Annual Report 2011

Norddeutsche Landesbank Girozentrale
(Anstalt öffentlichen Rechts)

Finanzgruppe

Die norddeutsche Art.

NORD/LB at a glance

In € million	1 Jan. – 31 Dec. 2011	1 Jan. – 31 Dec. 2010	Change (in %)
Net interest income	1 302	1 291	1
Net commission income	167	199	– 16
Net income from trading portfolio	– 23	21	> 100
Administrative expenses	– 730	– 700	4
Other operating profit / loss	– 65	– 10	> 100
Operating result before loan loss provisions and valuation	**651**	**801**	**– 19**
Result of evaluation of receivables, securities and investments	– 200	– 389	49
Assumption of investment losses	– 42	– 5	> 100
Allocation to funds for general banking risks	– 100	– 30	> 100
Operating result after loan loss provisions and valuation	**309**	**377**	**– 18**
Extraordinary result	– 18	– 8	> 100
Partial profit transfer	– 160	– 157	2
Tax income	– 22	– 114	– 81
Profit for the year before appropriation of earnings	**109**	**98**	**11**

Balance figures in € million	31 Dec. 2011	31 Dec. 2010	Change (in %)
Total assets	148 308	150 792	– 2
Liabilities to customers	67 357	65 512	3
Loans and advances to customers	42 763	40 737	5
Equity	6 789	5 916	15
Regulatory key figures			
Core capital for solvency reasons in € million	7 173	6 452	11
Regulatory equity in € million	8 835	8 363	6
Total capital ratio in %	16,0	14,3	–

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

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

Declaration of Norddeutsche Landesbank Girozentrale on the German Corporate Governance Code

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

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

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

Managing Board

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

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

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

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

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

Supervisory Board

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

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

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

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

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

Owners' Meeting
The bank's guarantors, and therefore its owners, are the State of Lower Saxony, the State of Saxony-Anhalt, the Lower Saxony Savings Banks and Giro Association (Niedersächsische Sparkassen- und Giroverband – NSGV), the Saxony-Anhalt Savings Banks Holding Association (Sparkassenbeteiligungsverband Sachsen-Anhalt – SBV) and the Special Purpose Holding Association of the Mecklenburg-Western Pomerania Savings Banks (Sparkassenbeteiligungszweckverband Mecklenburg-Vorpommern – SZV). Each owner may appoint up to two representatives to attend the Owners' Meeting. Voting rights are exercised according to the share held in the capital of the bank. The representatives of each individual owner must cast their votes in the same way. Members of the Managing Board of the bank participate in the meetings in an advisory capacity at the invitation of the Chairman of the Owners' Meeting. The Owners' Meeting adopts resolutions concerning matters of fundamental importance, in particular those referring to a change to the statutes, any matters pertaining to the capital and other equity, the general principles of the business policy, the entry of other legal persons under public law into the bank, the entering of shareholdings in such institutions or the merger of the bank with other public-law credit institutions, the conversion of the bank into a joint-stock company or another legal form. Moreover, the Owners' Meeting adopts resolutions relating to the appropriation of profit, discharge of the Managing Board and the Supervisory Board, remuneration of the members of the Supervisory Board, the committees and advisory boards and on all other matters for which it is allocated responsibility in the statutes.

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

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Content

Business Activities and the General Environment

(Previous year figures for the 2010 accounting period or as at 31 December 2010 are shown in brackets)

Economic Development

Germany

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

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

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

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

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

General Economic Development in Foreign Markets

USA

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

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

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

Asia

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

Financial Markets

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

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

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

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

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

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

The most important share markets were also affected by the national debt crises on either side of the Atlantic by mid-2011. However, the prospect of a slowdown in global growth also played a role here. The leading German share index DAX fell from its high of more than 7500 points recorded in May to 5 000 points for a period in the summer. Even though the DAX gradually recovered from these lows, its annual performance was negative, as it was for most other international share indices.

NORD/LB Norddeutsche Landesbank Girozentrale

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

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

The share capital amounts to € 1 493 896 250, with the federal state of Lower Saxony holding 56.03 per cent (of which 28.39 per cent is held in trust for the state-owned Hannoversche Beteiligungsgesellschafft mbH), the federal state of Saxony-Anhalt 6.00 per cent, the SVN 28.36 per cent, the Holding Association of the Savings Banks of Saxony-Anhalt 5.68 per cent and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania 3.94 per cent.

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

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

NORD/LB operates in the following segments:
- Private and Commercial Customers
- Savings Bank Network
- Financial Markets/Institutional Customers
- Corporate Customers
- Energy and Infrastructure Customers
- Ship and Aircraft Customers
- Real Estate Banking Customers.

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

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

Control Systems

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

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

Personnel Report

As at 31 December 2011 a total of 4523 people were employed by NORD/LB. The number of employees has therefore risen compared to the previous year by approximately 1.3 per cent.

The fluctuation rate rose from to 2.1 to 3.7 per cent and the illness rate from 4.4 to 4.8 per cent.

The proportion of female employees in Germany rose from 51.2 per cent to 51.7 per cent, and the proportion of female employees in managerial positions rose from 19.8 per cent to 20.3 per cent.

The number of apprentices increased in the year under review from 187 to 222 as at 31 December 2011. Due to twice the number of pupils completing their “Abitur” (university-entrance diploma) in Lower Saxony, with 106 apprenticeship contracts, many more apprentices were taken on than in previous years in order to secure qualified young talent for the bank and at the same time to help overcome the increased demand for apprenticeships in Lower Saxony.

NORD/LB Structural Data

Reporting date	31 December 2011	Of which female	Female (in %)	31 December 2010	Of which female	Female (in %)
Non-tariff employees	1 365	352	25,8	1 315	321	24,4
Tariff employees	2 570	1 677	65,3	2 597	1 678	64,6
Trainees and apprentices	260	140	53,8	228	117	51,3
Abroad	265	114	43,0	252	110	43,7
Other	63	33	52,4	71	38	53,5
Employees total	**4 523**	**2 316**	**51,2**	**4 463**	**2 264**	**50,7**

Employee Development

With the migration to OS-Plus as the IT solution for the entire bank, NORD/LB overcame the biggest project in the bank’s history in 2010 and 2011. The associated training and qualification measures, with over 450 training events in 2011, was unprecedented and a milestone in employee development in 2011. The basic offering of seminars and training courses for the professional and personal development of employees remained largely stable compared to the previous year.

Due to the particularly great demand for managers in Braunschweigische Landessparkasse, management development was stepped up in 2011, with for example the new “Aus dem Bereich für den Bereich” (From the department for the department) training programme.

A third pillar was added to the career development programmes for managers and experts for the first time in 2011: the Programme for Project / Programme Managers got underway with a pilot project. The career development of women, particularly in management positions, was essentially supported by NORD/LB’s mentoring programmes.

The High Potential Programme “JuLia” also continued with success in 2011; this has the goal of developing selected key personnel of the bank and placing them in target positions in the bank with an eye to the future.

NORD/LB's Earnings Position

The profit for the period is broken down as follows:

	2011 (in € million)	2010 (in € million)	Change (in %)
Net interest income	1 302	1 291	1
Net commission income	167	199	– 16
Net income from trading activities	– 23	21	> 100
Administrative expenses	– 730	– 700	4
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Tax income	– 22	– 114	– 81
Profit for the year before appropriation of earnings	**109**	**98**	**11**

While the most important earnings component, net interest income, remains at a constantly high level and even increased compared to the previous year by 1 per cent, net commission income and earnings from financial transactions in the trading portfolio fell. In accordance with § 340e of the German Commercial Code (HGB), € 25 million was taken from the fund for general banking risk in order to partially make up for the net expenses in the trading portfolio. The increase in administrative expenses and the fall in other profit/loss also contributed to the operating result before loan loss provisions and valuation falling by 19 per cent to € 651 million.

On the other hand, the risk situation has improved again slightly in the past financial year 2011. The operating result after loan loss provisions and valuation is at € 309 million 18 per cent below the previous year's figure.

After taking account of the negative extraordinary earnings of € 18 million, the 2 per cent rise compared to the previous year in the partial profit transfer to silent participations to € 160 million and the tax expenditure of € 22 million (€ 114 million), a profit for the period before the appropriation of earnings of € 109 million (€ 98 million) remains.

Net interest income is broken down as follows:

	2011 (in € million)	2010 (in € million)	Change (in %)
Interest income from			
Lending and money market transactions	3 233	3 346	– 3
Fixed-income and book entry securities	910	868	5
Current income from trading portfolio	1 932	1 315	47
	6 075	**5 529**	**10**
Interest for liabilities to			
banks	776	760	2
non-banks	1 042	1 039	0
Securitised liabilities	1 349	1 514	– 11
Current expense from trading portfolio	1 944	1 358	43
	5 111	**4 671**	**9**
Remaining interest and similar expenses	192	353	– 46
	1 156	**1 211**	**– 5**
Current income from shares and other variable-yield securities, investments and shares in affiliated companies	130	70	86
Income from profit pooling, profit transfer and partial profit transfer agreements	16	10	60
Net interest income	**1 302**	**1 291**	**1**

The balance of interest income and interest expense fell compared to the previous year by 5 per cent. While higher interest payments were achieved for fixed-interest securities, debt register claims and trading book derivatives, earnings from traditional interest business have fallen slightly. The remaining interest and similar income include in particular the earnings from interest-rate swaps, which fell compared to the previous year by € 152 million to € 370 million.

Current income from shares and other variable-yield securities, investments and shares in affiliated companies rose by 86 per cent. This positive development is largely attributable to higher earnings from the investments and here in particular the investment in NORD/LB Luxembourg.

Commission income fell compared to the previous year by 16 per cent. Commission income of € 233 million (€ 248 million) was seen alongside a commission expense of € 66 million (€ 49 million). The bank mainly generates commission income from lending business € 75 million (€ 80 million), from payment transactions € 33 million (€ 31 million), from securities transactions € 28 million (€ 25 million) and brokering € 23 million (€ 21 million). Commission expenses essentially result from lending business € 24 million (€ 8 million) and securities business € 19 million (€ 18 million).

The uncertainty in financial markets is reflected in earnings from financial transactions in the trading portfolio. Unlike in the previous year, the contribution of financial transactions to the annual profit was negative.

Administrative expenses rose to € 730 million (€ 700 million), with wages and salaries increasing due to the increase in the number of employees by € 12 million to € 282 million (€ 270 million). Social contributions rose by € 4 million to € 39 million. The interest portion of the allocation to pension and other personnel provisions in the amount of € 49 million (€ 50 million) is not reported in administrative expenses, but in other profit/loss. Other administrative expenses fell by € 14 million to € 343 million, while depreciation of intangible assets and property and equipment rose to € 33 million (€ 20 million).

Other profit/loss fell by € 55 million. The annual contribution to the restructuring fund for banks included in this item amounts to € 28 million.

The valuation result is the difference between the depreciation and impairment of investments, shares in affiliated companies and the securities treated as fixed assets in the amount of € 224 million on the one hand and the income from write-ups of receivables and certain securities and loan loss provisions in the amount of € 24 million on the other. There were special debit items in the past financial year due to write-offs in the amount of € 143 million in the investment portfolio and in the amount of € 97 million in securities in fixed assets. The comparatively high write-off requirement for securities in fixed assets is due in particular to the provision that was made in relation to the national debt crisis for the commitment in Greece. The income in the write-up relates among other things to the reversal of the provision reserve in accordance with § 340f HGB in the amount of € 100 million. At the same time the special item was increased in 2011 in accordance with § 340g HGB by € 100 million to protect against general banking risks.

The extraordinary earnings comprise solely the transition effects relating to the initial application of the German Accounting Law Modernisation Act (BilMoG), which are allocated on a straight-line basis over 15 years.

NORD/LB closed the financial year 2011 with a profit of € 109 million. The previous year's profit of € 98 million was therefore exceeded by 11 per cent.

NORD/LB Assets

The following overview shows the condensed balance sheet items as at 31 December 2011 alongside the figures for the previous year.

	2011 (in € million)	2010 (in € million)	Change (in %)
Assets			
Loans and advances to banks	28 959	31 490	– 8
Loans and advances to customers	67 357	65 512	3
Securities	32 452	35 898	– 10
Trading portfolio	9 348	7 595	23
Investment property and shares in affiliated companies	2 175	2 646	– 18
Other assets	8 017	7 651	5
Total assets	**148 308**	**150 792**	**– 2**
Liabilities			
Liabilities to banks	37 265	41 214	– 10
Liabilities to customers	42 763	40 737	5
Securitised liabilities	44 074	48 584	– 9
Trading portfolio	4 020	1 635	> 100
Provisions	1 213	1 172	3
Participatory capital and subordinated liabilities	2 817	3 105	– 9
Bank's own funds	6 789	5 916	15
Other liabilities	9 367	8 429	11
Total liabilities	**148 308**	**150 792**	**– 2**
Balance sheet data			
Contingent liabilities	8 466	8 600	– 2
Other obligations	6 849	8 140	– 16
Business volume	**163 623**	**167 532**	**– 2**

Total assets fell by 2 per cent compared to the previous year to € 148 billion. The assets side is again defined by lending business. In spite of opposing developments in individual balance sheet items, the structure on the assets side has not changed significantly. Loans and advances to customers are still the largest individual item as in previous years. As a result of an increase of 3 per cent which is explained in particular by an increase in municipal loans, loans and advances to customers now represent 45 per cent (43 per cent) of total assets. However, loans and advances to banks have recorded a fall of 8 per cent, which reflects a fall in interbank business.

Due to the reduction in bonds and debt securities, the security portfolio's share in total assets has fallen to 22 per cent (24 per cent).

On the liabilities side, significant reductions have been recorded in both liabilities to banks and securitised liabilities. In particular short to medium-term liabilities to banks were reduced. Despite the reduction in refinancing by means of covered bonds and money market instruments, securitised liabilities remained the largest item on the liabilities side with a share of 30 per cent (32 per cent).

NORDL/LB initiated a capital-boosting programme together with its owners in 2011. The original aim of the programme was to generate hard core capital in the Group to a level that would satisfy the requirements of the EU-wide bank stress test announced in July 2011. This target was achieved in full by the end of 2011 with the conversion of silent participations and other capital instruments and an increase in cash capital in the total amount of approx. € 1.7 billion. This is reflected in an increase in the bank's own funds of 15 per cent. The own funds ratio as at the reporting date was 4.6 per cent (3.9 per cent).

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

As at 31 December 2011, the regulatory capital amounted to € 8.835 billion (previous year € 8.363 billion), of which € 7.173 billion related to core capital (previous year € 6.452 billion). The own funds ratio (= total ratio) makes up 16.0 per cent of risk-weighted assets against 14.3 per cent in the previous year.

Development of the Business Segments

(in € million)	Private and Commercial Customers	Savings Bank Network	Financial Markets/ Institutional Customers	Corporate Customers	Energy and Infrastructure Customers	Ships and Aircraft Customers	Real Estate Banking Customers	Investments/ Others	Operating income	Reconciliation of income statement	Income statement
Operating result after loan loss provisions and valuation	42	35	151	131	82	174	65	– 370	309	–	309
for the previous year	41	12	273	91	75	219	58	– 392	377	–	377
CIR	78 %	59 %	28 %	23 %	29 %	11 %	16 %	–	53 %	–	53 %
CIR for the previous year	79 %	63 %	23 %	23 %	22 %	9 %	21 %	–	47 %	–	47 %
RoRaC/RoE	23 %	56 %	25 %	38 %	30 %	15 %	16 %	–	3 %	–	3 %
RoRaC/RoE for the previous year	21 %	17 %	34 %	23 %	23 %	17 %	12 %	–	6 %	–	6 %

CIR = administrative expenses/(Total earnings incl. net profit/loss other)
RoRaC business segments = Earnings after loan loss provisions / valuation / capital employed
RoE entire bank = Earnings after loan loss provisions / valuation less extraordinary earnings plus interest expenses for silent participations / long-term equity under commercial law

In 2011 CIR decreased by 6 percentage points to 53 per cent compared to the previous year's level. This is due to increased administrative expenses and lower earnings. Apart from the significantly fallen trading profit previous year's positive net commission income could not be achieved anymore. Furthermore the bank levy had to be paid for the first time.

To identify the capital employed within the business segments a capital base of 5 per cent of the risk-weighted assets (RWA) is required.

To calculate the RoRaC within the business segments the earnings after loan loss provisions and valuation are divided by the capital employed (here 5 per cent of the higher amount from RWA limit resp. its usage). Concerning NORD/LB Group the calculation of the return on equity (RoE) is in line with international standards.

2011's RoE is at 3 per cent and therefore below the previous year's figure due to the rise in nominal capital and the less profit for the year.

Private and Commercial Customers

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

Braunschweigische Landessparkasse is a sales savings bank with approximately 400 000 customers and an extensive presence. As an integral part of NORD/LB it also has direct access to the full range of a major international bank. As a member of the savings bank financial group it also has access to its range of services. Based on its current market leadership position, its strategic goal of quality leadership in consulting and service was pursued systematically in 2011.

In the private customer business the main emphasis of sales in the past year was on gaining deposits. For this purpose at the start of the year 12-month fixed-rate savings accounts were offered with special attractive conditions. In this two-month campaign € 43 million worth of deposits were acquired. In 2010 the anniversary product "1765" launched the countdown to the Landessparkasse's 250th birthday on 9 March 2015. In 2011 this countdown continued successfully with the "Geburtstags-Privatkredit" (Birthday Personal Loan) campaign, which generated assets of € 19 million. Overall the amount of assets relating to personal loans rose by 4 per cent.

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

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

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

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

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

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

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

The result in the Private and Commercial Customers segment was slightly up on the previous year. In particular an increase of € 4 million in income from services and trading transactions contributed to this.

The positive development in deposit business continued with low interest rates in 2011, making up for a fall in earnings in lending business. Overall net interest income is slightly up on the previous year.

In the past year a more relaxed risk situation also resulted in an impairment requirement of only € 1 million (€ 4 million).

The increase in sales activities resulted in particular in an increase in staff expenses of € 6 million in the year under review compared to 2010.

With less equity employed, the RoRaC rose to 23 per cent due to the higher reported earnings. The CIR is at 79 per cent at the previous year's level.

Savings Bank Network

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

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

Syndicate Business

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

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

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

Municipal Business

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

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

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

Promotional Business

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

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

Institutional Savings Bank Business

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

Savings Bank's Private Customer Business

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

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

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

Compared to the previous year, the performance of the savings bank network has been very pleasing. The contribution to the operating result after loan loss provisions increased significantly by € 35 million (€ 12 million) due to an improved earnings and risk position.

Earnings in NORD/LB's savings bank network totalled € 72 million (€ 67 million). Compared to the previous year significant increases were achieved in particular in the income from services in the savings bank syndicate business and in the trading profit of the institutional savings bank business.

Due to the improved risk situation, the loan loss provisions in the savings bank syndicate business were reversed in the amount of € 6 million (in the previous year allocation in the amount of € 13 million).

Due to the positive development in earnings and at the same time a reduced equity commitment, the RoRaC rose significantly from 17 per cent to 56 per cent. The almost constant operating costs in the amount of € 42 million resulted in an improved CIR of 59 per cent (63 per cent).

Financial Markets / Institutional Customers

Corporate Sales

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

Markets

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

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

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

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

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

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

Portfolio Investments

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

Treasury

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

In the past financial year the Financial Markets division was unable to repeat previous year's positive development. The contribution to the operating result after loan loss provisions fell by € 122 million. This development is primarily attributable to a significant increase in loan loss provisions and a fall in interest income and trading profit. In particular due to the euro crisis and the precautionary increase in risk protection for Greece commitments, an increased impairment was necessary. Loan loss provisions rose from € 42 million to € 121 million.

In interest income the previous year's very good earnings from transformations in interest and liquidity control was not maintained due to the effects of the financial market crisis. The trading divisions were also heavily affected by the market turbulence. The further reduction in the portfolio in the area of credit investment in 2011 resulted in an additional fall in interest income and trading profit. The fall in earnings was largely compensated by successful countermeasures. Overall, the division achieved earnings of € 375 million, which compared to the previous year equates to a fall of 8 per cent.

Compared to the previous year, operating costs rose by € 11 million. This is primarily attributable to investments in the area of liquidity management. As a result the CIR rose from 23 per cent to 28 per cent. Due to the restrained development in earnings, the RoRaC fell despite at the same time a reduced equity commitment from 34 per cent to 23 per cent.

Corporate Customers

The Corporate Customers segment comprises the special financing segments of agricultural banking and housing in addition to business transacted with middle-market corporate customers primarily in Northern Germany (excluding the business of Braunschweigische Landessparkasse and Bremer Landesbank).

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

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

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

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

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

The Corporate Customers business concluded another successful year with a contribution to the operating result of € 131 million. Interest income continued to develop positively and improved compared to the previous year by 5 per cent to € 167 million. New business activities bore fruit in the lending business and were reflected in increased volumes. Deposit business also benefited from volume increases, accompanied by improvements in margins.

Commission income increased compared to the previous year by 18 per cent to € 19 million due to an increase in income relating to fees for advisory services and in particular to product specialists. Corporate Customers business also benefited from an increase in commission income from securities business.

In the fourth quarter of 2011 in particular the Corporate Customers business was able to generate a greatly improved trading profit of € 12 million. Residential housing contributed to one third of this trading profit.

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

Despite the significant absolute increase in income, the very good CIR remained at 23 per cent as the comparatively low operating costs rose at the same relative rate. Based on the high-value credit portfolio, the RoRaC reached a very pleasing 38 per cent in 2011.

Energy and Infrastructure Customers

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

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

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

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

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

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

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

Overall the segment increased its contribution to the operating result by € 7 million to € 82 million. Due to the modest level of new business and high funding costs, interest income remained below expectations and fell compared to the previous year by 18 per cent. The previous year's high profit from services and trading was maintained.

Investment in this business segment resulted in an increase in operating costs of € 5 million to € 39 million. The loan loss provisions were reduced significantly compared to the previous year by € 31 million.

The overall development of the income items resulted in the RoRac exceeding the previous year's high level at 30 per cent (23 per cent). The CIR remains at 29 per cent (22 per cent) at a low level.

Ship and Aircraft Customers

Ship Financing

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

The situation remained tense for carriers of bulk goods. The strong imbalance between tonnage growth and demand continued, which in turn had a negative impact in particular on the value of ships.

Activities in 2011 therefore focused on supporting existing customers. NORD/LB supported its customers in particular with follow-up financing or the extension of existing financing, whereby the difficult conditions were taken into account with active risk management.

Intensive portfolio monitoring and control is therefore an important component of this focus.

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

The fall in business volume due to the moderate level of new business was almost compensated for by a risk-adequate increase in the credit margin in various credit commitments, with the result that interest income remained virtually constant. Income from services remained strong despite falling by € – 7 million; this fall reflects in particular charges which were agreed within the scope of restructuring. The loan loss provision was increased by € 26 million in 2011 and remains at a high level due to the international crises.

Aircraft Financing

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

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

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

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

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

Credit volumes and the average margin were increased in the area of aircraft financing and resulted in an increase in interest income of € 4 million. Income from services remained at a high level and was virtually unchanged compared to the previous year. The trading profit fell by € 4 million compared to the previous year. Lending focused on conservative lending against collateral proved to be successful, and as a result there was again no need for loan loss provision measures.

Overall shipping and aircraft financing was unable to maintain its previous year's earnings; earnings fell compared to the previous year by € 45 million to € 174 million. In addition to an increase in the loan loss provision of € 29 million, the fall in profit from services and trading of € 13 million was responsible for this.

The RoRac fell compared to the previous year from 17 per cent to 15 per cent. Due to the increase in costs (€ 6 million) as a result of the high level of resources tied up during the crisis in the shipping sector, the CIR rose to 11 per cent (9 per cent).

Real Estate Banking Customers

As part of the strategic realignment of the NORD/LB Group, NORD/LB is gradually concentrating its commercial real estate business in the wholly-owned subsidiary Deutsche Hypothekenbank (Actien-Gesellschaft). The transfer of existing business, which started in 2009, from NORD/LB to Deutsche Hypothekenbank should be largely completed by the end of 2013. Credit commitments which have not yet been transferred, i. e. those for which NORD/LB is still liable, will be managed by Deutsche Hypo within the scope of a mandate.

The real estate portfolio still with NORD/LB in the year under review primarily comprises financing projects in the target markets of Germany, Western Europe and the USA. The portfolio includes asset classes such as office and commercial buildings, shopping centres and residential construction measures. The focus is on quality properties with a good tenant structure and a constant and predictable cash flow. Both long-term loans and short-term interim loans for new construction projects and existing properties were issued.

Compared to the previous year, the contribution to the operating result after loan loss provisions in the Real Estate Banking Customers segment increased to € 65 million (€ 58 million). This development is primarily attributable to lower loan loss provisions.

Earnings in NORD/LB's Real Estate Customers segment totalled € 84 million (€ 117 million). As a result of the gradual reduction in the portfolio due to the transfer of business to Deutsche Hypothekenbank, income from interest rate transactions fell sharply compared to the previous year. Positive growth was recorded due to the increase in derivative business in the trading profit and guarantee and processing commissions.

The fall in the income from services is attributable in particular to the payments made within the scope of the mandate to Deutsche Hypothekenbank being reported for the first time in this item. As this was reported up until 2010 in cost of materials, operating costs fell significantly compared to the previous year to € 13 million (€ 25 million). Staff expenses also fell as a result of the reduction in staff capacity.

The improved risk situation resulted in lower loan loss provisions in 2011. Compared to the previous year, these were reduced to € 6 million (€ 34 million).

Due to the positive development in earnings and at the same time a reduced equity commitment, the RoRaC rose from 12 per cent to 16 per cent. The CIR improved to 16 per cent (21 per cent).

Investments/Others

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

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

The profit/loss reported under “investments/others” improved by € 22 million compared to the previous year. Both positive and negative effects contributed to this: higher income from investments and the non-allocation for 2010 to the fund for general banking risk had a positive effect; valuation adjustments in the investment portfolio, reconciliation issues and higher administrative expenses (in particular projects covering the entire bank) had a negative effect.

Risk Report

Risk Management

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

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

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

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

The regulatory framework for structuring this risk management process is specified for banks and groups of banks in the MaRisk on the basis of § 25a of the law on banking (KWG, 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.

The amendments to MaRisk have resulted in changes in the requirements for risk management. The recommendations for action derived from the project to implement the second MaRisk amendment have been completed successfully. The measures identified within the scope of the analysis of the third MaRisk amendment have also been taken, therefore ensuring that MaRisk continues to be complied with.

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

The core element of the risk strategy is the risk-bearing capacity model (RBC model), on the basis of which risk appetite is specified and the allocation of risk capital to the material risk types is undertaken.

For NORD/LB it was conservatively determined that normally at most 80 per cent of the economic risk coverage may be covered with risk potential. The relevant approach in the RBC model (status quo of economic capital adequacy) should therefore provide a minimum coverage of 125 per cent.

The maximum risk capital is also allocated to the material risk types in the risk strategies. Most of the coverage is allocated to with credit risk, reflecting NORD/LB's focus on customer-oriented lending business.

The Group risk strategy and the risk strategy of NORD/LB were reviewed and adjusted in 2011 and discussed with the Supervisory Board after being passed by the Managing Board.

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

Risk Management – Structure and Organisation
Responsibility for NORD/LB's risk management lies with the Managing Board of NORD/LB. The Managing Board coordinates the higher Group risk strategy and its amendments in the Erweiterter Konzernvorstand (Extended Group Managing Board); the Erweiterter Konzernvorstand also includes the Chairmen of the

Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo and its resolutions are referred to the responsible bodies in the Group institutes concerned for formal decision. Following the adoption of the Group risk strategy and the risk strategy of NORD/LB by the Managing Board of NORD/LB, these are then submitted to the Supervisory Board of NORD/LB for its information and discussed with it.

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

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

The risk management of NORD/LB is supported by various committees of the Group and the individual institute as well as by the Erweiterter Konzernvorstand:

- 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 companies within the NORD/LB Group, supports the institute-wide control. For risk control in particular the Risk/Finance Konzernsteuerungskreis is relevant.

- Group Risk Committee: The Group Risk Committee (GRC) is a committee which is part of the Risk/Finance Konzernsteuerungskreis (Group Control Committee) and comprises the Chief Risk Officer, the Board members of the market divisions and the heads of the divisions Central Management Risk, Risk Controlling, Research/Economy and the credit administrative divisions of NORD/LB and the risk officers at Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo. Further participants are invited when required. The GRC supports the respective Managing Board in the holistic consideration of risks. The focus of the GRC lies in considering the overall portfolio of the NORD/LB Group taking into account all material risk types and strengthening Group integration.

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

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

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

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

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

Risk Management – Risk-Bearing Capacity Model
The risk-bearing capacity model constitutes the methodical basis for monitoring the risk strategies in NORD/LB. This monitoring is performed by NORD/LB's Risk Control Division, which is also responsible for the overall control and development of the model.

The aim of the model is to aggregate and duly present the bank's risk-bearing capacity (RBC) by comparing risk potential resulting from the material risks and the risk capital. The monitoring and reporting process is conducted regularly and guarantees that the responsible bodies are promptly informed about NORD/LB's risk-bearing capacity situation.

NORD/LB's extended RBC model consists of the three perspectives of going concern, economic capital adequacy and regulatory capital adequacy, in which the respective material risks (risk potential) are compared with the defined risk capital. The economic and regulatory capital adequacy are both broken down further into the perspectives of status quo and under stress.

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

The second and third perspectives are based in terms of risk potential on a higher confidence level of 99.9 per cent. Economically-calculated risk potentials are used for the economic capital adequacy, while risk potentials calculated based on regulatory specifications are used for the regulatory capital adequacy. On the capital side both the economic and the regulatory capital adequacy tests are based on equity and equity-like components which according to banking regulations are to be classed as equity. In the economic consideration, as in the going-concern case, an indexation process takes into account risk capital effects during the year.

For the Internal Capital Adequacy Assessment Process (ICAAP) required in accordance with MaRisk, primarily the pillar of economic capital adequacy (status quo) is considered. The regulatory capital adequacy in the status quo is to be complied with as a strict supplementary condition. Strategic limits are derived from the consideration of risk-bearing capacity taking into account the allocations of risk capital in the risk strategies of the NORD/LB Group and NORD/LB based on the going-concern case.

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

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

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

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

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

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

Against the background of the industry-wide discussion with the German regulatory authority on the assessment of internal bank risk-bearing-capacity concepts and requirements relating to this formulated by the regulatory authority, the RBC model is currently the subject of a critical review so that the Minimum Requirements for Risk Management will continue to be met in future. The consideration of various developments as at 31 March 2012 has been provided for.

Risk Management – Development in 2011

The risk coverage in the economic capital adequacy (status quo) improved significantly in the year under review and is 306 per cent as at the reporting date. The rise is attributable both to a fall in risk potential and an increase in risk capital. Of the significant types of risk included in the model, namely credit, investment, market price, liquidity and operational risk, credit risk is by far the most significant.

The methodological adjustments made to improve the RBC model resulted in a change in the in economic risk potential. The credit risk potential fell considerably, while conversely the investment risk roughly doubled.

The fall in risk potential can be attributed above all to a reduction of credit exposures and improved ratings. The increase in risk capital was the result of various measures undertaken in the year under review to strengthen NORD/LB's capital base.

(in € million)	Risk-bearing capacity 31 Dec. 2011		Risk-bearing capacity 31 Dec. 2010	
Risk capital	**8 731**	**100 %**	**8 319**	**100 %**
Credit risks	1 731	20 %	2 626	32 %
Investment risks	461	5 %	251	3 %
Market price risks	331	4 %	270	3 %
Liquidity risks	139	2 %	67	1 %
Operational risks	187	2 %	172	2 %
Total risk potential	**2 849**	**33 %**	**3 387**	**41 %**
Excess coverage	**5 882**	**67 %**	**4 932**	**59 %**
Risk coverage ratio		**306 %**		**246 %**

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

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

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

In reaction to this, NORD/LB boosted its capital stock by € 1.7 billion as a first step by the turn of 2011 / 2012 and has therefore already covered most of the capitalisation requirement. The remaining requirement will be largely covered by a restructuring of silent participations already available in the NORD/LB Group. In addition to this, the bank will retain earnings in the hundreds of millions and sale of investments. Overall the plan envisages that the hard core capital will be boosted by up to € 1 billion. NORD/LB expects that it will exceed the EBA requirements with the aforementioned package of measures by 30 June 2012. A corresponding concept was sent to the Federal Financial Supervisory Authority (BaFin) in January 2012.

Credit Risk

Credit risk is a component of counterparty risk and is broken down into traditional credit risk and counterparty risk in trading. The 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 not being able to be cleared by either party upon or after the expiry of the contractually agreed performance date.

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

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

Credit Risk – Management

Strategy

For NORD/LB lending business and the management of credit risks is a core competence that is to be permanently developed and extended. NORD/LB sees itself as a reliable universal bank focusing on 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; these cover both market and back office divisions. These principles represent binding guidelines for new business for the respective market divisions and take into account the conservative orientation of NORD/LB.

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

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

NORD/LB focuses regionally mainly on domestic business. Its foreign lending business focuses on developed countries and selected emerging markets. Regional concentrations are deliberately realised outside of Germany in the USA, Great Britain and France. At industry level NORD/LB focuses on ships, aircraft, energy companies, real estate and banks.

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 MaRisk, processes in credit business are characterised by a clear organisational separation of the market and back office divisions, right through to management level.

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

Tasks relating to analysis and risk observation as well as the specification of collateral values are combined in the Credit Risk Management (CRM) back office division. Real estate and special appraisals are exceptions here; these are carried out in a separate department. The Credit Risk Management Division is also responsible for the second vote taken for decisions on individual loans. With exposures with risk concentrations, a credit rate assessment takes place with regard to Large Exposure Management. In a multi-stage reporting system, the division also prepares segment portfolio reports on selected subsegments at regular intervals.

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

The central management of risk concentrations in NORD/LB's credit portfolio is the responsibility of the Credit Portfolio Management Group which is part of the CRM. Concentrations are examined with regard to the size of an economic borrower entity in accordance with § 19 para. 2 of the KWG 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 or worse on the rating master scale of the German Association of Savings Banks and Girobanks (DSGV) (i. e. allocation to the "high risk" category in accordance with the "Initiative Finanzstandort Deutschland" (IFD, initiative for Germany as a financial location) and exposures which deteriorate by three ratings and therefore fall to a rating of 9 or worse (allocation to the "above-average/heightened risk" category in accordance with IFD) or lower must all be reported to the SCM division. Other defined risk indicators may also prompt a presentation requirement. The SCM decides whether the processing of a loan is to be taken over or whether the loan is to remain with the CRM. From a rating of 16 (allocation to the IFD default risk category (non-performing loans)), the SCM division is obliged to take over responsibility for an exposure. For financial institutions including central governments and foreign regional authorities, asset backed securities and corporate bonds, processing remains in the Credit Risk Management Division.

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

The Managing Board is responsible for controlling NORD/LB's credit portfolio. In performing its tasks, the Board consults among other things the Group Risk Committee, which ensures that a link between individual credit decisions and portfolio management as well as an approach covering all the types of risk is given. The GRC recommends to the Managing Board various instruments for this purpose such as the ordering of an acquisition stop, the limiting of national, industrial or borrower-related concentrations or making recommendations relating to the placement of exposures and sub-portfolios.

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

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

Credit Risk – Securities

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

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

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

Credit Risk – Control and Monitoring

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

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

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

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

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

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

Securitisation transactions are all subject to a strict process of approval and monitoring, so that potential risks before and after the conclusion of a contract can be identified and regulated. NORD/LB uses, among other approaches, a rating system in accordance with the German Solvency Regulation (SolvV) Internal Assessment Approach for its securitisation transactions.

In the period under review no institute loans were securitised by NORD/LB. NORD/LB pursues a conservative exposure strategy in its role as investor and sponsor. Securitisation positions held by NORD/LB mainly comprise tranches with a low risk weighting and generally declined in the period under review.

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

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

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

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

The methods and procedures for risk quantification are agreed on between NORD/LB's risk controlling units in order to ensure consistency. Risk management is performed constantly and decentrally in the Group companies.

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

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

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

Credit Risk – Development in 2011

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

Analysis of the Total Exposure

NORD/LB's credit exposure as at 31 December 2011 amounts to € 154 billion and has therefore fallen compared to the previous year's value by 6 per cent. The reduction in the volume is above all the result of a reduced exposure in the area of foreign banks. In accordance with the conservative risk policy of NORD/LB, total exposure continues to focus on the very good to good rating classes.

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

The Rating Structure table shows the breakdown of the total exposure of NORD/LB (portfolio and new business), broken down by product type and compared to the previous year's structure. The reference date was re-evaluated on the basis of the current IT environment. Differences are primarily attributable to improved data quality.

Rating structure [1] (in € million)	Loans [2] 31 Dec. 2011	Securities [3] 31 Dec. 2011	Derivatives [4] 31 Dec. 2011	Other [5] 31 Dec. 2011	Total exposure 31 Dec. 2011	Total exposure 31 Dec. 2010
Very good to good	71 684	30 720	8 849	7 866	119 119	128 434
Good/satisfactory	8 827	650	423	754	10 655	12 208
Reasonable/ satisfactory	8 788	292	291	310	9 681	6 775
Increased risk	4 732	26	125	244	5 128	6 576
High risk	2 747	149	46	29	2 972	3 043
Very high risk	2 633	217	63	39	2 952	3 852
Default (=NPL)	3 618	118	119	13	3 867	4 009
Total	**103 029**	**32 172**	**9 917**	**9 256**	**154 373**	**164 896**

1) Allocated in accordance with IFD rating categories.
2) Includes loans taken up or loan commitments, guarantees and other non-derivative, off-balance sheet assets. As in the internal reporting, irrevocable loan commitments are normally included at 60 per cent (61 per cent) and revocable loan commitments at 10 per cent (5 per cent).
3) Includes the own stocks of securities issued by third parties (banking book only).
4) Includes derivative financial instruments such as financial swaps, options, futures, forward rate agreements and currency transactions.
5) Includes other products such as transmitted loans and loans administered for third-party account.

The fall in total exposure was accompanied by a 7 per cent fall in items in the rating class very good to good in the year under review. The very high share of these best rating categories in the total exposure of 77 per cent (78 per cent) is explained by the great importance of business with public authorities and financing institutes with a good credit rating and therefore at the same time reflects the conservative risk policy of NORD/LB.

The current slowdown in the global economy has little effect on NORD/LB's credit portfolio so far. The exposure in rating categories with a high to very high risk rose by more than the overall exposure viewed across the whole of 2011. Exposure in the default categories fell by 4 per cent. A greater fall as at the half-year point was countered by an increase in the NPL in the third and fourth quarter.

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 64 per cent (65 per cent) and still constitutes a considerable share of the total exposure.

Industries [1] (in € million)	Loans [2] 31 Dec. 2011	Securities [3] 31 Dec. 2011	Derivates [4] 31 Dec. 2011	Other [5] 31 Dec. 2011	Total exposure 31 Dec. 2011	Total exposure 31 Dec. 2010
Financing institutes/insurance companies	35 604	19 412	5 932	6 121	67 069	79 982
Service industries/other	34 442	10 913	1 133	1 213	47 701	45 604
– of which: Land, housing	6 365	33	422	297	7 118	8 737
– of which: Public administration	20 755	10 633	397	33	31 818	27 476
Transport/communications	21 796	417	907	226	23 346	23 598
– of which: Shipping	12 003	–	376	14	12 392	13 012
– of which: Aviation	7 804	6	139	164	8 113	7 840
Manufacturing industry	3 865	649	1 032	131	5 677	5 821
Energy, water and mining	3 925	673	657	835	6 091	5 150
Trade, maintenance and repairs	1 364	47	119	44	1 575	1 657
Agriculture, forestry and fishing	658	28	2	647	1 335	1 304
Construction	1 375	31	134	38	1 578	1 778
Other	–	–	–	–	–	4
Total	**103 029**	**32 172**	**9 917**	**9 256**	**154 373**	**164 896**

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

The breakdown of the total exposure into regions shows that the eurozone accounts for a high share of 82 per cent (80 per cent) of total exposure and remains by far the most important business region of NORD/LB. Germany's share rose from 66 per cent to 70 per cent.

Regions[1] (in € million)	Loans[2] 31 Dec. 2011	Securities[3] 31 Dec. 2011	Derivates[4] 31 Dec. 2011	Other[5] 31 Dec. 2011	Total exposure 31 Dec. 2011	Total exposure 31 Dec. 2010
Euro countries	83 213	28 036	6 016	9 234	126 498	132 629
– of which: Germany	73 165	21 991	4 121	8 746	108 023	109 004
Other Europe	5 160	1 503	2 134	0	8 798	12 861
North America	6 591	1 502	1 284	7	9 383	9 329
Latin America	2 757	266	19	–	3 042	2 998
Middle East/Africa	952	91	1	0	1 044	995
Asia	4 356	775	463	15	5 609	6 081
Other countries	–	–	–	–	–	4
Total	**103 029**	**32 172**	**9 917**	**9 256**	**154 373**	**164 896**

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

The exposure in the countries Greece, Ireland, Italy, Portugal and Spain fell by a total of 25 per cent to € 5 524 million, primarily due to maturities. Its share in the overall exposure is only 4 per cent. The share of receivables owed by the respective countries, regional governments and municipalities also fell to 0.2 per cent of the total exposure or € 360 million, also primarily due to maturities.

Exposure in selected countries[1] (in € million)	Greece 31 Dec. 2011	Ireland 31 Dec. 2011	Italy 31 Dec. 2011	Portugal 31 Dec. 2011	Spain 31 Dec. 2011	**Total 31 Dec. 2011**
Sovereign Exposure	129	105	–	46	80	**360**
– of which CDS	35	–	–	–	–	**35**
Financing institutions/ insurance companies	25	708	1 054	98	521	**2 406**
Corporates/ Other	353	1 835	149	137	284	**2 758**
Total	**506**	**2 649**	**1 202**	**281**	**885**	**5 524**

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

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

NORD/LB made loan loss provisions for Greek government bonds in the year under review. Sufficient loan loss provisions have been made for the expected investment due to a possible haircut by private creditors.

NORD/LB is also closely monitoring and analysing developments in the other aforementioned countries. However, the bank does not consider it necessary to make any further provisions at this stage. Most of the exposures in the above-mentioned five countries are in the rating class very good to good.

Non-Performing Loans

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

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

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

Total loan loss provisions (specific valuation allowances, lumpsum specific loan loss provisions, provisions for lending business, national valuation allowances and general loan loss provisions) fell in the year under review by € 95 million. The ratio of loan loss provisions to total exposure remained fairly constant in the year under review and is 0.64 per cent (0.66 per cent).

Loan loss provisions 1 Jan. 2011 – 31 Dec. 2011 (in € 000)	Specific valuation allowances (lumpsum specific loan loss provisions, provisions for lending business)	National valuation allowances	General loan loss provisions
Opening balance 1 January 2011	915 318	726	171 200
+ New provision / increase	411 890	276	0
– Disposal	– 507 197	– 728	– 11 046
of which: debt losses (consumption)	– 187 963	– 721	0
of which: reductions	– 319 234	– 7	– 11 046
+/– Transfer	425	0	0
+/– Currency conversion	11 465	0	27

The balance of non-performing loans (NPL) of € 3.9 million is primarily secured by standard bank collateral and other credit enhancements valued on the basis of lending principles. The NPL exposure is covered 26 per cent (27 per cent) by loan loss provisions before the inclusion of collateral.

The share of total NPL in the total exposure remained virtually constant in the period under review and is as at 31 December 2011 2.5 per cent (2.4 per cent). In addition to the impaired receivables, these NPLs also include all of the receivables of rating notes 16 to 18 (IFD risk class default (NPL)).

The impaired exposure rose in the year under review by 18 per cent, while the balance of specific valuation allowances, lumpsum specific loan loss provisions and provisions for lending business fell by 9 per cent. The reason for this is that the risk situation has eased significantly in almost all sectors with the exception of ship financing, which resulted in a significant fall in loan loss provisions. The worsening of the shipping crisis resulted in this sector in a notable increase in impaired for exposures and loan loss provisions. Due to the good collateralisation of these exposures, however, only a moderate level of new loan loss provisions needed to be made overall.

Industries[1] (in € 000)	Total exposure of impaired receivables 31 Dec. 2011	Total exposure of impaired receivables 31 Dec. 2010	Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2011	Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2010
Financing institutes/ insurance companies	181 126	158 103	103 518	130 386
Service industries/other	688 865	845 502	264 935	361 305
Transport/ communications	1 082 979	530 469	262 089	163 407
Manufacturing industry	212 489	242 293	100 691	118 546
Energy, water and mining	115 842	85 471	32 363	48 929
Trade, maintenance and repairs	18 900	40 193	9 468	20 853
Agriculture, forestry and fishing	9 883	25 286	4 374	16 214
Construction	64 909	78 081	54 464	55 677
Total	**2 374 993**	**2 005 398**	**831 901**	**915 318**

[1] Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria.

Regions[1] (in € 000)	Total exposure of impaired receivables 31 Dec. 2011	Total exposure of impaired receivables 31 Dec. 2010	Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2011	Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions 31 Dec. 2010
Euro countries	1 961 829	1 590 910	725 511	792 822
Other Europe	196 639	213 779	28 055	26 609
North America	199 558	182 076	44 629	36 693
Latin America	–	1 714	24 554	49 653
Middle East/Africa	–	–	–	–
Asia / Australia	16 966	16 918	9 153	9 541
Total	**2 374 993**	**2 005 398**	**831 901**	**915 318**

[1] Allocated in alignment with the risk-bearing capacity report in accordance with economic criteria.

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

In 2012 measures to further optimise the model for quantifying and controlling credit and investment risk are planned. In addition to developing the economic credit risk model, the collection of loss data to validate the LGD components and Credit Conversion Factor (CCF) will be expanded.

Investment Risk

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

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

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

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

Structure and Organisation
Risks resulting from investments at various levels in the Group are managed by NORD/LB's Investment Management in close cooperation with other divisions, in particular the Finance and Controlling divisions. Domestic and foreign investments are all supervised centrally by Investment Management or by the corresponding units in the subsidiaries. Minor exposures are controlled and supervised by the divisions initiating the exposure in each case due to the close factual connection. This is done in close cooperation with Investment Management.

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

The result of the investment 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 risks. The significant investments based on quantitative criteria of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB are considered in the internal reporting of the NORD/LB Group at the level of individual risk type. The significant investments based on qualitative reasons of the NORD/LB Asset Management Group, the Öffentliche Versicherungen Braunschweig Group and Skandifinanz AG are reported together with the important and other investments as investment risk, but are subjected to closer analysis by the divisions included in Investment Management. At individual institute level the significant investments based on quantitative criteria are reported in investment risk.

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

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

All investments are monitored centrally by Investment Management. The Erweiterter Konzernvorstand and the Konzernsteuerungskreise control all significant investments. All other investments are controlled in Investment Management in collaboration with the Finance and Controlling divisions, unless the responsibility lies with another division due to a particular connection.

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

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

Investment Risk – Reporting
Current income (earnings and depreciation) and the risks of all investments are regularly evaluated and reported to the NORD/LB Managing Board by the Investment Management unit on a half-yearly basis together with other significant key data within the scope of modified reporting.

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

Information on the risk situation of the investments is considered on a quarterly basis within the scope of the RBC report by NORD/LB's Risk Control Division.

Investment Risk – Development in 2011
In order to enhance earnings potential and reduce capital tied and potential risk relating to investments the NORD/LB Group has, on the basis of a critical review of the investment portfolio, disposed of a range of investments since 2005. In continuation of this strategy, NORD/LB disposed of the majority of its indirect holdings in DekaBank Deutsche Girozentrale in 2011.

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

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

Detailed information on all of the NORD/LB Group's significant investments can be found in the NORD/LB Group's consolidated financial statements.

Investment Risk – Outlook
Significant tasks for 2012 will be the further systematic reduction of investments which are not relevant for NORD/LB's business model and the further development of stringent controls for investments in relation to the risk-return ratio.

Market Price Risk

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

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

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

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

Market Price Risk – Management
Strategy
The activities of NORD/LB associated with market price risks are concentrated on selected markets, customers and product segments. Their positioning on money, currency and capital markets should be in line with the significance and dimension of the bank and is primarily geared towards the needs of customers and supporting the control measures of the bank as a whole. As far as possible, there is no positioning on an opportunistic basis.

Trading activities relating to customer business focus on interest products. Here NORD/LB 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.

Structure and Organisation

The control of market price risks involves all divisions handling items bearing market price risks which also account for profits and losses resulting from the changes in market parameters. At NORD/LB this includes the Treasury, Markets and Portfolio Investments divisions. 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.

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

The strategic control of market price risks is supported by the Asset Liability Committee (ALCO). The ALCO is an advisory body that meets on a monthly basis at the level of NORD/LB and the NORD/LB Group. It supports the strategic control of market price risk positions, liquidity positions and the investment portfolio with the aim of optimising the profitability of the risk capital tied up in the positions. For this purpose recommendations for actions are developed as a basis for decision-making for the Managing Board. Members of the ALCO include the Financial Markets and Risk Control Board members and representatives from the Portfolio Investments, Risk Control, Credit Risk Management and Finance divisions. The Portfolio Investments Division implements measures agreed by the Managing Board.

Market Price Risk – Control and Monitoring

The Financial Markets divisions, i.e. the Markets and Treasury divisions, are responsible for controlling market price risks and the Portfolio Investments division is responsible for implementing the ALCO's strategic measures.

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

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

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

Market Price Risk – Assessment

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

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

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

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

The number of back-testing exceptions rose during the course of the year under review and was red at NORD/LB as at the reporting date according to the Basel traffic light approach. The increase relates to the Treasury division's banking book for operational interest and liquidity control. This increase was partly expected due to the worsening national debt crisis in Europe and the associated market fluctuations in the interest and credit markets. It was also partly the result of basis risks in the banking book, i.e. distortions between the various interest markets. The VaR values of the trading area concerned are increased accordingly by additions from backtesting until these effects are corrected.

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

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

NORD/LB as individual institue also uses the VaR model for calculating equity capital required for general interest-rate risks and for general and special share-price risks in accordance with the German solvency regulation (SolvV) at the locations in Hanover, New York and Singapore. For the remaining types of risk from a regulatory point of view, in particular interest rate risk and currency risk, the standard method is applied.

Market Price Risk – Reporting

In compliance with MaRisk requirements, the Risk Control Division, which is independent of the divisions responsible for the positions, reports daily on market price risks to the respective Board member. The Board members are therefore also informed about the effects of the stress scenarios beyond the scope of VaR scenarios. A weekly report is also provided on the credit-spread risks in the banking book. The Managing Board is informed in detail once a month about NORD/LB's market price risks and earnings position.

Market Price Risk – Development in 2011

Overall the VaR remained at a moderately low level throughout the year and was dominated by the static placement of perpetual equity.

The significant increase in the VaR figure seen in the first quarter was due in particular to a partial reduction in positions in the Treasury Division, which had shown a negative correlation to the position of the overall bank. The reduction in the VaR in May 2011 was primarily due to the historical simulation method. The VaR fell as in May 2010 there had been several major scenarios as a result of the national debt crisis in Europe which one year later were no longer included in the calculation. At the start of June, a counteracting position in the Treasury Division resulted in a reduction in the VaR at overall bank level.

In the third and fourth quarter market price risk rose considerably. Due to the spreading national debt crisis in Europe, the level of volatility in the markets relevant for NORD/LB rose considerably. In addition to this, the sale of main parts of the holding in DekaBank Deutsche Girozentrale also increased the VaR due to the associated fall in the assessment interest rate position for investments and interest measures in foreign currencies.

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

(in € million)

The average NORD/LB utilisation of market price risk limits for the year was 24 per cent (10 per cent), with maximum utilisation amounting to 35 per cent (23 per cent) and minimum utilisation at 16 per cent (5 per cent).

During the course of 2011, the daily VaR (confidence level of 95 per cent and holding period of one day) fluctuated between € 5 million and € 11 million, with an average value of € 8 million. As at 31 December 2011, a VaR of € 11 million (€ 7 million) was calculated for NORD/LB, representing an increase of 49 per cent compared to the previous year. As at 31 December 2010, the VaR was, including credit-spread risks in the liquidity reserve, € 8 million.

The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 65 million in NORD/LB on 31 December 2011. These figures also include the interest rate, share price and currency risks in the banking book.

Market price risks [1) 2)] (in € 000)	Maximum 1 Jan.– 31 Dec. 2011	Maximum 1 Jan.– 31 Dec. 2010	Average 1 Jan.– 31 Dec. 2011	Average 1 Jan.– 31 Dec. 2010	Minimum 1 Jan.– 31 Dec. 2011	Minimum 1 Jan.– 31 Dec. 2010	End-of-year risk 31 Dec. 2011	End-of-year risk 31 Dec. 2010
Interest rate risk (VaR)	10 651	7 814	7 570	3 591	4 901	1 771	10 651	7 499
Currency risk (VaR)	975	2 253	654	432	236	177	846	748
Share price and fund price risk (VaR)	2 119	2 422	947	1 178	420	620	639	1 678
Volatility risk (VaR)	521	488	265	290	124	188	254	253
Other add-ons	127	202	51	46	10	3	46	54
Gesamt	**10 611**	**11 911**	**7 525**	**6 217**	**5 084**	**2 370**	**10 611**	**7 126**

1) Maximum, average and minimum risk types for 2010 are shown in consideration of the maturity assumptions concerning equity.

2) The credit-spread risks of the liquidity reserve for 2010 are excluded.

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

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

The effects of a standardised interest-rate shock in the banking book are also analysed in accordance with German Solvency Regulation (SolvV) requirements. The result for NORD/LB as at 31 December 2011 is at 3 per cent well below the regulatory threshold which provides for a maximum share of 20 per cent of liable equity capital.

Market Price Risk – Outlook

NORD/LB will continue to closely monitor all of the relevant asset categories in 2012 as at least short-term, volatile market fluctuations can be expected. Based on the conservative risk policy, the gradual improvements to the risk models, the risk control process and focused trading strategy, NORD/LB believes though that it is also well prepared for turbulent market phases.

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

Liquidity Risk

Liquidity risks are risks which may result from disruptions in the liquidity of individual market segments, unexpected events in lending, deposit or new issue business or deterioration in the bank's own refinancing conditions. NORD/LB understands placement risk to be a component of liquidity risk. It describes the risk of own issues not being placed in the market or only placed at poorer conditions. Liquidity risks are broken down into traditional liquidity risk, 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 the bank's own lending, deposit or new issue business may also result in liquidity shortages. The focus of NORD/LB's consideration is always on the next twelve months.

Funding risk constitutes potential declines in earnings resulting from a deterioration in the bank's own funding conditions on the money market or capital market. The most significant cause in this case is a change in the assessment of the bank's credit rating by other market participants. The focus of consideration here is on the entire range of terms to maturity.

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

Liquidity Risk – Management

Strategy

Securing perpetual liquidity for NORD/LB is strategically essential. While traditional liquidity risk is principally hedged by maintaining a sufficient supply of liquid assets (in particular central bank eligible securities), a structural transformation of liquidity terms is undertaken for the funding risk. 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 NORD/LB primarily makes securities transactions in markets which have proven themselves to be sufficiently liquid even when they are under pressure.

The Global Group Liquidity Policy of the NORD/LB Group includes business policies for liquidity risk management, policies for liquidity control, which represent the strategic guidelines for ensuring that there is sufficient liquidity, and measures to control liquidity in emergencies and crisis situations. The Global Liquidity Policy for NORD/LB is derived from this policy.

Risk concentrations on the liabilities side are prevented by a diversified investor base and product range. The focus is on institutional and municipal investors, which is in line with the risk-based orientation of NORD/LB. The diversification of refinancing sources is also reinforced by the covered bond business, which provides NORD/LB with additional access to the funding market.

Structure and Organisation

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

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

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

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

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

Liquidity Risk – Control and Monitoring
NORD/LB's refinancing risk is regulated by restricting the risk with volume structure limits for various maturity bands which cover the entire range of maturities. The liquidity maturities are also considered separately by currency.

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

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

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

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

For control at Group level, a Group liquidity maturity balance sheet is prepared on a monthly basis. For this purpose all of the cash flows in euro and the translated foreign currency cash flows of the NORD/LB Group are compiled in one overview. The liquidity maturity balance sheets are also prepared in the most important foreign currencies.

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

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

The analysis of stress scenarios takes into consideration the overriding significance of the market liquidity of all of the securities in the portfolio. In addition, a separate credit-spread risk calculation is made for securities in the banking book when calculating market price risks. Since the spreads observed on the market reflect both the credit rating of an issuer and the market liquidity of the securities and since the parameters applied for calculating a scenario are specified in relation to current market spreads, the risk report also indirectly takes into account the market liquidity of the securities. No separate risk dimension is applied for market liquidity risks.

Liquidity Risk – Reporting
The Risk Control Division reports to the responsible Board members several times a week, and depending on the amount of the limit used on a daily basis if necessary, on the dynamic stress test scenario for NORD/LB's traditional liquidity risk.

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

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

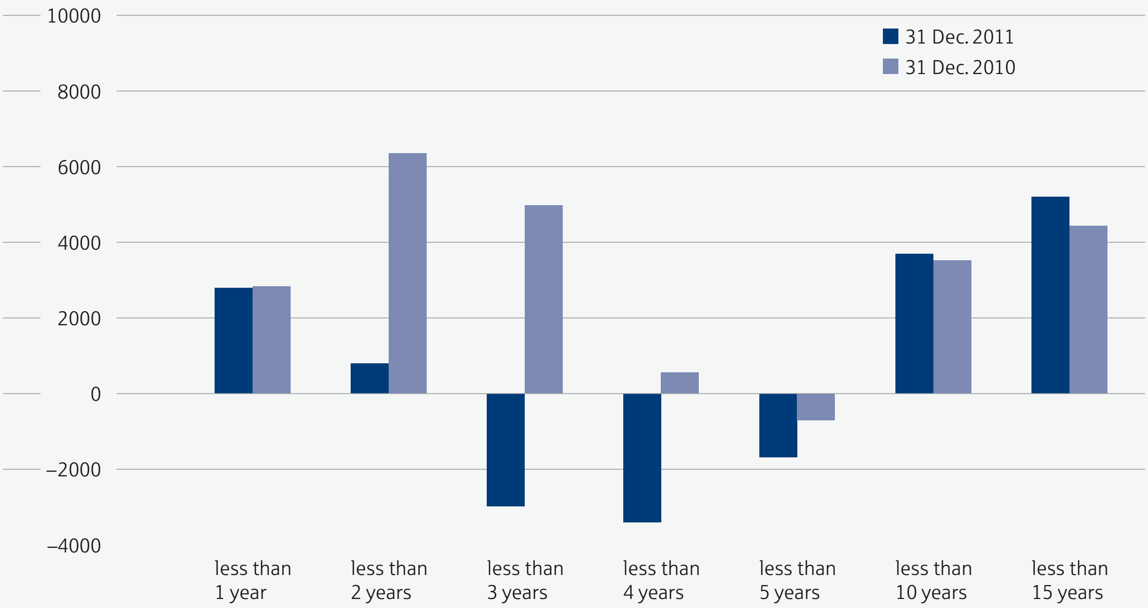
The monthly refinancing risk reports are prepared in euro and in the most important foreign currencies. The maturity balance sheets upon which the refinancing risk is based are also presented together with the stress tests to the Asset Liability Committee which meets on a monthly basis.

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

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

In spite of this, NORD/LB had sufficient liquidity at all times in 2011. The liquidity maturity balance sheet shows liquidity surpluses in the short and long-term maturity bands. The liquidity risk limits derived from the risk-bearing capacity and updated in the period under review were always complied with; this applies for all currencies considered together and for the principal individual currencies.

Accumulated liquidity maturities
(in € million)



The forward-looking liquidity control in the market phases affected by the financial market crisis resulted in a slight reduction in liquidity which again resulted in low utilisation of the limits in virtually all maturity periods. NORD/LB also operates in markets with the highest possible level of liquidity and maintains a portfolio of high-quality securities. As at the reporting date NORD/LB possesses securities in the amount of € 33 billion, 88 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 that NORD/LB had sufficient liquidity at all times in the year under review. The liquidity ratio calculated in accordance with the German Liquidity Regulation (LiqV) was always well over the minimum of 1.00 required by regulatory provisions. At the end of 2011 the ratio was 1.73 (1.39).

The dynamic stress tests used for internal control shows an excellent liquidity situation for NORD/LB as at the reporting date. The liquidity buffers for one week and one month in accordance with MaRisk are also complied with.

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

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

Focus will also be placed in 2012 on the implementation of the much more stringent requirements for the management and external reporting of liquidity risks announced by the international regulatory authorities in reaction to the financial market crisis. Here in particular the requirements of Basell III concerning the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are of great importance to NORD/LB.

Operational Risk

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

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

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

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

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

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

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

Operational Risk – Management
Strategy
The main aim is to avoid operational risks as far as this is economically viable. NORD/LB protects itself against operational risks if the costs for the protection are not greater than the costs directly incurred as a result of the risk or if its reputation could be significantly affected.

NORD/LB possesses a suitable framework in the form of technical and organisational measures, contractual regulations, working instructions and other documentation in order to prevent operational risks from occurring as far as possible. This includes business continuation planning, contingency planning and appropriate insurance cover. The raising of risk awareness among all employees plays a key role in preventing operational risks in day-to-day business (risk culture).

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

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

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

NORD/LB has a security strategy and uniform standards in order to efficiently and sustainably protect the bank from harm and at the same time meet legal and supervisory requirements. Contingency measures ensure appropriate operation in the event of an emergency and a return to normal operations as quickly as possible with consistent business continuation and recovery planning which focuses on time-critical activities and processes.

The Risk Control Division is responsible for the central monitoring of operational risks and the independent reporting. The division is also responsible for specifying the rules for developing and implementing the methods used to control operational risks. All of the strategic and conceptual responsibilities relating to security and contingency management are concentrated in the Group Security division. Internal Audit is responsible for the process-independent audit to establish whether methods and procedures are properly implemented and carried out.

Operational Risk – Control and Monitoring
Process-related and structural organisational risks are countered with well-organised structures and procedures. If weaknesses in the organisation or in the control system are identified, appropriate countermeasures are taken immediately. The internal control system has a uniform structure in the NORD/LB Group. The ICS framework implemented for this purpose is based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for internal controls and includes a specific operational and organisational structure. With the use of standardised methods and procedures, an appropriate and effective ICS will be ensured throughout the bank and a lasting improvement sought.

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

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

In the IT Division, instructions on procedures, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Security concepts and contingency plans supplement pre-emptive measures in order to prevent loss or damage resulting from the failure or the manipulation of systems and information.

Personnel risk is countered by an appropriate personnel level in terms of quality and quantity. The bank pays particular attention to employee qualifications and the qualification status is reviewed with the help of a system of job specifications and employee assessments. Personnel development measures can therefore be initiated in a targeted manner. The remuneration system comprises a performance-related component which provides incentives and at the same time supports sustainability and risk awareness in work practices. The requirements of the Institute Remuneration Act (Institutsvergütungsverordnung) are implemented in NORD/LB.

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

At the start of 2011 the new Group Regulatory Compliance department commenced operations. It should provide evidence in all divisions that NORD/LB meets all of the required regulatory standards.

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

The quality of external suppliers and service provider is ensured by contractual agreements and the subsequent control of relevant key figures. NORD/LB has a process for assessing service providers in terms of their materiality for risk aspects in order to implement MaRisk requirements concerning outsourcing. For each material service outsourced a position is nominated which is responsible for managing services and risk relating to the business relationship. A risk assessment takes place on a quarterly basis using the method of risk indicators. An individual contingency concept is also drawn up for each material service outsourced.

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

Operational Risk – Accounting-Related ICS

The ICS of NORD/LB also covers in relation to the accounting process all of the principles, processes and measures implemented by management which are aimed at the organisational implementation of decisions by management relating to the correctness and reliability of internal and external accounting, compliance with legal regulations which are relevant to NORD/LB and to ensuring the effectiveness and efficiency of the accounting.

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

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

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

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

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

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

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

Operational Risk – Assessment

NORD/LB has been collecting data on loss events resulting from operational risk since the beginning of 2003 and has classified these events by process, cause, and effect. There is no "insignificant" level; however there is a simplified reporting process for gross losses of less than € 2 500. Data in the loss databank provides the basis for analyses in support of risk management and is an important element of the statistical/mathematical risk model developed by the bank.

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

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

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

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

An allocation process which combines size indicators with risk-sensitive elements is used to distribute the model results to the individual institutes. The model's parameters are regularly subjected to a comprehensive validation and stress tests. The methods used here were revised and extended in the year under review.

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

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

Operational Risk – Development in 2011
In 2011 controls were further refined in NORD/LB. The system of risk indicators was updated on a regular basis in the year under review. The extension of the internal model to measure operational risks was also completed at the start of the year under review. At the level of NORD/LB the results were allocated to divisional level and linked to the contribution margin accounting for control purposes.

The ICS concept continued to be developed in 2011. Within the scope of a control inventory all of the key controls were tested for suitability and effectiveness.

In the year under review an Ad-hoc Fraud Committee was implemented, which immediately analyses at management level important cases of criminal activity and coordinates reactions and preventive measures. In addition to this preventive measures were also revised on the basis of new legal regulations.

The organisation of contingency and crisis management was optimised in the year under review particularly with regard to communication structures, infrastructure and updating situations. For the business continuation and recovery in the event of an emergency, an extensive control process was established. The effectiveness of the contingency plans was checked for a range of failure scenarios with various emergency exercises. Among other things an extensive combined large-scale exercise for the scenario of the loss or failure of premises took place; this involved completely clearing the main building and the continuation of time-critical processes and also considered the loss of key technology, such as the computer centre and loss of power. The exercise took place without notice during business hours and was completed successfully.

The Value-at-Risk as at 31 December 2011 for the operational risk based on the internal model is, with a confidence level of 99.9 per cent and a holding period of one year, € 187 million. There were no significant legal risks as at the reporting date.

Operational Risk – Outlook
In 2012 the integration of all divisions involved in the controlling and management of operational risks is to be continued. In this way synergy effects in the risk control instruments can be exploited and the existing reporting channels can be further improved.

A further aim is to support the market and back office divisions more closely with regard to risk. For example, for greater preventive risk management at divisional and process level, the use of external data for operational risk should be intensified. Awareness-raising and training measures should create greater awareness of the issue at all levels and contribute towards a consistently high risk culture.

With regard to security-relevant threats affecting the bank's core resources, further developments in analysis and reporting are planned for 2012. In order to consolidate the new contingency and crisis organisation, training and crisis team exercises are planned.

With regard to criminal activity, the fraud risk analysis will be completely revised in 2012. The aim among other things is to achieve uniformity in the NORD/LB Group; this will be started this year.

Summary

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

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

NORD/LB complied with the applicable regulatory provisions concerning equity capital and liquidity throughout 2011. It also took due account of the regulations relating to large exposure limits in accordance with § 13a of the German Banking Act (KWG).

NORD/LB's development currently depends above all on the economic situation in Germany and the development of the euro countries. In addition to this, the high degree of market volatility, in particular for interest rates and credit-spreads, against the joint background of the continuing discussions concerning the euro periphery countries, also affects future developments. NORD/LB will continue to monitor and analyse developments closely.

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

Forecast Report

General Economic Development

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

The US economy entered the new year with decent momentum. Consumption will remain an important driver of growth with a gradual rise in the incomes of private households and a fall in the inflation rate. Investment will also continue to rise, although at a much slower rate than in the previous year. We expect in view of the recent rise in sentiment surveys in the business sector and improved consumer confidence GDP growth of 2.2 per cent in 2012. The Federal Reserve has announced that it will not raise interest rates this year. The job market will continue to act as a brake on the economy in 2012 and seems to be slow at showing any sign of improvement. Further problems for the domestic economy may be presented by US fiscal policy; the US will have to tighten its belt, if not in 2012 then in 2013 at the latest. New controversial budget discussions without long-term decisions with corresponding market reactions are to be feared in the run-up to the Presidential election in November. The greatest risk for the global economy and therefore for the US economy is the debt crisis in the eurozone.

The easing of the European crisis will be made more difficult by the growing strain on the real economy. For 2012 GDP is expected to fall by 0.2 per cent in the eurozone compared to the previous year. Harsh austerity programmes in several countries will have a dampening effect. NORD/LB expects that the economy will slow down more in Spain and Italy than in the eurozone as a whole. In 2012 NORD/LB expects that the average annual unemployment rate will rise again to 10.6 per cent. The high level of unemployment in many countries will remain a major problem. The job market situation in Spain continues to be particularly difficult. Greece and Portugal will also not be able to come out of the harsh adjustment recession due to their austerity policies in 2012.

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

The inflation rate will return to the area tolerated by the ECB due to the significant economic downturn and basis effects in the current year. The rise in administered prices should prevent too severe a drop; we therefore expect the Harmonised Index of Consumer Prices (HICP) to rise by 1.9 per cent in the eurozone. In Germany the rate of inflation is expected to be somewhat lower. The European Central Bank has already returned to a base rate of 1.00 per cent. This level should not be touched until well into 2013, although there is a certain chance of a further cut in the interest rate. Development concerning lending in the eurozone and the aggregated money supply is so subdued, that there is no significant threat of inflation even in the medium term. In view of the ongoing difficult situation in the financial markets against the background of the debt crisis, the ECB will continue the unconventional measures in 2012.

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

NORD/LB Planning for 2012

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

On the income side the bank is planning for the contribution to earnings to remain fairly constant despite a fall in net interest income as a result of lower earnings due to interest rates, higher refinancing expenses, the transfer of business to Deutsche Hypo and positive one-time effects in the previous year (among others sale of Deka). An increase in contributions to earnings from net commission income and profit from trading compared to the previous year is expected. Other operating profit/loss, which includes the bank levy, is planned to remain at roughly the previous year's level.

With administrative expenses NORD/LB is expecting a slight fall in staff expenses due to the efficiency improvement programme. Other administrative expenses will rise though due among other things to the capitalisation of project costs, with the result that administrative expenses are expected to remain stable overall.

Due to the economic slowdown, NORD/LB has again made high loan loss provisions and the adequate risk buffer set for 2012 is greater than the loan loss provisions actually required in 2011. The valuation result affected in the previous year by valuation adjustments to the Deutsche Hypo investment is considered to be much better for the current year.

NORD/LB's operating result after loan loss provisions/valuation is planned to be higher than in the previous year with a corresponding development in the RoE. Due to virtually unchanged earnings and administrative expenses, the CIR will remain stable.

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

Business Segment Planning for 2012

Private and Commercial Customers
The Private and Commercial Customers segment mainly reports on results for the strategic business units Private and Individual customers, Private Banking and Business, Commercial and Corporate Customers of the Braunschweigische Landessparkasse in Hanover.

In this business segment NORD/LB is continuing its strategy of positioning itself in the market as a quality supplier. The aim is to achieve an even greater maximisation of potential by meeting defined contact ratios and applying the S finance concept while providing support that meets customer needs. At the same time closer cooperation with ÖVB is planned. With the introduction of a joint Service Counter with ÖVB, a further increase in the sale of insurance products is planned. For the targeted support of private corporate customers, the tandem support (advice provided by corporate and private customer advisers) will be intensified. In the current year a further improvement in processes is planned with the optimisation of throughput times with the focus on real estate advice.

Interest income will fall in the coming year due to the level of interest rates; the fall will not be fully compensated by the increase in the income from services.

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

Compared to the previous year, a slight fall in staff expenses will be seen alongside a significant increase in the cost of materials. The reason for this lies in the increase in IT costs and the regular exchange of customer cards.

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

Savings Bank Network
The focus in the Savings Bank Network in 2012 will lie in intensifying sales with the acquisition of additional savings banks in the extended network region. Derivative expertise should be expanded in syndicate and municipal business. The start of the cover pooling project has been delayed and is now planned for the current year.

There will be a slight increase in earnings due to the planned improvement in the contribution to earnings from commission business and trading profit, fall in interest income due to the cessation of municipal business in other regions and the delay in the start of the cover pooling should be more than compensated for.

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

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

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

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

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

With a systematic alignment to the customer segments of the bank, the Corporate Sales and Markets divisions aim to pool know-how and increase in earnings with corporate and structured finance customers.

In addition to advising other business segments of NORD/LB, Markets is planning to develop and expand its securitisation business and implement the "Loan Funds" initiative.

The focus of the Treasury Division lies in liquidity management, the optimisation of funding and diversification of the sources of funding and assistance in the development of primary access to foreign currency funding.

In the Portfolio Investments division, the cutback scenario will continue to be implemented; selective new investments will be made in Corporate Single Names among others.

The previous year's earnings will not be achieved again in this business segment in the current year. Although NORD/LB is expecting an increase in income from services and a much better trading profit after a loss in 2011, this will not be able to completely absorb the fall in interest income due to interest rates and the loss of positive earnings from the sale of securities in the previous year.

The loan loss provisions for 2012 in this business segment are made for necessary impairments to the Asset Backed Securities / Collateralized Loan Obligation-portfolio; they are expected to be much lower than in the previous year. In addition to this, for the current year, unlike in the previous year, no loan loss provisions have been made for government bonds.

Compared to the previous year a slight fall in staff expenses will be seen alongside a rise in secondary costs due to a fall in project relief, which will result overall in a rise in administrative expenses.

Both Markets and the Treasury Division will show an increase in RWAs due to market price risks as a result of the Basel III regulations and the planned creation of a liquidity buffer.

Compared to the previous year, the planned contribution to earnings of Financial Markets will improve in particular due to the much lower loan loss provisions and the much improved trading profit. The RoRaC will fall though due to the higher commitment of RWA; CIR will rise back to a normal level after the loss of special positive factors affecting earnings in 2011.

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

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

Due to the investment in this business segment, earnings should be confirmed at the level of the very successful previous year. Growth in lending business will compensate for the fall in trading profit, which will not reach the good result of the previous year.

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

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

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

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

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

Due to the increasing competitive pressures, for 2012 lower margins with again slightly higher volumes than the previous year are expected, which will result overall in a fall in the interest terms contribution on the assets side. The total of the income from services and trading profit is also expected to be below the previous year's level in 2012.

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

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

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

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

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

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

Due to NORD/LB's conservative approach to loan loss provisions, there will once again be a slight increase in net loan loss provisions compared to the previous year.

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

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

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

Real Estate Banking Customers
The planning premise of NORD/LB for the Real Estate Banking Customers business segment was modified slightly. The transfer of assets from NORD/LB to Deutsche Hypo continues to progress as planned; however, in particular the New York real estate business will remain in NORD/LB. The portfolio in Singapore will be phased out, in future no new business will be taken on there.

The transfer of business activities to Deutsche Hypo will result in a fall in income and costs for NORD/LB, and the reverse development is planned in Deutsche Hypo.

Medium-Term Planning for the Period up to 2016

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

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

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

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

Statements relating to the future

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

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Content

Assets

Norddeutsche Landesbank Girozentrale

	€	€	€	31 Dec. 2010 € 000
1. Cash reserve				
a) Cash on hand		55 152 234.13		63 041
b) Balances with central banks		110 002 671.92		538 515
of which: with the "Deutsche Bundesbank" € 97 171 866.08				(525 610)
			165 154 906.05	601 556
2. Claims on banks				
a) municipal loans		16 570 473 718.32		19 807 027
b) Other claims		12 388 564 582.23		11 683 099
			28 959 038 300.55	31 490 126
of which: Due on demand € 2 524 003 717.52				(1 750 873)
against securities lending € 0.00				(0)
3. Claims on customers				
a) mortgage loans		5 225 176 519.76		5 858 932
b) municipal loans		23 569 309 171.13		21 222 523
c) Other claims		38 562 565 587.91		38 430 522
of which: against securities lending € 0.00			**67 357 051 278.80**	65 511 977 (0)
4. Debt securities and other fixed-interest securities				
a) Money-market instruments				
aa) Issued by public sector borrowers	31 550 588.61			33 245
of which: eligible as collateral for "Deutsche Bundesbank" advances € 25 019 985.00				(0)
ab) Issued by other borrowers	23 212 671.00			222 609
		54 763 259.61		255 854
of which: eligible as collateral for "Deutsche Bundesbank" advances € 0.00				(200 156)
b) Bonds and debt securities				
ba) Issued by public sector borrowers	10 519 912 759.15			9 561 810
of which: eligible as collateral for "Deutsche Bundesbank" advances € 10 386 961 145.85				(9 481 868)
bb) Issued by other borrowers	20 320 817 594.12			24 227 843
		30 840 730 353.27		33 789 653
of which: eligible as collateral for "Deutsche Bundesbank" advances € 15 608 476 570.69				(17 593 621)
c) Debt securities, issued by the institution itself		354 550 449.53		635 911
Nominal amount € 355 020 000.00				(630 757)
			31 250 044 062.41	34 681 418
Amount carried forward			**127 731 288 547.81**	132 285 077

Balance Sheet NORD/LB Bank as at 31 December 2011 — Assets

	€	€	€	31 Dec. 2010 € 000
Amount carried forward			**127 731 288 547.81**	132 285 077
5. Shares and other variable-yield securities			**1 201 796 095.20**	1 216 360
5a. Trading portfolio			**9 347 716 418.35**	7 594 562
6. Participating interests			**141 074 874.90**	265 235
of which: in banks €	4 197 333.41			(4 197)
in financial institutions €	1 983 523.31			(1 984)
7. Shares in affiliated companies			**2 033 941 276.51**	2 380 987
of which: in banks €	1 468 608 226.95			(1 594 608)
in financial institutions €	0.00			(0)
8. Assets held in trust			**4 433 657 073.24**	4 288 705
of which: loans on a trust basis €	4 433 657 073.24			(4 288 705)
9. Intangible assets				
a) internally generated industrial property rights and similar rights and values		60 323 909.65		44 315
b) Concessions, industrial property rights and similar rights and values including its licences against payment		9 306 390.53		8 553
d) Advance payments made		0.00		119
			69 630 300.18	52 987
10. Tangible assets			**224 669 400.19**	88 752
11. Capital called but not paid			**278 501 427.68**	0
12. Other assets			**1 856 047 163.01**	1 886 727
13. Prepaid expenses				
a) from new issue and lending business		472 049 385.15		292 175
b) other		517 503 088.43		440 429
			989 552 473.58	732 604
Total assets			**148 307 875 050.65**	150 791 996

Liabilities

Norddeutsche Landesbank Girozentrale

	€	€	€	31 Dec. 2010 € 000
1. Liabilities to banks				
a) issued registered mortgage covered bonds		179 756 502.46		295 185
b) issued registered public sector covered bonds		2 271 088 879.80		2 550 426
c) other liabilities		34 813 619 195.91		38 368 015
			37 264 464 578.17	41 213 626
of which: Due on demand € 2 918 962 804.94				(3 790 923)
ensuring loans taken up				
registered mortgage covered bonds transferred to lender € 0.00				(0)
and registered public sector covered bonds € 1 068 077 829.75				(1 294 657)
2. Liabilities to customers				
a) issued registered mortgage covered bonds		500 882 176.38		448 690
b) issued registered public sector covered bonds		11 322 919 084.67		12 671 158
c) Savings deposits				
ca) with an agreed notice period of three months	809 849 067.83			810 086
cb) with an agreed notice period more than three months	473 966 813.75	1 283 815 881.58		443 674
d) Other liabilities		29 655 260 486.70		26 363 308
			42 762 877 629.33	40 736 916
of which: Due on demand € 9 911 890 344.48				(10 055 389)
ensuring loans taken up				
registered mortgage covered bonds transferred to lender € 0.00				(0)
and registered public sector covered bonds € 5 392 848.27				(5 393)
3. Securitised liabilities				
a) Issued debt securities				
aa) mortgage covered bonds	1 411 152 982.64			1 988 627
ab) public sector covered bonds	12 774 520 266.93			14 082 726
ac) other debentures	29 349 077 981.74	43 534 751 231.31		30 663 999
b) Other securitised liabilities		539 203 702.27		1 848 349
			44 073 954 933.58	48 583 701
of which: money-market instruments € 453 247 259.01				(1 559 225)
3a. Trading portfolio			**4 020 330 912.60**	1 635 478
4. Liabilities held in trust			**4 433 657 073.24**	4 288 705
of which: loans on a trust basis € 4 433 657 073.24				(4 288 705)
5. Other liabilities			**3 241 428 268.13**	2 614 981
Amount carried forward			**135 796 713 395.05**	139 073 407

Balance Sheet NORD/LB Bank as at 31 December 2011 — Liabilities

	€	€	€	31 Dec. 2010 € 000
Amount carried forward			**135 796 713 395.05**	139 073 407
6. Deferred income				
a) from new issue and lending business		312 188 453.12		401 078
b) other		451 657 201.47		272 054
			763 845 654.59	673 132
7. Provisions				
a) Provisions for pensions and similar obligations		659 311 589.76		621 276
b) Tax provisions		142 780 949.80		161 542
c) Other provisions		411 159 276.47		389 244
			1 213 251 816.03	1 172 062
8. Subordinated liabilities			**2 697 203 382.50**	2 703 875
9. Participatory capital			**120 000 000.00**	401 239
of which: thereof falling due in less than two years €	0.00			(198 739)
10. Funds for general banking risks			**927 632 805.66**	852 300
of which: special item for general banking risks in accordance with § 340e, para.4 of the German Commercial Code €	75 000 000.00			(100 000)
11. Equity				
a) Subscribed capital				
aa) Share capital	1 493 896 250.00			1 085 483
ab) Capital contribution as per §15 para. 1 State treaty	0.00			51 129
ac) Other Capital contributions	1 569 223 290.82	3 063 119 540.82		2 307 056
b) Capital reserves				
ba) Contribution as per §15 para. 1 State treaty	0.00			37 580
bb) other reserves	3 037 675 011.76	3 037 675 011.76		1 778 878
c) Retained earnings		577 502 357.24		557 770
d) Profit shown on the balance sheet after appropriation to or transfer from reserves		110 931 087.00		98 085
			6 789 227 996.82	5 915 981
Total liabilities			**148 307 875 050.65**	150 791 996
1. Contingent liabilities				
a) Contingent liabilities under rediscounted bills of exchange		0.00		0
b) Liabilities from guarantees and other indemnity agreements		8 465 879 004.52		8 600 241
c) Liabilities from assets pledged as collateral for third-party liabilities		0.00		0
			8 465 879 004.52	8 600 241
2. Other obligations				
a) Repurchase obligations from non-genuine partial repurchase agreements		0.00		0
b) Placement and underwriting obligations		0.00		0
c) Irrevocable credit commitments		6 849 019 908.06		8 139 860
			6 849 019 908.06	8 139 860

Norddeutsche Landesbank Girozentrale

	€	€	€	2010 € 000
1. Interest income from				
a) Lending and money market transactions	3 232 825 583.02			3 346 227
b) Fixed-income and book entry securities	909 621 456.89			867 890
c) current income from trading portfolio	1 931 811 297.04	6 074 258 336.95		1 315 242
2. Interest expense		4 918 568 958.96		4 317 989
			1 155 689 377.99	1 211 370
3. Current income from				
a) Shares and other variable-yield securities		24 429 394.44		14 943
b) Participating interests		22 697 971.67		18 336
c) Shares in affiliated companies		82 988 415.53		37 020
			130 115 781.64	70 299
4. Income from profit pooling, profit transfer and partial profit transfer agreements			**15 875 433.89**	9 972
5. Commission income		233 049 656.05		248 176
6. Commission expense		65 405 737.30		48 881
			167 643 918.75	199 295
7. Net income/net expense deriving from trading business			**– 23 319 543.96**	120 828
8. Other operating income			**58 206 248.76**	71 726
9. General administrative expenses				
a) Staff expenses				
aa) Wages and salaries	281 965 037.51			270 244
ab) Social security contributions and expenses for pension provision and other employee benefits	71 989 122.58	353 954 160.09		52 355
of which: for pensions € 14 953 694.15				(9 674)
b) Other administrative expenses		343 166 503.91		357 358
			697 120 664.00	679 957
10. Amortisation and write-downs of intangible assets			**33 117 261.61**	20 472
11. Other operating expenses			**123 514 259.29**	81 734
12. Write-downs of and value adjustments to claims and certain securities and allocations to provisions for lending business			**0.00**	203 596
13. Earnings from write-ups to claims and certain securities and allocations to provisions for lending business			**24 342 417.86**	0
Amount carried forward			**674 801 450.03**	697 731

Income Statement for the reporting period from 1 January 2011 to 31 December 2011

				2010
	€	€	€	€ 000
Amount carried forward			**674 801 450.03**	697 731
14. Write-downs of and value adjustments to investments, shares in affiliated companies and securities treated as fixed assets			**223 769 722.24**	185 642
15. Expenses on assumption of losses			**41 281 863.13**	5 061
16. Transfer to the funds for general banking risks			**100 332 805.66**	130 000
of which: Allocation to special item acc.to § 340e, para. 4 German Commercial Code ________ €	0.00			(100 000)
17. Profit on ordinary activities			**309 417 059.00**	377 028
18. Extraordinary income		0.00		1 640 803
19. Extraordinary expense		18 649 200.49		1 648 708
20. Extraordinary result			**– 18 649 200.49**	– 7 905
21. Refund from income taxes		21 083 741.01		110 526
22. Refund from other taxes not show under item 11		942 757.96		3 806
			22 026 498.97	114 332
23. Income from profit pooling, profit transfer and partial profit transfer agreements			**160 178 996.75**	156 706
24. Profit for the year			**108 562 362.79**	98 085
25. Earnings brought forward from the previous year			**2 368 724.21**	0
26. Profit shown on the balance sheet after appropriation to or transfer from reserves			**110 931 087.00**	98 085

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Content

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

(Previous year figures for the 2010 accounting period or as at 31 December 2010 are shown in brackets.)

Principles for the Preparation of the Annual Financial Statements

The annual financial statements of Norddeutsche Landesbank Girozentrale Hannover, Braunschweig, Magdeburg, (NORD/LB) as at 31 December 2011 were prepared in accordance with the regulations of the German Commercial Code (HGB) as amended by the German Accounting Law Modernisation Act (BilMoG) and the directive concerning the accounting of banks and financial services institutions (RechKredV).

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

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

Accounting Policies – Trading Portfolio

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

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

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

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

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

Accounting Policies – Asset Portfolio

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

Sufficient consideration is given to identifiable risks in lending business by making specific valuation allowances and provisions. The provisions for country risks were calculated based on principles which have not changed. Appropriate general loan loss provisions have been made for other general credit risks. General loan loss provisions are still calculated in accordance with the communiqués of the BFA 1/1990 and the BMF of 10 January 1994. The reference period relevant for calculating the default rate is eight years.

Securities in the liquidity reserve are valued in accordance with the strict lower-of-cost-or-market principle. If accounting valuation units have been formed between certain securities in the liquidity reserve and interest rate swaps, they are valued based on the lower-of-cost-or-market principle at the net fair value of the security and interest rate swap. Securities in fixed assets are valued at acquisition cost provided that they are not the subject of a permanent loss in value.

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

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

Investments and shares in affiliated companies are reported at acquisition cost or at lower fair value in the event of a permanent loss of value, whereby the fair value is calculated based on the present value of the shareholders' future net earnings associated with the ownership of the company.

Fixed assets, the use of which is restricted in terms of time, are subject to the maximum approved depreciation under tax law. There was no unscheduled depreciation in accordance with § 253 para. 2 clause 3 HGB in the year under review (€ 0.0 million). Fixed assets with an acquisition cost of between € 150 and € 1,000 are capitalised under a collective item and depreciated at a flat rate of 20 per cent per annum over 5 years. Low-value fixed assets with an acquisition cost of up to € 150 are written off completely in the year of acquisition.

NORD/LB has made use of the option in accordance with § 248 para. 2 HGB and reported self-made intangible fixed assets.

Low or non-interest bearing loans are valued at present value, and where applicable adjusted by specific valuation allowance or general loan loss provisions.

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

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

Provisions for uncertain liabilities and anticipated losses on pending transactions have been made in accordance with the principle of prudence.

The bank has reported one-time income from the issuing of a ship loan under commission income.

Both write-downs of and impairments to claims and certain securities and allocations to provisions for lending business and write-downs of and impairments to investments, shares in affiliated companies and securities treated as fixed assets are offset against their associated income.

Accounting Policies – Internal Transactions

NORD/LB uses internal transactions to transfer market price risks from the asset portfolio to the trading portfolio, from where they are controlled centrally by trading limits. As these internal transactions meet all of the conditions on the trading book side for regulatory inclusion in the trading book in accordance with § 1a para. 7 of the German Banking Act (KWG), they are as a result of the fundamental consistency in terms of balance between the trading book and the trading portfolio reported in the balance sheet also part of the trading portfolio reported in the balance sheet. Accordingly the internal trading transactions are valued in accordance with commercial law as external trading transactions at fair value (less a risk premium) through profit or loss.

On the asset portfolio side the same accounting rules apply for internal transactions as for the respective external transactions in the asset portfolio. For example internal interest derivatives in the asset portfolio are included in the area being balanced by the provision for interest rate risks in the banking book. For further information concerning the accounting of derivative transactions on the asset portfolio side we refer to the information in the chapter "Accounting policies – Asset portfolio".

In order to prevent the reporting of internal derivatives at fair value on the trading portfolio side from having a one-sided impact on the asset situation, NORD/LB offsets the trading assets or liabilities resulting from the reporting of internal transactions at fair value against the trading assets or liabilities resulting from the reporting of external transactions at fair value. As at 31 December 2011 trading assets resulting from internal transactions were deducted in the amount of € 4 295.0 million from external trading liabilities and trading liabilities resulting from internal transactions were deducted in the amount of € 4 320.2 million from external trading assets in this way. In order to prevent interest income and income expenses relating to internal derivatives in the trading book being included in the items "interest income" and "interest expenses", NORD/LB offsets interest income and interest expenditure relating to internal derivatives in the trading book against interest income and interest expenses relating to external derivatives in the trading book. For the period of 1 January to 31 December 2011 interest expenses relating to internal derivatives in the amount of € 2 117.6 million were deducted from interest income relating to external derivatives, and interest income relating to internal derivatives in the amount of € 1 768.3 million was deducted from external derivatives in this way.

For each risk type NORD/LB provides evidence relating to the total portfolio that the risk positions from the internal transactions have been transferred to the market, i. e. that they have been externalised.

Calculation of Fair Values

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

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

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

Valuation method	Application	Significant input parameters	Data sources
Discounted Cash Flow Method	Illiquid interest-bearing securities	Swap curves, credit rating information	Murex, CRC/CRM
	Credit Default Swaps	Swap curves, credit-spreads and where applicable credit rating information	Murex, MarkIT, CRM
	Interest rate swaps, FRAs	Swap curves	Murex
	Securities forward contracts	Contract data, specific securities forward prices, swap curves	Class data, stock-exchange values
	Interest rate currency swaps, forward exchange contracts	Swap curves in the currencies exchanged; basic swap spreads; exchange rate	Murex
Hull & White Model for Options	Bermudan swaptions	Volatility of the underlying market price, risk-free interest rate	Murex
Black-Scholes Model	Fix options	Exchange rates volatility of the underlying market price, risk-free interest rate	Murex
	OTC share options	Volatility of the underlying market price	Front Arena
Black-76 Model	Caps and floors Swaptions Bond options	Exchange rates, volatility of the underlying market price, risk-free interest rate	Murex

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

Accounting of Securities Lending

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

Pension Obligations

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

As at 1 January 2011 the present value of pension obligations in accordance with the BilMoG was € 896.896 million. Using the simplification rule in accordance with art. 67 para. 1 clause 1 EGHGB, the allocation will be spread over 15 years. The value in 2011, after taking into account repayments, was € 18.649 million and was shown under extraordinary expenses.

The provision as at 31 December 2011 was € 659.312 million, whereby an obligation of € 258.743 million is not shown in the balance sheet.

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

	31 Dec. 2011	31 Dec. 2010
Interest rate	5.14 %*)	5.15 %
Salary increases	2.00 % p.a.	2.00 % p.a.
Pension increases	2.75 %/2.87 %/1.00 %	2.75 %/2.87 %/1.00 %
Fluctuation	3.00 %	3.00%

*) A portion in the amount of € 55 167 thousands was calculated with an interest rate of 5.13 per cent

For the branch in New York, the bank offset the cover assets against the related pension obligations in accordance with § 246 para. 2 HGB (new version). The settlement value of the pension obligation (converted into euros) as at the balance sheet date was € 4 737 772.38. This is seen alongside the fair value of the cover assets as at 31 December 2011 in the amount of € 3 044 247.62. The allocation to the pension obligation for 2011 was € 355 358.17. This is seen alongside income generated by plan assets in the amount of € 236 168.70.

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

For direct pension obligations there was a shortfall as at 31 December 2011 of € 3 097 thousands.

Currency Translation

The currency translation takes place in the non-trading portfolio in accordance with the principles of § 256a in conjunction with § 340h HGB ("special cover") and the statement made by the "Bankenfachausschuss" (Banking Committee) of the "Institut der Wirtschaftsprüfer" (Institute of Public Auditors in Germany) (BFA 4/2011), as the bank controls currency risk via separate currency positions and carries the individual currency items in the currency positions. The special cover comprises all assets, liabilities and pending transactions which are not allocated to the trading portfolio, are financial instruments and are in a foreign currency.

The assets and liabilities are translated at the ECB reference exchange rate or at exchange rates from other reliable sources as at the balance sheet date. Spot exchange transactions and forward foreign exchange transactions which have not been completed are also valued based on the ECB reference exchange rate.

For futures transactions in fixed assets, the pro-rata, not yet amortised swap mark-ups/mark-downs are valued at the current swap rates for the remaining term of the transactions.

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

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

Overall the value of NORD/LB's assets and liabilities in foreign currencies totals € 30 167.169 million (€ 32 992.529 million) and € 14 295.878 million (€ 13 872.298 million) respectively.

Formation and Accounting of Valuation Units

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

- Individual-transaction-specific interest hedges of fixed-interest securities in the liquidity reserve with interest rate swaps (none as at 31 December 2011 € 87 210 thousands; previous year € 0);
- Individual-transaction-specific hedges of the underlying share price or currency exchange rate risks of certain structured issues with share-price or currency-exchange-rate-specific derivatives;
- Individual-transaction-specific hedges of the currency risk from the highly likely repayment of a hybrid capital bond issued in US dollars with a currency swap.

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

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

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

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

Where valuation units are formed, at NORD/LB the so-called freezing method as well as the realtime update method is used. The realtime update method is used for the valuation unit for hybrid capital whereas the freezing method is used for asset swap bundles of the liquidity reserve and for the valuation unit for structured bond issues.

Loss-free Valuation in the Banking Book

The bank is convinced that, as a result of its long-established concepts for controlling business terms, the strategies to control interest, currency and liquidity risks in the banking book and the continual limiting and the daily monitoring of market price risks in accordance with MaRisk in the controlling of the banking book, no pending losses (excess liability) were contracted in the portfolio of interest-rate-based financial instruments in the banking book as at 31 December 2011 and therefore the requirements for loss-free valuation in the banking book of NORD/LB-AöR are met within the scope of the 2011 annual financial statements.

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

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

Notes to the Balance Sheet

Assets

(in € 000)	31 Dec. 2011	31 Dec. 2010
2. Claims on banks		
a) with a residual term of		
Due on demand	4 364 372	4 322 749
less than 3 months	5 317 069	6 664 764
more than 3 months but less than 1 year	3 315 377	3 292 495
more than 1 year less than 5 years	8 691 179	9 695 422
more than 5 years	7 271 041	7 514 696
Balance sheet value	**28 959 038**	**31 490 126**
of which		
Claims on affiliated companies	7 044 644	6 570 438
Claims on companies in which an equity investment exists	1 229 477	1 719 893
Subordinated receivables	350 109	250 905
Used to cover old stock	2 869 684	4 061 556
The full amount of receivables from banks includes:		
Claims on affiliated savings banks	7 635 054	8 388 595
3. Claims on customers		
a) With a residual term of		
less than 3 months	7 247 192	5 159 854
more than 3 months but less than 1 year	5 704 272	3 891 616
more than 1 year less than 5 years	24 211 469	19 383 598
more than 5 years	30 194 118	37 076 909
Balance sheet value	**67 357 051**	**65 511 977**
of which		
Claims on affiliated companies	689 891	81 471
Claims on companies in which an equity investment exists	171 373	126 688
Subordinated receivables	24 244	1 874
Used to cover old stock	6 548 505	7 926 118
With an indefinite term	1 199 620	1 387 492
4. Debt securities and other fixed-interest securities		
a) Money-market instruments		
aa) Issued by public sector borrowers		
Balance sheet value	**31 551**	**33 245**
of which		
due in the following year	31 551	33 245
marketable and listed money-market instruments	31 551	–
marketable and unlisted money-market instruments	–	33 245

Assets

(in € 000)	31 Dec. 2011	31 Dec. 2010
ab) Issued by other borrowers		
Balance sheet value	**23 213**	**222 609**
of which		
due in the following year	23 213	222 609
marketable and listed money-market instruments	–	200 156
marketable and unlisted money-market instruments	–	22 453
b) Bonds and debt securities		
ba) Issued by public sector borrowers		
Balance sheet value	**10 519 913**	**9 561 810**
of which		
due in the following year	1 946 044	2 765 715
marketable and listed money-market instruments	10 454 327	9 420 227
marketable and unlisted money-market instruments	65 586	141 583
Used to cover old stock	421 169	674 336
bb) Issued by other borrowers		
Balance sheet value	**20 320 817**	**24 227 843**
of which		
due in the following year	4 560 845	4 293 252
marketable and listed money-market instruments	18 918 546	23 042 869
marketable and unlisted money-market instruments	1 402 271	1 184 974
Affiliated company securities	2 635	2 837 722
Subordinated debt securities	56 109	56 111
c) Debt securities, issued by the institution itself		
Balance sheet value	**354 550**	**635 911**
of which		
due in the following year	84 154	475 327
marketable and listed money-market instruments	347 102	628 566
marketable and unlisted money-market instruments	7 449	7 345
5. Shares and other variable-yield securities		
Balance sheet value	**1 201 796**	**1 216 360**
of which		
marketable and listed shares and other variable-yield securities	5 585	25 423
marketable and unlisted shares and other variable-yield securities	82 707	132 691
5a. Trading portfolio		
Balance sheet value	**9 347 716**	**7 594 562**
of which		
Derivative financial instruments	4 300 598	2 067 604
Claims	2 350 738	2 530 123
Debt securities and other fixed-interest securities	2 664 679	2 768 119
Shares and other variable-yield securities	42 491	245 427
Risk discount	10 790	16 711

Assets

(in € 000)	31 Dec. 2011	31 Dec. 2010
6. Participating interests		
Balance sheet value	**141 075**	**265 235**
of which		
Marketable unlisted shares	13 994	13 994
The equity holding is shown in III. Paragraph 10.		
7. Shares in affiliated companies		
Balance sheet value	**2 033 941**	**2 380 987**
of which		
Marketable unlisted shares	982 035	1 108 035
The equity holding is shown in III. Paragraph 10.		
8. Assets held in trust		
Balance sheet value	**4 433 657**	**4 288 705**
of which		
Claims on banks	434 700	467 615
Claims on customers	3 998 957	3 821 090
9. Intangible assets		
Balance sheet value	69 630	52 987
of which		
internally generated software	60 324	44 315
10. Tangible assets		
Balance sheet value	**224 669**	**88 752**
of which		
for own activities	162 432	27 518
Operating and office equipment	62 237	61 234
11. Other assets		
Balance sheet value	**1 856 047**	**1 886 727**
of which		
The following are reported as significant items:		
Interest and interest due from interest rate swaps	1 063 622	1 054 153
Premiums paid for options, swaps and caps	540 303	515 900
Tax refunds	22 200	19 594
Outstanding items on interim accounts, not classified	215 872	202 287
Other LTS assets	–	52 181
12. Deferred expenses and accrued income		
Balance sheet value	**989 552**	**732 604**
of which		
deferred premiums in accordance with § 340e Paragraph 2 HGB	360 307	187 421
discounts and maturing premiums	111 742	104 753

Assets

The table below shows the changes to fixed assets:

(in € 000)	Aquisition/ manufac-turing cost	Additions	Disposals	Accumulative depreciation	Balance sheet value 31 Dec. 2011	Balance sheet value 31 Dec. 2010	Depreciation for the accounting-period
Participating interests					141 075	265 235	
Shares in affiliated companies					2 033 941	2 380 987	
Investment securities					17 132 916	21 129 129	
Intangible assets	102 606	33 028	256	65 748	69 630	52 987	16 349
Tangible assets	305 999	153 569	7 919	226 980	224 669	88 752	16 768

Research and development costs in the year under review totalled € 44.1 million, with self-made intangible assets accounting for € 26.9 million of this.

Liabilities and Equity

(in € 000)	31 Dec. 2011	31 Dec. 2010
1. Liabilities to banks		
a) Due on demand		
Balance sheet value	**2 918 963**	**3 790 923**
of which		
Liabilities to affiliated companies	7 625	12 134
Liabilities to companies in which an equity investment exists	–	42 191
b) With an agreed term or notice period		
of which with a residual term of		
less than 3 months	10 809 134	16 781 086
more than 3 months but less than 1 year	6 777 309	3 669 729
more than 1 year but less than 5 years	10 159 855	6 843 944
more than 5 years	6 599 204	10 127 944
Balance sheet value	**34 345 502**	**37 422 703**
of which		
Liabilities to affiliated companies	929 296	942 284
Liabilities to companies in which an equity investment exists	706 987	947 304
Assets pledged as collateral	6 497 142	3 702 275
Credit claims submitted to the Bundesbank at nominal value	1 486 108	–
The full amount of bank loans and overdrafts includes:		
Liabilities to affiliated savings banks	2 699 668	3 066 387
2. Liabilities to customers		
a) Savings deposits		
aa) with an agreed notice period of three months		
Balance sheet value	**809 849**	**810 086**
ab) Savings deposits with an agreed notice period of more than three months		
of which with a residual term of		
less than 3 months	65 793	62 272
more than 3 months but less than 1 year	64 916	60 454
more than 1 year but less than 5 years	342 324	319 916
more than 5 years	934	1 032
Balance sheet value	**473 967**	**443 674**

Liabilities and Equity

(in € 000)	31 Dec. 2011	31 Dec. 2010
b) Other liabilities		
ba) Due on demand		
Balance sheet value	**9 911 890**	**10 055 389**
of which		
Liabilities to affiliated companies	69 603	52 454
Liabilities to companies in which an equity investment exists	57 056	114 657
bb) With an agreed term or notice period		
of which with a residual term of		
less than 3 months	9 741 568	7 350 597
more than 3 months but less than 1 year	3 241 227	1 914 667
more than 1 year but less than 5 years	6 152 043	6 500 394
more than 5 years	12 432 333	13 662 109
Balance sheet value	**31 567 171**	**29 427 767**
of which		
Liabilities to affiliated companies	120 674	110 653
Liabilities to companies in which an equity investment exists	174 128	178 152
3. Securitised liabilities		
a) Issued debt securities		
Balance sheet value	**43 534 751**	**46 735 353**
of which		
Due in the following year	8 554 562	9 561 052
Liabilities to affiliated companies	4 539 185	4 586 413
Liabilities to companies in which an equity investment exists	107 820	–
b) Other securitised liabilities		
of which with a residual term of		
less than 3 months	349 981	1 217 486
more than 3 months but less than 1 year	109 660	346 165
more than 1 year but less than 5 years	6 651	13 207
more than 5 years	72 912	271 491
Balance sheet value	**539 204**	**1 848 349**
3a. Trading portfolio		
Balance sheet value	**4 020 331**	**1 635 478**
of which		
Derivative financial instruments	3 841 797	1 401 007
Liabilities (for short-term securities)	178 534	234 471
4. Liabilities held in trust		
Balance sheet value	**4 433 657**	**4 288 705**
of which		
Liabilities to banks *)	1 529 323	1 374 815
Liabilities to customers	2 904 334	2 913 890

*) Investitionsbank Sachsen-Anhalt equity to the amount of € 129.9 million is included in the figures and for the Group.

Liabilities and Equity

(in € 000)	31 Dec. 2011	31 Dec. 2010
5. Other liabilities		
Balance sheet value	**3 241 428**	**2 614 981**
of which		
reported as significant items:		
Interest payable and accrued interest from swaps	498 375	457 695
Countervalues for outstanding securities purchases	497 513	521 795
Interest payable from profit participation rights, subordinated liabilities and capital contributions	212 643	192 602
Outstanding items on interim accounts, not classified	275 380	220 016
Temporal posting differences relating to German Central Bank items	127 813	–
Adjustment item from currency valuation	1 595 886	1 147 810
6. Deferred income		
Balance sheet value	**763 846**	**673 132**
of which		
deferred discounts in accordance with § 340e Paragraph 2 HGB	48 806	54 934

8. Subordinated liabilities
NORD/LB spent € 135 094 thousands (€ 119 319 thousands) on the liabilities reported.
Borrowings which exceed 10% of the total amount respectively are defined as follows:

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

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

11. Equity
Previous year's earnings are included in the balance sheet profit amounting € 2 368 724,21.

1. Contingent liabilities
Within the contingent liabilities there are nine significant liabilities from guarantees and other indemnity agreements. Single amounts are within a range of € 66 million to € 324 million.

Furthermore NORD/LB has signed letters of comfort for liabilities from guarantees and other indemnity agreements with:
Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover and Berlin,
Nieba GmbH, Hanover,
Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel/Luxembourg.
NORD/LB Asset Management Holding GmbH, Hanover,
NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel/Luxembourg,
Skandifinanz AG, Zurich/Switzerland

From the bank's perspective the risk of any usage is considered to below.

2. Other obligations
The irrevocable credit commitments in the reporting period 2011 are broken down as follows:

Commercial enterprises	7 888
Private customers	209
Banks	43

Notes to the Income Statement

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

(in € 000)	2011	2010
Federal Republic of Germany	5 930 017	5 364 977
Europe (excl. of Federal Republic of Germany)	173 328	180 008
North America	200 923	218 831
Asia	168 043	176 570
	6 472 311	**5 940 386**

(in € 000)	2011	2010
7. Net profit/loss of trading portfolio		
The following are reported as material items:		
realised profit/loss from trading portfolio	54 831	189 177
valuation profit/loss from trading portfolio	99 725	118 611
profit from change in value at risk-discount	5 920	2 829
The net profit/loss includes € 25 million from the reversal of the special item according to § 340 e, para. 4, sec. 2, no. 1 HGB.		
8. Other operating income		
The following are reported as material items:		
Reversal of accruals	7 049	7 939
Offsetting of services with promotion institutes	2 655	2 686
Income from rents	4 718	4 766
Income from the resale of hardware and software and services	13 527	19 653
IT services for third parties	5 725	4 401
Book profits from disposals of property and equipment	142	164
Interest income from tax refunds	2 929	9 816
11. Other operating expenses		
The following are reported as material items:		
Interest expenses for payment of tax arrears	5 621	5 173
Expenses for losses resulting from operational risks	366	408
Expenses for the resale of hardware, software and services purchased	16 667	15 246
Payments to the restructuring fund for banks	28 424	–
Interest expense from valuation of provisions	49 128	50 437
Expenses for KSN services	10 463	shown in other position
Allocation to provision for recourse risks	5 430	5 926
16. Expense deriving from allocation to fund for general banking risks		
The following are reported as material items:		
Allocation to special item acc. to § 340e, para.4 German Commercial Code	–	100 000

Other Financial Obligations

a) in accordance with § 285 no. 3 HGB

With regard to the security reserve for landesbanks, NORD/LB's maximum obligation relating to additional contributions is € 161.8 million (€ 215.1 million). In the event of a need for support these subsequent contributions could be collected immediately.

Membership in the regional reserve fund, established on 1 January 2007, and its agent funds results, in the event of a case of debt readjustment among the affiliated institutes, in an obligation to make a maximum additional payment of € 258.3 million (previous year € 258.8 million) if funds available in the savings banks' support fund are insufficient.

NORD/LB has further obligations to make additional contributions in the amount of € 30.5 million (previous year € 30.5 million) in addition to extra joint liabilities for other partners on the part of Liquiditätskonsortialbank GmbH.

Lease agreements entered into by NORD/LB totalled € 0.62 million for IT systems.

With regard to customers there are maximum obligations relating to guarantees to the amount of € 4 475.5 million and letters of credit to the amount of € 275.5 million.

b) in accordance with § 285 no. 3 a HGB

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

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

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

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

With regard to NORD KB Beteiligungsgesellschaft mbH and NORD KB Dachfonds II Beteiligungsgesellschaft mbH, NORD/LB has an obligation to grant partnerships loans totalling approximately € 14.4 million (€ 21.4 million).

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

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

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

In connection with the sale of companies in the NILEG sub-group, NORD/LB guarantees 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 made. In this respect NORD/LB is liable for any additional back taxes if the value exceeds € 0.5 million.

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

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

Call-in obligations for shares and other interests amounted to € 14 million at year-end (€ 14.5 million).

In addition to this, NORD/LB has deposited securities as collateral relating to transactions on the EUREX, Frankfurt, and foreign forward markets in the nominal amount of € 386 million (€ 213.5 million).

NORD/LB has obligations from long-term rental and lease agreements to 2024 in the nominal amount of € 418.1 million, € 353.5 million of which towards affiliated companies.

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

III. Other Disclosures

1. Members of the Managing Board

Dr. Gunter Dunkel
(Chairman)

Christoph Schulz
(Deputy Chairman as at 31 Aug. 2011)

Dr. Hinrich Holm

Eckhard Forst

Dr. Johannes-Jörg Riegler

Ulrike Brouzi
(since 1 Jan. 2012)

2. Members of the Supervisory Board

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

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

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

Frank Berg
Chairman of the Managing Board
OstseeSparkasse Rostock

Hermann Bröring

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

Edda Döpke
Bank employee
NORD/LB Hannover

Ralf Dörries
Senior Vice President
NORD/LB Hannover

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

Dr. Josef Bernhard Hentschel
Chairman of the Managing Board
Sparkasse Osnabrück
(until 31 Dec. 2011)

Frank Hildebrandt
Bank employee
NORD/LB Braunschweig

Dr. Gert Hoffmann
Mayor, City of Braunschweig

Martin Kind
Managing Director
KIND Hörgeräte GmbH & Co. KG

Walter Kleine
Chairman of the Managing Board
Sparkasse Hannover

Manfred Köhler
Salzlandsparkasse Staßfurt
(until 31 Jan. 2012)

Heinrich v. Nathusius
Managing Director
IFA Group

August Nöltker
Union Secretary
ver.di Vereinte Dienstleistungsgewerkschaft

Freddy Pedersen
ver.di Vereinte Dienstleistungsgewerkschaft

Ilse Thonagel
Bank employee
Landesförderinstitut
Mecklenburg-Western Pomerania

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

3. Disclosures concerning Mandates

As at 31 December 2011 the following mandates where held in accordance with § 340a para. 4 no. 1 HGB by members of NORD/LB:

Vorstand

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 Skandifinanz AG, Zurich (former Skandifinanz Bank AG, Zurich)
Christoph Schulz	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Norddeutsche Landesbank Luxembourg S.A., Luxemoburg-Findel Toto-Lotto Niedersachsen GmbH, Hanover
Eckhard Forst	DEUTSCHE FACTORING BANK GmbH & Co. KG, Bremen Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover
Dr. Hinrich Holm	Lotto-Toto Sachsen-Anhalt GmbH, Magdeburg (since 1 July 2011) Investitionsbank Sachsen-Anhalt, Magdeburg LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover NORD/LB Capital Management GmbH, Hanover (since 4 November 2011) NORD/LB Kapitalanlagegesellschaft AG, Hanover (since 4 November 2011)
Dr. Johannes-Jörg Riegler	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Johannes Berenberg, Gossler & Co. KG, Hamburg Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel

*) Banks and large corporate entities are on equal terms

Other employees

Name	Company*)
Heinz-Werner Frings	SWAN Malaysia Sdn. Bhd., Johore Bahru, Malaysia
Dr. Rüdiger Fuhrmann	Niedersächsische Landgesellschaft mbH, Hanover Deutsche Saatveredelung AG (DSV), Lippstadt
Wolfgang Göhlich	NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel
Dr. Michael Lange	Toto-Lotto Niedersachsen GmbH, Hanover
Dietmar Köhne	NORD/LB Project Holding Ltd., London
Jürgen Machalett	NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel
Christoph Trestler	NORD/LB Project Holding Ltd., London

*) Banks and large corporate entities are on equal terms

4. Remuneration and Loans to Governing Bodies

(in € 000)	2011	2010
Emoluments paid to active members of executive bodies		
Board of Management	3 208	2 551
Supervisory Board	410	369
	3 618	**2 920**
Emoluments paid to former members of the executive bodies and their dependants		
Board of Management	4 490	4 163
Advances payments, loans and contingencies		
Board of Management	1 476	848
Supervisory Board	1 019	157

€ 43 322 million (€ 49 733 million) was put back for pension obligations towards former members of governing bodies and their surviving dependents, whereby an obligation of € 10 998 million is not reported in the balance sheet.

5. Auditor's Fees

(in € 000)	2011	2010
Audit	3 724	3 394
Other confirmatory/consulting services	2 468	1 221
Tax consulting services	25	26
Other services	63	322

6. Average Number of Employees

(in € 000)	Male 2011	Male 2010	Female 2011	Female 2010	Total 2011	Total 2010
Employees (converted into full-time staff)	2 093	1 976	2 172	2 065	4 265	4 041

Investitionsbank Sachsen-Anhalt and Landesförderinstitut Mecklenburg-Vorpommern account for an additional 617 employees (613 employees).

7. Further Disclosures

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

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

(in € 000)	31 Dec. 2011 Book values	31 Dec. 2011 Fair values	31 Dec. 2010 Book values	31 Dec. 2010 Fair values
Bonds and debt securities	9 188 126	8 800 403	10 668 064	10 353 645
Shares	631 164	601 075	560 057	515 120

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

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

(in € 000)	31 Dec. 2011 Book values	31 Dec. 2011 Fair values	31 Dec. 2010 Book values	31 Dec. 2010 Fair values
Bonds and debt securities	6 602 629	6 982 050	8 421 132	8 815 189
Shares	15 000	15 671	15 000	15 401

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

(in € 000)	31 Dec. 2011	31 Dec. 2010
Debt securities and other fixed-interest securities	16 305 678	20 266 042
Shares and other variable-yield securities	82 707	82 707

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

Derivatives Not Valued at Fair Value (Derivatives in the Asset Portfolio)

(in € million)	Nominal values 31 Dec. 2011	Positive fair values 31 Dec. 2011	Negative fair values 31 Dec. 2011	Carrying amounts 31 Dec. 2011	Recorded in balance sheet item 31 Dec. 2011
Interest rate risks					
Interest rate swaps	7 409	1 666	– 203	268	Assets 12./ Liabilities 6.
FRAs	–	–	–	–	–
Interest rate options					
purchases	6 025	1 376	–	405	Assets 11.
sales	2 223	–	– 1 051	– 278	Liabilities 5.
Caps, Floors	3 055	29	– 49	– 15	Assets 12./ Liabilities 6.
Stock-exchange contracts	–	–	–	–	–
Other forward interest rate transactions	2 112	2	– 249	–	–
Interest rate risks – total –	**20 822**	**3 073**	**– 1 552**	**380**	**–**
Currency risks					
Forward foreign exchange transactions	1 254	5	– 23	17	Liabilities 5.
Currency swaps/ interest rate currency swaps	793	115	– 24	81	Assets 12./ Liabilities 6.
Currency options					
purchases	–	–	–	–	–
sales	–	–	–	–	–
Currency risks – total –	**2 047**	**120**	**– 47**	**98**	**–**
Shares and other price risks					
Share futures contracts	–	–	–	–	–
Share swaps	311	17	– 13	–	–
Share options					
purchases	–	–	–	–	–
sales	–	–	–	–	–
Stock-exchange contracts	3	–	–	–	–
Shares and other price risks – total –	**314**	**17**	**– 13**	**–**	**–**
Credit derivatives – total –	**4 624**	**25**	**– 85**	**6**	**Assets 12./ Liabilities 6.**
Derivatives not valued at fair value – total	**27 807**	**3 235**	**– 1 697**	**484**	**–**

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

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

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

Derivatives Valued at Fair Value (Derivatives in the Trading Portfolio)
Derivatives valued at fair value – broken down by risk type and transaction type

(in € million)	Nominal values 31 Dec. 2011
Interest rate risks	
Interest rate swaps	194 290
FRAs	6 782
Interest rate options	
purchases	3 241
sales	6 618
Caps, Floors	5 091
Stock-exchange contracts	–
Other forward interest rate transactions	571
Interest rate risks – total –	**216 593**
Currency risks	
Forward foreign exchange transactions	15 307
Currency swaps/interest rate currency swaps	35 584
Currency options	
purchases	536
sales	466
Currency risks – total –	**51 892**
Shares and other price risks	
Share futures contracts	–
Share swaps	–
Share options	
purchases	29
sales	3
Stock-exchange contracts	19
Shares and other price risks – total –	**52**
Credit derivatives – total –	**273**
Derivatives not valued at fair value – total	**268 810**

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

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

(in € million)	Nominal values 31 Dec. 2011
Interest rate risks	
Residual terms to maturity	
up to 3 months	15 627
up to 1 year	31 842
up to 5 years	93 419
more than 5 years	75 706
	216 593
Currency risks	
Residual terms to maturity	
up to 3 months	10 771
up to 1 year	9 482
up to 5 years	17 664
more than 5 years	13 976
	51 892
Shares and other price risks	
Residual terms to maturity	
up to 3 months	24
up to 1 year	11
up to 5 years	16
more than 5 years	–
	52
Credit derivates	
Residual terms to maturity	
up to 3 months	19
up to 1 year	65
up to 5 years	146
more than 5 years	43
	273

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

Derivatives valued at fair value – broken down by counterparty

(in € million)	Nominalwerte 31 Dec. 2011
Banks in the OECD	230 467
Banks outside the OECD	456
Public institutions in the OECD	8 309
Other counterparties*)	29 578
Total	**268 810**

*) including stock exchange contracts

Disclosures concerning Valuation Units

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

	31 Dec. 2011 Underlying transaction hedged against		
(in € 000)	Interest rate risk	Share price risk	Currency risk
Assets			
Fixed-interest securities for the liquidity reserve	91 336	–	–
Assets – total	**91 336**	**–**	**–**
Pending transactions			
Derivatives separated from structured issues			
share-price-related derivatives	–	687 897	–
exchange-rate-related derivatives	–	–	5 000
Pending transactions – total	**–**	**687 897**	**5 000**
Transactions expected with a high probability*)			
Repayment of an issued USD hybrid capital bond	–	–	386 429
Transactions expected with a high probability – total	**–**	**–**	**386 429**
Valuation units – total	**91 336**	**687 897**	**391 429**

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

The total of all underlying transactions included in valuation units is therefore € 1 170.662 million.

All of NORD/LB's valuation units are perfect micro hedges, which NORD/LB understands as those hedging relationships where the cash-flow-determining parameters of the underlying and hedge transactions agree exactly. For example the derivatives embedded in structured issues (e.g. embedded share derivatives) are hedged by hedging transactions which correspond exactly with the structure of the embedded derivatives. For valuation units consisting of fixed-interest securities in the liquidity reserve and interest rate swaps (there were none as at 31 December 2010). only the fixed side of the interest rate swap is included in the valuation unit in terms of § 254 HGB, so that changes in value on the variable side of the interest rate swap are shown outside of the valuation unit and therefore do not impair the effectiveness of the valuation unit. Agreement between the cash-flow-determining parameters of the underlying and hedge transactions is controlled when forming the valuation unit and during its term by a position which is independent of trading. Due to the above-mentioned reasons, the changes in the value of the underlying and hedge transactions which occur between the formation of valuation units and the balance sheet date balance out completely, providing they are the subject of the valuation units. The ineffectiveness of all valuation units to date is calculated retrospectively at NORD/LB by the Critical Terms Match method. NORD/LB also expects due to the above–mentioned reasons that future changes in value (insofar as changes in value relate to the valuation units) will balance out completely over the whole term of a valuation unit, i.e. the Critical Terms Match method is also used for the prospective assessment of the effectiveness of the hedging relationships.

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

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

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

Values Subject to Dividend Payout Restrictions
In 2011 self-made intangible fixed assets in the amount of € 26.9 million were capitalised. In addition to this, the fair value of the cover assets totals € 3.0 million. The dividend payout restriction for such values enshrined in § 268 para. 8 HGB does not affect the profit for the financial year 2011 as the disposable reserves plus the profit carried forward are greater than the intangible fixed assets and the cover assets.

Repos
Securities and other assets with a book value totalling € 5 052 million (€ 9 440 million) were committed by NORD/LB within the scope of genuine repos. The counterparty risk is manageable.

Special investment assets

Name of the special asset	NORD/LB AM 52	NORD/LB AM 56	NORD/LB AM 65
Former	NORDCON-Fonds SP 52	NORDCON-Fonds SP 56	NORDCON-Fonds 65
Type of special asset	Special asset	Special asset	Special asset
Investment objective	The investment objective of the fund is to participate in market returns in North American bond and share markets.	The fund serves as at subportfolio for strategic interest management	The objective of the fund is diversified investment in asset-backed securities. The asset-backed securities of the fund are part of the ABS-Workout portfolio of NORD/LB AöR.
Reporting date	30 Dec. 2011	30 Dec. 2011	30 Dec. 2011
Special assets (in € 000) Shares – total	179 341*) 2 305 055	376 229 3 683 108	541 870 5 839 116
Shares of NORD/LB as at the reporting date	2 305 055	3 683 108	5 839 116
Values of the shares according to §26 of the German Investment Act (InvG) as at reporting date	100.67	102.15	92.80
Carrying amount (in € 000)	178 251*)	371 796	567 272
Difference between fair value and carrying amount (in € 000)	1 091*)	4 433	– 25 402
Dividends paid out in the final year acc. to shares of NORD/LB (gross in € 000)	114*)	15 000	661
Reporting year of NORD/LB Reporting year of the special asset	1 Jan.–31 Dec. 1 Dec.–30 Nov.	1 Jan.–31 Dec. 1 Dec.–31 Dec.	1 Jan.–31 Dec. 1 Dec.–31 Dec.
Restrictions in the possibility of daily return	None	None	None
Reasons for no write-down §253 para. 3 clause 4 of the German Commercial Code	–	–	Loss of value is not likely to be permanent
Pointers for the loss of value not being permanent	–	–	Assets held in the fund are likely to cover the carrying amount upon repayment

*) in 000 US$

Name of the special asset	NORD/LB AM High Yield-Fonds	NORD/LB AM Emerging Markets Bond-Fonds	NORD/LB AM Global Challends Index-Fonds	NORD/LB AM LZWK Fonds
Former	NORD/LB AM High Yield-Fonds	NORDCON Emerging Markets Bond-Fonds	NORD/LB AM Global Challends Index-Fonds	
Type of special asset	Public fund	Public fund	Public fund	Public fund
Investment objective	The investment object of the NORD/LB AM High Yield Fund is to generate an attractive return with diversified investment in high-interest bonds.	The investment objective of the fund is to generate and above-average increase in value by exploiting opportunities in international bond markets.	The investment object of NORD/LB AM Global Challenges Index Fund is to copy the Global Challenges Index® as closely as possible while maintaining an appropriate risk spread.	The investment object of NORD/LB AM LZWK fund is to generate long-term and steady growth for the monetary assets for paid leave brought in by the NORD/LB employees.
Reporting date	30 Dec. 2011	30 Dec. 2011	30 Dec. 2011	30 Dec. 2011
Special assets (in € 000) Shares – total	47 916 525 230	45 237 433 016	50 268 704 137	3 777 37 760
Shares of NORD/LB as at the reporting date	494 400	150 000	197 513	23 841
Values of the shares according to § 26 of the German Investment Act (InvG) as at reporting date	91.23	104.47	71.39	100.02
Carrying amount (in € 000)	49 148	15 000	18 558	2 385
Difference between fair value and carrying amount (in € 000)	– 4 044	671	– 4 458	0
Dividends paid out in the final year acc. to shares of NORD/LB (gross in € 000)	3 323	685	210	–
Reporting year of NORD/LB Reporting year of the special asset	1 Jan.–31 Dec. 1 Apr.–31 Mar.	1 Jan.–31 Dec. 1 May–30 Apr.	1 Jan.–31 Dec. 1 Sep.–31 Aug.	1 Jan.–31 Dec. 1 Oct.–30 Sep.
Restrictions in the possibility of daily return	None	None	None	None
Reasons for no write-down § 253 para. 3 clause 4 of the German Commercial Code	–	–	–	–
Pointers for the loss of value not being permanent	–	–	–	–

8. Cover Statement

(Old portfolio/issues before 19 July 2005)

(in € 000)	31 Dec. 2011	31 Dec. 2010
Mortgage bond coverage		
Liabilities requiring cover		
Mortgage bonds	1 270 000	1 538 142
discharged and cancelled items	–	–
Registered debentures (as security on loans taken up)	–	–
	1 270 000	**1 538 142**
Covering assets		
Loans to customers secured by mortgages	1 348 529	1 955 062
Public issuer securities	–	–
Substitute credit institution cover	60 000	69 000
	1 408 529	**2 024 062**
Surplus cover	**138 529**	**485 920**
Municipal cover		
Liabilities requiring cover		
Municipal debentures	6 016 717	8 002 182
discharged and cancelled items	–	–
Registered municipal debentures (to secure loans taken up)	1 009 323	1 225 442
	7 026 040	**9 227 624**
Covering assets		
Municipal loans		
to financial institutions	2 528 658	3 376 709
to customers	5 199 976	5 971 056
Public issuer securities	421 169	674 336
Fixed deposits from public-sector banks	1 454	2 497
Substitute credit institution cover	279 572	613 350
	8 430 829	**10 637 948**
Surplus cover	**1 404 789**	**1 410 324**

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

9. Cover statement for NORD/LB in accordance with § 28 of the Covered Bond Act

Covered bonds in circulation and cover pools

(in € million)	Nominal	Cash value	Risk cash asset + 250 bp	Risk cash asset – 250 bp	Risk cash asset of currency
Mortgage bonds					
Total circulation	768 (1 033)	839 (1 091)	774 (1 015)	896 (1 174)	774 (1 015)
Guarantee fund total [1]	2 114 (2 347)	2 280 (2 483)	2 145 (2 340)	2 394 (2 637)	2 145 (2 340)
Excess coverage	**1 346** (1 314)	**1 441** (1 392)	**1 371** (1 325)	**1 498** (1 463)	**1 371** (1 325)
Excess coverage in %	175 (127)	172 (128)	177 (131)	167 (125)	177 (131)
Public mortgage bonds					
Total circulation	19 811 (20 702)	22 153 (22 286)	19 861 (20 159)	24 788 (24 899)	20 190 (20 432)
Guarantee fund total [2]	27 334 (24 564)	29 886 (26 054)	27 044 (23 689)	33 117 (29 035)	27 112 (23 696)
Excess coverage	**7 523** (3 862)	**7 733** (3 768)	**7 183** (3 530)	**8 329** (4 136)	**6 922** (3 264)
Excess coverage in %	38 (19)	35 (17)	36 (18)	34 (17)	34 (16)
Shipping covered bonds					
Total circulation	10 (110)	10 (109)	9 (106)	11 (111)	9 (106)
Guarantee fund total [3]	575 (707)	595 (721)	553 (667)	615 (762)	460 (559)
Excess coverage	**565** (597)	**585** (612)	**544** (561)	**604** (651)	**451** (453)
Excess coverage in %	5 650 (543)	5 850 (562)	6 044 (529)	5 491 (587)	5 011 (427)

[1] Amounts acc. to § 19, para. 1, no. 2 and 3 are not included in the cover pool.
[2] Amounts acc. to § 20, para. 2, no. 2 are included in the cover pool in the amount of € 1 116 million (€ 920 million).
[3] Amounts acc. to § 26, para. 1, no. 3 and 4 are not included in the cover pool.

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

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

(in € million)	less than 1 year	more than 1 year but less than 2 years	more than 2 years but less than 3 years	more than 3 years but less than 4 years	more than 4 years but less than 5 years	more than 5 years but less than 10 years	more than 10 years
Mortgage bonds	139 (372)	103 (46)	50 (102)	63 (50)	255 (63)	108 (350)	50 (50)
Guarantee fund total	476 (469)	209 (251)	265 (271)	247 (255)	268 (195)	551 (805)	98 (101)
Public mortgage bonds	4 247 (3 294)	2 464 (3 386)	1 967 (2 310)	1 135 (1 861)	2 164 (1 157)	4 208 (5 111)	3 626 (3 583)
Guarantee fund total	2 499 (2 611)	2 506 (1 624)	2 961 (2 104)	6 068 (2 277)	1 863 (5 607)	7 255 (6 315)	4 182 (4 026)
Shipping covered bonds	– (100)	– (–)	10 (–)	– (10)	– (–)	– (–)	– (–)
Guarantee fund total	129 (144)	116 (119)	80 (104)	83 (78)	60 (79)	101 (163)	6 (20)

Receivables used to cover covered bonds by size:

(in € million)	Covering assets 31 Dec. 2011	Covering assets 31 Dec. 2010
Mortgage bonds		
Less than € 0.3 million	869	832
More than € 0.3 million and less than € 5 million	440	434
More than € 5 million	671	915
	1 980	**2 181**
Shipping covered bonds (ocean-going vessels only)		
Less than € 0.5 million	–	1
More than € 0.5 million and less than € 5 million	126	133
More than € 5 million	430	534
	556	**668**

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

	Covering assets					
(in € million)	commercial 31 Dec. 2011	commercial 31 Dec. 2010	residential 31 Dec. 2011	residential 31 Dec. 2010	Other 31 Dec. 2011	Other 31 Dec. 2010
Germany						
Apartments	–	–	163	160	–	–
One-Family-Houses	–	–	525	496	–	–
Apartment Buildings	–	–	445	413	–	–
Office Buildings	352	448	–	–	–	–
Nonresidential Building	66	62	–	–	–	–
Industrial Building	2	3	–	–	–	–
Other commercial real estate	252	324	–	–	–	–
Unfinished and Non-Productive New Buildings	–	–	1	1	–	–
Building sites	–	–	1	1	–	–
Real Estate	2	2	–	–	–	–
Over-collateralisation			–	–	–	–
Luxembourg						
Office Buildings	119	121	–	–	–	–
France						
Office Buildings	–	–	–	–	–	–
The Netherlands						
Office Buildings	20	40	–	–	–	–
Austria						
Office Buildings	9	9	–	–	–	–
Poland						
Office Buildings	23	90	–	–	–	–
Spain						
Office Buildings	–	11	–	–	–	–
USA (incl. Puerto Rico)						
Office Buildings	–	–	–	–	–	–

The value of receivables used to cover mortgage covered bonds which were outstanding by at least 90 days was € 19 thousand (€ 28 thousand) for land securities in Germany.

There were no cases of forced sale, forced receivership or takeovers of land to prevent losses. Arrears on interest to be paid amounted to € 377 thousand (€ 458 thousand).

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

(in € million)	County	Regional local authorities	Public local authorities	Other debtors
Germany	868 (187)	7 088 (5 971)	4 906 (4 404)	13 674 (13 466)
Belgium	0*) (–)	– (–)	– (–)	– (–)
Great Britain	70 (–)	– (–)	– (–)	– (–)
Finnland	30 (–)	– (–)	– (–)	– (–)
Italy	– (50)	– (–)	– (–)	– (–)
Latvia	– (–)	– (–)	32 (45)	– (–)
Hungary	– (20)	– (–)	– (–)	– (–)
Luxembourg	– (–)	– (–)	– (–)	116 (30)
Austria	88 (38)	– (–)	– (–)	462 (353)

*) Receivable in the amount of € 0.248 million.

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

	Covering assets					
(in € million)	Maritime navigation 31 Dec. 2011	Maritime navigation 31 Dec. 2010	Inland shipping navigation 31 Dec. 2011	Inland shipping navigation 31 Dec. 2010	Other 31 Dec. 2011	Other 31 Dec. 2010
Germany	430	513	–	–	–	–
Cyprus	126	155	–	–	–	–
Excess Coverage	–	–	–	–	15	15

There were no cases of forced sale, forced receivership or takeovers of ships or shipbuilding to prevent losses. Arrears on interest to be paid amounted to € 2.783 million (€ 6.442 million).

10. List of Equity Holdings

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

No.	Name/registered office	Share of capital held (in %)	Equity (in € 000)	Profit / Loss (in € 000)
	Affiliated companies			
1	BGG Bremen GmbH & Co. KG, Bremen [1) 10)]	100.00	2 090	174
2	BGG Oldenburg GmbH & Co. KG, Bremen [1) 10)]	100.00	8 615	914
3	BLB Immobilien GmbH, Bremen [1) 10)]	100.00	44 695	0
4	BLB Leasing GmbH, Oldenburg [1) 10)]	100.00	511	0
5	BLBI Beteiligungs-GmbH, Bremen [1) 10)]	100.00	51	8
6	Braunschweig Advisors GmbH, Braunschweig [1) 8)]	100.00	25	– 1
7	Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [3) 8)]	100.00	30 626	–
8	Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig [2) 8)]	100.00	375	– 163
9	Braunschweig Grundstücksentwicklungsgesellschaft mbH, Braunschweig [1) 8)]	100.00	28	3
10	Braunschweig-Beteiligungsgesellschaft mbH, Braunschweig [1) 8)]	100.00	8 597	0
11	Braunschweig-Informationstechnologie-GmbH, Braunschweig [1) 10)]	100.00	3 160	0
12	Bremer Landesbank Kreditanstalt Oldenburg -Girozentrale- , Bremen [10) 12)]	92.50	1 348 677	78 000
13	Bremische Grundstücks-GmbH, Bremen [1) 10)]	100.00	59 025	2 792
14	Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen [1) 10)]	100.00	4 980	790
15	Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn, Bremen [1) 10)]	100.00	150	52
16	City Center Magdeburg Hasselbach-Passage Grundstücksgesellschaft mbH, Hanover [5)]	100.00	42	– 1
17	Deutsche Hypo Delaware Blocker Inc., Wilmington, USA [1) 10) 11)]	100.00	11 246	– 2 894
18	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover/Berlin [10) 12)]	100.00	941 950	11 001
19	FL FINANZ-LEASING GmbH, Wiesbaden [2) 8)]	58.00	289	– 273
20	HALOR GmbH i. L., Pöcking [8)]	100.00	36	10
21	HERMA Verwaltungs- und Beteiligungsgesellschaft mit beschränkter Haftung, Hanover [1) 8)]	100.00	546	1
22	IRC Verwaltung GmbH & Co. Objekt Nienburg KG, Pullach i. Isartal [1) 8)]	98.00	25	0
23	IRC Verwaltung GmbH & Co. Objekt Unterföhring KG, Pullach i. Isartal [1) 8)]	98.00	24	– 1
24	KreditServices Nord GmbH, Braunschweig [10)]	100.00	581	6
25	LBT Holding Corporation Inc., Wilmington, USA [8)]	100.00	188	– 175
26	LHI Leasing GmbH & Co. Immobilien KG, Pullach i. Isartal [2) 8)]	90.00	974	21
27	MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Pullach i. Isartal [10)]	77.81	9 455	1 493
28	Medicis Nexus GmbH & Co. KG, Icking [8)]	66.01	10 969	117
29	NBN Grundstücks- und Verwaltungs-GmbH, Hanover [1) 5)]	100.00	1 148	– 1 063
30	NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover [2) 5)]	90.00	1 894	– 1 653
31	Nieba GmbH, Hanover [3) 10)]	100.00	162 700	–
32	NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover [8)]	100.00	41	8
33	NORD/FM Norddeutsche Facility Management GmbH, Hanover [3) 10)]	100.00	636	–
34	NORD/LB Asset Management Holding GmbH, Hanover [10)]	100.00	6 703	– 18
35	NORD/LB Beteiligungsgesellschaft in Mecklenburg-Vorpommern und Sachsen-Anhalt mbH, Hanover [3) 8)]	100.00	513	–

No.	Name / registered office	Share of capital held (in %)	Equity (in € 000)	Profit / Loss (in € 000)
36	NORD/LB Capital Management GmbH, Hanover [1) 10)]	100.00	1 609	305
37	NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel, Luxembourg [1) 10) 11) 12)]	100.00	57 580	4 142
38	NORD/LB G-MTN S.A., Luxemburg-Findel, Luxembourg [10) 11)]	100.00	31	0
39	NORD/LB Informationstechnologie GmbH, Hanover [3) 8)]	100.00	25	–
40	NORD/LB Kapitalanlagegesellschaft AG, Hanover [1) 10) 12)]	100.00	4 410	– 224
41	NORD/LB Project Holding Ltd., London, Great Britain [8)]	100.00	447	101
42	NORD/LB RP Investments LLC, Wilmington, USA [8)]	100.00	1 419	– 390
43	Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hanover [8)]	100.00	15 191	31
44	Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel, Luxembourg [10) 11) 12)]	100.00	612 050	45 952
45	NORDIG Norddeutsche Investitionsgesellschaft mbH, Hanover [8)]	100.00	199	– 2
46	Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover [3) 10)]	100.00	289 520	–
47	NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen [1) 10)]	100.00	4 528	1 816
48	NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen [1) 10)]	100.00	1 107	648
49	Öffentliche Facility Management GmbH, Braunschweig [1) 10)]	100.00	25	0
50	Öffentliche Facility Management Leben GmbH & Co. KG, Braunschweig [1) 10)]	100.00	19 029	467
51	Öffentliche Facility Management Sach GmbH & Co. KG, Braunschweig [1) 10)]	100.00	15 877	229
52	Öffentliche Lebensversicherung Braunschweig, Braunschweig [10)]	75.00	32 131	768
53	Öffentliche Sachversicherung Braunschweig, Braunschweig [10)]	75.00	261 548	1 502
54	PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hanover [8)]	100.00	32	– 2
55	Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [1) 3) 8)]	98.00	3 088	–
56	Ricklinger Kreisel Beteiligungs GmbH, Hanover [1) 8)]	100.00	38	– 1
57	Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen [1) 8)]	100.00	1 082	12
58	SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main [8)]	100.00	802	– 840
59	Skandifinanz AG, Zurich, Schweiz [1) 10) 11) 12)]	100.00	26 774	– 5 113
60	TANGENS Grundstücksverwaltung GmbH & Co. Vermietungs-KG, Pullach i. Isartal [8)]	100.00	22	– 1
61	Terra Grundbesitzgesellschaft am Aegi mbH, Hanover [1) 10)]	100.00	346	– 1 910
62	Themis 1 Inc., Wilmington, USA [8)]	100.00	7 693	1 972
63	Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [1) 8)]	100.00	35 513	2 796
64	Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hanover [8) 13)]	72.70	– 4 192	446
65	Vermögensverwaltungsgesellschaft Thiede GmbH u. Co. Grundschulen-Vermietungs-KG, Hanover [8)]	79.80	5	– 12
66	Vermögensverwaltungsgesellschaft Thiede GmbH u. Co. Tiefgarage Stade Vermietungs KG, Hanover [8) 13)]	90.00	– 2 866	10
67	Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [1) 3) 8)]	100.00	1 278	–

No.	Name/registered office	Share of capital held (in %)	Equity (in € 000)	Profit / Loss (in € 000)
Other companies of min. 20 per cent share				
1	Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede [1) 8)]	32.26	28 247	1 416
2	BREBAU GmbH, Bremen [1) 8) 12)]	48.84	44 777	4 793
3	Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [1) 8) 14)]	49.00	–	–
4	Bremer Toto und Lotto Gesellschaft mit beschränkter Haftung, Bremen [1) 8)]	33.33	4 283	3
5	Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [8)]	50.00	5 100	365
6	Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [8) 12)]	20.89	14 967	235
7	Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [8) 12)]	20.44	11 362	252
8	Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen [1) 8) 12)]	27.50	71 459	19 880
9	Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [1) 8)]	20.46	9 602	561
10	GSG Oldenburg Bau- und Wohngesellschaft mit beschränkter Haftung, Oldenburg [1) 8) 12)]	22.22	63 131	3 654
11	Grundstücksgemeinschaft Escherweg 5 GbR, Bremen [1) 10)]	50.00	– 1 564	– 382
12	Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. – Objekt Zietenterrassen – KG, Göttingen [2) 8)]	52.56	3 171	1 409
13	INI International Neuroscience Institute Hannover GmbH, Hanover [1) 5)]	22.67	– 11 131	– 1 066
14	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover [1) 8) 12)]	44.00	311 058	13 600
15	LHI Leasing GmbH, Pullach i. Isartal [2) 4) 10) 12)]	49.00	46 192	3 594
16	LINOVO Productions GmbH & Co. KG, Pöcking [8) 13)]	45.17	– 44 617	3 449
17	Medical Park Hannover GmbH, Hanover [1) 8)]	50.00	1 841	328
18	Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [8)]	26.00	9 182	671
19	Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover [8)]	39.82	8 091	2 109
20	NBV Beteiligungs-GmbH, Hamburg [2) 8)]	28.57	19 558	1 905
21	NORD Holding Unternehmensbeteiligungsgesellschaft mit beschränkter Haftung, Hanover [8)]	40.00	95 377	15 234
22	NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hanover [8)]	28.66	6 725	2 150
23	Öffentliche Versicherung Bremen, Bremen [1) 8)]	20.00	6 020	360
24	SALEG Sachsen-Anhaltinische-Landesentwicklungsgesellschaft mbH, Magdeburg [8)]	56.61	11 804	473
25	Toto-Lotto Niedersachsen GmbH, Hanover [8) 12)]	49.85	28 600	18 361
26	USPF III Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf [1) 7)]	42.86	5 126	– 1 498
27	Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [1) 8)]	21.72	18 266	225
NORD/LB is a partner with unlimited liability in the following company (§ 285 no. 11 a HGB)				
1	GLB GmbH & Co. OHG, Frankfurt am Main			
Investments in terms of § 340a para. 4 no. 2 of the German Commercial Code, unless reported as an affiliated company or other shareholding				
1	HCI HAMMONIA SHIPPING AG, Hamburg			
2	Niedersächsische Bürgschaftsbank (NBB) Gesellschaft mit beschränkter Haftung, Hanover			

1) Held indirectly.
2) Including shares held indirectly.
3) Letter of comfort exists.
4) Proportionately consolidated.
5) Data as at 31 Dec. 2009 is available.
6) Data as at 30 Jun. 2010 is available (different financial year).
7) Data as at 30 Sep2010 is available (different financial year).
8) Data as at 31 Dec. 2010 is available.
9) Data as at 30 Sep. 2011 (different financial year) is available.
10) Preliminary data as at 31 Dec. 2011.
11) Values in the financial statements in accordance with IAS/IFRS.
12) Disclosure also in accordance with § 340a para. 4 no. 2 of the German Commercial Code (banks are interpreted as large corporate entities).
13) The company is not actually overindebted.
14) No disclosure in accordance with § 286 para. 3 clause 2 of the German Commercial Code

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Declaration by legal representatives

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

Hanover / Braunschweig / Magdeburg
21 February 2012

Norddeutsche Landesbank Girozentrale

The Managing Board

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

Audit Opinion

The following is an English translation of the audit opinion, which has been prepared on the basis of the German language version of the Financial Statements and the Management Report. The translation of the Financial Statements, the Management Report, and the audit opinion, are provided for convenience; the respective German versions shall be exclusively valid for all purposes.

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Norddeutsche Landesbank Girozentrale, Hannover, Braunschweig and Magdeburg, for the fiscal year from 1 January to 31 December 2011. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and the supplementary articles of bylaws are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB [„Handelsgesetzbuch": „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

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

Hanover, 24 February 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier
Wirtschaftsprüfer
[German Public Auditor]

Hultsch
Wirtschaftsprüfer
[German Public Auditor]

Report of the Supervisory Board

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

The annual financial statements of NORD/LB for the 2011 accounting period were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft who issued joint and unqualified auditors' certification. The auditors also took part in the meeting of the Supervisory Board to discuss the annual financial statements, which was held on 18 April 2012, and reported on the results of their audit.

The Supervisory Board has approved the results of the audit carried out by the auditors; the results of a conclusive examination carried out by the Supervisory Board did not give any cause for objections. In its meeting of 18 April 2012 the Supervisory Board approved of the management report and the annual financial statements as at 31 December 2011; these have hence been adopted.

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

The following left the Supervisory Board:
as at 31 December 2011 Dr. Josef Bernhard Hentschel
as at 31 January 2011 Mr. Manfred Köhler

The following were appointed to the Supervisory Board:
as at 1 January 2012 Mr. Hans-Heinrich Hahne
as at 1 February 2012 Mr. Norbert Dierkes

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

Hanover / Braunschweig / Magdeburg
April 2012

Hartmut Möllring
Minister of Finance
State of Lower Saxony

Report of the Owners' Meeting

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

In its meetings in 2011 the Owners' Meeting made important decisions concerning the conversion of existing capital instruments into hard core capital in accordance with Basel III and further capital-boosting measures.

The following left the Owners' Meeting:
as at 11 April 2011 Dr. Helmut Stegmann
as at 5 June 2011 Mr. Thomas Webel
as at 30 November 2011 Mr. Thomas Brase
as at 31 December 2011 Mr. Hans-Heinrich Hahne

The following were appointed to the Owners' Meeting:
as at 6 June 2011 Dr. Michael Ermrich
as at 24 June 2011 Dr. Heiko Geue
as at 1 December 2011 Mr. Frank Doods
as at 1 January 2012 Mr. Ludwig Momann

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

Hanover / Braunschweig / Magdeburg
April 2012

Thomas Mang
President
Association of Savings Banks in Lower Saxony

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