



Remuneration Report

as at 31 December 2012

Information and report on the structure and appropriateness of NORD/LBs remuneration systems

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1 Preliminary remarks and principles for remuneration

Norddeutsche Landesbank Girozentrale (NORD/LB) has classified itself based on its total assets and a risk analysis carried out by the bank as a major institution in accordance with the Remuneration Regulation for Institutions (InstitutsVergV) which came into effect in 2010. NORD/LB's remuneration system is therefore subject to the specific requirements of the InstitutsVergV.

This remuneration report relates to the remuneration of employees of NORD/LB Anstalt öffentlichen Rechts (AöR) in Germany and abroad for the financial year 2012. The disclosures relating to Landesförderinstitut Mecklenburg-Vorpommern and Investitionsbank Sachsen-Anhalt are added for information purposes only. The Group companies Bremer Landesbank Kreditanstalt Oldenburg Girozentrale, Deutsche Hypothekenbank Actien-Gesellschaft and Norddeutsche Landesbank Luxembourg S.A. meet their disclosure requirements independently in accordance with the respective regulations in their annual reports or on their websites.

The remuneration strategy of NORD/LB is designed to meet the regulatory requirements and to achieve sustainability, so as to promote the responsible and risk-conscious behaviour of employees. Remuneration decisions are made as a valuable investment in employee potential including with regard to the strategic alignment of the bank. NORD/LB uses an attractive and competitive remuneration system to attract and retain its employees. Here the bank considers it important that fixed and variable remuneration are in appropriate proportion to one another and that the variable remuneration in particular rewards good performance.

By means of interbank and market comparisons and a function evaluation, the bank ensures that the struc-

ture and distribution of remuneration are appropriate and balanced between the various business segments of the bank both in Germany and the locations abroad. In so doing NORD/LB shows that it is committed to a responsible and sustainable remuneration policy.

The total remuneration is made up of fixed and variable components:

- The fixed and variable components are in appropriate proportion to one another and no incentives are provided for taking disproportionately high risks.
- Payments from third parties which the employees or Managing Board receive in respect of their professional activities are reviewed on an annual basis to assess the appropriateness of remuneration and whether fixed and variable costs are in appropriate proportion to one another.
- NORD/LB's remuneration system does not run counter to the monitoring function of the control units. In particular there is no risk of a conflict of interests.
- The fixed remuneration represents the main part of total remuneration and is designed so that employees are not reliant on the variable remuneration to cover reasonable living costs.
- Guaranteed variable remuneration (e.g. guaranteed annual bonuses) is not granted, apart from at the start of a contract of employment and at the most for one year.
- In the case of termination of employment, guaranteed severance payments are not and will not be agreed. Severance payments are only made on the basis of a collective agreement or a negotiated agreement when an employee leaves the bank.

2 Governance structure in the area of remuneration

The Managing Board is responsible for ensuring that the structure of the remuneration system for the bank's employees is appropriate. It approves the remuneration system, the bonus volume for NORD/LB AÖR, the distribution of bonuses the business segments and the annual budget for individual salary increases.

NORD/LB's remuneration system is based on the collective agreements for the private banking sector and public banks, works council agreements for bonuses and annual appraisals, and the internal policy relating to the principles for remuneration systems for pay-scale and contract employees. The conditions for the remuneration of employees are laid down in writing in collective agreements and contracts of employment. The key points of NORD/LB's remuneration system are routinely communicated to the responsible bodies in suitable form before they are implemented and distributed. Compliance with the bank's remuneration system is monitored continuously by Human Resources Management and is set out in writing in the organisational guidelines. The Presiding Committee of the Supervisory Board is responsible for the remuneration of the Managing Board. It is finalised in the respective contract of employment.

The Managing Board set up a Remuneration Committee in 2010, which assists and advises it on the appropriate structure of the remuneration system. This committee meets at least twice a year. In hierarchical terms it sits below the level of the Managing Board and is made up of the heads of Human Resources, Finance Risk Controlling, Organisation/IT, Managing Board Staff/Legal/Investments, Private and Commercial Customers, Financial Markets, Corporate Customers, Central Management Risk and Corporate Service. The Audit Department is included within the scope of its activities. The Remuneration Committee monitors the structure of the incentive and remuneration systems taking into account the following objectives:

- Consistent with the objectives laid down in the strategies
- Prevention of incentives to take disproportionately high risk positions

- Remuneration for employees in non-business-generating areas appropriate for their responsibilities and duties

The main tasks of the Remuneration Committee are:

- Review the appropriateness of NORD/LB's remuneration systems taking into account the objectives laid down in the strategies
- Review the compliance, structure and development of NORD/LB's remuneration systems, in particular the rules for variable remuneration
- Examine the possibility of harmonising the remuneration systems in the NORD/LB Group taking into account the regulatory conditions.
- Check the plausibility of the risk analysis conducted in accordance with § 1 of the InstitutsVergV
- Check the plausibility of the process for identifying risk takers in accordance with § 5 para. 1 of the InstitutsVergV
- Report to the Managing Board and the Supervisory Board on the structure, review and development of the bank's remuneration systems and as and when required when significant changes are made to the remuneration system or other significant events relating to the remuneration system occur.
- The Remuneration Committee has the right to make proposals to the Managing Board concerning the structure and development of the remuneration system.

The bank has implemented with the Remuneration Committee and the main tasks it has been assigned a stable governance structure which ensures the structure, implementation and control of the remuneration system.

The details concerning the structure of the remuneration systems for the respective employee groups are explained below. For this purpose NORD/LB distinguishes between the following employee groups:

- Pay-scale and contract employees
- Risk takers (employees whose activities have a significant impact on the overall risk profile of the bank)

- Employees in the foreign branches including employees posted abroad
- and the Managing Board.

3 Remuneration system for pay-scale and contract employees

3.1 Fixed remuneration

The collective agreements for the private banking sector and public banks are applied for those employees of NORD/LB with whom it has been agreed that these collective agreements apply (pay-scale employees). Pay-scale employees are grouped into tariff groups and rewarded with 13 monthly salaries per annum according to the pay-scale based on the activities they perform. Continued above-average commitment, combined with correspondingly above-average results, may be rewarded with extra pay. This is granted by an upgrade of the work experience scale of the collective agreement or by extra pay which is not pensionable.

NORD/LB's contract employees are remunerated above the pay scale. The non-tariff area above the pay scale is arranged in function levels with assigned salary bands for each. The monthly salary of contract employees is normally linked to the collectively-agreed salary by a factor. In addition to this, extra pay may also be granted. In some cases fixed salaries (i.e. not linked to the collectively agreed salaries) are contractually agreed based on the bands for the function levels. A function level is set on the basis of a function evaluation; the functions are valued on the basis of defined criteria and reviewed by a committee which compares functions through all company levels. This comparison ensures that the remuneration in particular of the control units is in appropriate proportion to the market divisions.

3.2 Variable remuneration

The bonus system is based on the works council agreements for bonuses and annual appraisals concluded in NORD/LB. The results of the annual budget are transported in an orderly process throughout NORD/LB via target agreements.

In addition to this, the Managing Board approves a bonus volume which depends on the annual profit; this totalled EUR 26.2 million for the financial year 2012. NORD/LB's remuneration system is therefore, as required by § 3 para. 1 of the InstitutsVergV, in line with NORD/LB's corporate strategy.¹ The payment of these does not impair the bank's capital adequacy (§ 4 of the InstitutsVergV).

The variable remuneration of the pay-scale and contract employees was paid depending on individual performance. With regard to the variable remuneration for the higher function levels, there was greater scope for assessing performance-oriented pay.

3.3 Commission

Pay-scale and contract employees were able to receive acquisition commission for selling the products of network partners. This commission was paid by the network partners and passed on by NORD/LB proportionately to its employees. The individual levels of commission depended on the product and was limited in value. In the financial year 2012 sales commission totalling EUR 1,070,200 was paid to 794 employees. Pay-scale employees received around 84 per cent of the sales commission. The payment of acquisition commission was stopped on 28 February 2013.

¹ There are similar systems in the foreign branches. Therefore the statements made here also apply for the foreign branches.

4 Remuneration system for risk takers

4.1 Identification of risk takers

In order to meet the specific requirements of the InstitutsVergV, NORD/LB identified in the financial year 2012 those employees whose activities have a significant impact on the overall risk profile of the bank (hereafter "risk takers"). The risk takers were identified for 2012 for the first time using a scoring model based on qualitative and quantitative criteria. As a result further persons were identified as risk takers in addition to those identified as risk takers in the financial years 2010 and 2011.

4.2 Deferred payment of variable remuneration

Special requirements apply to risk takers, such as the sustainable and long-term structure of part of the

variable remuneration. Negative contributions to earnings by the manager or risk taker or NORD/LB and serious breaches of duty by an employee result in the deduction of the deferrals. Deferrals are paid to risk takers for the past financial year in the December of the following year (payment year) and in the June of the following three calendar years, providing the requirements for payment in accordance with the InstitutsVergV have been met. They are entirely dependent on the sustained performance of the bank.

5 Remuneration system for employees in the foreign branches

5.1 Fixed remuneration

The remuneration system in Germany for pay-scale employees and contract employees paid above the pay scale does not apply to the remuneration structures of the employees working in the foreign branches. The level of remuneration in the foreign locations is based on the salary structure of the respective branch and is set on the basis of benchmarks with local competitor banks.

5.2 Variable remuneration

The level of bonuses to be paid to employees working abroad is decided by the Managing Board. The bonuses are distributed to the employees taking into account their individual performance appraisals, the achievement of targets by the division and the earnings position of the bank. The variable remuneration granted by NORD/LB is not a fixed component of the

annual salary, but an additional, voluntary payment by the bank that allows the employees to share in the success of the bank. The upper limit for the ratio of fixed to variable remuneration in terms of § 3 para. 5 of the InstitutsVergV defined by NORD/LB was adhered to in 2012. The variable remuneration of risk takers in the foreign branches is also spread in accordance with the InstitutsVergV and is linked to the sustainable performance of the bank.

5.3 Remuneration of expatriates

For employees posted to a branch abroad (expatriates), the German contract of employment continues to apply. Therefore expatriates receive their fixed and variable remuneration on the basis of their earnings in Germany. The particularities of a secondment are covered by an additional package for expatriates.

6 Remuneration system for members of the Managing Board

The remuneration of members of the Managing Board is made up of a fixed annual salary and variable remuneration.

Part of the fixed salary is subject to revocation. The Supervisory Board sets the amount of the variable share based on the targets and the results achieved. This reflects the position of the bank, the success of

the department and the individual duties and performance taking into account the risks taken.

The variable remuneration is withheld for a period of 3 years. The deferral is only paid if the conditions for payment are met.

7 Fringe benefits

NORD/LB grants its employees a company pension, for which the bank makes accruals. None of NORD/LB's employer-funded defined benefits provide an incentive to take disproportionately high risks, as the level of the individual pension is not at the discretion of the bank. Instead the aim of the bank's defined

benefits is to motivate the employees and to work towards the long-term success of the bank.

Furthermore, from a certain function level NORD/LB provides its contract employees with a company car for private and business use. In addition to this, frequent drivers can also receive a company car.

8 Disclosure of remuneration figures in accordance with §§ 7, 8 of the InstitutsVergV

The general disclosure requirements for institutions in accordance with § 7 of the InstitutsVergV and the particular disclosure requirements for major institutions in accordance with § 8 of the InstitutsVergV are shown below. The underlying data was collected on 31 December 2012 and is reported per annum.

In the financial year 2012, 4,325 employees received a bonus. The share of bonuses in total remuneration in NORD/LB AöR in the financial year 2012 totalled 8.8 per cent; the ratio of fixed to variable remuneration

was therefore appropriate. Based on the total number of employees, the average bonus for the financial year 2012 for employees was EUR 5,618.

NORD/LB's remuneration system is therefore structured appropriately. The total remuneration is spread between the employee groups of the respective business segments as follows:

Fixed and variable remuneration of employees (employees as at 31 December 2012) by business segment and employee group in accordance with § 7 para. 2 no. 2 of the InstitutsVergV:					
Financial year 2012 in EUR k	Market	Back Office	Corporate Centre	Managing Board	Total
Pay-scale employees	47,185.3	38,918.6	38,238.1		124,342.0
of which fixed	45,124.8	37,299.8	36,620.0		119,044.6
of which variable	2,060.5	1,618.8	1,618.1		5,297.4
Contract employees	57,600.9	26,199.6	51,083.3		134,883.8
of which fixed	50,740.6	23,603.7	46,503.1		120,847.4
of which variable	6,860.3	2,595.9	4,580.2		14,036.4
Employees abroad	16,393.0	2,875.8	8,263.8		27,532.6
of which fixed	11,968.3	2,249.2	7,179.3		21,396.8
of which variable	4,424.7	626.6	1,084.5		6,135.8
Total remuneration	121,179.2	67,994.0	97,585.2	3,150.0	289,908.5
of which fixed	107,833.7	63,152.7	90,302.4	3,150.0	264,438.9
of which variable	13,345.5	4,841.3	7,282.8	0.0	25,469.6
Number of employees in Germany and abroad	1,769	1,141	1,617	6	4,533

The table contains rounding differences. In order comply with the principle of materiality, protection and confidentiality of § 26 a of the German Banking Act, where necessary figures are reported in aggregated form.

The total remuneration of Investitionsbank Sachsen-Anhalt and Landesförderinstitut Mecklenburg-

Vorpommern is reported below for information purposes:

Fixed and variable remuneration by employee group in the development institutes in accordance with § 7 para. 2 no. 2 of the InstitutsVergV:			
Financial year 2012 in EUR k	Investitionsbank	Landesförderinstitut	Total
	Saxony-Anhalt	Mecklenburg-Vorpommern	
Pay-scale employees	15,210.0	12,368.3	27,578.3
of which fixed	14,385.3	11,582.0	25,967.3
of which variable	824.7	786.3	1,611.0
Contract employees	4,256.9	892.4	5,149.3
of which fixed	3,816.0	803.7	4,619.7
of which variable	440.9	88.7	529.6
Total	19,466.9	13,260.6	32,727.5
of which fixed	18,201.3	12,385.6	30,586.9
of which variable	1,265.6	875.0	2,140.6
Number of employees	358	258	616

The table contains rounding differences. In order comply with the principle of materiality, protection and confidentiality of § 26 a of the German Banking Act, where necessary figures are reported in aggregated form.

As at 31 December 2012 NORD/LB employs a total of 33 risk takers whose variable remuneration for the financial year 2012 was set at approximately EUR 2.9 million (made up exclusively of the share of variable remuneration withheld in the previous year).

The total value of severance payments in accordance with § 8 para. 3 no. 5 of the InstitutsVergV was € 879,200. In one case linked to the start of a contract of employment, a guaranteed payment in accordance with § 8 para. 3 no. 2 of the InstitutsVergV was agreed.

Fixed and variable remuneration of risk takers in accordance with § 8 para. 3 no. 1 of the InstitutsVergV:				
Financial year 2012 in EUR k	Market	Back Office & Corporate	Managing Board	Total
		Centre		
Total remuneration	5,412.4	2,815.5	3,150.0	11,377.9
of which fixed	3,496.3	1,794.0	3,150.0	8,440.3
of which variable	1,916.1	1,021.5	0.0	2,937.6
Number of risk takers				
as at 31.12.2012	19	8	6	33

The table contains rounding differences. In order comply with the principle of materiality, protection and confidentiality of § 26 a of the German Banking Act, where necessary figures are reported in aggregated form.

Variable remuneration withheld and paid out in cash in accordance with § 8 para. 3 nos. 3 and 4 of the InstitutsVergV:				
Financial year 2012 in EUR k	Market	Back Office & Corporate	Managing Board	Total
		Centre		
Variable remuneration	1,916.1	1,021.5	0.0	2,937.6
of which deferrals	1,457.3	817.2	0.0	2,274.5
of which paid out in cash	458.7	204.3	0.0	663.0
of which dependent on sustained performance	1,457.3	817.2	0.0	2,274.5

The table contains rounding differences. In order comply with the principle of materiality, protection and confidentiality of § 26 a of the German Banking Act, where necessary figures are reported in aggregated form.

Payments at the start of a contract of employment	
in accordance with § 8 para. 3 no. 2 of the InstitutsVergV:	
Payments at the end of a contract of employment	
in accordance with § 8 para. 3 no. 5 of the InstitutsVergV:	
Financial year 2012 in EUR k	Total
Payments at the start of a contract of employment	80.0
Number of beneficiaries	1
Payments at the end of a contract of employment	879.2
Maximum severance payment	521.4
Number of beneficiaries	2

In order comply with the principle of materiality, protection and confidentiality of § 26 a of the German Banking Act, where necessary figures are reported in aggregated form.

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Last revised: 08/2013