 2013 Regions[1) 2)] (in € 000)	Total exposure of overdue, unimpaired receivables up to 1 month	1 up to 3 months	3 up to 6 months	More than 6 months	Total	General loan loss provisions
Euro countries	1 863 700	498 928	143 112	458 266	2 964 005	476 654
Other Europe	45 022	13 143	3	2 439	60 607	19 954
North America	0	0	–	–	0	13 521
Middle and South America	–	–	–	–	–	2 760
Middle East/Africa	0	–	–	–	0	5 454
Asia/Australia	12 422	11 248	–	16 700	40 370	16 745
Total	**1 921 144**	**523 319**	**143 115**	**477 405**	**3 064 982**	**535 089**

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

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

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

The exposure of overdue, unimpaired receivables rose overall. This is due primarily to a rise in the up-to-three-months category. Of the overdue, unimpaired receivables, only 20 per cent (23 per cent) are receivables where the agreed interest or redemption payments are overdue by more than 90 days. In the NORD/LB Group these receivables are considered to be defaults. 63 per cent (63 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 risk provisioning figures presented deviate due to differences in the basis of consolidation and the treatment of general loan loss provisions for off-balance-sheet liabilities from the values presented in Note (36) Risk provisioning. The values can be reconciled with the help of the Reconciliation table.

Reconciliations[1)] (in € million)	Specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business 31 Dec. 2013	31 Dec. 2012	General loan loss provisions 31 Dec. 2013	31 Dec. 2012
Risk report	**1 928**	**1 684**	**535**	**490**
Differing basis of consolidation	– 72	– 79	– 19	– 11
General loan loss provisions on off-balance sheet obligations	39	42	– 39	– 42
Consolidated financial statements	**1 894**	**1 648**	**478**	**437**

[1)] Total differences are rounding differences.

Direct write-offs of loans by the significant Group companies from a risk point of view in the year under review totalled € 138 million (€ 85 million). Additions to receivables written off amounted to € 21 million (€ 15 million). For securities in the category loans and receivables (LaR) in the NORD/LB Group, direct write-offs of loans and advances totalled € 9 million (write-ups of € 3 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 2013 by € 11 billion (€ 12 billion); this equates to a share of 15 per cent (14 per cent) of the total RWA credit risk. Mainly sureties and guarantees from states and banks, financial securities and mortgage liens were included.

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

Outlook

Against the background of the continuing difficult market conditions for ship financing, the NORD/LB Group expects that risk provisioning will again be significant in 2014, though less than in 2013. The NORD/LB Group will continue to monitor developments closely and where necessary proceed with the measures to strengthen the risk quotas.

In 2014 measures to further optimise the models for quantifying and controlling credit risks are planned. In addition to developing the economic credit risk model, the collection of loss data to validate the components Loss Given Default (LGD) and Credit Conversion Factor (CCF) will be expanded.

Investment Risk – Development in 2013

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. This strategy was continued in the year under review. A few smaller investments were also sold or liquidated in 2013.

The risk potential reported in the going concern has been reduced due among other things to these sales and valuation adjustments in the year under review to € 42 million (€ 44 million).

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

Öffentliche Versicherung Braunschweig

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

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

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

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

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

The issue of risk management and the relating regulatory provisions under Solvency II are becoming increasingly significant in the insurance industry. Following the publication of the Solvency II guideline in 2009, the date that Solvency II will come into effect has been put back to 2016. In 2014 and 2015 there will though be a gradual transition to the new regulatory regime with a range of transition rules. Many provisions are already laid down in concrete terms in the Minimum Requirements for Risk Management for Insurance Companies (MaRisk VA), which have been implemented extensively by ÖVBS.

In 2013 ÖVBS created in a project across all divisions the technical and procedural basis for the implementation of the provisions of Solvency II.

For 2014 further work on the Solvency II requirements is planned in the project with focus on the Solvency II transition rules. The aim is, building on the Minimum Requirements for Risk Management for Insurance Companies that have already been implemented, to analyse the essential components in good time so that future requirements will be met adequately.

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

NORD/LB Asset Management group

The NORD/LB Asset Management group is the NORD/LB Group's central platform for asset management services. The group includes the in the year under review non-operational NORD/LB Asset Management Holding GmbH which is responsible for staff services and the provision of infrastructure, NORD/LB Capital Management GmbH, which is responsible for portfolio management, and NORD/LB Asset Management AG (formerly NORD/LB Kapitalanlagegesellschaft AG), which performs all of the administrative services for institutional asset management in the NORD/LB Asset Management group.

The shareholders' meeting of NORD/LB Capital Management GmbH and an extraordinary general meeting of NORD/LB Asset Management AG decided on 29 January 2014 to merge NORD/LB Capital Management GmbH with NORD/LB Asset Management AG. As a result the asset management services will in future be performed by one company. In addition, the staff of NORD/LB Asset Management Holding GmbH were transferred to NORD/LB Asset Management AG, and as a result NORD/LB Asset Management AG will perform the staff services itself. The infrastructure will continue to be provided by NORD/LB Asset Management Holding GmbH.

On 30 December 2013 NORD/LB Asset Management AG was one of the first capital management organisations in Germany to be awarded a licence to be an Alternative Investment Fund Manager in accordance with the AIFM Directive, implemented by the German Capital Investment Code (Kapitalanlagegesetzbuch, KAGB) on 22 June 2013. As a result it is now fully entitled to issue special assets under the new legal framework.

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

The company also has 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.

The finance and operational risks of the companies are subject to constant monitoring and control within the established management information system.

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

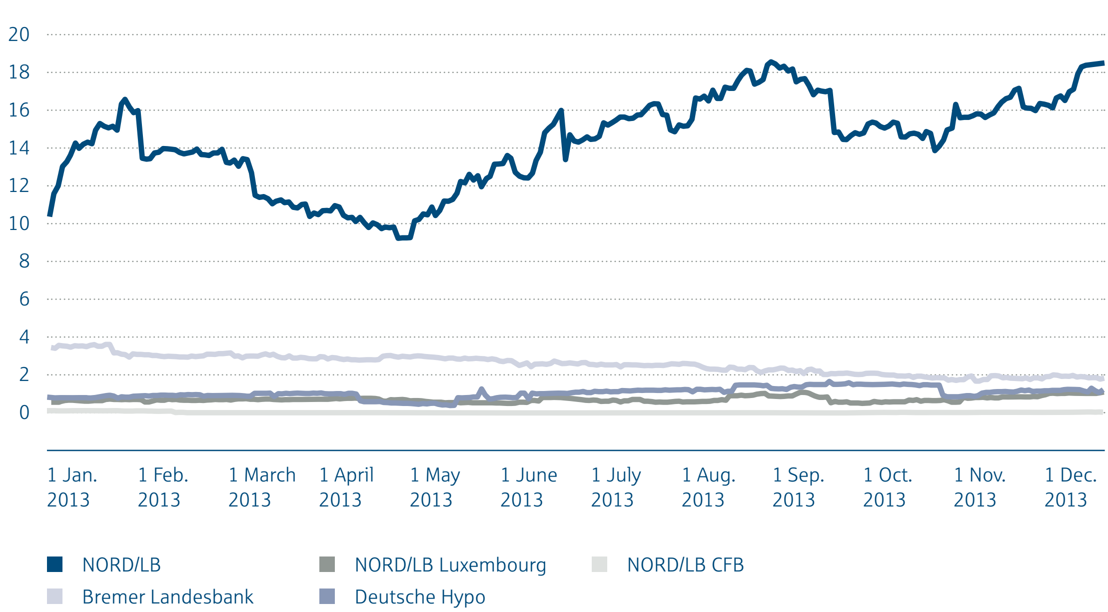
Outlook
Significant tasks for 2014 will be the further systematic reduction of investments which are not relevant for NORD/LB's business model and the further development of stringent controls for investments in relation to the risk-return ratio, the further development of the materiality concept.

Market-price risk – Development in 2013

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

The rise in the VaR is primarily attributable to additional positive term transformations in NORD/LB's banking book, especially in the currencies USD, GBP and CHF.

VALUE-AT-RISK (95 PER CENT, 1 DAY) (in € million)



The average utilisation for the year of market-price risk limits in NORD/LB at overall bank level was 52 per cent (49 per cent), with maximum utilisation amounting to 70 per cent (68 per cent) and minimum utilisation at 32 per cent (27 per cent). In Bremer Landesbank the average was 48 per cent (58 per cent), in NORD/LB Luxembourg 18 per cent (23 per cent), in Deutsche Hypo 33 per cent (30 per cent) and in NORD/LB CFB 20 per cent (43 per cent).

During the course of 2013, the daily VaR calculated as the sum of the VaR values of the significant companies from a risk point of view (confidence level of 95 per cent and holding period of one day) fluctuated between € 14 million and € 24 million, with an average value of € 19 million. As at 31 December 2013 a VaR of € 22 million (€ 16 million), therefore 36 per cent higher than the previous year, was calculated for the NORD/LB Group. The historical simulation method was used throughout the Group.

The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 148 million in the NORD/LB Group on 31 December 2013 (€ 84 million). These figures also include, unlike the regulatory reporting, the interest-rate and share-price risks in the banking book.

Market-price risks [1)]	Maximum		Average		Minimum		End-of year risk	
(in € 000)	**1 Jan.– 31 Dec. 2013**	**1 Jan.– 31 Dec. 2012**	**1 Jan.– 31 Dec. 2013**	**1 Jan.– 31 Dec. 2012**	**1 Jan.– 31 Dec. 2013**	**1 Jan.– 31 Dec. 2012**	**1 Jan.– 31 Dec. 2013**	**1 Jan.– 31 Dec. 2012**
Interest-rate risk (VaR 95 %, 1day)	22 899	27 198	18 578	22 253	13 410	16 492	22 083	15 878
Currency risk (VaR 95 %, 1day)	1 059	2 154	730	1 209	387	703	1 010	419
Share-price and fund-price risk (VaR 95 %, 1day)	1 224	1 197	931	715	270	153	736	922
Volatility risk (VaR 95 %, 1day)	1 361	912	648	432	298	142	384	617
Other add-ons	104	171	45	73	4	19	8	42
Total	**23 781**	**28 068**	**19 222**	**22 217**	**13 786**	**16 652**	**22 375**	**16 463**

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

Unlike the credit-spread risks for the liquidity reserve, the credit-spread risks of fixed assets in the going-concern scenario are not included in the VaR for market-price risks. They were, however, switched in the third quarter of 2013 in the operational control from sensitivity-based limiting to VaR-based limiting. In 2013 the credit investment items concerned were also further reduced by means of slimming down and targeted sales.

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

The effects of a standardised interest-rate shock in the banking book are also analysed in accordance with German Solvency Regulation requirements. The result for the NORD/LB Group as at 31 December 2013 is at 8 per cent (7 per cent) well below the regulatory threshold which provides for a maximum share of 20 per cent of authorised equity capital.

Outlook

The NORD/LB Group will continue to closely monitor all of the relevant asset categories in 2014 as at least short-term, volatile market fluctuations can be expected. Based on its conservative risk policy, the gradual improvements to 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.

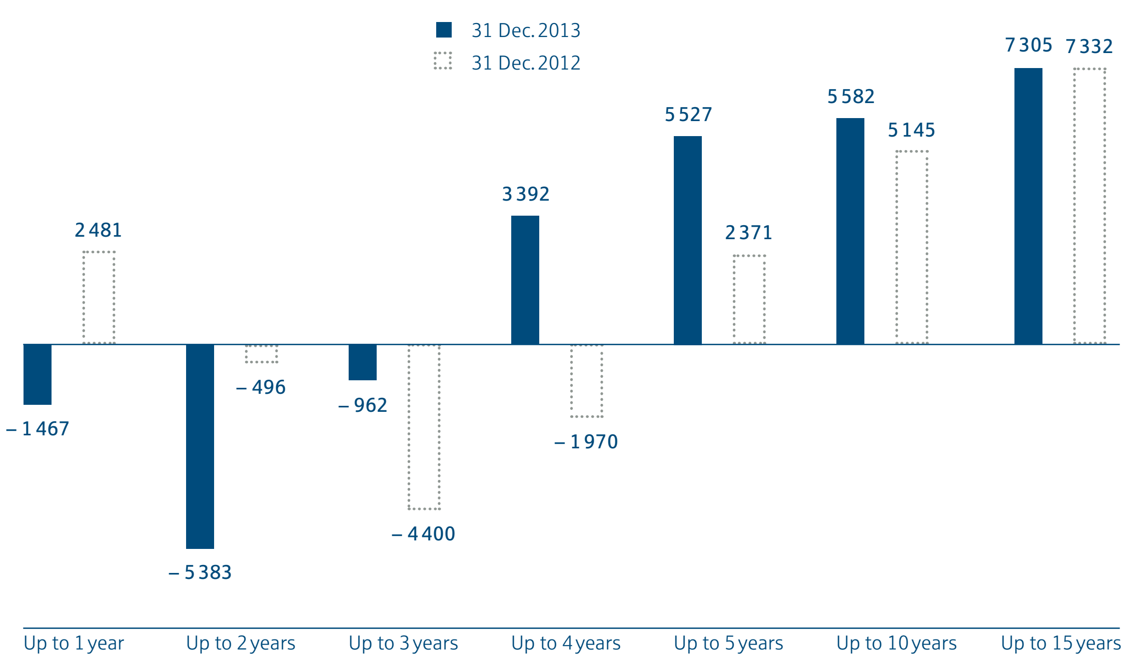
With regard to the methods used, for 2014 it is planned that the basic risks from the various swap curves will be added to the VaR model in the trading and banking book.

Liquidity Risk – Development in 2013

The liquidity situation in the markets stabilised in 2013 due to the measures of the European Central Bank, but is still characterised by uncertainty with regard to the possible impact in the medium to long term of the national debt crisis on the EU periphery countries.

In spite of this, the NORD/LB Group had sufficient liquidity at all times in 2013. The liquidity maturity balance sheet shows liquidity surpluses in the year under review in the medium and long-term maturity bands. In the maturity bands up to two years on the other hand liquidity requirements have increased. The shift in these maturity bands is primarily due to the effectof reduced maturities of the banks own issues. 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 (in € million)



The NORD/LB Group's refinancing primarily comprises liabilities to banks at 29 per cent (29 per cent), liabilities to customers at 27 per cent (25 per cent) and securitised liabilities at 25 per cent (26 per cent). In addition to securities, NORD/LB also uses covered securities, including public-sector Pfandbriefe in euros and US dollars and mortage Pfandbriefe, ship Pfandbriefe and aircraft Pfandbriefe. Pfandbriefe in circulation, including bonds which were issued before the Covered Bond Act (Pfandbriefgesetz, PfandBG) came into effect and lettres de gage issued under Luxembourg law, total € 103 billion (€ 114 billion), with Öffentliche Pfandbriefe accounting for the biggest share.

The NORD/LB Group operates in markets with the highest possible level of liquidity and maintains a portfolio of high-quality securities. The significant companies of the NORD/LB Group from a risk point of view possess as at the reporting date securities in the amount of € 54 billion (€ 58 billion), 86 per cent (85 per cent) of which are suitable for repo transactions with the European Central Bank or the US Federal Reserve.

Due to the attentive monitoring of markets and active liquidity control, it was ensured at all times in the year under review that the NORD/LB Group had sufficient liquidity. The liquidity ratios calculated by the institutes subject to the German liquidity regulation (LiqV) were always well above the minimum of 1.00 required by regulatory provisions during the year.

Liquidity ratio in accordance with the LiqV [1)]	31 Dec. 2013	31 Dec. 2012
NORD/LB	1.35	1.52
Bremer Landesbank	2.15	2.01
Deutsche Hypo	1.87	1.49

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

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

Overall the measurement and control processes were extended in 2013. These include among others a new item included in the liquidity stress test which includes possible outflows of capital which would result due to contractual agreements from the downgrading of NORD/LB's rating.

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

Outlook

Liquidity risk is not expected to increase significantly in 2014 due to the active liquidity control. Due to the good quality of its security portfolios, NORD/LB is not expecting its liquidity situation to be significantly affected, even if the ECB adopts a more restrictive policy. Liquidity risk control in the NORD/LB Group will continue to develop with for example the inclusion of further items in the liquidity stress test.

Focus will remain in 2014 on the continued implementation of the much more stringent requirements for the management and external reporting of liquidity risks announced by the international regulatory authorities in reaction to the financial market crisis. Here in particular the requirements of Basel III concerning the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are of great importance to the NORD/LB Group.

Operational Risk – Development in 2013

In 2013 the NORD/LB Group continued to take a more integrated approach to the management of operational risks. The main aim of this was to revise the current reporting channels and formats and to make them interlink more, as well as extend risk control in the Group.

The assessment matrix introduced in the previous year was rolled out in the year under review to all sections of the NORD/LB Group and is used to assess all kinds of operational risks. By setting risk tolerances and information thresholds, it also serves as a central control and reporting instrument. The previously separate reporting to the Managing Board and Supervisory Board on individual risk issues concerning the second line of defence (risk controlling, ICS, security and compliance) was consolidated in a joint Governance, OpRisk and Compliance Report, which was presented for the first time as at 31 December 2013. It reports on significant operational risks and the action the NORD/LB Group needs to take and at the same time satisfies regulatory requirements.

In addition, a start has been made with the consolidation of various expert-based risk identification instruments in an integrated risk assessment process. The current procedures for assessing operational risks, analysing the risk of money laundering and fraud, ICS scoring and business continuity management analyses will be combined, so that synergies in data collection can be exploited as well as possible and transparency can be further improved. The pilot stage will continue into the first quarter of 2014.

With the Risk Round Table set up in the first quarter of 2013, a central committee was established which offers a platform where issues concerning significant operational risks in NORD/LB can be discussed at management level. The committee focuses on operational risks including process, IT, personnel, legal, outsourcing and compliance risks as well as security and contingency management. The committee should set bank-wide control initiatives in motion, help to control risks more efficiently and in the process help to develop issues in a coordinated manner. A key task of the Risk Round Table is to encourage the integrated management of operational risks.

In order to improve the risk monitoring, changes were made in the NORD/LB Group's internal reporting processes in 2013 with individual risk indicators being revised and the risk indicator system being further harmonised.

Since 1 January 2013 the compliance function for Deutsche Hypo has been outsourced to NORD/LB. On 1 April 2013 NORD/LB largely assumed responsibility for controlling Deutsche Hypo's operational risks.

The operational risk potential as at 31 December 2013 based on the internal model is, with a confidence level of 95 per cent and a holding period of one year, € 75 million (€ 72 million). There are no significant legal risks as at the reporting date. For legal risks relating to the sale and financing of investment products, provisions were made in previous years and these are reviewed regularly and where applicable adjusted. The volume of provisions made for legal issues remained constant compared to the previous year.

Outlook

In 2014 we will continue to take a more integrated approach to the management of operational risks. The aim is in particular to further harmonise the methods and data used by the second line of defence, increase efficiencies and further improve risk management. With this in mind, the piloting and rollout of the integrated risk assessment will be continued. In addition to this, significant events should be analysed is more detail than before and the results can be linked more closely to other bank control data and information (e. g. with stress testing).

Improvements are also planned for reputation risk management. This issue will receive greater attention in risk controlling and reporting and as a result be more integrated in the risk management systems.

OVERALL ASSESSMENT

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

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

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

NORD/LB complied with the applicable regulatory provisions concerning equity capital and liquidity throughout 2013. It also took due account of the regulations relating to large credits limits in accordance with § 13a of the German Banking Act (old version (Kreditwesengesetz – alte Fassung)).

NORD/LB development currently depends above all on the continuing uncertain developments in the shipping markets and the development of the euro countries. Risks may also emerge from the impending stress test by the ECB. In addition, the ongoing discussion about the EU periphery countries will have an impact on the future situation. Similarly, the development of the US dollar exchange rate with its effects on RWA and the transition to IFRS-based regulatory capital due to the implementation of Basel III in the EU affected the capital ratios and risk-bearing capacity. However, NORD/LB considers these effects to be manageable and will continue closely to monitor and analyse developments.

If the economic situation should develop better than expected, the shipping markets overcome the crisis earlier than expected and the national debt crisis eases permanently, this would result in opportunities for NORD/LB's results to develop better than planned. In addition, factors such as changes in interest rates and the US dollar exchange rate and the exploitation of business segment-specific opportunities could have a positive impact on earnings.

CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT

	Notes	1 Jan.– 31 Dec. 2013 (in € million)	1 Jan.– 31 Dec. 2012[1] (in € million)	Change (in %)
Interest income		9 787	12 280	– 20
Interest expenses		7 856	10 321	– 24
Net interest income	**21**	**1 931**	**1 959**	**– 1**
Loan loss provisions	22	846	598	41
Commission income		270	277	– 3
Commission expenses		107	109	– 2
Net commission income	**23**	**163**	**168**	**– 3**
Trading profit/loss		– 136	517	> 100
Profit/loss from the fair value option		219	– 640	> 100
Profit/loss from financial instruments at fair value through profit or loss	**24**	**83**	**– 123**	**> 100**
Profit/loss from hedge accounting	25	– 10	1	> 100
Profit/loss from financial assets	26	11	– 5	> 100
Profit/loss from investments accounted for using the equity method	27	33	– 14	> 100
Administrative expenses	28	1 166	1 158	1
Other operating profit/loss	29	69	– 99	> 100
Earnings before reorganisation and taxes		**268**	**131**	**> 100**
Reorganisation expenses	30	– 38	– 34	12
Expenses for public guarantees related to reorganisation	31	69	19	> 100
Earnings before taxes		**161**	**78**	**> 100**
Income taxes	32	– 84	– 4	> 100
Consolidated profit		**245**	**82**	**> 100**
of which: attributable to the owners of NORD/LB		185	83	
of which: attributable to non-controlling interests		60	– 1	

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

STATEMENT OF COMPREHENSIVE INCOME

The comprehensive income of the NORD/LB Group comprises the earnings and expenses recognised in the income statement and in other comprehensive income. The layout of the statement of comprehensive income has been changed due to the amendment to IAS 1; for further information see Note (3) Adopted IFRS. The previous year's figures were adjusted accordingly.

	1 Jan.– 31 Dec. 2013 (in € million)	1 Jan.– 31 Dec. 2012[1)] (in € million)	Change (in %)
Consolidated profit	**245**	**82**	**> 100**
Other comprehensive income which is not recycled in the income statement in subsequent periods			
Revaluation of the net liability from defined benefit pension plans	73	– 500	> 100
Changes in value for investments accounted for using the equity method recognised directly in equity	–	– 14	– 100
Deferred taxes	– 23	174	> 100
	50	**– 340**	**> 100**
Other comprehensive income which is not recycled in the income statement in subsequent periods			
Increase / decrease from available for sale (AfS) financial instruments			
Unrealised profit / losses	322	877	– 63
Transfer due to realisation profit / loss	23	– 31	> 100
Translation differences of foreign business units			
Unrealised profit / losses	– 36	– 2	> 100
Changes in value investments accounted for using the equity method recognised directly in equity	– 27	54	> 100
Deferred taxes	– 82	– 305	– 73
	200	**593**	**– 66**
Other profit / loss	**250**	**253**	**– 1**
Comprehensive income for the period under review	**495**	**335**	**48**
of which: attributable to the owners of NORD/LB	423	308	
of which: attributable to non-controlling interests	72	27	

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

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

BALANCE SHEET

Assets	Notes	31 Dec. 2013 (in € million)	31 Dec. 2012[1] (in € million)	Change (in %)
Cash reserve	33	1 311	665	97
Loans and advances to banks	34	27 481	34 378	– 20
Loans and advances to customers	35	107 661	114 577	– 6
Risk provisioning	36	– 2 248	– 1 949	15
Balancing items for financial instruments hedged in the fair value hedge portfolio	37	– 171	– 3	> 100
Financial assets at fair value through profit or loss	38	13 541	17 920	– 24
Positive fair values from hedge accounting derivatives	39	3 872	4 924	– 21
Financial assets	40	47 043	52 423	– 10
Investments accounted for using the equity method	41	306	318	– 4
Property and equipment	42	601	635	– 5
Investment property	43	101	94	7
Intangible assets	44	136	142	– 4
Current income tax assets	45	69	50	38
Deferred income taxes	45	741	727	2
Other assets	46	401	649	– 38
Total assets		**200 845**	**225 550**	**– 11**

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

Liabilities	Notes	31 Dec. 2013 (in € million)	31 Dec. 2012[1)] (in € million)	Change (in %)
Liabilities to banks	47	59 181	65 079	– 9
Liabilities to customers	48	54 861	55 951	– 2
Securitised liabilities	49	50 228	60 619	– 17
Balancing items for financial instruments	50	351	895	– 61
Financial liabilities at fair value through profit or loss	51	15 131	20 724	– 27
Negative fair values from hedge accounting derivatives	52	3 344	4 908	– 32
Provisions	53	4 303	4 137	4
Current income tax liabilities	54	116	162	– 28
Deferred income taxes	54	48	34	41
Other liabilities	55	379	508	– 25
Subordinated capital	56	4 713	4 833	– 2
Equity	57			
Issued capital		1 607	1 607	–
Capital reserves		3 332	3 332	–
Retained earnings		2 220	2 011	10
Revaluation reserve		122	– 95	> 100
Currency translation reserve		– 6	– 3	100
Equity capital attributable to the owners of NORD/LB		**7 275**	**6 852**	**6**
Equity capital attributable to non-controlling interests		915	848	8
		8 190	**7 700**	**6**
Total liabilities and equity		**200 845**	**225 550**	**– 11**

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

STATEMENT OF CHANGES IN EQUITY

The individual components of equity and their development in 2012 and 2013 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 Jan. 2012	**1 494**	**3 175**	**2 480**	**– 543**	**– 3**	**6 603**	**– 57**	**6 546**
Adjustments according to IAS 8	–	–	– 206	– 28	–	– 234	234	–
Adjusted equity as at 1 Jan. 2012	**1 494**	**3 175**	**2 274**	**– 571**	**– 3**	**6 369**	**177**	**6 546**
Consolidated profit	–	–	83	–	–	83	– 1	82
Increase / decrease from available for sale (AfS) financial instruments	–	–	–	769	–	769	77	846
Changes in the value of investments for using the equity method	–	–	40	–	–	40	–	40
Translation differences of foreign business units	–	–	–	–	–	–	– 2	– 2
Revaluation of the net liability from defined benefit pension plans	–	–	– 438	–	–	– 438	– 62	– 500
Deferred taxes	–	–	145	– 291	–	– 146	15	– 131
Adjusted comprehensive income for the period under preview	**–**	**–**	**– 170**	**478**	**–**	**308**	**27**	**335**
Distribution	–	–	– 53	–	–	– 53	– 6	– 59
Capital increases / decreases	113	157	–	–	–	270	654	924
Changes in the basis of consolidation	–	–	59	– 2	–	57	– 8	49
Consolidation effects and other changes in capital	–	–	– 99	–	–	– 99	4	– 95
Adjusted equity as at 31 Dec. 2012	**1 607**	**3 332**	**2 011**	**– 95**	**– 3**	**6 852**	**848**	**7 700**

(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 Jan. 2013	**1 607**	**3 332**	**2 011**	**– 95**	**– 3**	**6 852**	**848**	**7 700**
Consolidated profit	–	–	185	–	–	185	60	245
Increase / decrease from available for sale (AfS) financial instruments	–	–	–	315	21	336	9	345
Changes in the value of investments for using the equity method	–	–	– 27	–	–	– 27	–	– 27
Translation differences of foreign business units	–	–	–	–	– 24	– 24	– 12	– 36
Revaluation of the net liability from defined benefit pension plans	–	–	72	–	–	72	1	73
Deferred taxes	–	–	– 23	– 96	–	– 119	14	– 105
Comprehensive income for the period under preview	**–**	**–**	**207**	**219**	**– 3**	**423**	**72**	**495**
Distribution	–	–	1	–	–	1	– 5	– 4
Capital increases / decreases	–	–	–	–	–	–	–	–
Changes in the basis of consolidation	–	–	4	– 2	–	2	–	2
Consolidation effects and other changes in capital	–	–	– 3	–	–	– 3	–	– 3
Equity as at 31 Dec. 2013	**1 607**	**3 332**	**2 220**	**122**	**– 6**	**7 275**	**915**	**8 190**

The consolidation effects and other changes in equity mainly comprise transactions which result in changes in shareholdings without changing the consolidation method.

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

CASH FLOW STATEMENT

	1 Jan.– 31 Dec. 2013 (in € million)	1 Jan.– 31 Dec. 2012 [1] (in € million)	Change (in %)
Consolidated profit for the period	**245**	**82**	**> 100**
Adjustment for non-cash items			
Depreciation, impairment and write-ups of property and equipment and financial assets	156	583	– 73
Increase / decrease in provisions	171	199	– 14
Gains / losses from the disposal of property and equipment and financial assets	– 8	– 32	– 75
Increase / decrease in other non-cash items	817	589	39
Other adjustments net	– 2 056	– 1 931	6
Sub-total	**– 675**	**– 510**	**32**
Increase / decrease in assets and liabilities from operating activities after adjustment for non-cash item			
Loans and advances to banks and customers	13 711	359	> 100
Trading assets	4 298	567	> 100
Other assets from operating activities	7 923	272	> 100
Liabilities to banks and customers	– 7 144	1 278	> 100
Securitised liabilities	– 10 825	– 5 393	> 100
Other liabilities from operating activities	– 7 939	1 960	> 100
Interest received	7 238	8 207	– 12
Dividends received	21	49	– 57
Interest paid	– 5 616	– 6 630	– 15
Income taxes paid	– 38	– 44	– 14
Cash flow from operating activities	**954**	**115**	**> 100**

	1 Jan.– 31 Dec. 2013 (in € million)	1 Jan.– 31 Dec. 2012[1)] (in € million)	Change (in %)
Cash receipts from the disposal of			
financial assets	54	22	> 100
property and equipment	1	31	– 97
Payments for acquisition of			
financial assets	– 20	– 8	> 100
property and equipment	– 67	– 85	– 21
Cash receipts from the disposal of consolidated companies and other business units	–	25	– 100
Cash flow from investing activities	**– 32**	**– 15**	**> 100**
Cash receipts from equity contributions	–	893	– 100
Payments to owners and non-controlling interests	–	– 131	– 100
Increase in funds from other capital	51	40	28
Decrease in funds from other capital	– 103	– 728	– 86
Interest expenses on subordinated capital	– 217	– 245	– 11
Dividends paid	– 4	– 57	– 93
Cash flow from financing activities	**– 273**	**– 228**	**20**
Cash and cash equivalents as at 1 January	**665**	**796**	**– 16**
Cash flow from operating activities	954	115	> 100
Cash flow from investing activities	– 32	– 15	> 100
Cash flow from financing activities	– 273	– 228	20
Total cash flow	**649**	**– 128**	**> 100**
Effects of changes in exchange rates	– 3	– 3	–
Cash and cash equivalents as at 31 December	**1 311**	**665**	**88**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General Disclosures

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

The consolidated financial statements of Norddeutsche Landesbank Girozentrale, Hanover, Braunschweig, Magdeburg (NORD/LB) as at 31 December 2013 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 (Handelsgesetzbuch, 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 2013 comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes. The segment reporting is shown in the notes (Note (19) Segment Reporting by Business Segment and Note (20) 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. Earnings and expenses are recognised pro rata temporis. They are recognised and reported in the period to which they relate. Significant accounting policies are described below.

Estimations and assessments required in accordance with IFRS are made on the basis of assumptions and parameters which in turn are made by management duly exercising its discretionary powers. The estimations and assessments are reviewed on an ongoing basis and are based on experience and other factors, including expectations as to future events which appear reasonable under prevailing circumstances. In the process global developments and the industry-specific environment are taken into account.

Estimations and assessments are made relating in particular to the calculation of the fair value of financial assets and liabilities of Level 2 and Level 3 calculation of the fair value of financial assets and liabilities of Level 2 and Level 3 including the estimation of the existence of an active or inactive market, the valuation of pension provisions in terms of determining the underlying parameters (Note (14) in conjunction with Note (53)), the assessment of risk provisions with regard to future cash flows (Note (8) in conjunction with Note (36)), 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. Regarding the effect of the assumptions on the valuation of financial instruments allocated to Level 3, the relevant disclosures concerning sensitivity in Note (58) Fair Value Hierarchy are referred to.

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

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

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

These consolidated financial statements were signed by the Managing Board on 18 March 2014 and approved for submission to the Supervisory Board.

(2) Adjustment of figures for the previous year

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

In the financial year 2013 there was a change in the reporting of the equity components of the sub-group Öffentliche Versicherung Braunschweig (ÖVBS).

Part of the portfolio, which was reported in the past as equity attributable to the owners of NORD/LB, is now reported under non-controlling interests. The figures for 2012 have been adjusted with retrospective effect.

In addition, since the financial year 2013 the income from ÖVBS, which was eliminated in the past from the consolidated financial statements, is shown under net interest income. An adjustment has been made for 2012 with retrospective effect.

As a result, the elimination of the transfer of income from ÖVBS to NORD/LB has been reversed.

31 Dec. 2012 (in € million)	Prior to adjustment	Adjustment	After Adjustment
Liabilities			
Retained earnings	2 192	– 181	2 011
Revaluation reserve	– 13	– 82	– 95
Equity capital attributable to the owners of NORD/LB	7 115	– 263	6 852
Equity capital attributable to non-controlling interests	585	263	848

1 Jan.–31 Dec. 2012 (in € million)	Prior to adjustment	Adjustment	After Adjustment
Interest income	12 278	2	12 280
Earnings before taxes	**76**	**2**	**78**
Income taxes	– 4	–	– 4
Consolidated profit	**80**	**2**	**82**
Of which: attributable to the owners of NORD/LB	82	1	83
Of which: capital attributable to non-controlling interests	– 2	1	– 1

The respective adjustments were also taken into account in the following notes: (19) Segment reporting by business segment, (20) Breakdown by geographical segments (21) Net interest income, (32) Income taxes and (57) Equity.

(3) Adopted IFRS

In these consolidated financial statements all standards, interpretations and their respective amendments which have been endorsed by the EU and were relevant for the NORD/LB Group in the financial year 2013 were adopted.

In the period under review consideration has been given to the following standards and amendments to the standards which were first applied as at 1 January 2013 for the NORD/LB Group:

- **IAS 19 (rev. 2011) – employee benefits**

In June 2011 the IASB published the amended IAS 19 – Employee Benefits. Actuarial gains and losses are to be reported accordingly directly under other comprehensive income, i. e. the previously applicable option of using the so-called corridor method has been abolished. In addition to this, the interest of plan assets may no longer be estimated on the basis of the underlying assets, instead interest is to be recognised in the amount of the discount rate. Extended disclosures are also to be made in the notes. The resulting changes to the accounting policies for the NORD/LB Group compared to the balance sheet date 31 December 2012 primarily concern the reporting of costs and taxes relating to benefit plans. The expected income from plan assets has been calculated since 2013 with a standard interest rate which is the same as the discount rate for the obligation. In addition, the top-up amounts promised in partial retirement agreements are reported and measured for the first time in accordance with the regulations for other long-term employee benefits.

Due to the minor significance of the effects of IAS 19 (rev. 2011) for the Group, the previous year's figures have not been adjusted. As the NORD/LB Group already reported actuarial gains and losses under other comprehensive income in accordance with the previous regulations of IAS 19, this change has not had any effect.

- **IFRS 13 – fair value measurement**

In IFRS 13 – Fair Value Measurement, which was published in May 2011 and is to be applied prospectively, the different regulations for establishing fair value in the individual standards were consolidated for the first time in a single framework and at the same time modified and expanded in some areas; only IAS 17 and IFRS 2 will continue to have separate regulations.

The specifications of the new standard concern among other things the definition of fair value, the implementation of the change in approach particularly in the context of determining relevant markets (main market or most beneficial market), the allocation of levels, the reporting of a day one profit/loss and the use of a bid-ask spread in the measurement of assets and liabilities.

The implementation of IFRS 13 does not have a significant effect on the measurement of the NORD/LB Group's assets and liabilities. In accordance with the standard's extended disclosure requirements, a description of the process for measuring fair value has been included in the notes. Furthermore, a detailed risk-related presentation of the Level disclosures for financial instruments which are measured in the balance sheet at fair value and a first-time presentation of the Level disclosures for financial instruments whose fair value is calculated solely for disclosure purposes is made.

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

The amendments to IAS 1 published in June 2011 by the IASB within the scope of the Financial Statement Presentation Project have changed the breakdown of the statement of comprehensive income. The items of other comprehensive income (OCI) are to be broken down by whether they can be recycled in the income statement or not. If OCI is reported before tax, deferred taxes are to be treated similarly and broken down into recyclable and non-recyclable items.

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

- **Amendments to IAS 12 – deferred taxes: recovery of underlying assets**

The amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets make clear that the deferred tax for investment property, which is measured using the fair value model in IAS 40, is measured on the basis of the rebuttable presumption that the carrying amount will be recovered through sale.

The application of this new rule had no effect on NORD/LB's consolidated financial statements.

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

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

The amendments will result in extended disclosure requirements which are to be disclosed for the first time as at 31 December 2013 in the NORD/LB Group's consolidated financial statements.

- **Improvements to IFRS (2009 – 2011 Cycle) within the scope of the IASB's annual improvements process**

The amendments published in May 2012 within the scope of the improvement project for the cycle 2009 – 2011 comprise clarifications concerning IFRS 1 First-time Adoption of International Financial Reporting Standards, IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 32 Financial Instruments: Presentation and IAS 34 Interim Financial Reporting.

The annual improvements to IFRSs (cycle 2009 – 2011) do not have a significant effect on the interim consolidated financial statements of NORD/LB.

As is allowed, we have not yet applied the following standards and amendments to standards which have been adopted in European law and which did not have to be implemented for NORD/LB Group's consolidated financial statements prior to 31 December 2013:

- **IFRS 10 – consolidated financial statements**

  With this standard the term "control" is comprehensively redefined. If a company controls another company, the parent company has to consolidate the subsidiary. According to the new concept, control is given if the potential parent company has decision-making power over relevant activities of the potential subsidiary due to voting rights or other rights, if it participates in positive or negative variable flows from the subsidiary and these flows can be influenced by its decision-making power. The new standard will be mandatory in the EU for users of IFRSs for the first time for financial years commencing on or after 1 January 2014. IFRS 10 is to be applied, with some exceptions, with retrospective effect.

  The NORD/LB Group prepared for the first application of IFRS 10 starting in August 2011 within the scope of a project. However, the importance of traditional credit collateralisation rights in relation to the borrower under the new definition of control of IFRS 10 is the subject of international debate. For example, in Germany issues are being looked at by a work group of the Institute of Public Auditors in Germany (IDW). At the time these consolidated financial statements were prepared, a common view had not yet been established in key areas.

Notwithstanding this, the NORD/LB Group is expecting that the number of entities that will need to be included in its consolidated financial statements will increase with the first application of IFRS 10. Subject to the ongoing debate concerning traditional credit collateralisation rights referred to in the above paragraph, we make the following statements on our assessment of the possible effects: A few entities will need to be fully consolidated for the first time in the consolidated financial statements, because the economic and legal relationship with these entities as at 1 January 2014 establish a control relationship under IFRS 10. It is expected that there will be no entities that will no longer be fully consolidated due to the first application of IFRS 10. Based on the situation in 2013, its application would only have a minor impact on total consolidated assets and consolidated profit. We also expect that it will only have a minor impact on total consolidated assets and consolidated profit in 2014.

The NORD/LB Group is following the debate on the possible control of borrowers in the context of credit collateralisation very closely. It is not currently possible to state reliably whether there will be any further impact in addition to the expectations outlined in the above paragraph.

- **IFRS 11 – joint arrangements**

  IAS 31 – Interests in joint ventures will be replaced by IFRS 11, which was published in May 2011 and is applicable from 1 January 2014. This regulates the recognition of facts when an entity has joint control over a joint venture or runs a joint operation. Compared to the current standard, there are two significant changes. Firstly, for the consolidation of joint ventures the option of proportionate consolidation has been abolished, i. e. consolidation is only allowed based on the equity method as in IAS 28. Secondly, the new category of joint operations has been introduced, in which the assets and liabilities allocatable to 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 both for 2013 and 2014.

- **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 2014.

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

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

  In June 2012 the IASB published amendments which substantiate and clarify the transition regulations in IFRS 10 – Consolidated financial statements. In addition, some relief is granted with only the reference figures for the immediately preceding reference period having to be adjusted and the disclosure requirement of comparative information on non-consolidated special purpose entities upon initial application of IFRS 12 being struck. The amendments come into effect following their adoption into European law for reporting periods commencing on or after 1 January 2014.

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

- **Amendments to IAS 32 – offsetting of financial assets and financial liabilities**
  In December 2011 the IASB clarified its requirements for the offsetting of financial instruments with the publication of amendments to IAS 32 – Financial instruments: Presentation. The amendments essentially put guidelines regarding application into more specific terms and should eliminate the current inconsistencies regarding the application of the offsetting criteria. In particular the meaning of "currently has a legally enforceable right of set-off'" and the conditions for systems with gross settlement as an equivalent to net settlement are explained. The amendments are mandatory for financial years commencing on or after 1 January 2014 with retrospective effect.

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

- **Amendments to IAS 39 – novation of derivatives and continuation of hedge accounting**
  The IASB published an amendment to IAS 39 in June 2013. The amendment provides an exception to the requirement for the discontinuation of hedge accounting. This applies if due to regulatory requirements a hedging instrument is required to be novated to a central counterparty. The amendments are mandatory for financial years commencing on or after 1 January 2014 with retrospective effect.

For the NORD/LB Group it is not expected that this will have any effect on its existing business in hedge accounting even with the mandatory application of the clearing obligation introduced by the European Market Infrastructure Regulation (EMIR). A final statement can only be made after the mandatory application of EMIR.

The following amended or new standards have also not been applied early:
- IAS 27 (amended 2011) – Separate Financial Statements
- IAS 28 (amended 2011) – Investments in Associates and Joint Ventures
- Amendments to IAS 36 – Impairment of Assets – Recoverable Amounts Disclosures for Non-Financial Assets

These amendments must be applied in the Group for financial years commencing on or after 1 January 2014.

The amendments to IAS 27, IAS 28 and IAS 36 are not expected to have a significant impact on NORD/LB's consolidated financial statements.

The following standards, amendments to standards and interpretations have not yet been adopted into European Law by the EU Commission:

- **IFRS 9 – financial instruments**
  As part of the project to replace IAS 39, a revised version of IFRS 9 was published in October 2010 (revising the version published in November 2009). The first phase of the three phases includes regulations for the categorisation and measurement of financial assets and financial liabilities. IFRS 9 initially only provided two options for the categorisation of financial assets: measurement at amortised cost and measurement at fair value through profit or loss. In November 2012 a draft amendment of the categorisation and valuation rules of IFRS 9 was published. The draft includes in particular the proposal of introducing a third valuation model for financial assets in the form of debt instruments and envisages these instruments being valued at fair value with the changes in valuation being reported directly in equity under other comprehensive income.

The categorisation will in future be based on the reporting entity's business model and the contractually agreed cash flows of the asset. Furthermore the regulations for embedded derivatives and reclassification have also been modified. The regulations relating to financial liabilities are largely unaltered compared to IAS 39. The main difference with the previous regulation concerns the fair value option. The rating-induced changes in the valuation of financial liabilities will in future be shown under other comprehensive income; the remaining changes in valuation will continue to be reported in the income statement.

In the first half of 2013 the second phase of IFRS 9 concerning impairment was published. The second phase covers financial instruments, loan commitments and financial guarantees. The new impairment model moves away from the concept of incurred loss towards the concept of expected loss. Based on the new impairment model, financial instruments, loan commitments and financial guarantees will, depending on the change in their credit quality, be divided into three stages. The calculation of the expected loan loss will depend on the stage to which a financial instrument, loan commitment or financial guarantee has been allocated. In Stage 1 the expected loan losses will be calculated in the amount of the expected loss with a time horizon of one year. In Stage 2 and 3 the expected loan loss will be calculated over the whole residual term to maturity (lifetime expected loss).

For Phase 3 concerning Hedge Accounting, the IASB had decided to divide this issue into two sections, General Hedge Accounting (Phase 3a) and Macro Hedge Accounting (Phase 3b). In the fourth quarter of 2013 a standard for General Hedge Accounting was published. A draft for Macro Hedge Accounting is now not expected to be published before 2018. Until then the provisions of IAS 39 concerning the fair value hedge accounting for a portfolio hedge of interest rate risk will remain and will not be transferred into IFRS 9. The standard for General Hedge Accounting pursues the goal of reflecting operational risk management in the financial reporting of hedging relationships in closed portfolios more strongly than before. In this connection, compared to the provisions in IAS 39, the role of qualitative application criteria were strengthened compared to quantitative application criteria. In addition, the group of underlying and hedging transactions which are eligible for hedge accounting was extended significantly and additional designation options were created. Regarding the effectiveness of hedging relationships, in future this should no longer be based on a strict effectiveness threshold on a percentage basis.

The amendments to IFRS 9 and IFRS 7 published in December 2011 – Mandatory effective date for IFRS 9 and transition disclosures – allow the previous year's figures not to be reported when IFRS 9 is first applied and introduce additional disclosure requirements at the time of transition.

The IASB decided in the fourth quarter of 2013 to cancel the previously applicable first application date of 1 January 2015 and to set a new date when an outcome for the discussions concerning in particular the phases for categorisation and measurement and for impairment can be foreseen.

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

- **IFRIC 21 – levies**

  In May 2013 the IASB published IFRIC 21 as an interpretation of IAS 37 concerning levies, which essentially regulates which government-imposed levies need to be recognised and when a present liability needs to be recognised. IFRIC 21 is, subject to its endorsement by the EU, mandatory for financial years commencing on or after 1 January 2014 with retrospective effect.

  This is not expected to have a significant impact on the reporting of the bank level in NORD/LB's consolidated financial statements.

The following amendments to standards have not yet been adopted in European law:

- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions
- Improvements to IFRS (2010 – 2012 Cycle) Within the Scope of the IASB's Annual Improvements Process
- Improvements to IFRS (2011 – 2013 Cycle) Within the Scope of the IASB's Annual Improvements Process

These amendments must be applied in the Group for financial years commencing on or after 1 July 2014.

The amendments to IAS 19 and the annual improvements to IFRSs (2010 – 2012 and 2011 – 2013 cycles) are not expected to have a significant impact on NORD/LB's consolidated financial statements.

The amendments to standards described above are expected to be implemented on the dates when their application first becomes mandatory.

(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 and measured with their appropriate share in the identifiable net assets of the acquired company.

Receivables and liabilities and expenses and earnings generated within the Group are eliminated in the consolidation of intercompany balances and earnings 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 in other comprehensive income (OCI) 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 50 (49) subsidiaries (including special purpose entities in accordance with SIC-12) in which NORD/LB directly or indirectly holds more than 50 per cent of the voting rights or over which NORD/LB is in a position to exercise control in another manner. 1 (1) joint venture and 10 (10) associated companies are accounted for using the equity method.

Compared to 31 December 2012 the basis of consolidation has changed as follows:

The subsidiaries established in September 2013, BLB Grundbesitz KG and BLBI Investment GmbH & Co.KG, both based in Bremen, have been fully consolidated since 30 September 2013.

In December 2013 the previously fully consolidated fund NORD/LB AM 56 was dissolved and deconsolidated. At the same time the liquidity was transferred to the master fund ds NORD/LB AM ALCO, which is wholly owned by the NORD/LB Group.

The effects resulting from the changes to the basis of consolidation have no significant impact on the NORD/LB Group’s assets, financial and earnings position.

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

(6) Currency translation

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

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

(7) Financial instruments

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

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

a) Addition to and disposal of financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when 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 NORD/LB Group.

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

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

A financial liability (or part of a financial liability) is derecognised when the liability has been eliminated, i. e. when the liabilities specified in the contract have been settled or eliminated or if they have expired. The reacquisition of the banks 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:

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

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

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

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

Impairment is only carried out in the case of 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 other comprehensive income. Appreciations in the value of equity instruments are recognised in other comprehensive income unless they are measured at acquisition cost.

be) Other Liabilities (OL)

This category includes in particular liabilities to banks and customers, securitised liabilities and subordinated capital provided that these liabilities have not been designated at fair value under the fair value option. Subsequent measurement is at amortised cost applying the effective interest method.

The carrying amounts and gains/losses for each measurement category are presented in Notes (59) and (60).

c) Reclassification

In accordance with the regulations of IAS 39, financial instruments are allowed to be reclassified from the HfT (trading assets) category to the LaR, HtM and AfS categories and from the AfS category to the LaR and HtM categories under certain circumstances. The NORD/LB Group did not make use of this right to reclassify.

d) Establishing fair value

The unit of account upon which the value of financial instruments is based is determined by IAS 39. In the NORD/LB Group the single financial instrument is the measurement unit, so long as IFRS 13 does not allow an exception.

The fair value of financial instruments according to IAS 39 in conjunction with IFRS 13 reflects the price at which an asset can be sold or a liability transferred in an ordinary transaction between market participants on the measurement date, i. e. the fair value is a market-related and not a company-specific value. According to IFRS 13, the fair value is the price that can either be observed directly or a price established by a measurement method which, in an ordinary transaction, i. e. a sale or a transfer, could be achieved on the main market or the most advantageous market on the measurement date. It is therefore an exit price, i. e. the measurement as at the measurement date is always based on a fictitious, possible market transaction. If there is a main market, the price on this market represents the fair value, independently of whether the price can be observed directly or will be calculated on the basis of a valuation method, and even if the price is potentially more advantageous on another market.

da) Financial instruments which are reported at fair value in the balance sheet

In the NORD/LB Group the three-tier fair value hierarchy is applied with Level 1 (Mark to Market), Level 2 (Mark to Matrix) and Level 3 (Mark to Model) terminology provided for in IFRS 13.

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. If input data from various levels of the hierarchy is used in the calculation of the fair value, the resulting fair value of the financial instrument is assigned to the lowest level of the input data which has a significant influence on the fair value measurement.

Level 1

Under the fair value hierarchy, a financial instrument is categorised in Level 1 if it is traded on an active market and is used to establish the fair value of publicly listed market prices or prices actually traded on the over-the-counter market (OTC market). If no market prices or prices actually traded on the OTC market are available, in the measurement the feasible 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. These instruments are then assigned to Level 1 if there is an active market for these broker quotations, i. e. if only minor bid-ask spreads exist and there are several price suppliers with only marginally differing prices. If the broker quotations are for (mixed) prices or if the price is established on a non-active market, these are not assigned to Level 1, but to Level 2 of the measurement hierarchy, if the quotations concern binding offers, observable prices or market transactions.

The Level 1 prices are taken over without any adjustment. Level 1 financial instruments include trading assets and liabilities, financial instruments designated at fair value, financial assets recognised at fair value and other assets.

Level 2

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 to a significant degree using observable input data such as 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 an active 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. The models include a range of parameters such as for example market prices and other market quotations, risk-free interest rate curves, risk premiums, exchange rates and volatilities. The parameters for the models are always chosen using prevailing market methods.

Market data which forms the basis of risk controlling is generally applied for these Level 2 measurements.

For securities on the assets side for which there was no active market on 31 December 2013 and for which measurement could no longer be based on market prices, fair value was determined for measurement purposes in accordance with a mark-to-matrix method that was based on discounted cash flows. For discounted cash flow methods, all payments are discounted by the risk-free interest rate curve adjusted for the credit spread. Spreads are determined on the basis of comparable financial instruments (for example on consideration of the respective market segment and the issuers credit rating).

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. The identification, analysis and valuation of financial instruments in inactive markets take place in several areas of the Group, whereby the inactivity is assessed as objectively as possible. The measurement model for financial instruments for which no prices listed in active markets can be used is based on term-related interest rates, the credit rating of the respective issuer and where applicable further components such as foreign currency premiums.

Level 2 financial instruments include trading assets and liabilities, hedge accounting derivatives, financial assets and liabilities designated at fair value and financial assets recognised at fair value.

Level 3

Financial instruments for which there is no longer an active market and for which measurement can no longer be based completely on observable market parameters are allocated to Level 3. In comparison and in differentiation to Level 2 measurement, this method employs models specific to the bank or data which is not observable on the market. The input parameters used in these methods include among other things assumptions about cash flows, loss estimates and the discount rate and are gathered as far as possible on a near-market basis.

The Level 3 method is partly used to measure the Group's credit default swaps (CDS) and asset-backed securities (ABS) / mortgage-backed securities (MBS) for which the market has been classified as being inactive. Further interest-bearing securities are also allocated to Level 3. Individual tranches of collateralised debt obligations (CDO) and equity structures are also measured in accordance with Level 3. Level 3 financial instruments include trading assets and liabilities, hedge accounting derivatives, financial assets and liabilities designated at fair value and financial assets recognised at fair value.

Establishing fair values

All measurement models applied in the Group are reviewed periodically. The fair values are subject to internal controls and processes in the NORD/LB Group. These controls and processes are carried out and coordinated in the Finance and Risk Control Division. The models, the data used in them and the resulting fair values are reviewed regularly.

In the measurement appropriate consideration is given to all relevant factors such as the bid-ask spread, counterparty risk and typical discounting factors. In the context of the bid-ask spread, measurement is always based on the average price. The financial instruments concerned are in particular securities or liabilities whose fair values are based on prices listed on active markets and financial instruments such as OTC derivatives whose fair values are established using a measurement method and for which the average price is an observable input parameter in the measurement method.

In addition, the option to calculate the counterparty risk (credit value adjustment (CVA)/debit value adjustment (DVA) on the basis of the net risk position in accordance with IFRS 13.48 was exercised. The CVA / DVA is allocated to individual transactions in the balance sheet using the relative credit adjustment approach.

For derivatives of OTC markets there are generally no listed prices available, the fair values are therefore established using other measurement methods. The fair values are initially measured using cash-flow models without taking into account the credit default risk. For the correct measurement of fair values, both the credit default risk of the counterparty (CVA) and the bank's own credit default risk (DVA) need to be considered. The credit default risk is considered by way of an add-on.

For the measurement of secured OTC derivatives the NORD/LB Group has switched primarily to the current market standard of overnight index swap discounting (OIS discounting). This means that secured derivatives are no longer discounted with the tenor-specific interest rate, but with the OIS interest rate curve. Unsecured derivatives will continue to be discounted with the tenor-specific interest rate to establish their fair value.

For some of the NORD/LB Group's liabilities recognised at fair value the guarantor liability of the state of Lower Saxony, the state of Saxony-Anhalt and the state of Mecklenburg-Western Pomerania apply. The effect of the guarantee is considered in the fair value measurement of the liabilities.

db) **Financial instruments which are reported at fair value for disclosure purposes**

Basically the same rules apply for financial instruments whose fair value is established solely for disclosure purposes as for financial instruments whose fair value is reported in the balance sheet. The financial instruments include for example the cash reserve, loans and advances to and liabilities to banks and customers, certain debt securities and company shares, securitised liabilities and subordinated capital.

For the cash reserve and short-term loans and advances to and liabilities to banks and customers (sight deposits), the nominal value is considered to be the fair value due to their short-term nature.

For securities and liabilities, in practice, like with financial instruments recognised at fair value in the balance sheet, a range of measurement methods (e. g. market or reference prices or measurement models), but as a general rule one measurement method (discounted cash low model) are used. In order to establish the value in this measurement model a risk-free yield curve is often used and adjusted with risk premiums and where applicable other components. For liabilities NORD/LB's own credit default risk is used as the risk premium. An appropriate level allocation in the existing fair value hierarchy is made according to the significance of the input data.

For long-term loans and advances to and liabilities to banks and customers and for investments no observable market prices are available, as no observable primary or secondary markets exist. The fair value for these financial instruments is established using recognised measurement methods (discounted cash flow model). The input data for this model are the risk-free interest rate, a risk premium and where applicable further premiums to cover administrative and equity costs.

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.

Further information on the fair value hierarchy and the fair values of financial instruments can be found in Note (58) Fair value hierarchy.

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 (58) Fair Value Hierarchy).

If investments are traded on an active market, the market/stock exchange price is used to determine the fair value. If it is not possible to use prices listed on active markets, the fair value is established using recognised measurement methods. In addition to the peer-group method, the NORD/LB Group also uses the income-value method. This method is allocated in the fair value hierarchy in accordance with IFRS 13 to Level 3 (cf. Note (58) Fair Value Hierarchy).

The fair value is calculated in the earnings-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 for earnings performance for 2013, a detailed plan for 2014 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 and for each individual value the beta is calculated in relation to the respective broadest national index. In brief, the beta factor of the comparison group calculated in this way is a significant multiplier used when calculating the capitalisation interest.

f) Structured products

Structured products comprise two components – a basic contract (host contract, e. g. security) and one or several embedded derivative financial instruments (embedded derivatives, e. g. swaps, futures or caps). The two components are the subject matter of a single contract relating to the structured product, i. e. these products constitute a legal unit and may not be negotiated separately due to the circumstance of a contractual unit.

In accordance with IAS 39 an embedded derivative is to be separated from the host contract and accounted for as a separate derivative provided that all of the following criteria are fulfilled:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
- A separate instrument with the same terms as the embedded derivative financial instrument would meet the definition of a derivative financial instrument.
- The structured product is not measured at fair value through profit or loss.

If separation of financial instruments is obligatory, these financial instruments are measured and recognised separately in the NORD/LB 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 needing 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 type of risk in changes to value. Both individual transactions and portfolios are hedged by fair value hedges. Currently the fair value is only hedged against interest rate risk. Changes in the fair values of assets and liabilities are hedged in single-currency portfolios in euros and US dollars. Interest rate swaps and currency swaps are mainly used to hedge these risks.

The two other basic forms, the cash flow hedge and the hedge of a net investment in a foreign operation, are currently not used in the NORD/LB 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 primarily used in the Group 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. Deutsche Hypo uses the regression method for the retrospective effectiveness test.

In the fair value hedge portfolio, for the retrospective effectiveness test disposals from the hedged portfolio of underlying transactions were previously dealt with using the bottom layer method.

In accordance with the fair value hedge accounting rules, derivative financial instruments used for hedging purposes are reported at fair value as positive or negative fair values from hedge accounting (Note (39) or Note (52) Positive or negative fair values from hedge accounting derivatives. The changes in valuation are recognised in the income statement (Note (25) Profit/loss from Hedge Accounting). Changes in fair value resulting from the hedged risk of hedged assets or hedged liabilities are also recognised through profit or loss in the profit/loss from hedge accounting item.

When employing hedge accounting for financial instruments in the 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.

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).

Changes in the fair value of underlying asset and liability-side transactions related to the hedged risk are reported under the adjustment item for hedged financial instruments in the fair value hedge portfolio on the assets side or liabilities side of the balance sheet. Underlying transactions relating to AfS items carried as assets continue to be reported at their full fair value under financial assets. There are currently asset and liability items in the fair value hedge portfolio.

A hedge relationship is terminated when the basic transaction or the hedging transaction expires, is sold or exercised or when hedge accounting requirements are no longer fulfilled; for underlying transactions in effective hedges (cf. Note (66)).

h) Repos and securities lending

In the case of genuine repos, transferring the securities sold under repurchase agreements does not lead to derecognition, as the transferring entity essentially retains all the risks and rewards associated with the ownership of the repurchased securities. The asset transferred must therefore still be reported by the transferor and measured according to its respective category. Payment received is carried as a financial liability (in liabilities to banks or liabilities to customers, depending on the counterparty). Interest payments agreed are reported as interest expenses over the respective terms.

Reverse repo transactions are reported accordingly as loans and advances to banks and customers and are allocated to the loans and receivables (LaR) category. Securities for sale and repurchase which constitute the basis of the financial transaction are not reported in the balance sheet. Interest resulting from such transactions is reported as interest income over the respective term.

Security sale agreements with a repurchase option were not concluded in the NORD/LB 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, Note (62) Offsetting of Financial Liabilities is referred to.

i) Securitisations

Various financial assets relating to lending business are securitised either in synthetic securitisation using credit derivatives or by non-recourse factoring to special purpose entities (SPEs), which in turn issue securities to investors (true sale securitisation). Interest and capital repayments resulting from such securities are directly linked to the performance of the underlying claim, and not to that of the issuer.

The accounting of such transactions depends on the method of securitisation. Assets relating to synthetic securitisation remain in the balance sheet and are reported with the credit derivatives concluded in accordance with IAS 39 regulations. In the case of true sale securitisation, the assets are written off if the opportunities and risks relating to these assets have been (virtually) fully transferred to the SPE. With securitisation transactions normally (virtually) all of the opportunities and risks are transferred to the SPE or the buyer. Assets of consolidated SPEs remain in the NORD/LB Groups consolidated balance sheet.

(8) Risk provisioning

Risks relating to lending business are accounted for by forming specific valuation allowances, specific loan loss provisons and general loan loss provisions.

Recoverability is reviewed for all significant claims at individual transaction level. Risk provisions cover all recognisable credit risks in the form of specific valuation allowances. A valuation allowance is required when observable criteria indicate that it is likely that not all the interest and capital repayments or other obligations will be met on time. The essential criteria for a valuation allowance are for example the default on interest and capital payments or a delay in such payments of more than 90 days, considerable financial difficulties on the part of the debtor such as arithmetic and actual insolvency or the long-term negative consequences of a restructuring. These criteria also include concessions made by lenders such as interest exemption, write-off of debt or deferred repayment, impending insolvency and impending restructuring proceedings.

With ship financing the essential criteria for a valuation allowance are interest deferrals and/or deferred repayment, concessions such as the granting of restructuring loans to support the liquidity of borrowers or individual ships, and threatened insolvency.

The amount of the specific valuation allowance is calculated as the difference between the carrying amount and the recoverable amount as the present value of the anticipated future cash flows.

If the criteria for a valuation allowance have been met for claims which are not significant, these claims are concentrated in narrowly defined portfolios with similar risk structures, measured by a standard method and are the subject of an appropriate flat-rate specific valuation allowance. 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 loss identification period factor (LIP factor) also being considered.

Since the first quarter of 2013 general loan loss provisions have been made at specific customer level. As a result the reporting is adjusted to reflect the actual circumstances and developments in the specific industry. Using the old calculation method, general loan loss provisions would have totalled € 552 million as at 31 December 2013. The calculation at specific customer level produces a figure of € 478 million (cf. Note (36) Risk Provisioning).

The parameters employed in the lumpsum specific loan loss provisions and the general loan loss provisions derived from the Basel II system.

The total amount of loan loss provisions resulting from balance sheet business is recognised as a separate item under assets in the balance sheet.

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

Irrecoverable loans for which no specific valuation allowances 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. Subsequent costs are capitalised if they result in a significant improvement in the asset and therefore increase the future economic benefit of the asset. Property and equipment subject to wear are reported upon subsequent measurement less scheduled straight-line depreciation charged over the useful life. Impairments are charged at the amount at which the carrying amount exceeds the higher amount of fair value less the cost of disposal and value in use of the asset. If reasons for impairment no longer exist, write-ups (appreciations in value) are carried out, but not in excess of the amount of amortised cost. Scheduled depreciation is recognised under administrative expenses and impairments and write-ups in other operating profit/loss.

Property and equipment is depreciated over the following periods:

	Property and equipment
Land and buildings	10–50
Operating and office equipment	3–25
Ships	25
Other property and equipment	3–25

(10) Leases

In accordance with IAS 17, leases must be classified as finance or operating leases at the inception of a lease. If essentially all of the 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 essentially all of the 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.

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.

(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.

Upon subsequent measurement of investment properties scheduled straight-line depreciation is charged. 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 2 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 who are appropriately qualified and relevant experience.

(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. 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 amortisation over the useful life is charged for intangible assets with a finite useful life. Impairments are charged at the amount at which the carrying amount exceeds the higher of fair value less cost of disposal and value in use of the asset for intangible assets with a finite useful life. If the reasons for the impairment no longer exist, write-ups are carried out, but not in excess of the amortised cost. Scheduled depreciation is recognised under administrative expenses and impairments and write-ups in other operating profit / loss.

Intangible assets with a finite useful life are amortised over a period of 3 to 15 years.

Intangible assets with an indefinite useful life are tested at least once a year in the fourth quarter for their recoverability. The value of goodwill is reviewed on the basis of cash generating units (CGUs).

(13) Assets held for sale

Longer-term 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. Longer-term assets held for sale are no longer amortised as at the date of reclassification. Impairment losses resulting from longer-term assets and disposal groups held for sale are, however, taken into account.

No entire business divisions were discontinued in 2013 or in 2012.

(14) Provisions for pensions and similar obligations

Pension obligations from defined benefit plans are calculated in accordance with IAS 19 by independent actuaries as at the balance sheet date in accordance with the projected unit credit method. Plan assets which are invested in order to cover defined benefit pension obligations and similar benefits are measured at their fair value and offset against the corresponding liabilities.

Differences between the assumptions made and developments that have actually taken place and changes in the assumptions for the measurement of defined benefit plans and similar liabilities result in actuarial gains and losses which are recognised in the year that they occur under other comprehensive income.

Interest is added to the balance of defined benefit pension obligations, similar benefits and plan assets (net pension obligation) using the discount rate used in the measurement of the gross pension obligation. The resulting net interest expense is recognised in the income statement under interest expenses. The other expenses related to the granting of pension obligations and similar benefits, which primarily relate to entitlements earned in the financial year, are considered in the income statement under administrative expenses.

In order to establish the present value of defined benefit obligations, in addition to biometric assumptions, the discount rate calculated using the Mercer Yield Curve Approach (MYC) for first-class industrial securities and anticipated future salary and pension increase rates are taken into account. For the projection of mortality and invalidity, Klaus Heubeck's "Richttafeln 2005 G" mortality tables were used. Gains or losses from the reduction or payment of a defined benefit plan are recognised at the time of the reduction or payment through profit or loss.

The defined benefit obligation is calculated based on the following actuarial assumptions:

(in %)	31 Dec. 2013	31 Dec. 2012
Domestic		
Actuarial interest rate	3.70	3.60
Increase in salaries	2.00	2.30
Increase in pensions (contingent on the occupational pension scheme)	2.75 / 2.87 / 1.00 / 2.0 / 2.25 / 3.25	2.86
Cost increase rate for allowance payments	–	–
Mortality, invalidity, etc.	Based on Heubeck 2005G mortality tables	Based on Heubeck 2005G mortality tables
Abroad (weighted parameters)		
Actuarial interest rate	4.49	4.49
Increase in salaries	4.43	4.08
Increase in pensions	2.81	2.82
Mortality, invalidity, etc.	USA RP-2000, GB S1PMA Light / S1PFA light base tables with CMI 2013 projections basis LUX DAV 2004 R	
Inflation	3.48	3.10

(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 business

Insurance business is 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 business, information is presented in the corresponding notes. Reference is made in particular to information in Notes (23), (29), (46), (53), and (55). 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 (Handelsgesetzbuch, HGB), the German Law Regulating Insurance Companies (Versicherungsaufsichtsgesetz, VAG) and the German Insurance Accounting Ordinance (Versicherungsunternehmens-Rechnungslegungsverordnung, RechVersV). Unlike under the German Commercial Code, an equalisation provision or similar provision is not allowed to be made under IFRSs.

The application of German accounting principles to measure insurance obligations in accordance with IFRS 4 also involves the principle of prudence. In this case, in the event of uncertainty concerning the amount of a value, the tendency is to include a conservative value instead of the most probable value. This ensures that when values are determined in accordance with German commercial law, liability adequacy tests in accordance with IFRS 4.14 (b) will already have been performed.

Premium surpluses for insurance business concluded directly have been calculated in accordance with the 360th system in accordance with the coordinate Ländererlass (state decree) of 9 March 1973. Reinsurer shares are taken from their calculation. Premium surpluses for insurance business taken over as reinsurance are assumed in accordance with the functions of the previous insurance company.

Actuarial reserves for insurance business 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 (Allgemeines Gleichbehandlungsgesetz, AGG).

In insurance business concluded directly, individual provisions for outstanding 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 NORD/LB 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 settlement value. Any allowances required for receivables from insurance business concluded directly are reported in risk provisioning.

(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 offsetting are met. They are not discounted. Depending on the treatment of the underlying circumstances, deferred tax assets and tax liabilities are reported either in the income statement or in other comprehensive income.

Income tax assets and income tax liabilities are shown separately in the balance sheet and separated into actual and deferred assets and liabilities for the year under review. The carrying amount of deferred tax asset is reviewed for recoverability as at every balance sheet date.

Taxes on earnings or income tax proceeds are recognised in the income tax item in the consolidated income statement.

(18) Subordinated capital

The subordinated capital item comprises secured and unsecured subordinated liabilities, participatory capital and silent participations. The NORD/LB Group's silent participations are mostly classified as debt in accordance with regulations specified in IAS 32 due to contractual cancellation rights; under the German Commercial Code silent participations always qualify as equity. For regulatory purposes in accordance with the German Banking Act (Kreditwesengesetz, KWG), they are primarily recognised as liable equity.

Subordinated capital is reported at amortised cost. Premiums and discounts are distributed over the term in accordance with the effective interest method and recognised in the income statement under net interest income. Deferred interest not yet due is allocated directly to the corresponding items in subordinated capital.

Segment Reporting

The segment reporting provides information on the operational business segments of the Group. The segment reporting below is based on IFRS 8 “Operating segments”, which follows the “management approach”. The segment information is presented in the IFRSs on the basis of internal reporting in the same way that it is reported internally on a regular basis for assessing performance and making decisions on the allocation of resources to the segments. In the segment reporting adjustments of figures for the previous year are taken into account (cf. Note (2) Adjustment of figures for the previous year). In addition to this, previous year’s figures have been reallocated due to overhead costs and the income from financing from tied-up equity being distributed to the business segments from 2013 (see below). The allocation of overheads and the income from financing from tied-up equity increases the focus on the actual income and cost performance of the business model, as the earnings from the business segments is compared with the operational costs of the bank. At the same time the burden on Group Controlling / Others segment is eased and results transparency is improved.

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. The product range offered comprises classical lending business and syndicate business, savings and giro products, securities, currency and derivative transactions, complex structured financing solutions, private banking products, liquidity and risk management, mergers and acquisitions, services such as accounting management, payment transactions, securities business, brokering, documentary business, credit processing, sureties, guarantees and advisory services for asset management.

Net interest income generated by the individual segments is calculated on the basis of the market interest rate method. In the process the contribution from the interest rate conditions for each customer transaction is calculated by comparing the customer conditions with the structure-congruent market interest rate for a fictitious counter transaction applicable at the time the transaction is completed. This market interest rate is at the same time the cost value for the Treasury Division’s balancing provision. Therefore interest income and interest expenses are not reported gross. From 2013 the income from financing from tied-up equity is allocated to the market segments (the previous year’s figures were adjusted).

In the bank every interest-bearing customer transaction is allocated to the balancing provision of the Treasury Division as the central planning division. There are no direct business relations between the market divisions in the bank. Therefore inter-segment earnings are not included in the internal reporting.

Segment expenses comprise primary expenses, expenses allocated on the basis of cost and service allocations and the overhead costs allocated from 2013 (previous year adjusted). Risk provisioning are allocated to segments on the basis of actual costs incurred. Overall bank revenue, such as general loan loss provisions and 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 the regulatory provisions of Basel II including shortfall, segment assets and liabilities, committed capital, the cost income ratio (CIR) and return on equity (RoE). The CIR is defined as the ratio between administrative expenses and the sum total of the following earnings items: net interest income, net commission income, profit / loss from financial instruments at fair value through profit or loss, profit / loss from hedge accounting, profit / loss from investments accounted for using the equity method and other operating profit / loss.

RoRaC (Return on Risk adjusted Capital) calculations in the segments include the contribution to income after risk provisions and valuation on committed capital (here 8 per cent of the higher value of the RWA limits and the amount called on).

In order to consider the increased equity requirements, since 2013 a capital securitisation level of 8 per cent (7 per cent) of risk-weighted assets applies for calculating committed capital in the segments. These are based on the provisions of the German Solvency Regulation (Solvabilitätsverordnung, SolvV). Capital tied up in the segments is calculated on the basis of average annual figures. The reconciliation figure for the tied-up capital reported in the segments and the long-term equity in the Group in accordance with commercial law is included in the segment reconciliation. A transfer from long-term equity under commercial law to equity reported in the balance sheet is shown separately at the end of the segment overview.

The 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. This segment also includes the business conducted by Öffentliche Lebensversicherung Braunschweig and Öffentliche Sachversicherung Braunschweig.

The product range for the business segment Private and Commercial Customers is based on the savings bank finance concept and comprises all of the usual banking services and products for account and lending business, savings and investment business and the provision of internet banking and direct brokerage. Extended services for wealthy private customers range from the integrated advisory approach of asset structure analysis, financial planning, asset succession and inheritance and foundation management. The product range also includes investment loans and start-up advice for the middle-market company business.

Corporate customers & markets

The business segment includes, for the Corporate Customers Division, all of the NORD/LB business conducted with corporate customers in the core regions (excluding the Altes Braunschweiger Land region) and in neighbouring regions, and in particular Agricultural Banking and Residential Housing. The Markets Division covers the Financial Markets activities performed in Germany, the foreign branches and in the Group companies on behalf of customers. The Savings Bank Network Division covers transactions with the public sector; institutional business with associated savings banks and syndicated business transacted with associated savings banks are reported.

As a full-service provider, banking products and banking services are offered. The services include traditional transaction management, tailored business financing, management of interest and currency risk and solutions for company pension schemes. In the segment comprehensive solutions are developed for complex business financing and for the strategic positioning of corporate customers. This Division also provides its customers with a professional, conceptual liquidity and risk management, measures for the structuring of equity and innovative financing instruments.

Alternative products which are detached from retail banking including derivatives are also offered, e.g. special kinds of debt securities which are not standardised in respect of their interest and repayment, but instead offer alternatives in respect of returns and the type or time of repayment (structured securities). In the secondary business all kinds of securities are sold and traded. Tailored solutions for institutional customers such as for example the structuring of special funds, pool funds solutions, portfolio management mandates and institutional public funds are also offered.

The product range also includes private banking products for the savings banks, such as investment products in the form of for example open or closed funds with assets in German or foreign real estate, ships or aircraft, products for individual asset management or inheritance or foundation management, which the savings banks require as direct customers for their own trading business or to complete their product range in their own business with private or corporate customers.

In the **Energy and Infrastructure Customers, Ship and Aircraft Customers and Real Estate Banking Customers segments** traditional lending products and innovative products are generally offered irrespective of the respective industry. This primarily concerns financing for specific purposes.

Energy and infrastructure customers
This segment summarises the global business relations of the Group companies NORD/LB and Bremer Landesbank in the Infrastructure, Energy (in particular renewable energy) and Leasing divisions. Primarily project financing which is related to a specific project or asset is offered and accordingly tailored to meet the respective individual need. The structure of this financing is developed taking into account the respective political and economic risks, legal and task factors, social determinants and optimal equity structures. The aim is to tailor project requirements and cash flows to the respective customers.

Ship and aircraft customers
In this segment the national and international activities of NORD/LB and Bremer Landesbank in ship and aircraft financing are reported. The customers of the Ship and Aircraft Customers segment are offered short to long-term financing, such as equity pre-financing, interim finance, construction period finance (short and medium term) and financing to completion (long term). Ships or aircraft are financed by the provision of loans or guarantees on a property-related and normally property-secured basis. Products such as for example swap, option, future or forward transactions complete the product range.

Real estate banking customers
Here NORD/LB and Deutsche Hypo's national and international financing of commercial real estate and Bremer Landesbank's financing of community interest properties are aggregated. This normally concerns structured financing for large-volume commercial real estate projects and portfolios in Germany and abroad. Both interim finance for new construction projects and long-term loans for existing properties are offered.

Group controlling / others

This business segment covers all other performance data directly related to the business activity such as Group companies not included in the business segments, components of comprehensive income at Group level which are not allocated to the business segments, general loan loss provisions, the profit / loss from other financial instruments (in particular from central valuation effects), financial assets and hedge accounting, projects covering the entire bank; consolidation items; profit / loss from interest rate change risk control, balancing provision, liquidity management and self-induced assets (in particular Treasury and Bank Asset Allocation). Other operating profit / loss includes the bank levy.

Earnings after taxes in Group Controlling / Others totalled € – 179 million in 2013.

Positive contributions were made by net interest income in the amount of € 198 million, and in particular approx. € 214 million from Financial Markets activities recorded here, € 71 million from interest income not allocated to the business segments, € – 29 million from other Group companies and € – 59 million from consolidations. Also recognised in this business segment under loan loss provisions are allocations to general loan loss provisions in the amount of approx. € 59 million.

Net commission income, in particular from other Group companies and consolidation effects, had a negative effect in the amount of € – 23 million. The profit / loss from hedge accounting also had a negative effect in the amount of € – 10 million. The profit / loss from financial instruments at fair value is negative in the amount of € 13 million due in particular to the central valuation effects reported here; positive factors such as interest-rate and credit-rating-induced valuation effects valuation effects with derivatives almost compensated for the negative impact of the narrowing of the USD / EUR base spread for currency derivatives and valuation losses in the fair value option following the improvement in NORD/LB's own credit spread.

Also reported in this business segment are the effects from the profit / loss from financial assets (€ 16 million, in particular from the sale of AfS items) and the profit / loss from investments accounted for using the equity method (€ 33 million). Regarding other operating profit / loss (€ 61 million), the contributions from other Group companies (€ 76 million) and the proceeds from sales in the Treasury Division (€ 59 million) cannot compensate for the consolidation items and the bank levy (total of € – 73 million).

Administrative expenses in this business segment total € 271 million. Administrative expenses in this segment result in the amount of € 102 million from the Financial Markets activities reported here and € 46 million from other Group companies. Further administrative expenses (€ 214 million) in this business segment are for projects covering the entire bank and non-allocated service centre costs. This was offset in part by consolidations in the amount of approx. € – 91 million.

Furthermore, in 2013 reorganisation expenses (€ 38 million) and expenses related to public guarantees for reorganisation (€ 69 million) were incurred.

Reconciliations

Here the reconciliation items from internal accounting for the consolidated figures in the income statement are shown as well as reclassifications of profit and loss items that are reported differently in the internal reporting to in the external reporting. The shortfall in the regulatory capital requirement is converted into risk-weighted assets within internal reporting and assigned to the operational units; the adjustment item resulting from the regulatory risk-weighted assets report flows into the reconciliation.

(19) Segment reporting by business segment

1 Jan.–31 Dec. 2013 / 31 Dec. 2013 (in € million)	Private and Commercial Customers	Corporate Customers & Markets	Energy and Infrastructure Customers	Ship and Aircraft Customers	Real Estate Banking Customers	Group Management/Others	Reconciliations	NORD/LB Group
Net interest income before loan loss provisions	286	495	159	489	258	198	45	1 931
Loan loss provisions	– 2	45	8	678	79	64	– 26	846
Net interest income after loan loss provisions	**288**	**450**	**151**	**– 188**	**180**	**134**	**71**	**1 085**
Net commission income	31	103	56	34	4	– 23	– 43	163
Profit/loss from financial instruments at fair value through profit or loss	3	55	12	23	17	– 13	– 14	83
Profit/loss from hedge accounting	–	–	–	–	–	– 10	–	– 10
Profit/loss from financial assets	13	–	–	–	–	16	– 18	11
Profit/loss from investments accounted for using equity method	–	–	–	–	–	33	–	33
Administrative expenses	329	285	79	115	74	271	13	1 166
Other operating profit/loss	32	8	4	5	–	61	– 41	69
Profit/Loss before reorganisation and taxes	**38**	**332**	**144**	**– 242**	**128**	**– 72**	**– 59**	**268**
Reorganisation expenses	–	–	–	–	–	– 38	–	– 38
Expenses for public guarantees related to reorganisation	–	–	–	–	–	69	–	69
Earnings before taxes (EBT)	**38**	**332**	**144**	**– 242**	**128**	**– 179**	**– 59**	**161**
Taxes	–	–	–	–	–	–	– 85	– 85
Consolidated profit	**38**	**332**	**144**	**– 242**	**128**	**– 179**	**25**	**245**
Segment assets	10 801	65 457	14 047	26 335	16 374	67 605	226	200 845
of which: investments at equity	–	–	–	–	–	306	–	306
Segment liabilities	11 145	43 364	2 952	4 974	733	136 330	1 346	200 845
Risk-weighted assets	5 489	15 422	7 231	43 287	13 018	14 156	– 30 109	68 494
Capital employed [1)]	462	1 237	578	3 463	1 041	1 106	– 66	7 822
CIR	93,6 %	43,0 %	34,4 %	20,9 %	26,3 %			51,4 %
RoRaC/RoE [2)]	8,2 %	19,8 %	19,1 %	– 7,0 %	10,1 %			2,1 %

1 Jan.–31 Dec. 2012/ 31 Dec. 2012 (in € million)	Private and Commercial Customers	Corporate Customers & Markets	Energy and Infrastructure Customers	Ship and Aircraft Customers	Real Estate Banking Customers	Group Management/ Others	Reconciliations	NORD/LB Group
Net interest income before loan loss provisions	283	500	167	510	268	143	88	1 959
Loan loss provisions	1	87	30	500	132	– 153	1	598
Net interest income after loan loss provisions	**282**	**413**	**137**	**9**	**136**	**295**	**88**	**1 360**
Net commission income	25	94	51	57	13	– 25	– 48	168
Profit/loss from financial instruments at fair value through profit or loss	12	112	3	11	4	– 284	20	– 123
Profit/loss from hedge accounting	–	–	–	–	–	10	– 9	1
Profit/loss from financial assets	10	–	–	–	–	– 16	–	– 5
Profit/loss from investments accounted for using equity method	–	–	–	–	–	– 14	–	– 14
Administrative expenses	324	274	77	103	76	295	9	1 158
Other operating profit/loss	9	7	4	– 2	1	– 65	– 53	– 99
Profit/Loss before reorganisation and taxes	**15**	**353**	**119**	**– 29**	**77**	**– 393**	**– 11**	**131**
Reorganisation expenses	–	–	–	–	–	– 34	–	– 34
Expenses for public guarantees related to reorganisation	–	–	–	–	–	19	–	19
Earnings before taxes (EBT)	**15**	**353**	**119**	**– 29**	**77**	**– 446**	**– 11**	**79**
Taxes	–	–	–	–	–	–	– 4	– 4
Consolidated profit	**15**	**353**	**119**	**– 29**	**77**	**– 446**	**– 7**	**82**
Segment assets	11 798	65 459	14 745	27 780	18 308	84 838	2 622	225 550
of which: investments at equity	–	–	–	–	–	318	–	318
Segment liabilities	10 917	48 175	3 098	4 261	905	155 114	3 080	225 550
Risk-weighted assets	5 641	15 686	8 062	37 736	16 768	14 101	– 20 133	77 863
Capital employed[1]	411	1 100	564	2 642	1 174	969	853	7 712
CIR	98,3 %	38,4 %	34,0 %	18,0 %	26,7 %			61,2 %
RoRaC/RoE[2]	3,6 %	25,9 %	18,3 %	– 1,1 %	6,3 %			1,0 %

[1] Reconciliation of long-term equity under commercial law to reported equity:

(in € million)	31 Dec. 2013	31 Dec. 2012
Long-term equity under commercial law	7 822	7 712
Revaluation reserve	122	– 95
Silent participations in reported equity	245	82
Reported equity	**8 190**	**7 700**

[2] Business segment RoRaC:
earnings before taxes/committed core capital;
(8 per cent (7 per cent) of the higher value
of the RWA limit and the amount called on)

Group RoE:
earnings before taxes/long-term equity under commercial law
(= reported equity – revaluation reserve – earnings after taxes)

The tables may include minor differences that occur in the reproduction of mathematical operations.

(20) Breakdown by geographical regions

1 Jan.–31 Dec. 2013 / 31 Dec. 2013 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolida-tion	NORD/LB Group
Earnings before taxes (EBT)	– 28	88	68	49	– 17	161
Segment assets	200 116	27 729	4 547	4 223	– 35 771	200 845
Segment liabilities	202 135	26 704	4 547	4 223	– 36 765	200 845
Risk-weighted assets	61 533	7 343	2 130	1 517	– 4 029	68 494
Capital employed	7 380	587	170	121	– 437	7 822
CIR	55.1 %	43.3 %	34.0 %	23.0 %		51.4 %
RoRaC/RoE [1]	– 0.4 %	15.1 %	39.9 %	40.6 %		2.1 %

1 Jan.–31 Dec. 2012 / 31 Dec. 2012 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolida-tion	NORD/LB Group
Earnings before taxes (EBT)	– 128	119	111	53	– 77	79
Segment assets	230 608	29 920	5 526	4 133	– 44 637	225 550
Segment liabilities	230 608	29 920	5 526	4 133	– 44 637	225 550
Risk-weighted assets	69 643	7 312	3 298	1 735	– 4 125	77 863
Capital employed	7 249	512	231	121	– 401	7 712
CIR	64.5 %	28.5 %	28.6 %	20.4 %		61.2 %
RoRaC/RoE [1]	– 1.8 %	23.3 %	47.9 %	43.7 %		1.0 %

[1] By business segment RoRaC:
earnings before taxes / core capital employed
(8 per cent (7 per cent) of the higher value coming from RWA-Limit or usage amount)

For the Group RoE:
(earnings before taxes – interest expenses for silent participations
in reported equity) / long-term equity under commercial law
(= share capital + capital reserves + retained earnings + non-controlling interests –
silent participations in reported equity)

The tables may include minor differences that occur in the reproduction of mathematical operations.

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. 2013 (in € million)	1 Jan.– 31 Dec. 2012 [1] (in € million)	Change (in %)
Interest income			
Interest income from lending and money market transactions	4 190	4 798	– 13
Interest income from debt securities and other fixed-interest securities	973	1 271	– 23
Interest income from financial instruments at fair value			
Interest income from trading profit/loss and hedge accounting derivatives	4 067	5 730	– 29
Interest income from fair value option	50	64	– 22
Current income			
from shares and other non fixed-interest securities	12	9	33
from investments	11	40	– 73
Interest income from other amortisations	482	355	36
Other interest income and similar income	2	13	– 85
	9 787	**12 280**	**– 20**
Interest expense			
Interest expenses from lending and money market transactions	2 127	2 527	– 16
Interest expenses from securitised liabilities	1 107	1 605	– 31
Interest expenses from financial instruments at fair value			
Interest expenses from trading profit/loss and hedge accounting derivatives	3 646	5 274	– 31
Interest expenses from fair value option	323	324	–
Interest expenses from subordinated capital	229	245	– 7
Interest expenses from other amortisations	346	261	33
Interest expenses from provisions and liabilities	71	79	– 10
Other interest expenses and similar expenses	7	6	17
	7 856	**10 321**	**– 24**
Total	**1 931**	**1 959**	**– 1**

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

Interest income from lending and money market transactions includes interest income relating to impaired loans (unwinding) of € 77 million (€ 61 million).

The interest income includes € 5,646 million (€ 6,424 million) relating to income from financial instruments which are not measured at fair value through profit or loss. The interest expenses include € 3,809 million (€ 4,638 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. 2013 (in € million)	1 Jan.– 31 Dec. 2012 (in € million)	Change (in %)
Income from provisions for lending business			
Reversal of specific valuation allowances	336	299	12
Reversal of lumpsum specific loan loss provisions	10	13	– 23
Reversal of general loan loss provisions	25	175	– 86
Reversal of loan loss provisions	65	69	– 6
Additions to receivables written off	21	25	– 16
	457	**581**	**– 21**
Expenses for provisions for lending business			
Allocation to specific valuation allowances	1 030	939	10
Allocation to lumpsum specific loan loss provisions	5	5	–
Allocation to general loan loss provisions	80	44	82
Allocation to loan loss provisions	54	98	– 45
Direct write-offs of bad debts	134	92	46
Premium payments for credit insurance	–	1	– 100
	1 303	**1 179**	**11**
Total	**846**	**598**	**41**

(23) Net commission income

	1 Jan.– 31 Dec. 2013 (in € million)	1 Jan.– 31 Dec. 2012 (in € million)	Change (in %)
Commission income			
Lending and guarantee business	106	127	– 17
Account management and payment transactions	41	41	–
Trust activities	5	10	– 50
Security transactions and custody service	36	29	24
Brokerage business	31	30	3
Insurance business	8	8	–
Other commission income	43	32	34
	270	**277**	**– 3**
Commission expense			
Lending and guarantee business	19	17	12
Account management and payment transactions	2	2	–
Trust activities	–	4	– 100
Security transactions and custody service	23	21	10
Brokerage business	9	5	80
Insurance business	32	31	3
Other commission expenses	22	29	– 24
	107	**109**	**– 2**
Total	**163**	**168**	**– 3**

Commission income includes earnings from financial instruments which are not measured at fair value in the amount of € 183 million (€ 197 million). Commission expenses include expenses from financial instruments which are not measured at fair value in the amount of € 45 million (€ 40 million).

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

	1 Jan.–31 Dec. 2013 (in € million)	1 Jan.–31 Dec. 2012 (in € million)	Change (in %)
Trading profit/loss			
Profit/loss from debt securities and other fixed-interest securities	– 66	123	> 100
Profit/loss from shares and other non fixed-interest securities	4	2	100
Profit/loss from derivatives	– 80	304	> 100
Interest-rate risks	– 130	200	> 100
Currency risks	– 108	– 243	– 56
Share-price and other price risks	57	63	– 10
Credit derivatives	101	284	– 64
Profit/loss from receivables held for trading	– 41	78	> 100
Profit/loss from other trading activities	2	–	–
	– 181	**507**	**> 100**
Foreign exchange result	39	8	> 100
Other income	6	2	> 100
	– 136	**517**	**> 100**
Profit/loss from the fair value option			
Profit/loss from receivables to customers and banks	– 13	12	> 100
Profit/loss from debt securities and other fixed-interest securities	– 45	– 29	55
Profit/loss from shares and other non fixed-interest securities	1	1	–
Profit/loss from liabilties to banks and customers	383	– 299	> 100
Profit/loss from securitised liabilties	– 108	– 325	– 67
Profit/loss from subordinated capital	1	–	–
	219	**– 640**	**> 100**
Total	**83**	**– 123**	**> 100**

Commission income from trading activities in the amount of € 6 million (€ 2 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. 2013 (in € million)	1 Jan. – 31 Dec. 2012 (in € million)	Change (in %)
Profit / loss from micro fair value hedges			
from hedged underlying transactions	– 395	– 106	> 100
from derivatives employed as hedging instruments	373	70	> 100
	– 22	**– 36**	**– 39**
Profit / loss from portfolio fair value hedges			
from hedged underlying transactions	136	– 385	> 100
from derivatives employed as hedging instruments	– 124	422	> 100
	12	**37**	**– 68**
Total	**– 10**	**1**	**> 100**

(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. 2013 (in € million)	1 Jan. – 31 Dec. 2012 (in € million)	Change (in %)
Profit / loss from financial assets classified as LaR	**– 12**	**– 2**	**> 100**
Profit / loss from financial assets classified as AfS (excluding investments)			
Profit/ loss from the disposal of			
debt securities and other fixed-interest securities	50	34	47
shares and other non fixed-interest securities	18	13	38
Other financial assets classified as AfS	– 2	– 2	–
Profit / loss from allowances for losses on			
debt securities and other fixed-interest securities	–	– 2	100
shares and other non fixed-interest securities	– 14	– 6	> 100
Other financial assets classified as AfS	– 4	– 16	– 75
	48	**21**	**> 100**
Profit / loss from shares in companies (not consolidated)	**– 25**	**– 24**	**4**
Total	**11**	**– 5**	**> 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. 2013 (in € million)	1 Jan.– 31 Dec. 2012 (in € million)	Change (in %)
Shares in joint ventures			
Earnings	2	3	– 33
	2	**3**	**– 33**
Shares in associated companies			
Earnings	37	41	– 10
Expenses	6	58	– 90
	31	**– 17**	**> 100**
Total	**33**	**– 14**	**> 100**

(28) Administrative expenses

	1 Jan.– 31 Dec. 2013 (in € million)	1 Jan.– 31 Dec. 2012 (in € million)	Change (in %)
Staff expenses			
Wages and salaries	490	492	–
Social insurance contributions	68	68	–
Expenditure on pension schemes and other benefits	52	37	41
Other staff expenses	6	6	–
	616	**603**	**2**
Other administrative expenses			
Costs for IT and communications	237	215	10
Building occupancy costs	48	45	7
Expenses for marketing, communications and entertainment	28	48	– 42
Personnel-related material expenses	22	25	– 12
Costs for legal, auditing, appraisal and consulting services	67	64	5
Levies and contributions	18	20	– 10
Expenses for operating and office equipment	6	6	–
Other services	9	9	–
Other administrative expenses	37	34	9
	472	**466**	**1**
Amortisation and depreciation			
Property and equipment	39	45	– 13
Intangible assets	37	42	– 12
Investment properties	2	2	–
	78	**89**	**– 12**
Total	**1 166**	**1 158**	**1**

Included under staff expenses are expenses for defined contribution plans in the amount of € 52 million (€ 37 million).

(29) Other operating profit / loss

	1 Jan.– 31 Dec. 2013 (in € million)	1 Jan.– 31 Dec. 2012 (in € million)	Change (in %)
Other operating income			
from the reversal of provisions	327	269	22
from insurance business	540	497	9
from other business	226	183	23
	1 093	**949**	**15**
Other operating expenses			
from allocation to provisions	455	441	3
from insurance business	344	315	9
from other business	225	292	– 23
	1 024	**1 048**	**– 2**
Total	**69**	**– 99**	**> 100**

Earnings from the reversal of provisions and expenses from allocation to provisions primarily concern provisions relating to insurance business.

Other operating income from insurance business is primarily the result of premium income (€ 427 million (€ 417 million)) and earnings from reinsurance contracts (€ 83 million (€ 50 million)).

Earnings from other business includes earnings from the disposal of receivables (€ 84 million (€ 54 million)), earnings from the redemption of debt securities (€ 41 million (€ 2 million)), earnings from the chartering of ships relating to restructuring commitments in lending business (€ 35 million (€ 42 million)), rental income from investment property (€ 11 million (€ 10 million)), reimbursements of costs (€ 10 million (€ 11 million)) and earnings from the disposal of property and equipment (€ 0 million (€ 25 million)).

Other operating expenses from insurance business mainly comprise indemnity expenses (€ 284 million (€ 258 million)) and expenses from reinsurance business (€ 50 million (€ 49 million)).

Expenses from other business essentially comprise expenses from the redemption of debt securities (€ 47 million (€ 38 million)), expenses from the disposal of other liabilities (€ 32 million (€ 0 million)), expenses to generate charter income from ships (€ 27 million (€ 23 million)), expenses from other taxes (€ 14 million (€ 3 million)), expenses from the transfer of losses (€ 8 million (€ 7 million) and expenses from the disposal of receivables (€ 5 million (€ 99 million)). The expenses from other business also include an amount of € 37 million (€ 37 million) provided for the bank levy set by the Restructuring Fund Act (Restrukturierungsfonds-Verordnung).

The expenses from other business also include unscheduled depreciation in the amount of € 0 million (€ 44 million). The previous year’s figure was the result of a fall in the market value of ships due to the crisis in the shipping market.

(30) Reorganisation expenses

Reorganisation expenses relate to measures aimed at securing the long-term future and maintaining the competitiveness of the NORD/LB Group, with its material costs and staff expenses being reported separately due to their importance. The need for reorganisation is related to the efficiency improvement programme launched in 2011 and a capital-boosting programme which is the result of EU requirements. The reorganisation expenses include in the amount of € 35 million (€ 27 million) expenses from the allocation made to reorganisation provisions for contracted agreements already concluded concerning the termination of contracts of employment. They also include in the amount of € 3 million (€ 5 million) expenses from projects that aim to achieve significant cost synergies.

(31) Expenses for public guarantees related to reorganisation

Expenses for public guarantees related to reorganisation concern the NORD/LB Group's capital-boosting programme. The reported amount of € 69 million (€ 19 million) is mainly attributable to the payment of a premium for a guarantee provided by the states of Lower Saxony and Saxony-Anhalt.

(32) Income taxes

	1 Jan.– 31 Dec. 2013 (in € million)	1 Jan.– 31 Dec. 2012 (in € million)	Change (in %)
Current taxes on income and earnings			
Tax expenses / income for the current year	81	112	– 28
Tax expenses / income for previous years	– 61	– 9	> 100
	20	**103**	**– 81**
Deferred taxes			
Deferred taxes due to the accrual / reversal of temporary differences and tax losses / tax credits not previously considered	– 122	– 94	30
Deferred taxes due to changes in tax legislation / tax rates	3	– 4	> 100
Deferred taxes due to temporary differences in previous periods not previously considered	15	– 9	> 100
	– 104	**– 107**	**– 3**
Total	**– 84**	**– 4**	**> 100**

The current tax expenses for the current financial year are reduced by € 25 million (€ 36 million) due to the utilisation of tax losses previously not considered. Deferred taxes include earnings from tax losses previously not considered, tax credits and temporary differences of € 90 million (€ 51 million).

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. 2013	1 Jan. – 31 Dec. 2012
IFRS earnings before taxes	**161**	**78**
Anticipated income tax expenditure	51	25
Effects of reconciliation:		
Effects of differing tax rates	– 7	– 2
Taxes from previous years reported in the reporting period	– 46	– 18
Effects of changes in tax rates	3	– 2
Non-creditable income taxes	1	2
Non-deductible operational expenditure	22	47
Effects of tax-free earnings	– 37	– 27
Effect of permanent accounting-related effects	– 2	– 6
Effects of write-ups / write-downs / recognition adjustments	– 82	– 44
Other effects	13	21
Reported income tax expenses	**– 84**	**– 4**

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 2013. The income tax rate for Germany is therefore 31.5 per cent (31.5 per cent).

The deferred taxes of the Group entities in Germany are measured using the tax rate applicable as at or the future tax rate applicable as at the balance sheet date of 31.5 per cent (31.5 per cent).

Effects resulting from deviating tax rates are caused by differing tax rates in each country. The effects of write-ups / write-downs / recognition adjustments also include effects from the subsequent increase or decrease in the recognition of losses carried forward.

Notes to the Statement of Comprehensive Income

Income tax effects fall upon the individual components of other comprehensive income as follows:

(in € million)	1 Jan.– 31 Dec. 2013 Amount before taxes	1 Jan.– 31 Dec. 2013 Income tax effect	1 Jan.– 31 Dec. 2013 Amount after taxes	1 Jan.– 31 Dec. 2012 Amount before taxes	1 Jan.– 31 Dec. 2012 Income tax effect	1 Jan.– 31 Dec. 2012 Amount after taxes
Revaluation of the net liability from defined benefit pension plans	73	– 23	50	– 500	174	– 326
Changes in value for investments accounted for using the equity method recognised directly in equity	– 27	–	– 27	40	–	40
Increase/decrease from available for sale (AfS) financial instruments	345	– 82	263	846	– 305	541
Translation differences of foreign business units	– 36	–	– 36	– 2	–	– 2
Other	**355**	**– 105**	**250**	**384**	**– 131**	**253**

Notes to the Balance Sheet

(33) Cash reserve

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Cash on hand	146	214	– 32
Balances with central banks	1 165	451	> 100
Total	**1 311**	**665**	**97**

Of the balances with central banks, € 775 million (€ 103 million) are credit balances with Deutsche Bundesbank.

(34) Loans and advances to banks

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Loans and advances resulting from money market transactions			
German banks	4 415	5 804	– 24
Foreign banks	2 172	2 606	– 17
	6 587	**8 410**	**– 22**
Other loans and advances			
German banks			
Due on demand	1 253	1 621	– 23
With a fixed term or period of notice	15 803	19 850	– 20
Foreign Banks			
Due on demand	1 823	2 488	– 27
With a fixed term or period of notice	2 015	2 009	–
	20 894	**25 968**	**– 20**
Total	**27 481**	**34 378**	**– 20**

(35) Loans and advances to customers

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Loans and advances resulting from money market transactions			
Domestic customers	1 846	2 822	– 35
Customers abroad	14	28	– 50
	1 860	**2 850**	**– 35**
Other loans and advances			
Domestic customers			
Due on demand	3 296	3 168	4
With a fixed term or period of notice	75 896	79 050	– 4
Customers abroad			
Due on demand	431	359	20
With a fixed term or period of notice	26 178	29 150	– 10
	105 801	**111 727**	**– 5**
Total	**107 661**	**114 577**	**– 6**

(36) Risk provisioning

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Specific valuation allowance			
Domestic customers	1 422	1 163	22
Customers abroad	334	330	1
	1 756	**1 493**	**18**
Lumpsum specific loan loss provisions			
Domestic customers	14	19	– 26
	14	**19**	**– 26**
General loan loss provisions			
German banks	1	2	– 50
Foreign banks	2	1	100
Domestic customers	382	383	–
Customers abroad	93	51	82
	478	**437**	**9**
Total	**2 248**	**1 949**	**15**

Risk provisioning recognised on the asset side and loan loss provisions developed as follows:

	Specific valuation allowances		Lumpsum specific loan loss provisions		General loan loss provisions		Loan loss provisions		Total	
(in € million)	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
1 January	**1 493**	**1 159**	**19**	**28**	**437**	**580**	**136**	**113**	**2 085**	**1 880**
Allocations	1 030	939	5	5	80	44	54	98	1 169	1 086
Reversals	336	299	10	13	25	175	65	69	436	556
Utilisation	343	250	–	1	–	–	–	–	343	251
Unwinding	– 77	– 63	–	–	–	–	–	– 1	– 77	– 64
Effects of changes of foreign exchange rates and other changes	– 11	7	–	–	– 14	– 12	– 1	– 5	– 26	– 10
31 December	**1 756**	**1 493**	**14**	**19**	**478**	**437**	**124**	**136**	**2 372**	**2 085**

(37) Balancing items for hedged financial instruments

This item includes the fair value adjustments to assets attributable to the hedged risk, for which there is a fair value hedge portfolio.

(38) Financial assets at fair value through profit or loss

This item contains the 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 non fixed-interest securities and derivative financial instruments which are not used for hedge accounting.

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Trading assets			
Debt securities and other fixed-interest securities			
Money market instruments			
issued by other borrowers	10	16	– 38
Bonds and debt securities			
issued by public-sector borrowers	918	996	– 8
issued by other borrowers	2 623	1 808	45
	3 541	**2 804**	**26**
Shares and other non fixed-interest securities			
Shares	46	26	77
Investment certificates	–	1	– 100
	46	**27**	**70**
Positive fair values from derivatives			
Interest-rate risks	5 698	10 771	– 47
Currency risks	723	953	– 24
Share-price and other price risks	169	61	> 100
Credit derivatives	13	18	– 28
	6 603	**11 803**	**– 44**
Trading portfolio claims	2 320	1 783	30
Other trading assets	–	– 1	– 100
	12 520	**16 432**	**– 24**
Financial assets as at fair value through profit or loss			
Loans and advances to banks and customers	246	365	– 33
Debt securities and other fixed-interest securities	765	1 112	– 31
Shares and other non fixed-interest securities	10	11	– 9
	1 021	**1 488**	**– 31**
Total	**13 541**	**17 920**	**– 24**

For receivables designated at fair value in the amount of € 246 million (€ 366 million) there is a maximum default risk of € 246 million (€ 366 million).

The change in the fair value, which is attributable to changes in the credit risk of receivables designated at fair value, amounts to € 0 million (€ 2 million) in the period under review; the cumulative change is € 4 million (€ 4 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.

(39) Positive fair values from hedge accounting derivatives

This item includes positive fair values of hedging instruments in effective micro fair value hedges and portfolio fair value hedges.

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Micro fair value hedge derivatives	2 116	3 073	– 31
Portfolio fair value hedge derivatives	1 756	1 851	– 5
Total	**3 872**	**4 924**	**– 21**

(40) Financial assets

The balance sheet item financial assets includes all the debt securities and other fixed-interest securities classified as available for sale (AfS), shares and other non fixed-interest 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).

Holdings in the equity of other companies and silent participations and participatory capital with loss sharing are allocated to the category (AfS).

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Financial assets classified as LaR	**3 117**	**3 830**	**– 19**
Debt securities and other fixed-interest securities			
issued by public-sector borrowers	1 450	1 842	– 21
issued by other borrowers	1 667	1 988	– 16
	3 117	**3 830**	**– 19**
Financial assets classified as AfS	**43 926**	**48 593**	**– 10**
Debt securities and other fixed-interest securities			
issued by public-sector borrowers	18 024	19 840	– 9
issued by other borrowers	24 893	27 768	– 10
	42 917	**47 608**	**– 10**
Shares and other non fixed-interest securities			
Shares	385	291	32
Investment certificates	138	150	– 8
Participation certificates	13	13	–
	536	**454**	**18**
Shares in companies (not consolidated)	348	384	– 9
Other financial assets classified as AfS	125	147	– 15
	43 926	**48 593**	**– 10**
Total	**47 043**	**52 423**	**– 10**

(41) 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. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Joint ventures			
Financial institutions	26	27	– 4
Affiliated companies			
Banks	144	161	– 11
Other entities	136	130	5
	280	**291**	**– 4**
Total	**306**	**318**	**– 4**

The development of investments accounted for using the equity method is as follows:

(in € million)	Joint ventures	Affiliated companies	Total
1 January 2012	**26**	**361**	**387**
Additions	3	74	77
Disposals	2	87	89
Depreciations	–	57	57
31 December 2012	**27**	**291**	**318**
Additions	2	38	– 40
Disposals	2	44	46
Depreciations	–	6	6
31 December 2013	**27**	**279**	**306**

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.

Investments accounted for using the equity method amounted to € 306 million (€ 318 million), a fall of € 12 million compared to the previous year. The development in the financial year 2013 is the result of the share of profits/losses in the amount of € 33 million (€ –14 million), changes in equity in the amount of € 27 million (€ 40 million) and distributions received in the amount of € 18 million (€ 22 million) for joint ventures and associated companies accounted for using the equity method and reported under additions and disposals.

In the financial year unscheduled depreciation was deducted from the equity value of LBS in the amount of € 5 million and NORD KB Beteiligungsgesellschaft mbH in the amount of € 1 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. 2013	Joint ventures 31 Dec. 2012	Affiliated companies 31 Dec. 2013	Affiliated companies 31 Dec. 2012
Short-term assets	50	70	832	827
Long-term assets	29	25	3 186	3 320
Short-term liabilities	34	51	694	563
Long-term liabilities	18	18	2 982	3 209
Total income	27	27	568	535
Total expenses	25	25	536	506
Contingent liabilities	53	110	42	53

(42) Property and equipment

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Land and buildings	343	353	– 3
Operating and office equipment	59	74	– 20
Ships	188	200	– 6
Other property and equipment	11	8	38
Total	**601**	**635**	**– 5**

The development of property and equipment is shown under Note (43) Investment Property.

(43) Investment property

The profit / loss from investment property is summarised as follows:

(in € million)	1 Jan.– 31 Dec. 2013	1 Jan.– 31 Dec. 2012
Rental income	11	10
Direct operating expenses	3	3

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 2012	**682**	**303**	**270**	**4**	**1 259**	**110**
Additions	35	16	–	5	**56**	22
Disposals	4	17	–	–	**21**	22
Transfers	–	–	–	–	**–**	– 2
Changes from foreign exchange rates	–	–	– 2	–	**– 2**	–
Totals 31 December 2012	**713**	**302**	**268**	**9**	**1 292**	**108**
Accumulated depreciation as at 1 January 2012	**337**	**221**	**12**	**1**	**571**	**17**
Depreciations	13	20	12	–	**45**	2
Impairments (non-scheduled)	–	–	44	–	**44**	–
Additions	10	–	–	–	**10**	–
Disposals	–	13	–	–	**13**	5
Totals 31 December 2012	**360**	**228**	**68**	**1**	**657**	**14**
Closing balance as at 31 December 2012	**353**	**74**	**200**	**8**	**635**	**94**
Cost as at 1 January 2013	**713**	**302**	**268**	**9**	**1 292**	**108**
Additions	35	11	–	3	**49**	24
Disposals	63	47	–	–	**110**	18
Changes from foreign exchange rates	–	– 1	– 4	–	**– 5**	–
Totals 31 December 2013	**685**	**265**	**264**	**12**	**1 226**	**114**
Accumulated depreciation as at 1 January 2013	**360**	**228**	**68**	**1**	**657**	**14**
Depreciations	13	17	9	–	**39**	2
Impairments (non-scheduled)	–	6	–	–	**6**	–
Disposals	31	45	–	–	**76**	3
Changes from foreign exchange rates	–	–	– 1	–	– 1	–
Totals 31 December 2013	**342**	**206**	**76**	**1**	**625**	**13**
Closing balance as at 31 December 2013	**343**	**59**	**188**	**11**	**601**	**101**

The additions to investment property are all acquisitions.

(44) Intangible assets

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Software			
Purchased	20	21	– 5
Internally developed	64	91	– 30
	84	**112**	**– 25**
Intangible assets under development	39	18	> 100
Other intangible assets	13	12	8
Total	**136**	**142**	**– 4**

Intangible assets under development refer primarily to internally developed software. Fully amortised software is still in use.

Expenses for research and development in the amount of € 83 million (€ 93 million) have been incurred. The research expenditure on internally developed software which is not eligible for capitalisation totals € 76 million (€ 83 million).

The NORD/LB Group has intangible assets with an indefinite useful life in the amount of € 7 million (€ 7 million). These are accounted for entirely in other intangible assets acquired by payment.

The NORD/LB Group's significant intangible assets are shown in the table below:

	Carrying amount (in € million)		Remaining depreciation period (in years)	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Migration of IT applications	38	52	3	4
Internally developed software	11	12	13	14
Brand name	5	5	Unlimited	Unlimited

The development of intangible assets is as follows:

(in € million)	Software Purchased	Software Internally generated	Other Purchased	Other Internally generated	Total
Cost as at 1 January 2012	**121**	**231**	**17**	**18**	**387**
Additions	7	6	–	21	34
Disposals	1	–	–	–	1
Transfers	11	–	–	– 11	–
Total 31 December 2012	**138**	**237**	**17**	**28**	**420**
Accumulated depreciation as at 1 January 2012	**106**	**113**	**5**	**10**	**234**
Depreciations	9	33	–	–	42
Impairments (non-scheduled)	3	–	–	–	3
Disposals	1	–	–	–	1
Total 31 December 2012	**117**	**146**	**5**	**10**	**278**
Closing balance as at 31 December 2012	**21**	**91**	**12**	**18**	**142**
Cost as at 1 January 2013	**138**	**237**	**17**	**28**	**420**
Additions	5	2	1	23	31
Disposals	11	–	10	–	21
Transfers	2	–	10	– 12	–
Total 31 December 2013	**134**	**239**	**18**	**39**	**430**
Accumulated depreciation as at 1 January 2013	**117**	**146**	**5**	**10**	**278**
Depreciations	8	29	–	–	37
Transfers	–	–	10	– 10	–
Disposals	11	–	10	–	21
Total 31 December 2013	**114**	**175**	**5**	**–**	**294**
Closing balance as at 31 December 2013	**20**	**64**	**13**	**39**	**136**

(45) Income tax assets

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Current income tax assets	69	50	38
Deferred tax assets	741	727	2
Total	**810**	**777**	**4**

Deferred tax assets reflect potential relief on income taxes from temporary differences in the values of assets and liabilities between the IFRS consolidated balance sheet and tax values in accordance with the tax regulations of the Group companies. Deferred tax assets which were recognised in other comprehensive income totalled € 217 million as at 31 December 2013 (€ 372 million).

Deferred income tax assets were established in respect of the following balance sheet items and with tax losses not yet utilised:

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Assets			
Loans and advances to banks	13	19	– 32
Risk provisioning	132	128	3
Financial assets at fair value through profit or loss	328	514	– 36
Financial assets	277	535	– 48
Property and equipment	64	42	52
Other assets	221	73	> 100
Liabilities			
Liabilities to customers	375	652	– 42
Securitsed liabilities	109	180	– 39
Financial liabilities at fair value through profit or loss	282	455	– 38
Negative fair values from hedge accounting derivatives	864	1 407	– 39
Provisions	368	377	– 2
Other liabilities	77	113	– 32
Tax losses carried forward	69	18	> 100
Total	**3 179**	**4 513**	**– 30**
Net	2 438	3 786	– 36
Total	**741**	**727**	**2**

In addition to deferred taxes recognised in the income statement, deferred income tax assets also comprise financial assets of € 198 million (€ 332 million) and provisions of € 19 million (€ 40 million) recognised in other comprehensive income.

No deferred taxes were recognised on losses carried forward to the amount of € 1 million (€ 7 million) for corporation tax and trade tax in the amount of € 1 million (€ 7 million) due to a limited planning horizon and the resulting insufficient likelihood of their utilisation by 31 December 2013. There is no time limit on the utilisation of existing tax losses carried forward.

(46) Other assets

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Loans and advances on interim accounts	20	142	– 86
Collection items	5	1	> 100
Assets from insurance business	193	157	23
Rights to reimbursement from defined benefit plans	17	19	– 11
Other assets including prepaid expenses	166	330	– 50
Total	**401**	**649**	**– 38**

The receivables in interim accounts primarily relate to receivables in lending business and transactions in payment accounts. Receivables related to the trading of securities are still included.

Assets relating to insurance business are assets from outwards reinsurance (€ 1 million (€ 1 million)) and direct insurance and reinsurance business (€ 192 million (€ 156 million)).

Reimbursement claims from defined benefit plans include allocated provisions for pensions to the benefit of parties outside the Group.

Of the other assets, an initial margin accounts for a total of € 82 million (€ 0 million).

(47) Liabilities to banks

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Deposits from other banks			
German banks	2 046	737	> 100
Foreign banks	183	38	> 100
	2 229	**775**	**> 100**
Liabilities resulting from money market transactions			
German banks	18 128	20 739	– 13
Foreign banks	7 809	9 715	– 20
	25 937	**30 454**	**– 15**
Other liabilities			
German banks			
Due on demand	2 671	5 084	– 47
With a fixed term or period of notice	22 374	22 938	– 2
Foreign banks			
Due on demand	2 037	1 200	70
With a fixed term or period of notice	3 933	4 628	– 15
	31 015	**33 850**	**– 8**
Total	**59 181**	**65 079**	**– 9**

(48) Liabilities to customers

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Savings deposits			
With an agreed notice period of three months			
Domestic customers	1 558	911	71
Customers abroad	18	16	13
With an agreed notice period of more than three months			
Domestic customers	343	407	– 16
Customers abroad	2	2	–
	1 921	**1 336**	**44**
Liabilities resulting from money market transactions			
Domestic customers	8 164	7 275	12
Customers abroad	2 172	1 860	17
	10 336	**9 135**	**13**
Other liabilities			
Domestic costumers			
Due on demand	11 738	11 708	–
With a fixed term or period of notice	29 311	31 844	– 8
Customers abroad			
Due on demand	692	1 018	– 32
With a fixed term or period of notice	863	910	– 5
	42 604	**45 480**	**– 6**
Total	**54 861**	**55 951**	**– 2**

(49) Securitised liabilities

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Issued debt securities			
Pfandbriefe	8 947	9 732	– 8
Municipal debentures	13 417	13 345	1
Other debt securities	25 730	35 249	– 27
	48 094	**58 326**	**– 18**
Money market instruments			
Commercial paper	1 790	1 651	8
Certificates of deposit	344	240	43
Other money market instruments	–	402	– 100
	2 134	**2 293**	**– 7**
Total	**50 228**	**60 619**	**– 17**

Repurchased debt securities issued by the bank itself have been directly deducted from securitised liabilities in the amount of € 6,984 million (€ 7,962 million).

(50) Balancing items for hedged financial instruments

This item includes the fair value adjustments to financial liabilities in portfolio fair value hedges for transactions classified as other liabilities (OL); these fair value adjustments are attributable to the hedged risk.

(51) Financial liabilities at fair value through profit or loss

This item shows trading liabilities (HfT) and financial liabilities designated at fair value (DFV).

Trading liabilities comprise negative fair values resulting from derivative financial instruments which are not used in hedge accounting and delivery obligations resulting from short sales of securities.

The category financial liabilities designated at fair value includes liabilities to banks and customers, securitised liabilities and subordinated capital.

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Trading liabilities			
Negative fair values from derivatives relating to			
interest-rate risks	5 666	10 105	– 44
currency risks	443	820	– 46
share-price and other price risks	3	27	– 89
credit derivatives	66	169	– 61
	6 178	**11 121**	**– 44**
Delivery obligations from short-sales	110	214	– 49
	6 288	**11 335**	**– 45**
Financial liabilities designated at fair value			
Liabilities to banks and customers	5 680	5 920	– 4
Securitised liabilities	3 138	3 443	– 9
Subordinated capital	25	26	– 4
	8 843	**9 389**	**– 6**
Total	**15 131**	**20 724**	**– 27**

The change in the fair value of liabilities designated at fair value is the result of changes in the credit risk and amounts to € – 24 million (€ – 200 million) in the period under review; the cumulative change is € – 73 million (€ – 52 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 book value of liabilities designated at fair value as at 31 December 2013 is € 466 million higher (€ 883 million higher) than the corresponding repayment amount. The difference essentially comprises compounding effects from zero bond issues and is the difference between the discounted payment typical for zero bonds and their repayment at nominal value.

(52) Negative fair values from hedge accounting derivatives

This item includes negative fair values of hedge instruments in effective micro fair value hedge relationships and portfolio fair value hedges.

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Micro fair value hedge derivatives	2 498	3 829	– 35
Portfolio fair value hedge derivatives	846	1 079	– 22
Total	**3 344**	**4 908**	**– 32**

(53) Provisions

Provisions are broken down as follows:

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Provisions for pensions and other obligations	**1 955**	**1 975**	**– 1**
Other provisions			
Provisions in lending business	124	136	– 9
Provisions for reorganisation measures	11	18	– 39
Provisions for contingent losses	26	4	> 100
Provisions for uncertain liabilities	244	182	34
Provisions for insurance business	1 943	1 822	7
	2 348	**2 162**	**9**
Total	**4 303**	**4 137**	**4**

For risks from insurance business, provisions were made on the basis of the best possible estimates of future expenses. Due to the low level of insurance business in the NORD/LB Group, the uncertainty concerning the amount or due date of these outflows does not have a significant impact on the consolidated financial statements of NORD/LB.

Pensions and similar obligations

The net liability from a defined benefit plan is broken down as follows:

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Present value of defined benefit obligations	2 021	2 040	– 1
Less fair value of plan assets	– 66	– 65	2
Negative balance (net indebtness)	**1 955**	**1 975**	**– 1**

In the NORD/LB Group there are both defined benefit pension obligations and on a small scale defined contribution pension obligations.

Description of the pension plans

The NORD/LB Groups 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). The pension entitlements are based on annual benefit components, the amount of which depend on the individual pensionable annual salary. 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, 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 defined contribution pension commitment has also applied for members of the Managing Board since 1 January 2000. In addition, depending on the role of the member of the Managing Board and the number of reappointments to the Managing Board, in addition to the benefit components acquired in instalments, further initial components are awarded here. Members of the Managing Board who joined the company before 1 January 2000 received an individual total benefit commitment which was in accordance with the regulations as at 31 December 1999.

Risks from defined benefit pension plans

The NORD/LB Group is exposed to various risks from defined benefit pension plans.

As a registered public institute (Anstalt öffentlichen Rechts), NORD/LB was the subject of a guarantor liability up to and including 17 July 2001. This means that creditors, and therefore also employees, are entitled in respect of their pension entitlements to have the amounts owed to them paid by the respective guarantors of the registered public institute. On 17 July 2001 the guarantor liability for savings banks and landesbanks was abolished by the European Commission. Therefore pension commitments agreed at this time are covered indefinitely by the guarantor liability. Also covered by the guarantor liability are all pension commitments made up to 18 July 2005, provided the pension benefit can be claimed before 31 December 2015. All pension commitments agreed since 18 July 2001 and all commitments not covered by the transition rules are protected against insolvency by NORD/LB paying contributions to a pension guarantee association.

Both the liabilities from defined benefit obligations and the plan assets may fluctuate over time. This might have a negative or positive impact on the financing status. The fluctuations of defined benefit obligations result in particular from changes in financial assumptions such as interest rates as well as changes in demographic assumptions such as a change in life expectancy. Due to the arrangement of existing pension commitments, the amount of the benefits depends on the development of pensionable income, the earnings ceiling in the statutory pension insurance and the social security benefit. If these parameters do not develop as assumed when the provisions were calculated, additional finance might be necessary.

The NORD/LB Group reviews the pension payments schedule regularly (liquidity control), as well as the investment strategy and the level of investment. The level of investment and pension payments is calculated on each due date based on actuarial reports. Most of the amount invested is invested long term in government bonds which have at least an AA rating are listed in an active market. An investment is also made in the same amount of the pension payments in short-term, highly fungible other assets. The interest rate risk is largely reduced by the even rolling nature of the investment debt instruments (government bonds). The control of liquidity risk which is due among other things to the pension payments is described in the risk report.

The net liability 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:

	Defined benefit obligation		Fair value of plan assets		Negative balance (net indebtness)		Change (in %)
(in € million)	2013	2012	2013	2012	2013	2012	
Opening balance	**2 040**	**1 498**	**65**	**61**	**1 975**	**1 437**	**37**
Current service cost	42	27	–	–	42	27	56
Interest expense	73	75	– 2	– 3	71	72	– 1
Additional accounting current service costs	1	–	–	–	1	–	–
Effects from settlements / assignments (compensation payments)	1	–	–	–	1	–	–
Increase / decrease resulting from changes in foreign exchanges rates	– 1	2	– 1	–	–	2	– 100
Benefits paid	– 63	– 62	– 15	– 15	– 48	– 47	2
Employer contributions	–	–	14	13	– 14	– 13	8
	2 093	**1 540**	**65**	**62**	**2 028**	**1 478**	**37**
Revaluation							
Adjustments made on the basis of experience	– 11	–	–	–	– 11	–	–
Profit / losses from the change in demographic assumptions	1	–	–	–	1	–	–
Profit / losses from the change in financial assumptions	– 62	500	–	3	– 62	497	> 100
Without interest income	–	–	1	–	– 1	–	–
Closing balance	**2 021**	**2 040**	**66**	**65**	**1 955**	**1 975**	**– 1**

In addition to pension obligations, the present value of defined benefit obligations includes allowance payments in the amount of € 147 million (€ 178 million).

The defined benefit obligation is broken down as at the balance sheet date into amounts for defined benefit plans in the amount of € 1,581 million (€ 1,609 million) which are not financed through a fund and into amounts from defined benefit obligations in the amount of € 440 million (€ 432 million) which are either fully or partially financed through a fund.

The fair value of plan assets is broken down as follows:

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Equity instruments			
active market	18	17	6
Debt instruments			
active market	35	39	– 10
Other assets			
active market	10	6	67
inactive market	3	3	–
	13	**9**	**44**
Total	**66**	**65**	**2**

The fair value of plan assets includes the bank's own debt instruments in the amount of € 2 million (€ 4 million).

The table below shows the expected undiscounted defined benefit obligations broken down by time to maturity:

(in € million)	Pensions expenses
Less than 1 year	– 61
between 1 and 2 years	– 64
between 2 and 3 years	– 67
between 3 and 4 years	– 70
between 4 and 5 years	– 73
Total	**– 335**

The duration of the defined benefit pension obligation is 15 years and is reviewed every year by an actuarial expert.

The contribution payments for plans are expected to be € 11 million (€ 10 million) in the next reporting period.

Due to the actuarial assumptions, the defined benefit obligation is subject to change. The following sensitivity analysis shows the impact of the change in the respective assumption on the amount of the defined benefit obligation under the premise that there are no correlations and there is no change in the other assumptions.

(in € million)	Increase	Decline
Actuarial interest rate	311	319
Wages	180	175
Pensions	205	196
Cost increase rate for allowance payments	31	24
Mortality, invalidity, etc.	59	212

A sensitivity of –/+ 0.50 per cent was applied to the interest rate, –/+ 0.25 per cent for both the salary and pension trend and 1 per cent for allowances. To calculate the impact on the obligation of an increase in life expectancy, the probability of death was reduced to 90 per cent. This results in an increase in life expectancy of 0.8 to 1.2 years in the 20 to approx. 70 age range, an increase of 0.4 to 0.8 years in the approx. 70 to 90 age range and less than 0.4 years in the above approx. 80 age range. Due to reasons of materiality, a sensitivity analysis was only conducted for Germany.

Other provisions developed as follows in the year under review:

(in € million)	Provisions in lending business	Provisions for reorgani-sation	Provisions for contingent losses	Provisions for uncertain liabilities		Insurance business provisions	Total
				Provisions for liabilities to personnel	Other provisions for uncertain liabilities		
1 January	**136**	**18**	**4**	**78**	**104**	**1 822**	**2 162**
Utilisation	–	8	–	16	12	46	82
Reversals	65	–	–	3	33	288	389
Allocations	54	1	22	104	20	455	656
Changes from foreign exchange rates	– 1	–	–	2	–	–	1
31 December	**124**	**11**	**26**	**165**	**79**	**1 943**	**2 348**

Provisions for reorganisation relate to the implementation of the business model initiated in 2005.

Reported under provisions for liabilities to personnel are provisions for reorganisation measures in the amount of € 56 million (€ 27 million) which are a result of the efficiency improvement programmed launched in 2011 (cf. Note (30) Restructuring expenses). Of the provisions for liabilities to personnel, provisions due to early retirement schemes account for € 31 million (€ 27 million) and provisions for long-service awards account for € 8 million (€ 10 million).

Insurance provisions mainly contain actuarial reserves in the amount of € 1,496 million (€ 1,398 million), provisions for known losses in the amount of € 263 million (€ 222 million) and provisions for the reimbursement of premiums in the amount of € 121 million (€ 127 million).

The remaining provisions are mainly due in the long term.

(54) Income tax liabilities

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Current Income tax liabilities	116	162	– 28
Deferred tax liabilities	48	34	41
Total	**164**	**196**	**– 16**

Current income tax liabilities comprise payment obligations from current income tax to domestic and foreign tax authorities.

Deferred tax liabilities reflect potential income tax liabilities from temporary differences between the values of assets and liabilities in the IFRS consolidated balance sheet and tax values in accordance with the tax regulations of the Group companies. Deferred tax liabilities which were recognised in other comprehensive income totalled € 183 million as at 31 December 2013 (€ 234 million).

Deferred tax liabilities relate to the following balance sheet items:

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Assets			
Loans and advances to banks	31	40	– 23
Loans and advances to customers	162	269	– 40
Financial assets at fair value through profit or loss	114	158	– 28
Fair values from hedge accounting derivatives	992	1 333	– 26
Financial assets	543	898	– 40
Intangible assets	26	32	– 19
Property and equipment	29	10	> 100
Other assets	37	41	– 10
Liabilities			
Securitised liabilities	5	21	– 76
Financial liabilities at fair value through profit or loss	484	936	– 48
Provisions	5	5	–
Other liabilities	58	77	– 25
Total	**2 486**	**3 820**	**– 35**
Net	2 438	3 786	– 36
Total	**48**	**34**	**41**

In addition to deferred taxes recognised in the income statement, deferred tax liabilities also comprise financial assets of € 181 million (€ 233 million) and provisions of € 2 million (€ 1 million) recognised in other comprehensive income.

(55) Other liabilities

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Liabilities resulting from outstanding invoices	35	32	9
Liabilities from premiums	1	1	–
Liabilities from short-term employee remuneration	60	56	7
Deferred income	26	39	– 33
Liabilities from payable taxes and social insurance contributions	21	22	– 5
Liabilities from interim accounts	49	152	– 68
Liabilities from insurance contracts	44	46	– 4
Other liabilities	143	160	– 11
Total	**379**	**508**	**– 25**

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 2014.

The liabilities in interim accounts primarily relate to liabilities in lending business, trading of securities and transactions in payment accounts.

Liabilities from insurance business relate to liabilities from direct insurance and reinsurance contracts in the amount of € 4 million (€ 8 million).

(56) Subordinated capital

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Subordinated liabilities	3 540	3 452	3
Participatory capital	209	224	– 7
Silent participations	964	1 157	– 17
Total	**4 713**	**4 833**	**– 2**

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 € 2,786 million (€ 3,051 million) for attribution to supplementary capital in accordance with §10 para. 2b of the German Banking Act. Interest expenses for subordinated liabilities amount to € 149 million (€ 145 million).

Participatory capital comprises solely registered participatory capital. The participatory capital meets the requirements of § 10 para. 5 of the German Banking Act in the amount of € 60 million (€ 193 million) for attribution to supplementary capital in accordance with § 10 para. 2b of the German Banking Act. Interest expenses for participatory capital amount to € 13 million (€ 14 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 € 813 million (€ 955 million) in accordance with § 10 para. 2a clause 1 no. 10 of the German Banking Act. Interest expenses relating to silent participations amount to € 68 million (€ 86 million).

(57) Equity

The equity is made up as follows:

	31 Dec. 2013 (in € million)	31 Dec. 2012[1] (in € million)	Change (in %)
Issued capital	1 607	1 607	–
Capital reserves	3 332	3 332	–
Retained earnings	2 220	2 011	10
Revaluation reserve	122	– 95	> 100
Reserve for the change on foreign exchanges rates	– 6	– 3	100
Equity capital attributable to the owners of NORD/LB	7 275	6 852	6
Equity capital attributable to non-controlling interests	915	848	8
Total	**8 190**	**7 700**	**6**

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

As at 31 December 2013 the following shareholdings were held in the subscribed capital of NORD/LB: the federal state of Lower Saxony 59.13 per cent (59.13 per cent), the federal state of Saxony-Anhalt 5.57 per cent (5.57 per cent), the Association of the Savings Banks of Lower Saxony (SVN) 26.36 per cent (26.36 per cent), the Holding Association of the Savings Banks of Saxony-Anhalt (SBV) 5.28 per cent (5.28 per cent) and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania (SZV) 3.66 per cent (3.66 per cent).

Retained earnings include retained earnings from previous reporting periods, allocations from profit less the share of other shareholders in profit / loss, the effects of the revaluation of the net liability from defined benefit pension plans as well as the changes in equity relating to the shares in associated companies and joint ventures accounted for using the equity method.

The revaluation reserve item reports the effects of the measurement of available for sale (AfS) financial instruments.

The reserve for the change in foreign exchange rates includes the effects of the translation of annual reports of foreign business units with a currency other than the euro relating to the application of the closing rate method.

In addition to the owners of the parent company NORD/LB, other shareholders have an interest in the equity of the NORD/LB Group. These hold shares in the equity of subsidiaries and are reported as non-controlling interests in consolidated equity.

For 2012 the dividend rate is 4.9 per cent (11.0 per cent). The dividend rate expresses ratio of dividends to owners and non-controlling interest in the period under review to the previous year's consolidated profit.

For 2013 there will be no dividend payment owing to the commitments made to the EU Commission. Instead it is proposed that a portion of the profit will be allocated to retained earnings and the remainder will be carried forward to new account.

Notes to the Cash Flow Statement

The cash flow statement shows the change in cash and cash equivalents for the reporting period as a result of cash flows from operating, investment and financing activities.

Cash and cash equivalents are defined as the cash reserve (cash on hand and balances with central banks).

The cash from operating activities is calculated based on the consolidated profit using the indirect method. Prior to this calculation, expenses which have no effect on cash in the accounting period are added and earnings which have no effect on cash in the year under review is deducted. Furthermore, all cash expenses and earnings which are not allocated to operating activities are eliminated. These payments are taken into account in cash flows from investment 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 guarantors of the parent company NORD/LB.

We refer to information contained in the risk report concerning liquidity risk management in the NORD/LB Group.

Other disclosures

Notes to Financial Instruments

(58) Fair value hierarchy

The fair values of financial instruments are compared with their carrying amounts in the following table.

(in € million)	Fair Value	Carrying amount	Difference 31 Dec. 2013	Fair Value	Carrying amount	Difference 31 Dec. 2012
Assets						
Cash reserve	1 311	1 311	–	665	665	–
Loans and advances to banks	28 216	27 481	735	35 744	34 378	1 366
Loans and advances to customers	106 454	107 661	– 1 207	115 611	114 577	1 034
Risk provisioning	[1]	– 2 248	–	[1]	– 1 949	–
Sub-total of loans and advances to banks/customers (net after loan loss provisions)	**134 670**	**132 894**	**1 776**	**151 355**	**147 006**	**4 349**
Balancing items for financial instruments hedged in the fair value hedge portfolio	[2]	– 171	–	[2]	– 3	–
Financial assets at fair value through profit or loss	13 541	13 541	–	17 920	17 920	–
Positive fair values from hedge accounting derivatives	3 872	3 872	–	4 924	4 924	–
Financial assets not reported at fair value	2 864	3 164	– 300	3 496	3 910	– 414
Financial assets reported at fair value	43 879	43 879	–	48 513	48 513	–
Other assets not reported at fair value	17	17	–	–	–	–
Other assets reported at fair value	25	25	–	16	16	–
Total	**200 179**	**198 532**	**1 476**	**226 889**	**222 951**	**3 935**
Liabilities						
Liabilities to banks	59 836	59 181	655	66 429	65 079	1 350
Liabilities to customers	57 179	54 861	2 318	59 355	55 951	3 404
Securitised liabilities	51 116	50 228	888	61 476	60 619	857
Balancing items for financial instruments hedged in the fair value hedge portfolio	[2]	351	–	[2]	895	–
Financial liabilities at fair value through profit or loss	15 131	15 131	–	20 724	20 724	–
Negative fair values from hedge accounting derivatives	3 344	3 344	–	4 908	4 908	–
Other liabilities not reported at fair value	44	44	–	1	1	–
Subordinated capital	5 037	4 713	324	5 043	4 833	210
Total	**191 687**	**187 853**	**4 185**	**217 936**	**213 010**	**5 821**

[1] Amounts relating to risk provisioning are shown in the corresponding fair values of loans and advances to banks and loans and advances to customers.
[2] Amounts relating to the assets and liabilities item "Adjustment items for financial instruments hedged in the fair value hedge portfolio" are shown in the fair values of the respective items of hedged financial instruments.

It was not possible to reliably determine a fair value for € 47 million (€ 80 million) of financial instruments. These are mainly investments.

The extended disclosure requirements of IFRS 13 concerning the fair value hierarchy have already been voluntarily considered for the reference figures. In the tables below the previous year's figures were therefore extended retrospectively in accordance with the requirements of IFRS 13.

The table below shows the distribution of financial assets and liabilities recognised at fair value based on the fair value hierarchy:

	Level 1		Level 2		Level 3		Total	
(in € million)	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Assets								
Assets held for trading	1 569	2 852	10 935	13 580	16	–	12 520	16 432
Debt securities and other fixed-interest securities	1 519	2 705	2 032	115	–	–	3 551	2 820
Shares and other non fixed-interest securities	46	27	–	–	–	–	46	27
Positive fair values from derivatives	4	4	6 599	11 799	–	–	6 603	11 803
Interest-rate risks	1	1	5 697	10 770	–	–	5 698	10 771
Currency risks	3	2	720	951	–	–	723	953
Share-price and other price risks	–	1	169	60	–	–	169	61
Credit derivatives	–	–	13	18	–	–	13	18
Trading portfolio claims	–	116	2 304	1 666	16	–	2 320	1 782
Financial assets as at fair value through profit or loss	111	871	910	617	–	–	1 021	1 488
Loans and advances to banks	–	–	6	16	–	–	6	16
Loans and advances to customers	–	–	240	349	–	–	240	349
Financial assets	111	871	664	252	–	–	775	1 123
Debt securities and other fixed-interest securities	101	860	664	252	–	–	765	1 112
Shares and other non fixed-interest securities	10	11	–	–	–	–	10	11
Positive fair values from hedge accounting derivatives	–	–	3 872	4 924	–	–	3 872	4 924
Positive fair values from employed micro fair value hedge derivatives	–	–	2 116	3 073	–	–	2 116	3 073
Interest-rate risks	–	–	1 948	2 824	–	–	1 948	2 824
Currency risks	–	–	168	249	–	–	168	249
Positive fair values from employed portfolio fair value hedge derivatives	–	–	1 756	1 851	–	–	1 756	1 851
Interest-rate risks	–	–	1 756	1 851	–	–	1 756	1 851
Financial assets at fair value	9 259	43 183	34 213	4 907	407	423	43 879	48 513
Debt securities and other fixed-interest securities	8 681	42 575	34 147	4 871	57	60	42 885	47 506
Shares and other non fixed-interest securities	527	443	9	10	–	–	536	453
Shares in companies (not consolidated)	43	55	25	26	227	217	295	298
Other financial assets classified as AfS	8	110	32	–	123	146	163	256
Other assets recorded at for value	17	–	8	16	–	–	25	16
Total	**10 956**	**46 906**	**49 938**	**24 044**	**423**	**423**	**61 317**	**71 373**

(in € million)	Level 1 31 Dec. 2013	31 Dec. 2012	Level 2 31 Dec. 2013	31 Dec. 2012	Level 3 31 Dec. 2013	31 Dec. 2012	Total 31 Dec. 2013	31 Dec. 2012
Liabilities								
Trading liabilities	41	215	6 242	11 116	5	4	6 288	11 335
Negative fair values from derivatives relating to	4	1	6 169	11 116	5	4	6 178	11 121
– interest-rate risks	2	–	5 664	10 105	–	–	5 666	10 105
– currency risks	–	–	442	820	1	–	443	820
– share-price and other price risks	2	1	1	26	–	–	3	27
– credit derivatives	–	–	62	165	4	4	66	169
Delivery obligations from short-sales and other trading assets	37	214	73	–	–	–	110	214
Financial liabilities reported at fair value	100	222	8 735	9 167	8	–	8 843	9 389
Liabilities to banks	–	–	590	593	–	–	590	593
Liabilities to customers	–	–	5 090	5 327	–	–	5 090	5 327
Securitised liabilities	100	222	3 030	3 221	8	–	3 138	3 443
Subordinated capital	–	–	25	26	–	–	25	26
Negative Fair Values aus Hedge-Accounting-Derivaten	–	–	3 344	4 908	–	–	3 344	4 908
Negative fair values from employed micro fair value hedge derivatives	–	–	2 498	3 829	–	–	2 498	3 829
– Interest-rate risks	–	–	2 268	3 351	–	–	2 268	3 351
– Currency risks	–	–	230	478	–	–	230	478
Negative fair values from employed portfolio fair value hedge derivatives	–	–	846	1 079	–	–	846	1 079
Interest-rate risks	–	–	846	1 079	–	–	846	1 079
Total	**141**	**437**	**18 321**	**25 191**	**13**	**4**	**18 475**	**25 632**

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 International Swaps and Derivatives Association (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:

2013 (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	239	–	–	16	–	–
Debt securities and other fixed-interest securities	239	–	–	–	–	–
Loans and advances to trading and other trading assets	–	–	–	16	–	–
Designated financial assets reported at fair value	444	–	12	–	–	–
Financial assets	444	–	12	–	–	–
– Debt securities and other fixed-interest securities	444	–	12	–	–	–
Financial assets at fair value	27 516	5	53	6	–	3
Debt securities and other fixed-interest securities	27 484	–	53	–	–	2
Shares in companies (not consolidated)	–	5	–	6	–	1
Other financial assets classified as AfS	32	–	–	–	–	–
Trading liabilities	–	–	–	– 3	–	–
Negative fair values from derivatives relating to	–	–	–	– 3	–	–
– currency risks	–	–	–	– 1	–	–
– interest-rate risks	–	–	–	– 2	–	–
Designated financial liabilities reported at fair value	– 160	–	– 53	– 5	–	–
Securitised liabilities	– 160	–	– 53	– 5	–	–

The transfers within the fair value hierarchy are summarised as follows:

2012 (in € million)	from Level 1 to Level 2	from Level 1 to Level 3	from Level 2 to Level 1	from Level 2 to Level 3	from Level 3 to Level 1	from Level 3 to Level 2
Assets held for trading	279	–	–	–	37	7
Debt securities and other fixed-interest securities	–	–	–	–	37	–
Positive fair values from derivatives	–	–	–	–	–	7
– credit derivatives	–	–	–	–	–	7
Delivery obligations from short-sales and other trading liabilities	279	–	–	–	–	–
Designated financial assets reported at fair value	–	–	187	–	151	257
Loans and advances to banks	–	–	–	–	–	6
Financial assets	–	–	187	–	151	251
– Debt securities and other fixed-interest securities	–	–	187	–	151	251
Financial assets at fair value	300	2	1 560	–	771	1 805
Debt securities and other fixed-interest securities	300	2	1 560	–	729	1 778
Shares and other non fixed-interest securities	–	–	–	–	12	–
Shares in companies (not consolidated)	–	–	–	–	–	27
Other financial assets classified as AfS	–	–	–	–	30	–
Trading liabilities	–	–	–	–	–	97
Negative fair values from derivatives relating to	–	–	–	–	–	97
– credit derivatives	–	–	–	–	–	97
Designated financial liabilities reported at fair value	– 1 350	–	–	–	–	–
Securitised liabilities	– 1 350	–	–	–	–	–

For asset-side financial instruments, a level assessment takes place on an individual transaction basis. As at the balance sheet date the transfers have been mostly from Level 1 to Level 2 compared to the previous end-of-year reporting date. This is the result of the application with retrospective effect of 31 December 2013 of HFA 47, which was published at the start of 2014. This specifies how financial instruments are to be classified in the various levels. Accordingly, (mixed) prices calculated by price service agencies on the basis of reported prices are to be allocated to Level 2. Broker quotations have to come from an “active market” in order to be allocated to Level 1. If there are only a few broker quotations or if these involve big bid-ask spreads or price differences, it is assumed that there is no active market.

When measuring the bank's own structured issues (dFV), the use of market prices is reviewed as at the reporting date. Following this review, some issues generally move between Level 1 and 2 due to a change in trading activity. The transfer from Level 2 to Level 3 is based on a revised assessment of historical volatility following the first-time application of IFRS 13 with effect of 1 January 2013.

The transfer date for the transfers between the individual levels is the end of the reporting period.

Financial assets and liabilities in Level 3 of the fair value hierarchy developed as follows:

	Trading assets					
	Debt securities and other fixed-interest securities		Positive fair values from derivatives Credit derivatives		Loans and advances to trading and other trading assets	
(in € million)	2013	2012	2013	2012	2013	2012
1 January	**–**	**52**	**–**	**7**	**–**	**–**
Effect on the income statement [1]	–	– 1	–	–	–	–
Effect on the equity capital	–	–	–	–	–	–
Addition from purchase or issuance	–	9	–	–	–	–
Disposal from sale	–	9	–	–	–	–
Repayment/ exercise	–	14	–	–	–	–
Addition from Level 1 and 2	–	–	–	–	16	–
Disposal to Level 1 and 2	–	37	–	7	–	–
Changes due to mergers	–	–	–	–	–	–
Changes in foreign exchange rates	–	–	–	–	–	–
31 December	**–**	**–**	**–**	**–**	**16**	**–**
Profit/losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement [1]	–	–	–	–	– 1	–

[1] The effects reported include valuation gains/losses, realised profit/loss and deferred interest; these are reported in the income statement under the items (21) Net interest income and (24) Profit/loss from financial instruments at fair value through profit or loss.

(in € million)	Designated financial assets reported at fair value Loans and advances to banks 2013	2012	Financial assets Debt instruments and other fixed-interest securities 2013	2012
1 January	**–**	**11**	**–**	**455**
Effect on the income statement [1]	–	–	–	– 39
Effect on the equity capital	–	–	–	–
Addition from purchase or issuance	–	–	–	15
Disposal from sale	–	–	–	27
Repayment/exercise	–	–	–	2
Addition from Level 1 and 2	–	–	–	–
Disposal to Level 1 and 2	–	11	–	397
Changes due to mergers	–	–	–	–
Changes in foreign exchange rates	–	–	–	– 5
31 December	**–**	**–**	**–**	**–**
Profit/losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement [1]	–	–	–	–

[1] The effects reported include valuation gains/losses, realised profit/loss and deferred interest; these are reported in the income statement under the items (21) Net interest income and (24) Profit/loss from financial instruments at fair value through profit or loss.

	Financial assets at fair value							
	Fixed-income and book entry securities		Shares and other non fixed-interest securities		Shares in companies (not consolidated)		Other financial assets classified as AfS	
(in € million)	2013	2012	2013	2012	2013	2012	2013	2012
1 January	**60**	**2 994**	**–**	**15**	**217**	**327**	**146**	**230**
Effect on the income statement [1]	–	–		–	– 18	– 14	– 5	– 17
Effect on the equity capital	– 1	– 107	–	– 1	3	– 71	– 1	– 1
Addition from purchase or issuance	–	– 2	–	–	16	8	–	–
Disposal from sale	–	34	–	2	–	–	–	34
Repayment/exercise	–	283	–	–	1	7	17	–
Addition from Level 1 and 2	–	2	–	–	11	–	–	–
Disposal to Level 1 and 2	2	2 507	–	12	1	26	–	31
Changes due to mergers	–	–	–	–	–	–	–	–
Changes in foreign exchange rates	–	– 3	–	–	–	–	–	– 1
31 December	**57**	**60**	**–**	**–**	**227**	**217**	**123**	**146**
Profit/losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement [1]	–	–	–	–	– 18	–	– 5	– 20

[1] The effects reported include valuation gains/losses, realised profit/loss and deferred interest; these are reported in the income statement under the items (21) Net interest income and (24) Profit/loss from financial instruments at fair value through profit or loss.

	Trading liabilities			
	Negative fair values from derivatives relating to		Negative fair values from derivatives relating to	
	Currency risks		Credit derivatives	
(in € million)	2013	2012	2013	2012
1 January	**–**	**–**	**4**	**105**
Effect on the income statement [1]	–	–	– 3	– 2
Addition from purchase or issuance	–	–	–	–
Disposal from sale	–	–	–	–
Repayment / exercise	–	–	–	2
Addition from Level 1 and 2	1	–	2	–
Disposal to Level 1 and 2	–	–	–	97
Changes due to mergers	–	–	–	–
Changes in foreign exchange rates	1	–	–	–
31 December	**1**	**–**	**3**	**4**
Profit / losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement [1]	–	–	–	– 2

[1] The effects reported include valuation gains / losses, realised profit / loss and deferred interest; these are reported in the income statement under the items (21) Net interest income and (24) Profit / loss from financial instruments at fair value through profit or loss.

	Designated financial liabilities reported at fair value	
	Securitsed liabilities	
(in € million)	2013	2012
1 January	**–**	**–**
Effect on the income statement [1]	–	–
Addition from purchase or issuance	4	–
Disposal from sale	–	–
Repayment / exercise	–	–
Addition from Level 1 and 2	5	–
Disposal to Level 1 and 2	–	–
Changes due to mergers	–	–
Changes in foreign exchange rates	–	–
31 December	**9**	**–**
Profit / losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement [1]	–	–

[1] The effects reported include valuation gains / losses, realised profit / loss and deferred interest; these are reported in the income statement under the items (21) Net interest income and (24) Profit / loss from financial instruments at fair value through profit or loss.

For the fair value measurement of the financial instruments in Level 3, the following significant unobservable input data was used.

Product	Fair value 31 Dec. 2013 (in € million)	Significant non-observable input data in the fair value measurement	Spread of the used input data	Weighted average
Asset Backed Securities	8	ABS-Intensity-Spread	500–2500 Basispoints	1 340 Basispoints
	–	Weighted-Average-Life (WAL)	0,04 – 20,08 years	8,89 years
Interest-bearing bonds	1	Intensity-Spread	+/– 212 Basispoints	212 Basispoints
Silent participations	107	Credit Spread	+/– 100 Basispoints	+/– 100 Basispoints
Derivatives	– 2	CDS-Ratingshift Factor	0–5 Rating Class	2,05 Rating Class

Significant unobservable data in the fair value measurement of ABS securities are the ABS intensity spread, which is derived from the rating and associated probability of default, and the weighted average life (WAL). Significant changes in the input data result in a significantly higher or lower fair value. As part of the sensitivity analysis, the ABS intensity spread and the WAL shift factor were stressed, with the rating being moved up and down a class and the WAL increased or reduced by one year. Accordingly an imputed change in the ABS intensity spread would result in a change in the fair values of ABS securities in Level 3 of € 1.6 million. The imputed change in the WAL shift factor would result in a change in the fair values of ABS securities in Level 3 of € 1.6 million.

Significant unobservable data in the fair value measurement of interest-bearing securities is the intensity spread, which is derived from the rating and associated probability of default. Significant changes in this input parameter result in a significantly higher or lower fair value. As part of the sensitivity analysis, the intensity spread was stressed in the measurement, with the rating being moved up and down a class. Accordingly an imputed change in the parameter would result in a change in the fair value of the interest-bearing securities in Level 3 of € 0.02 million.

Significant unobservable data in the fair value measurement of silent participations is the credit spread. Significant changes in this input parameter result in a significantly higher or lower fair value. As part of the sensitivity analysis, the credit spread was stressed in the measurement by increasing or reducing it by 100 basis points. Accordingly an imputed change in the parameter would result in a change in the fair value of all silent participations in Level 3 of € 6 million.

Significant unobservable input data in the fair value measurement of derivatives are the CDS rating shift factor and historic volatilities. Details concerning the sensitivity of historic volatilities are permissibly not given, as the historic volatilities are not calculated by the company itself, but are based on original market transactions. Significant changes in the CDS rating shift factor result in a significantly higher or lower fair value. As part of the sensitivity analysis, the CDS rating shift factor was stressed by being moved up and down a level. Accordingly an imputed change in the CDS rating shift factor would result in a change in the fair values of CDS in Level 3 of € 1.5 million.

The ABS securities, interest-bearing securities and silent participations are mainly reported under financial assets, while derivatives are reported under financial assets and liabilities at fair value through profit or loss.

For the fair value measurement of Level 3 financial instruments, there are no relevant correlations between significant Level 3 input parameters and as a result there is no impact on the fair value.

If fair values are stated in the notes for assets and liabilities that are not measured at fair value in the balance sheet, these are to be classified in the fair value hierarchy.

(in € million)	Level 1 31 Dec. 2013	Level 2 31 Dec. 2013	Level 3 31 Dec. 2013	Total 31 Dec. 2013
Assets				
Cash reserve	1311	–	–	1 311
Loans and advances to banks	755	789	26 672	28 216
Mortage loans	–	47	26	73
Public-sector loans	–	297	8 185	8 482
Mortage-backed loans	–	–	43	43
Other loans	–	328	10 643	10 971
Current account and forward contracts	699	–	5 045	5 744
Other advances to banks	56	117	2 730	2 903
Loans and advances to customers	1 600	1 656	103 198	106 454
Mortage loans	–	25	14 020	14 045
Public-sector loans	–	1 456	33 702	35 158
Mortage-backed loans	–	2	5 015	5 017
Other loans	16	173	45 960	46 149
Current account and forward contracts	118	–	4 225	4 343
Other advances to customers	1 466	–	276	1 742
Financial assets not reported at fair value	10	2 781	73	2 864
Debt securities and other fixed-interest securities	3	2 781	32	2 816
Shares in companies (not consolidated)	7	–	41	48
Investment property	–	107	1	108
Other assets reported at fair value	1	–	16	17
Total	**3 677**	**5 333**	**129 960**	**138 970**

(in € million)	Level 1 31 Dec. 2013	Level 2 31 Dec. 2013	Level 3 31 Dec. 2013	Total 31 Dec. 2013
Liabilities				
Liabilities to banks	325	4 393	55 118	59 836
Liabilties to customers	190	10 518	46 471	57 179
Securitsed liabilities	4 451	44 644	2 021	51 116
Issued debt securities	2 927	44 184	1 872	48 983
Money market instruments	1 524	460	149	2 133
Other liabilities not reported at fair value	–	–	44	44
Subordinated capital	555	2 591	1 891	5 037
Subordinated liabilities	273	2 426	1 126	3 825
Participatory capital	–	86	123	209
Silent participations	282	79	634	995
Other subordinated capital	–	–	8	8
Total	**5 521**	**62 146**	**105 545**	**173 212**

(59) Carrying amounts by measurement category

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Assets			
Financial assets held for trading	12 520	16 432	– 24
Financial assets designated at fair value	1 021	1 488	– 31
Available for sale assets	43 926	48 593	– 10
Loans and receivables	136 028	150 835	– 10
Total	**193 495**	**217 348**	**– 11**
Liabilities			
Financial liabilities held for trading	6 288	11 335	– 45
Financial liabilities designated at fair value	8 843	9 389	– 6
Other liabilities	169 028	186 482	– 9
Total	**184 159**	**207 206**	**– 11**

Hedging instruments for hedge accounting as defined by IAS 39 and the cash reserve are not included since they are not allocated to any measurement category.

(60) Net gains or losses by measurement category

	1 Jan.– 31 Dec. 2013 (in € million)	1 Jan.– 31 Dec. 2012 (in € million)	Change (in %)
Financial instruments held for trading	– 136	517	> 100
Financial instruments designated at fair value through profit or loss	219	– 640	> 100
Available for sale assets	23	– 3	> 100
Loans and receivables	– 790	– 616	28
Other liabilities	– 38	– 36	– 6
Total	**– 722**	**– 778**	**– 7**

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 earnings and expenses from the repurchase of own liabilities.

The net gains/losses of the measurement categories of financial instruments held for trading and financial instruments designated at fair value through profit or loss include the commission income for the related transactions. The hedge accounting result is not included in the gains/losses since hedge accounting is not allocated to any of the categories.

(61) Impairments/reversals of impairment by measurement category

	1 Jan.– 31.12. 2013 (in € million)	1 Jan.– 31 Dec. 2012 (in € million)	Change (in %)
Available for Sale Assets			
Profit/loss from impairment of financial assets classified as AfS	– 18	– 24	– 25
Profit/loss from shares in not consilidated companies	– 25	– 13	92
	– 43	**– 37**	**16**
Loans and Receivables			
Profit/loss from impairment of financial assets classified as AfS	– 9	3	> 100
Profit/loss from impairment of advances	– 857	– 569	51
	– 866	**– 566**	**53**
Total	**– 909**	**– 603**	**– 51**

(62) Offsetting of financial assets and financial liabilities

The effects or potential effects of offsetting financial assets and liabilities are shown in the table below.

31 Dec. 2013 (in € million)	Gross amount before balancing	Amount of the financially balancing	Net amount after balancing	Master netting arrangements and other without financially balancing: Financial instruments	Collaterals: Securities collateral	Collaterals: Cash collateral	Net amount
Assets							
Offsetting of current accounts	5 958	4 482	1 476	–	–	–	1 476
Derivatives	10 086	–	10 086	6 309	311	1 855	1 611
Securities lending and repos	3 704	–	3 704	934	2 727	2	41
Liabilities							
Offsetting of current accounts	12 649	4 482	8 167	–	–	–	8 167
Derivatives	9 398	–	9 398	6 309	98	2 637	354
Securities lending and repos	11 565	–	11 565	934	10 599	6	26

31 Dec. 2012 (in € million)	Gross amount before balancing	Amount of the financially balancing	Net amount after balancing	Master netting arrangements and other without financially balancing: Financial instruments	Collaterals: Securities collateral	Collaterals: Cash collateral	Net amount
Assets							
Offsetting of current accounts	4 755	3 391	1 364	–	–	–	1 364
Derivate	16 241	–	16 241	10 625	19	2 663	2 933
Securities lending and repos	6 328	–	6 328	3 163	3 150	1	14
Liabilities							
Offsetting of current accounts	11 189	3 391	7 778	–	–	–	7 778
Derivatives	15 764	–	15 764	10 625	401	3 926	812
Securities lending and repos	20 745	–	20 745	3 163	16 776	–	806

In the NORD/LB Group the offsetting of liabilities to an account holder that are payable on demand and are not subject to any commitments against receivables owed by the same account holder that are payable on demand is reported under the offsetting of current accounts in accordance with § 10 of the German Accounting Regulation for Credit and Financial Services Institutions (Kreditinstituts-Rechnungslegungsverordnung, RechKredV). This is the case where it has been agreed for the calculation of interest and commission that the account holder is treated in the same way as if the postings are made to a single account. This offsetting is in accordance with IAS 32.42. Receivables and liabilities in different currencies are not offset.

Business with derivative financial instruments and repos and securities lending business is generally conducted on the basis of bilateral framework agreements concluded with the counterparty. These only allow the offsetting of receivables and liabilities as well as collateral provided and received under certain conditions, e.g. in the event of a breach of contract or in the case of insolvency. There is therefore currently no right to offset in accordance with IAS 32.42.

(63) Transfer and derecognition of financial assets

The risks and opportunities relating to transferred financial assets and associated liabilities that remain in the NORD/LB Group are shown in the table below. The table also shows the degree to which transferees' rights of recourse relate only to the respective transferred assets.

31 Dec. 2013	Full recognition of financial assets despite transfer		The transferee's right of recourse relates only to the respective transferred assets		
(in € million)	Asset value of the assets	Asset value of the appropriate liabilities	Fair value of the assets	Fair value of the appropriate liabilities	Net position
Loans and advances to customers	1 419	–	1 419	–	1 419
Financial assets at fair value through profit or loss	111	32	111	32	79
Financial assets reported at fair value	18 789	19 439	11 818	12 547	– 729
Total	**20 319**	**19 471**	**13 348**	**12 579**	**769**

31 Dec. 2012	Full recognition of financial assets despite transfer		The transferee's right of recourse relates only to the respective transferred assets		
(in € million)	Asset value of the assets	Asset value of the appropriate liabilities	Fair value of the assets	Fair value of the appropriate liabilities	Net position
Financial assets at fair value through profit or loss	689	3 524	689	3 524	– 2 835
Financial assets not reported at fair value	1 248	55	–	–	–
Financial assets reported at fair value	15 486	11 973	11 729	9 149	2 580
Total	**17 423**	**15 552**	**12 418**	**12 673**	**– 255**

The transferred financial assets primarily concern genuine repos and securities lending transactions.

(64) Derivative financial instruments

The NORD/LB Group employs derivative financial instruments for securing purposes in asset/liability management. Trading is also conducted in derivative financial transactions.

Nominal values constitute the gross volume of all purchases and sales. This item is a reference figure for calculating reciprocally agreed equalisation payments; it does not, however, refer to receivables and liabilities which may be recognised in the balance sheet.

The portfolio of derivative financial instruments comprises the following:

	Nominal values		Fair value positive		Fair value negative	
(in € million)	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Interest-rate risk						
Interest rate swaps	230 059	259 107	8 874	14 676	7 484	12 187
FRAs	1 729	5 185	–	–	–	–
Interest options						
Call	3 097	3 533	338	540	4	4
Put	7 934	8 856	4	4	1 101	1 941
Caps, floors	7 203	7 647	98	141	64	91
Stock exchange contracts	905	654	1	1	2	–
Other forward interest rate transactions	1 986	2 263	87	84	125	312
	252 913	**287 245**	**9 402**	**15 446**	**8 780**	**14 535**
Currency risk						
Forward exchange contracts	23 545	16 521	219	200	240	186
Currency swaps and interest rate/currency swaps	33 311	43 492	668	989	429	1 103
Currency options						
Call	141	327	3	13	1	–
Put	142	309	1	–	3	9
Other currency transactions	–	144	–	–	–	–
	57 139	**60 793**	**891**	**1 202**	**673**	**1 298**
Share price and other price risks						
Share price and other price risks	290	149	167	5	1	–
Stock options						
Call	87	306	2	55	–	–
Put	7	258	–	–	1	26
Stock exchange contracts	51	51	–	1	1	1
	435	**764**	**169**	**61**	**3**	**27**
Credit risk						
Assignor	239	462	3	14	1	1
Assignee	4 577	5 251	10	4	65	168
	4 816	**5 713**	**13**	**18**	**66**	**169**
Total	**315 303**	**354 515**	**10 475**	**16 727**	**9 522**	**16 029**

The residual terms to maturity of the derivative financial instruments are shown below.

Nominal values (in € million)	Interest-rate risk 31 Dec. 2013	Interest-rate risk 31 Dec. 2012	Currency risk 31 Dec. 2013	Currency risk 31 Dec. 2012	Share price and other price risk 31 Dec. 2013	Share price and other price risk 31 Dec. 2012	Credit risk 31 Dec. 2013	Credit risk 31 Dec. 2012
Up to 3 months	25 491	27 880	20 934	14 665	85	51	61	640
More than 3 months up to 1 year	28 714	35 847	9 452	11 640	109	62	903	574
More than 1 year up to 5 years	91 805	106 282	16 253	20 862	234	643	3 429	3 790
More than 5 years	106 903	117 236	10 500	13 626	7	8	423	709
Total	**252 913**	**287 245**	**57 139**	**60 793**	**435**	**764**	**4 816**	**5 713**

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 31 Dec. 2013	Nominal values 31 Dec. 2012	Fair value positive 31 Dec. 2013	Fair value positive 31 Dec. 2012	Fair value negative 31 Dec. 2013	Fair value negative 31 Dec. 2012
Banks in the OECD	271 271	310 727	8 231	13 191	8 744	14 824
Banks outside the OECD	585	497	5	6	7	7
Public institutions in the OECD	7 380	7 670	283	439	122	123
Other counterparties (including stock exchange contracts)	36 067	35 621	1 956	3 091	649	1 075
Total	**315 303**	**354 515**	**10 475**	**16 727**	**9 522**	**16 029**

(65) Disclosures concerning selected countries

The table below shows, in contrast to the exposure in the risk report, the reported values of transactions relating to selected countries (including credit derivatives). The disclosures by country include regional governments, municipalities and state-related public-sector companies.

	Financial instruments held for trading		Financial instruments designated at fair value		Available for sale assets	
(in € million)	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Egypt						
Country	–	–	–	–	–	–
Financing institutes/insurance companies	–	–	–	–	–	–
Companies/other	–		–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**
Greece						
Country	–	–	–	–	–	–
Financing institutes/insurance companies	–	–	–	–	–	–
Companies/other	–	2	–	–	–	–
	–	**2**	**–**	**–**	**–**	**–**
Ireland						
Country	– 5	– 16	95	98	27	24
Financing institutes/insurance companies	– 14	– 19	5	11	238	378
Companies/other	11	28	–	–	2	2
	– 8	**– 7**	**100**	**109**	**267**	**404**
Italy						
Country	–	4	221	251	1 274	1 335
Financing institutes/insurance companies	– 5	– 41	–	–	832	1 327
Companies/other	2	3	–	–	43	45
	– 3	**– 34**	**221**	**251**	**2 149**	**2 707**
Portugal						
Country	– 19	– 31	–	–	164	159
Financing institutes/insurance companies	9	– 1	–	–	126	136
Companies/other	–	–	–	–	21	20
	– 10	**– 32**	**–**	**–**	**311**	**315**

	Financial instruments held for trading		Financial instruments designated at fair value		Available for sale assets	
(in € million)	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Slowenia						
Country	–	–	–	–	32	31
Financing institutes / insurance companies	–	–	–	–	–	–
Companies / other	–	–	–	–	–	–
	–	**–**	**–**	**–**	**32**	**31**
Spain						
Country	–	4	–	–	329	343
Financing institutes / insurance companies	33	7	–	–	1 586	1 631
Companies / other	7	9	–	–	30	36
	40	**20**	**–**	**–**	**1 945**	**2 010**
Hungary						
Country	– 1	– 2	–	–	189	203
Financing institutes / insurance companies	–	–	–	–	41	66
Companies / other	–	–	–	–	–	–
	– 1	**– 2**	**–**	**–**	**230**	**269**
Cyprus						
Country	–	–	–	–	–	–
Financing institutes / insurance companies	–	–	–	–	–	–
Companies / other	13	23	–	–	–	–
	13	**23**	**–**	**–**	**–**	**–**
Total	**31**	**– 30**	**321**	**360**	**4 934**	**5 736**

For financial instruments categorised as available for sale with acquisition costs totalling € 4,947 million (€ 5,678 million), the cumulative valuation of the selected countries reported in equity totals € 82 million (€ 53 million). In addition to this, depreciation of € 1 million (€ 2 million) was recognised in the income statement for the period.

	Loans and Receivables							
	Gross book value		Specific valuation allowances		General loan loss provisions		Fair value	
(in € million)	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Egypt								
Country	–	–	–	–	–	–	–	–
Financing institutes / insurance companies	9	11	–	–	–	–	9	10
Companies / other	–	–	–	–	–	–	–	–
	9	**11**	**–**	**–**	**–**	**–**	**9**	**10**
Greece								
Country	–	–	–	–	–	–	–	–
Financing institutes / insurance companies	–	–	–	–	–	–	–	–
Companies / other	229	244	21	15	5	1	188	168
	229	**244**	**21**	**15**	**5**	**1**	**188**	**168**
Ireland								
Country	–	–	–	–	–	–	–	–
Financing institutes / insurance companies	270	427	–	–	3	3	263	410
Companies / other	1 862	1 696	–	2	3	3	1 873	1 675
	2 132	**2 123**	**–**	**2**	**6**	**6**	**2 136**	**2 085**
Italy								
Country	–	18	–	–	–	–	–	18
Financing institutes / insurance companies	111	123	–	–	–	–	86	91
Companies / other	46	52	–	–	–	–	46	53
	157	**193**	**–**	**–**	**–**	**–**	**132**	**162**
Portugal								
Country	–	–	–	–	–	–	–	–
Financing institutes / insurance companies	12	12	–	–	1	1	12	12
Companies / other	35	78	–	–	–	–	35	78
	47	**90**	**–**	**–**	**1**	**1**	**47**	**90**

	Loans and Receivables							
	Gross book value		Specific valuation allowances		General loan loss provisions		Fair value	
(in € million)	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Slowenia								
Country	–	–	–	–	–	–	–	–
Financing institutes / insurance companies	25	25	–	–	–	–	25	24
Companies / other	–	–	–	–	–	–	–	–
	25	**25**	**–**	**–**	**–**	**–**	**25**	**24**
Spain								
Country	52	52	–	–	1	–	53	40
Financing institutes / insurance companies	125	135	–	–	1	–	123	131
Companies / other	442	459	44	34	1	–	425	462
	619	**646**	**44**	**34**	**3**	**–**	**601**	**633**
Hungary								
Country	–	–	–	–	–	–	–	–
Financing institutes / insurance companies	3	3	–	–	–	–	3	3
Companies / other	47	10	–	–	–	–	47	10
	50	**13**	**–**	**–**	**–**	**–**	**50**	**13**
Cyprus								
Country	–	–	–	–	–	–	–	–
Financing institutes / insurance companies	–	–	–	–	–	–	–	–
Companies / other	1 156	1 146	16	23	20	6	928	1 000
	1 156	**1 146**	**16**	**23**	**20**	**6**	**928**	**1 000**
Total	**4 424**	**4 491**	**81**	**74**	**35**	**14**	**4 116**	**4 185**

The nominal value of credit derivatives relating to the selected countries in the NORD/LB Group's portfolio is € 1,446 million (1,531 million). Of this, states account for € 495 million (€ 479 million), financing institutes / insurance companies for € 950 million (€ 1,051 million) and companies / others for € 1 million (€ 1 million). The Group acts as both a provider and recipient of collateral. The netted fair value of the credit derivatives is € –41 million (€ –118 million).

(66) Underlying transactions in effective hedges

Financial assets and liabilities which as underlying transactions are part of a hedge in accordance with IAS 39 continue to be reported together with unsecured transactions in the respective balance sheet items since the hedging transaction has no effect on the type of underlying transaction and its function. The balance sheet item for financial instruments (LaR and OL categories), otherwise reported at amortised cost, is adjusted by the change in fair value results in the hedged risk (in the fair value hedge portfolio by reporting the item in a separate balance sheet item). Financial instruments in the AfS category continue to be reported at their full fair value.

The financial assets and liabilities which are hedged underlying transactions in an effective micro fair hedge are shown below for information purposes:

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Assets			
Loans and advances to banks	1 016	1 259	– 19
Loans and advances to customers	7 333	7 354	–
Financial assets	12 868	14 486	– 11
Total	**21 217**	**23 099**	**– 8**
Liabilities			
Liabilities to banks	1 023	1 252	– 18
Liabilties to customers	8 802	9 831	– 10
Securitsed liabilities	10 863	12 785	– 15
Subordinated capital	849	883	– 4
Total	**21 537**	**24 751**	**– 13**

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. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Assets			
Loans and advances to customers	5 336	5 047	6
Financial assets	1 008	1 023	– 1
Total	**6 344**	**6 070**	**5**
Liabilities			
Securitised liabilities	14 342	18 220	– 21
Total	**14 342**	**18 220**	**– 21**

(67) Residual terms of financial liabilities

31 Dec. 2013 (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	22 510	7 978	6 332	13 711	10 266	60 797
Liabilties to customers	19 512	2 113	6 895	12 598	19 718	60 836
Securitsed liabilities	5 881	1 475	12 950	29 443	8 924	58 673
Financial liabilities at fair value through profit or loss (no derivatives)	91	82	556	2 854	10 882	14 465
Negative fair values from derivatives held for trading	110	275	824	2 460	2 343	6 012
Negative fair values from hedge accounting derivatives	106	147	404	1 612	1 151	3 420
Subordinated capital	3	17	524	1 945	2 992	5 481
Financial guarantees	3 496	30	18	659	925	5 128
Irrevocable credit commitments	2 426	248	719	6 736	437	10 566
Total	**55 135**	**12 365**	**29 222**	**72 018**	**57 638**	**225 378**

31 Dec. 2012 (in € million)	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
Liabilities to banks	23 594	14 903	5 630	13 653	10 197	67 977
Liabilties to customers	17 405	3 205	5 630	14 238	21 566	62 044
Securitsed liabilities	2 753	4 692	11 074	40 360	7 625	66 504
Financial liabilities at fair value through profit or loss (no derivatives)	134	35	594	4 790	7 750	13 303
Negative fair values from derivatives held for trading	333	426	1 520	5 099	4 349	11 727
Negative fair values from hedge accounting derivatives	106	122	535	2 175	1 851	4 789
Other liabilities (financial instruments only)	1	–	–	–	–	1
Subordinated capital	60	7	394	2 287	2 963	5 711
Financial guarantees	2 803	31	107	387	1 843	5 171
Irrevocable credit commitments	2 160	53	648	5 165	1 499	9 525
Total	**49 349**	**23 474**	**26 132**	**88 154**	**59 643**	**246 752**

The residual term for undiscounted financial liabilities is defined as the period between the balance sheet date and the contractual due date.

(68) NORD/LB Group as assignor and assignee

The following financial assets have been pledged as collateral for liabilities (carrying amounts):

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Loans and advances to banks	16 073	23 410	– 31
Loans and advances to customers	40 330	41 992	– 4
Financial assets at fair value through profit or loss	798	1 532	– 48
Financial assets	26 270	29 645	– 11
Total	**83 471**	**96 579**	**– 14**

Collateral has been provided for borrowing undertaken within the scope of genuine repos. Collateral has also been provided for refinancing funds for specific purposes, securities lending transactions, transactions with clearing brokers and stock exchange transactions.

Financial assets deposited as collateral for which the assignee has the contractual or customary right to sell or re-pledge the collateral amount to € 5,101 million (€ 22,303 million).

For the following liabilities assets were assigned as collateral to the amounts shown:

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Liabilities to banks	21 235	23 377	– 9
Liabilties to customers	8 956	10 584	– 15
Securitsed liabilities	20 956	25 206	– 17
Financial liabilities at fair value through profit or loss	8 462	13 813	– 39
Total	**59 609**	**72 980**	**– 18**

For collateral received in particular for repo and securities lending transactions which may be re-pledged or re-sold even if the assignor does not default, the fair value is € 2,702 million (€ 6,687 million).

Collateral which may be re-pledged or re-sold even if the assignor does not default was realised. The repayment obligation at current market value is € 206 million (€ 1,691 million).

Other Notes

(69) Equity management

Equity is managed for the Group in the parent company NORD/LB. 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 or were:

- Reported equity
- Total regulatory core capital ("core capital for solvency purposes")
- Regulatory eligible capital
- The "core tier 1 capital" in the sense of the EU Capital Adequacy Directive (EU-CRR) applicable from the start of 2014 with and without consideration of the transition rules applicable up to and including 2021 and
- until July/August 2013 the "core tier 1 capital" as defined by the European Banking Authority (EBA).

For part of these capital figures, target capital ratios are specified for the Group for which the numerator is the respective capital figure and the denominator is respective risk-weighted assets (RWA) in accordance with the German Solvency Regulation.

Legally-prescribed minimum capital ratios also apply. These are for total regulatory core capital 4.0 per cent to the end of 2013 and for regulatory capital 8.0 per cent until further notice. There are also individual capital-related requirements imposed by the EBA. With regard to core tier 1 capital as defined by the EBA, the EBA had since 30 June 2012 required of NORD/LB as one of the system-relevant banks in the EU that it maintains a minimum ratio of 9.0 per cent. Since July/August 2013 this requirement has been lifted. Instead the EBA expects that NORD/LB maintains a core tier 1 capital ratio in the sense of the EU-CRR of at least 7.0 per cent after the transition rules have expired.

In the year under review 2013 the core task of capital management lay in further optimising the capital structure and in the ongoing control of capital in order to achieve the internal target capital ratios and to permanently comply with the regulatory minimum capital ratios expected by the EBA.

At the start of 2014 the EU Capital Adequacy Directive (EU-CRR) will come into effect, transposing the so-called "Basel III" regulations into EU law. The EU Capital Adequacy Directive provides for a gradual and in part significant increase in regulatory minimum capital ratios for core tier 1 capital, total core capital and regulatory capital until 2019.

As a result greater requirements will also be placed on equity management in future. The most important capital figure, in terms of both regulatory laws and control within the Group, will be the core tier 1 capital in the sense of the EU Capital Adequacy Directive. In order to strengthen this, the capital structure of the Group will continue to be optimised.

In addition to this, within the scope of capital management, targets and forecasts are prepared for the relevant capital figures and the related capital ratios as required. Their actual and planned development is reported to management, the supervisory bodies, the owners of the bank and/or the EBA. If these calculations indicate any risk for the defined target capital ratios either adjustment measures are taken in terms of RWA or, with the agreement of the guarantors of the bank, procurement or optimisation measures will be taken for individual capital figures.

In 2012 and 2013 the bank maintained the regulatory minimum capital ratios at Group level at all times. The regulatory overall core tier 1 capital ratio (= core capital ratio for solvency purposes) and the regulatory capital ratio (= overall ratio) at the end of each year are reported in Note Regulatory Data Regulatory Data. The bank has exceeded the target set by the EBA of a core tier 1 capital ratio as defined by the EBA of at least 9.0 per cent for the period of 30 June 2012 to July/August 2013. The bank will meet hard core capital ratio in the sense of the EU-CRR expected by the EBA since the second half of 2013 after the expiry of the transition rules of at least 7.0 per cent after the transition rules have expired based on its capital planning.

(70) Regulatory data

The consolidated regulatory capital below was calculated in accordance with the regulations of the German Solvency Regulation.

(in € million)	31 Dec. 2013	31 Dec. 2012
Risk-weighted assets	**68 494**	**77 863**
Capital requirements for credit risk	4 933	5 693
Capital requirements for market risks	155	149
Capital requirements for operational risks	392	387
Capital requirements according to the SolvV	**5 480**	**6 229**

The following schedule shows the composition of regulatory equity for the group of institutes in accordance with §10 in conjunction with §10 a of the German Banking Act.

(in € million)	31 Dec. 2013	31 Dec. 2012
Paid-in capital	1 656	1 666
Further capital	10	10
Other reserves	5 387	5 356
Special item for general banking risks in accordance with § 340g of the German Commercial Code	1 497	1 466
Other capital with § 10 2a Nr. 10 KWG	823	954
Other components	– 111	– 92
Core capital	**9 262**	**9 360**
Deductions from core capital	– 1 150	– 909
Core capital for solvency reasons	**8 112**	**8 451**
Non-current subordinated liabilities	2 786	3 051
Participatory capital liabilities	60	193
Other components	3	– 10
Supplementary capital	**2 849**	**3 234**
Deductions from supplementary capital	– 1 150	– 909
Supplementary capital for solvency reasons	**1 700**	**2 325**
Modified available equity	**9 811**	**10 776**
Tier three capital	–	–
Eligible capital in accordance with § 10 of the German Banking Act	**9 811**	**10 776**

(in %)	31 Dec. 2013	31 Dec. 2012
Overall ratio according to § 2 Paragraph 6 of the German Solvency Regulation (SolvV)	14.32	13.84
Core capital ratio	11.84	10.85

(71) Foreign currency volume

As at 31 December 2013 and 31 December 2012 the NORD/LB Group had the following assets and liabilities in foreign currency:

(in € million)	USD	GBP	JPY	Other	Total 31 Dec. 2013	Total 31 Dec. 2012
Assets						
Loans and advances to banks	1 454	23	31	184	1 692	1 062
Loans and advances to customers	21 790	3 508	522	1 720	27 540	31 560
Risk provisioning	– 376	– 30	– 11	– 10	– 427	– 422
Financial assets at fair value through profit or loss	12 992	2 088	693	2 372	18 145	18 979
Financial assets	3 054	740	363	989	5 146	5 844
Other	190	11	32	127	360	668
Total	**39 104**	**6 340**	**1 630**	**5 382**	**52 456**	**57 691**
Liabilities						
Liabilities to banks	5 744	1 721	9	60	7 534	9 601
Liabilties to customers	2 398	182	5	396	2 981	2 749
Securitsed liabilities	3 678	6	887	1 301	5 872	6 643
Financial liabilities at fair value through profit or loss	23 714	3 560	912	3 016	31 202	31 996
Other	684	74	32	120	910	1 690
Total	**36 218**	**5 543**	**1 845**	**4 893**	**48 499**	**52 679**

Existing exchange rate risks are eliminated by concluding transactions with matching maturities.

(72) Longer-term assets and liabilities

For balance sheet items which include both current and longer-term assets and liabilities, the assets and liabilities which are to be realised or settled after more than twelve months are shown below.

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Assets			
Loans and advances to banks	16 949	17 672	– 4
Loans and advances to customers	84 145	96 540	– 13
Balancing items for financial instruments hedged in the fair value hedge portfolio	– 171	– 3	> 100
Assets held for trading	5 983	14 554	– 59
Loans and advances to banks reported at fair value	6	6	–
Loans and advances to customers reported at fair value	235	248	– 5
Financial assets reported at fair value	723	622	16
Positive fair values from hedge accounting derivatives	3 273	4 455	– 27
Financial assets classified as LaR	3 052	3 686	– 17
Financial assets classified as AfS	37 277	38 017	– 2
Other assets	34	37	– 8
Total	**151 506**	**175 834**	**– 14**
Liabilities			
Liabilities to banks	19 882	23 256	– 15
Liabilities to customers	28 105	34 489	– 19
Securitised liabilities	36 277	47 948	– 24
Balancing items for financial instruments hedged in the fair value hedge portfolio	228	837	– 73
Liabilities held for trading	5 353	10 179	– 47
Liabilities to banks reported at fair value	582	356	63
Liabilities to customers reported at fair value	4 988	4 759	5
Securitised liabilities reported at fair value	2 430	3 346	– 27
Subordinated capital reported at fair value	25	26	– 4
Negative fair values from hedge accounting derivatives	3 014	4 562	– 34
Provisions	1 812	1 724	5
Other liabilities	34	32	6
Subordinated capital	3 774	4 133	– 9
Total	**106 504**	**135 647**	**– 21**

(73) Lease agreements

The NORD/LB Group is the lessee in operating lease agreements.

With effect of 1 July 2013 NORD/LB concluded a service contract which included an operating lease agreement and pools the IT infrastructure services with one service provider. The contract, which runs to 30 June 2020, may be terminated extraordinarily from 2016 with effect of 30 June of any year and with a notice period of one year against payment of a staggered sales-related termination payment; it may also be terminated if there is a compelling reason. Price adjustments are possible due to higher or lower volumes and from October 2015 on an annual basis depending on the performance of a reference index. The contract does not include an option to extend or purchase or restrictions in the sense of IAS 17.35d(iii).

The Group's future minimum leasing lease payments from operating lease agreements are as follows:

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)[1]	Change (in %)
Future minimum leasing lease payments			
Up to 1 year	5	3	67
More than 1 year up to 5 years	20	8	> 100
More than 5 years	1	–	–
Total	**26**	**11**	**> 100**

In the year under review expenses relating to minimum lease payments from operating lease agreements totalled € 3 million (€ 1 million).

No finance lease agreements have been concluded with the NORD/LB Group as the lessee.

Lease agreements with the NORD/LB Group as the lessor are only of minor significance.

(74) Contingent liabilities and other obligations

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)[1]	Change (in %)
Contingent liabilities			
Liabilities from guarantees and other indemnity agreements	6 779	5 170	31
	6 779	**5 170**	**31**
Other obligations			
Irrevocable credit commitments	10 566	9 525	11
Total	**17 345**	**14 695**	**18**

Liabilities from guarantees and other indemnity agreements include credit guarantees, trade-related guarantees and contingent liabilities from other guarantees and indemnity agreements.

NORD/LB ensures that the following companies are able to meet their obligations:
Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover
NIEBA GmbH, Hanover
Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel/Luxembourg
NORD/LB Asset Management Holding GmbH, Hanover
NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel/Luxembourg
Skandifinanz AG, Zurich/Switzerland

Information on uncertainty concerning the amount or the timing of outflows of capital and on possible equalisation payments is not given for reasons of practicality.

(75) Other financial obligations

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

NORD/LB, together with Sparkassenverband Niedersachsen and Landesbank Berlin Holding AG, also acts as guarantor for LBS Norddeutsche Landesbausparkasse Berlin-Hannover.

In connection with the acquisition of Deutsche Hypothekenbank (Actien-Gesellschaft), the Group is obliged to reimburse Deutscher Sparkassen- and Giroverband e.V. as the guarantor of the security reserve for landesbanks and giro centres all expenditure including interest and interest lost for supporting measures which cannot be paid from the fund established for Deutsche Hypothekenbank in accordance with the agreement concluded between Deutscher Sparkassen- und Giroverband e.V and Deutsche Hypothekenbank AG on 19 December 2008.

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

Due to its investment in Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig, NORD/LB is liable to the effect that the limited partners have released the general partner from liability.

In a joint participating interest with other limited partners in Immobilien Development und Beteiligungsgesellschaft Niedersachsen mbH IDB & Co. Objekt Zietenterrassen KG, one limited partner has indemnified the general partner from liability. In the internal relationship the Group assumes 50 per cent of obligations that may result from this declaration of liability.

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

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

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 € 7 million (€ 11 million).

The Group is also obliged to make additional contributions up to an amount of € 135 million (€ 219 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.

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 € 2 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 € 64 million at year-end (€ 19 million).

In the course of normal business activities NORD/LB has provided security in the nominal amount of € 1,781 million in the form of securities.

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

The Group intends, in order ease the pressure on regulatory equity, to transfer part of the credit risk of a credit portfolio defined precisely by a finance guarantee ("PEGASUS") to an external third party. If the finance guarantee becomes effective as planned in 2014, this would result in a financial burden with charges of up to € 36 million incurred for 2014 and up to € 45 million per year for the remainder of the period of the guarantee.

A framework contract has been concluded with Wincor Nixdorf International GmbH, Paderborn, to regulate collaboration in the area of information technology. The contract, which bundles the IT infrastructure services with one service provider, commences with effect of 1 July 2013 and will run to 30 June 2020. The annual costs are volume-dependent; the value of the contract over the entire term is approx. € 200 million.

Obligations pertaining to existing rental and lease agreements are within the scope of standard business.

In accordance with the Restructuring Fund Regulation (Restrukturierungsfonds-Verordnung, RstruktFV), the Group has to pay a bank levy.

(76) Subordinated sssets

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. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Loans and advances to banks and customers	14	20	– 30
Financial assets at fair value through profit or loss	79	182	– 57
Financial assets	580	745	– 22
Total	**673**	**947**	**– 29**

(77) Trust activities

In compliance with IFRS regulations, trust activities are not shown in the consolidated balance sheet of the NORD/LB Group; however, they are present in the Group.

Trust activities are broken down as follows:

	31 Dec. 2013 (in € million)	31 Dec. 2012 (in € million)	Change (in %)
Assets held in trust			
Loans and advances to customers	65	75	– 13
Financial instruments at fair value through profit or loss	10	11	– 9
Other assets held in trust	55	67	– 18
Total	**130**	**153**	**– 15**
Liabilities held in trust			
Liabilities to banks	44	51	– 14
Liabilities to customers	31	34	– 9
Other liabilities held in trust	55	68	– 19
Total	**130**	**153**	**– 15**

Related Parties

(78) Number of employees

The average number of employees in the NORD/LB Group for the period under review is shown as follows:

	Male 1 Jan.– 31 Dec. 2013	Male 1 Jan.– 31 Dec. 2012	Female 1 Jan.– 31 Dec. 2013	Female 1 Jan.– 31 Dec. 2012	Total 1 Jan.– 31 Dec. 2013	Total 1 Jan.– 31 Dec. 2012
NORD/LB	2 101	2 096	2 190	2 175	4 291	4 271
Bremer Landesbank	569	548	575	576	1 144	1 124
NORD/LB Luxembourg	137	149	64	75	201	224
Deutsche Hypothenbank	237	242	173	178	410	420
ÖVBS	321	319	345	338	666	657
Other	145	209	201	102	346	311
Group	**3 510**	**3 563**	**3 548**	**3 444**	**7 058**	**7 007**

(79) Related parties

All the consolidated and unconsolidated subsidiaries, associated companies, joint ventures and subsidiaries of joint ventures qualify as related parties. The owners of NORD/LB, their subsidiaries and joint ventures and the provident funds and companies controlled by or under the joint management of related parties are also related parties of the NORD/LB Group.

Natural persons considered to be related parties in accordance with IAS 24 are the members of the Managing Board, the Supervisory Board and the committees of NORD/LB as the parent company and their close relatives.

Business transacted with related parties is concluded at standard market terms and conditions.

The scope of transactions conducted with related parties in 2012 and 2013, excluding those to be eliminated under consolidation, can be seen in the following statements:

31 Dec. 2013 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Affiliated companies	Persons in key positions	Other related parties
Assets						
Loans and advances to banks	**–**	**–**	**–**	**602**	**–**	**228**
of which: money market transcations	–	–	–	205	–	–
of which: loans	–	–	–	397	–	228
of which: public-sector loans	–	–	–	–	–	13
of which: other loans	–	–	–	397	–	215
Loans and advances to customers	**3 010**	**40**	**8**	**326**	**1**	**917**
of which: money market transcations	39	–	–	–	–	36
of which: loans	2 971	39	8	326	1	881
public-sector loans	2 915	–	–	16	–	820
mortage-backed loans	–	15	–	106	–	27
other loans	56	24	8	204	1	34
Financial assets at fair value through profit or loss	**270**	**–**	**–**	**48**	**–**	**91**
of which: Debt securities and other fixed-interest securities	215	–	–	–	–	–
of which: Positive fair values from derivatives	30	–	–	48	–	3
of which: Trading portfolio claims	24	–	–	–	–	88
Positive fair values from hedge accounting derivatives	**47**	**–**	**–**	**–**	**–**	**–**
Financial assets	**2 250**	**–**	**–**	**17**	**–**	**–**
of which: Debt securities and other fixed-interest securities	2 250	–	–	–	–	–
of which: Shares and other non fixed-interest securities	–	–	–	17	–	–
Total	**5 577**	**40**	**8**	**993**	**1**	**1 236**

31 Dec. 2013 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Affiliated companies	Persons in key positions	Other related parties
Liabilities						
Liabilities to banks	**–**	**–**	**–**	**452**	**–**	**118**
of which: money market transcations	–	–	–	–	–	53
of which: deposits from other banks	–	–	–	134	–	13
Liabilities to customers	**347**	**33**	**85**	**282**	**3**	**288**
of which: money market transcations	26	16	–	21	–	152
Securitsed liabilities	–	–	–	–	–	1
Financial liabilities at fair value through profit or loss	39	–	–	–	–	134
of which: negative fair values from derivatives	15	–	–	–	–	11
Negative fair values from hedge accounting derivatives	**9**	**–**	**–**	**–**	**–**	**–**
Subordinated capital	**1**	**496**	**3**	**–**	**–**	**15**
Total	**396**	**529**	**88**	**734**	**3**	**556**
Guarantees / sureties received	2 541	–	–	–	–	–
Guarantees / sureties granted	3 000	1	1	11	–	8

1 Jan.–31 Dec. 2013 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Affiliated companies	Persons in key positions	Other related parties
Interest expense	40	49	–	36	–	16
Interest income	160	3	1	38	–	42
Commission expense	18	–	–	–	–	–
Other income and expenses	– 136	–	–	– 13	– 5	13
Total	**– 34**	**– 46**	**1**	**– 11**	**– 5**	**39**

31 Dec. 2012 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Affiliated companies	Persons in key positions	Other related parties
Assets						
Loans and advances to banks	**–**	**–**	**–**	**936**	**–**	**256**
of which: money market transcations	–	–	–	115	–	–
of which: loans	–	–	–	821	–	256
of which: public-sector loans	–	–	–	–	–	53
of which: other loans	–	–	–	821	–	203
Loans and advances to customers	**2 778**	**54**	**34**	**235**	**2**	**403**
of which: money market transcations	–	–	–	–	–	53
of which: loans	2 778	54	34	217	1	350
public-sector loans	1 325	–	–	18	–	285
mortage-backed loans	1 394	23	18	106	1	28
other loans	59	31	16	93	–	37
Financial assets at fair value through profit or loss	**273**	**–**	**–**	**63**	**–**	**12**
of which: Debt securities and other fixed-interest securities	183	–	–	–	–	–
of which: Positive fair values from derivatives	79	–	–	53	–	–
of which: Trading portfolio claims	11	–	–	10	–	12
Positive fair values from hedge accounting derivatives	**69**	**–**	**–**	**–**	**–**	**–**
Financial assets	**2 287**	**–**	**–**	**–**	**–**	**–**
of which: Debt securities and other fixed-interest securities	2 287	–	–	–	–	–
of which: Shares and other non fixed-interest securities	–	–	–	–	–	–
Total	**5 407**	**54**	**34**	**1 234**	**2**	**671**

31 Dec. 2012 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Affiliated companies	Persons in key positions	Other related parties
Liabilities						
Loans and advances to customers	**–**	**–**	**–**	**472**	**–**	**128**
of which: deposits from other banks	–	–	–	158	–	16
Liabilities to customers	**260**	**33**	**120**	**101**	**3**	**296**
of which: money market transcations	45	23	–	21	–	30
Financial liabilities at fair value through profit or loss	**51**	**–**	**–**	**–**	**–**	**165**
of which: negative fair values from derivatives	27	–	–	–	–	16
Subordinated capital	**–**	**512**	**–**	**–**	**–**	**–**
Total	**311**	**545**	**120**	**573**	**3**	**589**
Guarantees / sureties received	4 194	–	–	5	–	–
Guarantees / sureties granted	5251	1	1	12	–	11

1 Jan.–31 Dec. 2012 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Affiliated companies	Persons in key positions	Other related parties
Interest expenses	45	76	–	29	–	18
Interest income	181	3	1	45	–	23
Commission expenses	24	–	–	–	–	–
Commission income	–	–	–	1	–	–
Other income and expenses	113	–	–	– 2	– 5	– 16
Total contributions to income	**225**	**– 73**	**1**	**15**	**– 5**	**– 11**

As at the balance sheet date there are allowances for loans and advances to associated companies in the amount of € 2 million (€ 2 million). Expenses for risk provisioning in the period under review total € 0 million (€ 1 million).

In the item guarantees and sureties received from companies with a significant influence, guarantees in the amount of € 2,000 million (€ 3,500 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 and sureties granted to companies with a significant influence, guarantees in the amount of € 3,000 million (€ 5,250 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 five years.

The table blow shows the maximum balances for NORD/LB transactions with related parties in the period under review and the previous year.

(in € million)	2013	2012
Assets		
Loans and advances to banks	1 037	1 192
Loans and advances to customers	4 302	3 726
Other unsettled assets	2 776	2 936
Total	**8 115**	**7 854**
Liabilities		
Liabilities to banks	575	791
Liabilties to customers	1 152	2 942
Other unsettled assets	723	1 515
Total	**2 450**	**5 248**
Guarantees and sureties received	4 194	4 225
Guarantees and sureties granted	5 271	5 332

The remuneration of persons in key positions is broken down as follows:

(in € million)	31 Dec. 2013	31 Dec. 2012
Employment-related payments due in the short term	5	4
Post-employment payments	1	1
Total remuneration	**6**	**5**

Total remuneration of and loans to governing bodies in accordance with commercial law are presented in Note (81) Remuneration of and Loans to Governing Bodies Remuneration of and Loans to Governing Bodies.

(80) Members of governing bodies and list of mandates

1. Members of the Managing Board

Dr. Gunter Dunkel
(Chairman)

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

Ulrike Brouzi

Eckhard Forst

Dr. Hinrich Holm

Christoph Schulz

Thomas Bürkle
(since 1 January 2014)

2. Members of the Supervisory Board

Peter-Jürgen Schneider (Chairman)
Minister of Finance, State of Lower Saxony
(since 19 February 2013)

Hartmut Möllring (Chairman)
(until 19 February 2013)

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

Norbert Dierkes
Chairman of the Managing Board,
Sparkasse Jerichower Land

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

Frank Hildebrandt
Bank employee,
NORD/LB Braunschweig

Martin Kind
Managing Director
KIND Hörgeräte GmbH & Co. KG

Frank Klingebiel
Mayor, City of Salzgitter

Prof. Dr. Susanne Knorre
Management consultant
(since 1 May 2013)

Ulrich Mädge
Mayor, City of Hansestadt Lüneburg

Antje Niewisch-Lennartz
Minister of Justice, State of Lower Saxony
(since 1 July 2013)

Heinrich von Nathusius
IFA ROTORION – Holding GmbH

Freddy Pedersen
ver.di Vereinte Dienstleistungsgewerkschaft

Jörg Reinbrecht
ver.di Vereinte Dienstleistungsgewerkschaft

Ilse Thonagel
Bank employee
Landesförderinstitut Mecklenburg-Western Pomerania

Mirja Viertelhaus-Koschig
Deputy Chairman of the Managing Board, VIEROL AG
(until 26 April 2013)

Klaus-Peter Wennemann
Management consultant
(until 30 June 2013)

As at 31 December 2013 the following mandates were held at large corporations by members of the Managing Board of the NORD/LB Group appointed at this time. Banks are treated as large corporations.

Name	Company
Dr. Gunter Dunkel	Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Continental AG, Hanover Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover Norddeutsche Landesbank Luxembourg S. A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S. A., Luxembourg-Findel
Dr. Johannes-Jörg Riegler	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Norddeutsche Landesbank Luxembourg S. A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S. A., Luxembourg-Findel LHI Leasing GmbH, Pullach
Ulrike Brouzi	NORD/LB Capital Management GmbH, Hanover Norddeutsche Landesbank Luxembourg S. A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S. A., Luxembourg-Findel NORD/LB Kapitalanlagegesellschaft AG, Hanover Salzgitter AG Stahl und Technologie, Salzgitter (since 7 May 2013)
Eckhard Forst	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co., Bremen Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover LHI Leasing GmbH, Pullach
Dr. Hinrich Holm	Lotto-Toto GmbH Sachsen-Anhalt, Magdeburg Investitionsbank Sachsen-Anhalt, Magdeburg LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Liquiditäts- und Konsortialbank GmbH, Frankfurt am Main NORD/LB Capital Management GmbH, Hanover NORD/LB Kapitalanlagegesellschaft AG, Hanover
Christoph Schulz	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Norddeutsche Landesbank Luxembourg S. A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S. A., Luxembourg-Findel Toto-Lotto Niedersachsen GmbH, Hanover

(81) Remuneration of and loans to governing bodies

(in € million)	31 Dec. 2013	31 Dec. 2012
Total emoluments paid to active members of governing bodies		
Managing Board	4	4
	4	**4**
Total emoluments paid to former members of governing bodies and their dependants		
Managing Board	4	4
	4	**4**
Advance payments, loans and contingencies		
Managing Board	1	1
Supervisory Board	–	1
	1	**2**

In 2013 commitments were made for remuneration which are not dependent on the occurrence or expiry of future conditions (€ 1 million).

Pension obligations to previous board members and their surviving dependants exist in the amount of € 52 million (€ 53 million).

(82) Group auditor's fees

(in € 000)	31 Dec. 2013	31 Dec. 2012
Group Auditor's Fees for		
the statutory audit	5 187	5 147
other audit-related services	2 098	2 431
tax services	–	–
other services	1 761	608

(83) Equity holdings

The list of equity holdings includes all of the companies includes in the consolidated financial statements, the non-consolidated companies, joint ventures, 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. The information provided on equity holdings is additional information in accordance with §315 a of the German Commercial Code. The previous year's figures are therefore not reported.

Company name and registered office	Shares (%) direct	Shares (%) indirect
a) Companies included in the consolidated financial statements		
aa) Subsidiaries included in the consolidated financial statements		
BLB Grundbesitz KG, Bremen	100.00	–
BLBI Investment GmbH & Co. KG, Bremen	100.00	–
BLB Immobilien GmbH, Bremen	100.00	–
BLB Leasing GmbH, Oldenburg	100.00	–
Braunschweig-Informationstechnologie-GmbH, Braunschweig	100.00	–
Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen	–	54.83
Bremische Grundstücks-GmbH, Bremen	100.00	–
Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover	–	100.00
KreditServices Nord GmbH, Braunschweig [2]	–	100.00
MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Pullach im Isartal	–	77.81
Nieba GmbH, Hanover [2]	–	100.00
Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel/Luxembourg	–	100.00
NORD/FM Norddeutsche Facility Management GmbH, Hanover [2]	–	100.00
NORD/LB Asset Management Holding GmbH, Hanover	–	100.00
NORD/LB Capital Management GmbH, Hanover	100.00	–
NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel/Luxembourg	100.00	–
NORD/LB G-MTN S.A., Luxembourg-Findel/Luxembourg	–	100.00
NORD/LB Kapitalanlagegesellschaft AG, Hanover	100.00	–
Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover [2]	–	100.00
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen	100.00	–
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	100.00	–
Öffentliche Facility Management GmbH, Braunschweig	100.00	–
Öffentliche Facility Management Leben GmbH & Co. KG, Braunschweig	100.00	–
Öffentliche Facility Management Sach GmbH & Co. KG, Braunschweig	100.00	–
Öffentliche Lebensversicherung Braunschweig, Braunschweig	–	75.00
Öffentliche Sachversicherung Braunschweig, Braunschweig	–	75.00
Skandifinanz AG, Zurich/Switzerland	100.00	–

Company name and registered office	Shares (%) direct	Shares (%) indirect
ab) Special Purpose Entities included in the consolidated financial statements		
Beteiligungs-Kommanditgesellschaft MS „Buxmelody“ Verwaltungs- und Bereederungs GmbH & Co., Buxtehude	–	–
DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Pullach im Isartal	–	–
Fürstenberg Capital Erste GmbH, Fürstenberg	–	–
Fürstenberg Capital II. GmbH, Fürstenberg	–	–
GEBAB Ocean Shipping II GmbH & Co. KG, Hamburg	–	–
GEBAB Ocean Shipping III GmbH & Co. KG, Hamburg	–	–
Hannover Funding Company LLC, Dover (Delaware) / USA	–	–
KMU Shipping Invest GmbH, Hamburg	–	–
MT „BALTIC CHAMPION“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MT „BALTIC COMMODORE“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MT „NORDIC SCORPIUS“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MT „NORDIC SOLAR“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MT „NORDIC STAR“ Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
NORD/LB Immobilien-Holding GmbH & Co. Objekt Magdeburg KG, Pullach im Isartal	–	–
„OLIVIA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
„OLYMPIA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
„PANDORA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
„PRIMAVERA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
„QUADRIGA“ Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
ac) Investment funds included in the consolidated financial statements		
NORD/LB AM 65	–	100.00
NORD/LB AM ALCO	–	100.00
NORD/LB AM OELB	100.00	–
NORD/LB AM OESB	100.00	–
ad) Companies / investment funds accounted for in the consolidated financial statements using the equity method		
Joint ventures		
LHI Leasing GmbH, Pullach im Isartal [5)]	43.00	6.00
Affiliated companies		
Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	32.26	–
BREBAU GmbH, Bremen	48.84	–
Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen	27.50	–
GSG Oldenburg Bau- und Wohngesellschaft mit beschränkter Haftung, Oldenburg	22.22	–
LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover	44.00	–
LINOVO Productions GmbH & Co. KG, Pöcking	–	45.17
NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hanover	–	28.66
SALEG Sachsen-Anhaltinische-Landesentwicklungsgesellschaft mbH, Magdeburg [6)]	–	56.61
Toto-Lotto Niedersachsen GmbH, Hanover	–	49.85
Investment funds		
Lazard-Sparkassen Rendite-Plus-Fonds	49.18	–

Company name and registered office	Share of capital held (in %)	Equity [1] (in € 000)	Profit/Loss (in € 000)
b) Companies not included in the consolidated financial statements with an equity capital of greater or equal +/– € 1 million			
BGG Oldenburg GmbH & Co. KG, Bremen [11]	100.00	7 815	910
Braunschweig-Beteiligungsgesellschaft mbH, Braunschweig [12]	100.00	8 597	0
Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [2] [11]	100.00	9 061	0
Deutsche Hypo Delaware Blocker Inc,, Wilmington (Delaware)/USA [12]	100.00	7 059	– 2 463
LHI Leasing GmbH & Co. Immobilien KG, Pullach im Isartal [12]	90.00	1 015	21
Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hanover [12]	100.00	15 290	22
NORD/LB RP Investments LLC, Wilmington (Delaware)/USA [12]	100.00	6 321	3 147
Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [2] [11]	98.00	3 088	0
Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen [12]	100.00	1 107	12
Themis 1 Inc., Wilmington (Delaware)/USA [12]	100.00	3 896	– 23
Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [12]	100.00	32 603	2 215
Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [2] [11]	100.00	1 278	0
Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hanover [10] [12]	72.70	– 3 186	523
Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Tiefgarage Stade Vermietungs KG, Hanover [10] [12]	90.00	– 2 834	18
c) Capital share of greater or equal 20 % in companies with an equity capital of greater or equal +/– € 1 million			
Joint ventures/affiliated companies/other			
Adler Funding LLC, Dover/USA [12]	21.88	5 800	9 802
Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [3]	49.00	–	–
Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [12]	50.00	4 500	415
Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [12]	20.89	15 488	192
Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [12]	20.44	12 625	760
Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [12]	20.46	10 854	688
Grundstücksgemeinschaft Escherweg 5 GbR, Bremen [11]	50.00	– 2 319	– 378
Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. – Objekt Zietenterrassen – KG, Göttingen [7] [12]	52.56	3 353	627
INI International Neuroscience Institute Hannover GmbH, Hanover [15]	22.70	– 11 857	– 726
LUNI Productions GmbH & Co. KG, Pöcking [4] [10] [12]	24.29	– 115 653	– 83
Medical Park Hannover GmbH, Hanover [12]	50.00	2 484	233
Medicis Nexus GmbH & Co. KG, Icking [8] [14]	66.01	9 224	720
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [12]	26.00	11 040	837
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover [12]	39.82	10 437	770
NBV Beteiligungs-GmbH, Hamburg [12]	42.66	19 862	2 211
Öffentliche Versicherung Bremen, Bremen [12]	20.00	6 020	60
USPF III Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf [13]	42.86	1 818	338
Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [12]	21.72	18 785	380

Company name and registered office	Share of capital held (in %)
d) Subsidiaries not included in the consolidated financial statements with an equity capital of greater or equal +/– € 1 million	
BGG Bremen GmbH & Co. KG, Bremen	100.00
BLBI Beteiligungs-GmbH, Bremen	100.00
Braunschweig Advisors GmbH, Braunschweig	100.00
Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig	100.00
Braunschweig Grundstücksentwicklungsgesellschaft mbH, Braunschweig	100.00
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen	100.00
Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn, Bremen	100.00
City Center Magdeburg Hasselbach-Passage Grundstücksgesellschaft mbH, Hanover	100.00
FL FINANZ-LEASING GmbH, Wiesbaden	58.00
Flying Sun Shipping Ltd., Valetta/Malta	100.00
General Partner N666DN GP, LLC, Wilmington (Delaware)/USA	100.00
IRC Verwaltung GmbH & Co. Objekt Nienburg KG, Pullach im Isartal	98.00
IRC Verwaltung GmbH & Co. Objekt Unterföhring KG, Pullach im Isartal	98.00
LBT Holding Corporation Inc., Wilmington (Delaware)/USA	100.00
NBN Grundstücks- und Verwaltungs-GmbH, Hanover	100.00
NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover	90.00
New Owner Participant – N666DN OP. L.P., Wilmington (Delaware)/USA	100.00
NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover	100.00
NORD/LB Beteiligungsgesellschaft in Mecklenburg-Vorpommern und Sachsen-Anhalt mbH, Hanover [2)]	100.00
NORD/LB Informationstechnologie GmbH, Hanover [2)]	100.00
NORD/LB Project Holding Ltd., London/Great Britain	100.00
N666DN L.P. LLC, Wilmington (Delaware)/USA	100.00
PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hanover	100.00
RAINBOW LS SHIPPING Ltd., Valetta/Malta	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) Due to the joint management, this company is classified as a joint venture.
6) Due to the "potential voting rights" of third parties, this company is classified as an affiliated company.
7) Due to the share in voting rights of 50.00 per cent, this company is not classified as a subsidiary.
8) Due to the rebuttal of the definition of control/significant influence, this company is allocated to other investments.
9) No disclosures relating to equity and earnings are made in accordance with §313 para. 2 no. 4 clause 3 of the German Commercial Code.
10) The company is not actually overindebted.
11) Provisional data as at 31 December 2013.
12) Data as at 31 Dec. 2012.
13) Data as at 30 Sep. 2012 (deviating fiscal year).
14) Data as at 31 Dec. 2011.
15) Data as at 31 Dec. 2010.

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.

OTHER INFORMATION

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.

Hannover / Braunschweig / Magdeburg, 18 March 2014

Norddeutsche Landesbank Girozentrale

The Managing Board

Dr. Dunkel	Brouzi	Bürkle
Forst	Dr. Holm	Schulz

AUDITOR'S REPORT

"We have audited the consolidated financial statements prepared by the Norddeutsche Landesbank – Girozentrale –, Hanover, Braunschweig and Magdeburg (NORD/LB), comprising the balance sheet, the income statement, the notes to the financial statements, the cash-flow statement and the statement of changes in equity, as well as the Group management report for the business year from 1 January to 31 December 2013. 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 § 315a Abs. 1 HGB (Handelsgesetzbuch "German Commercial Code") and the supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and the on Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (Handelsgesetzbuch "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). These standards require that we plan and conduct the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our report, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, and additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB as well as the supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hanover, 31 March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer
Wirtschaftsprüfer
[German Public Auditor]

Leitz
Wirtschaftsprüfer
[German Public Auditor]

FACTS AND DATA

Foundation

Norddeutschen Landesbank Girozentrale
founded by merger of 1 July 1970

Predecessors:

Herzogliches Leyhaus (founded 1765) since 1919
“Braunschweigische Staatsbank” (oldest predecessor)
Hannoversche Landeskreditanstalt (founded 1840)
Niedersächsische Landesbank – Girozentrale –
(founded 1917)
Niedersächsische Wohnungskreditanstalt Stadtschaft –
(founded 1918)

Legal Basis

State treaty of 22 August 2007 concluded between the federal states of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania on Norddeutsche Landesbank Girozentrale as amended by the state treaty of 12 July 2011 entered into force on 31 December 2011.

Statues of Norddeutsche Landesbank Girozentrale in accordance with resolutions taken at the Owners’ meeting on 9 December 2013. The statutes entered into force on 1 January 2014.

Legal Form

Institution incorporated under public law

Owners

State of Lower Saxony
Association of Savings Banks in Lower Saxony
State of Saxony-Anhalt
Savings Banks Holding Association in Saxony-Anhalt
Special Purpose Holding Association of Savings Banks in Mecklenburg-Western Pomerania

Executive Bodies

Managing Board
Owners’ meeting
Supervisory Board

Supervision

Supervised by the Minister of Finance of the State of Lower Saxony in consultation with the counterparts of the State of Saxony-Anhalt

Managing Board

Dr. Gunter Dunkel
(Chairman)

Ulrike Brouzi

Thomas S. Bürkle

Eckhard Forst

Dr. Hinrich Holm

Christoph Schulz

Executive Vice Presidents

Carsten Hüncken

Jürgen Machalett

Dr. Ulf Meier

Christoph Trestler

Headquarters

Hanover (Head quarters)
Friedrichswall 10
30159 Hanover

Braunschweig
Friedrich-Wilhelm-Platz
38100 Braunschweig

Magdeburg
Breiter Weg 7
39104 Magdeburg

Development Banks

Investitionsbank Sachsen-Anhalt
Domplatz 12
39104 Magdeburg

Landesförderinstitut Mecklenburg-Vorpommern
Werkstraße 213
19061 Schwerin

Branches

Hanover Branch
Georgsplatz 1
30159 Hanover

Düsseldorf Branch
Königsallee 63–65
40215 Düsseldorf

Hamburg Branch
Brodschrangen 4
20457 Hamburg

Magdeburg Branch
Landesbank für Sachsen-Anhalt
Breiter Weg 7
39104 Magdeburg

Munich Branch
Widenmayerstraße 15
80538 Munich

Schwerin Branch
Graf-Schack-Allee 10/10A
19053 Schwerin

Foreign Branches
(alphabetical)

NORD/LB London
One Wood Street
London EC2V 7WT
UK1

NORD/LB New York
1114, Avenue of the Americas
20th Floor
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
#16–00
OUB Downtown 2
Singapore 068809

Real Estate Office

NORD/LB New York
1114, Avenue of the Americas
20th Floor
New York, New York 10036

Representative Office

NORD/LB Moscow
Plotnikov per., 12, Office 114
119002 Moscow
Russian Federation

Deutsche Hypo

Georgsplatz 8
30159 Hanover

Deutsche Hypo – domestic branches

Goetheplatz 2
60311 Frankfurt

Brodschrangen 4
20457 Hamburg

Georgsplatz 8
30159 Hanover

Widenmayerstraße 15
80538 Munich

Karl-Grillenberger-Straße 3
90402 Nuremberg

Deutsche Hypo – foreign branches

UK
One Wood Street
London EC2V 7WT

The Netherlands
Strawinskylaan 625
Tower B, Level 6
1077 XX Amsterdam

France
23, Rue de la Paix
75002 Paris

Deutsche Hypo – Representative Office

Poland
Warsaw ul Chmielna 25
00-021 Warsawa

**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), Schlossarkaden
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
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), Langerfeld
Stöckheimer Markt 1, Stöckheim
Thiedestraße 24, Rüningen
Tostmannplatz 18, Schuntersiedlung
Waisenhausdamm 7
Weimarstraße 10–12, Heidberg
Welfenplatz 5, Südstadt

Büddenstedt
Wulfersdorfer Straße 10 (SB-Center)

Cremlingen
Am Dorfplatz 11 (SB-Center), Weddel
Im Moorbusche 7

Delligsen
Dr.-Jasper-Straße 56

Eschershausen
Steinweg 10

Fürstenberg
Neue Straße 2 (SB-Center)

Goslar
Talstraße 11a, Oker

Grasleben
Bahnhofstraße 2a

Groß Denkte
Mönchevahlbergstraße 5 (SB-Center)

Groß Twülpstedt
Conringstraße 5

Grünenplan
Obere Hilsstraße 3

Helmstedt
Gröpern 1
Max-Planck-Weg 7 (SB-Center)
Schöninger Straße 23
Vorsfelder Straße 52/54

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
Ringstraße 36
Goslarsche Straße 22b, (SB-Center), Astfeld

Lauenförde
Hasenstraße 1

Lehre
Berliner Straße 31

Lutter am Barenberge
Gerichtstraße 1b

Salzgitter
Berliner Straße 148, Lebenstedt
Burgbergstraße 48d, Lichtenberg
Fischzug 1 (SB-Center), Citytor
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
Jacobsonstraße 1
Kampstraße 43 (SB-Center)
Katelnburgstraße 17a, Rhüden
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

Winnigstedt
Hauptstraße 4 (SB-Center)

Wolfenbüttel
Bahnhofstraße 6, 6 a / Goslarsche Straße 2 (SB-Center)
Goslarsche Straße 14
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

Statement of holdings

Bremer Landesbank Kreditanstalt
Oldenburg Girozentrale
Domshof 26
28195 Bremen

Deutsche Hypothekenbank
(Actien-Gesellschaft)
Georgsplatz 8
30159 Hannover

Nieba GmbH*
Friedrichswall 10
30159 Hannover

* *with the investment holding*
DekaBank Dt. Girozentrale
Mainzer Landstraße 16
60325 Frankfurt am Main

NORD/LB Asset Management
Holding GmbH*
Prinzenstraße 12
30159 Hannover

* *with the subsidiary*
NORD/LB Asset Management AG
Prinzenstraße 12
30159 Hannover

NORD/LB Luxembourg S.A.*
7, rue Lou Hemmer
L-1748 Luxemburg-Findel
Luxemburg

* *with the subsidiary*
NORD/LB Covered Finance Bank S.A.
7, rue Lou Hemmer
L-1748 Luxemburg-Findel
Luxemburg

Nord-Ostdeutsche Bank-Beteiligungsgesellschaft mbH*
Friedrichswall 10
30159 Hannover

* *with the holdings*
LBS Norddeutsche
Landesbausparkasse
Berlin-Hannover
Kattenbrookstrift 33
30539 Hannover

LHI Leasing GmbH
Emil-Riedl-Weg 6
82049 Pullach i. Isartal

Öffentliche Sachversicherung Braunschweig
Öffentliche Lebensversicherung, Braunschweig
Theodor-Heuss-Straße 10
38122 Braunschweig

Toto Lotto Niedersachsen GmbH
Am TÜV 2+4
30519 Hannover

Supervisory Board
(As at 4 February 2014)

Chairman
Peter-Jürgen Schneider
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

Norbert Dierkes
Chairman of the Board of Management
Sparkasse Jerichower Land

Edda Döpke
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Ralf Dörries
Senior Vice President
NORD/LB Norddeutsche Landesbank Girozentrale

Hans-Heinrich Hahne
Chairman of the Board of Management
Sparkasse Schaumburg

Frank Hildebrandt
Bank Employee
NORD/LB Norddeutsche Landesbank Girozentrale

Martin Kind
Managing Director
KIND Hörgeräte GmbH & Co. KG

Frank Klingebiel
Mayor
City of Salzgitter

Prof. Dr. Susanne Knorre
Consultant
Hannover

Ulrich Mädge
Mayor
Hansestadt Lüneburg

Antje Niewisch-Lennartz
Minister of Justice
State of Lower Saxony

Freddy Pedersen
Deputy chairment
United Services Union
(ver.di – Vereinte Dienstleistungsgewerkschaft)

Jörg Reinbrecht
Representative
United Services Union
(ver.di – Vereinte Dienstleistungsgewerkschaft)

Ilse Thonagel
Bank employee
Landesförderinstitut Mecklenburg-Vorpommern

Heinrich von Nathusius
IFA Gruppe
Haldensleben

Owners' meeting
(As at 4 February 2014)

Chairman
Thomas Mang
President
Association of Savings Banks in Lower Saxony

First Deputy Chairman
Frank Berg
Chairman of the Board of Management
OstseeSparkasse Rostock

Second Deputy Chairman
Harri Reiche
County officer
Landkreis Burgenland

For the State of Lower Saxony
Ulrich Böckmann
Regierungsdirektor (Senior Counsellor)
Ministry of Finance
State of Lower Saxony

Frank Doods
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

Michael Richter
Undersecretary
Ministry of Finance
State of Saxony-Anhalt

Savings banks holding association in Saxony-Anhalt
Jürgen Kiehne
Chairman of the Board of Management
Sparkasse Burgenlandkreis

Special Purpose Holding Association of Savings Banks in Mecklenburg-Western Pomerania
Dr. Paul Krüger
Mayor
City of Neubrandenburg

For the Association of Savings Banks in Lower Saxony
Ludwig Momann
Chairman of the Board of Management
Sparkasse Emsland

GLOSSARY

Amortised cost
Amount at which financial assets or liabilities are measured on initial recognition less repayments, including or less accumulated amortisation of any discount or premium using the effective interest rate method and less any allowances for impairment.

Asset Backed Securities (ABS)
Tradable, interest-bearing securities whose interest payments and capital repayments are derived from and collateralised or backed by secured underlying financial assets.

Assets held for trading
Financial assets acquired for the purpose of selling in the near 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 other comprehensive income (OCI).

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 payable in the future or amounts of income tax 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
Price that would be recieved to sell an asset or paid to transfer a liability in an oderly transaction between market perticipants at the measurement date.

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 exposes a company 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 (for 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 incured for the purpose of repurchasing in the near 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.

Other financial Liabilities (OL)
All the financial liabilities which are not held for trading or which are not designated at fair value through profit or loss through exercising the fair value option. These liabilities are measured at amortised cost.

Rating
Standardised evaluation of the creditworthiness of securities or borrowers carried out in a detailed internal risk assessment (internal rating) or by an independent rating agency (external rating).

Securitisation
In securitisation, receivables are pooled and possibly transferred to a special purpose entity which is refinanced through issuing securities.

Stress testing
Method which attempts to model the effects of extraordinary, but possibly feasible events.

Unexpected loss
Dimension to quantify risk as a potential deviation of potential future loss from expected loss, the potential future loss being dependent on the confidence level.

Value-at-risk
Value-at-risk (VaR) is the potential future loss which is not exceeded in a specific period and at a specific confidence level.

Volatility
Dimension to measure fluctuations (e.g. exchange rate fluctuations for securities or currencies). A higher degree of volatility shows wider fluctuations in the observation period and infers that risk may be higher in future.

NOTES DIRECTORY

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We would like to thank all our colleagues of NORD/LB Group providing their photos for this report.

Financial calendar 2014:

29 April 2014	Release of results as at 31 December 2013
27 May 2014	Release of results as at 31 March 2014
28 August 2014	Release of results as at 30 June 2014
27 November 2014	Release of results as at 30 September 2014

NORD/LB

Die norddeutsche Art.

RESPONSIBLE
BANKING

NORD/LB
Norddeutsche Landesbank Girozentrale

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