Annual Report 2013

Norddeutsche Landesbank Girozentrale
(Anstalt öffentlichen Rechts)

Finanzgruppe

NORD/LB
Die norddeutsche Art.

NORD/LB AT A GLANCE

In € million	1 Jan. – 31 Dec. 2013	1 Jan. – 31 Dec. 2012	Change (in %)
Net interest income	1 298	1 325	– 2
Net commission income	83	151	– 45
Profit / loss from trading portfolio	161	88	83
Administrative expenses	775	– 820	– 5
Other operating profit / loss	– 37	– 95	– 61
Operating result before risk provisioning / valuation	**730**	**649**	**12**
Valuation result of receivables, securities and investments	464	– 369	26
Assumption of investment losses	8	– 10	– 20
Allocation to funds for general banking risks	–	–	–
Operating result after risk provisioning / valuation	**258**	**270**	**– 4**
Extraordinary profit / loss	– 46	– 42	10
Partial profit transfer	71	– 97	– 27
Tax revenue	– 14	– 58	> 100
Profit for the year before appropriation of earnings	**155**	**73**	**> 100**

Balance figures in € million	31 Dec. 2013	31 Dec. 2012	Change (in %)
Total assets	131 620	148 846	– 12
Liabilities to customers	37 110	36 940	0
Loans and advances to customers	58 947	64 040	– 8
Equity	6 744	7 044	– 4
Regulatory key figures			
Core capital for solvency reasons in € million	7 328	7 412	– 1
Regulatory equity in € million	8 005	8 754	– 9
Total capital ratio in %	18.58	17.8	4

NORD/LB ratings (long-term / short-term / individual)
Moody's A3 / P-2 / D   Fitch Ratings A / F1 / bbb-

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

MANAGEMENT REPORT

BASIC INFORMATION ABOUT NORD/LB NORDDEUTSCHE LANDESBANK GIROZENTRALE

BUSINESS MODEL

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

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

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

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

NORD/LB is the state bank (Landesbank) 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 business segments:
- Private and Commercial Customers
- Corporate Customers & Markets
- Energy and Infrastructure Customers
- Ship and Aircraft Customers
- Real Estate Banking Customers

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

NORD/LB is the parent company of a group of companies (NORD/LB Group), which includes the Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale, in Bremen (Bremer Landesbank), Norddeutsche Landesbank Luxembourg S.A., Luxemburg (NORD/LB Luxembourg), Deutsche Hypothekenbank (Actien-Gesellschaft) in Hanover (Deutsche Hypo), LBS Norddeutsche Landesbausparkasse in Berlin and Hanover (LBS), Öffentliche Lebensversicherung Braunschweig in Braunschweig, and Öffentliche Sachversicherung Braunschweig in Braunschweig (the latter two together being the Öffentliche Versicherungen Braunschweig or ÖVBS). The bank also holds other investments as shown in the disclosures of the notes.

STRATEGIC DEVELOPMENT OF NORD/LB

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

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

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

CONTROL SYSTEMS

Outline of the Control System

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

The key control indicators here are return on equity (RoE) and at business segment level the return on risk-adjusted capital (RoRaC), the cost-income ratio (CIR) and the operating result after risk provisioning/valuation.

Definitions of the key control indicators:

RoE (Return on Equity) for the overall bank =	Earnings before taxes/Long-term equity under commercial law (= reported equity – silent participations – earnings after taxes + fund for general banking risk) Earnings before taxes = Operating result after risk provisioning, less extraordinary profit/loss, less servicing of silent participations
RoRaC (Return on risk-adjusted capital) of business segments =	Earnings before taxes/Committed core capital (8 per cent (7 per cent) of the higher of the RWA limits and the amount called on) RWA = risk-weighed assets
CIR (Cost-Income Ratio) =	Administrative expenses/ Total earnings including balance of other income/expenses

The key control indicators are in process at the moment.

Risk Management

General Risk Management

Fundamentals

The business activities of a bank inevitably involve the conscious undertaking of risks. Efficient risk management in terms of a risk-and-return-oriented allocation of equity is therefore a key component of modern bank management and a high priority for NORD/LB. Risk management is primarily based on the controlling of risks.

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 MaRisk (Mindestanforderungen an das Risikomanagement, MaRisk) AT 2.2 and AT 4.5. The overall risk profile comprises the risk types relevant for NORD/LB. A distinction is also made between material and non-material risks. Material in this context are all relevant risks which could have a negative impact on the NORD/LB'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, reputation risk, syndication risk and model risk. All material risk types are controlled by NORD/LB's risk-management system. The material risk types consider all relevant risks.

Basic conditions for structuring this risk management process are specified for banks and groups of banks in the MaRisk on the basis of § 25a of the German Banking Act (Kreditwesengesetz, KWG). 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.

In line with the existing risk management of the NORD/LB group, the Managing Boards of NORD/LB and Deutsche Hypo decided on 30 June 2013 to announce the use of the waiver option by Deutsche Hypo in accordance with § 2a no. 1 in the version of the German Banking Act applicable at this time. The profit and loss transfer agreement concluded for an indefinite period of time by Deutsche Hypo and NORD/LB constitutes the basic prerequisite for this.

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

Strategies

The responsible handing of risks is of uppermost priority in NORD/LB's business policy. The risk strategy is accordingly drafted to conform to the business model, the business strategy and the specifications of the risk strategy of NORD/LB 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.

Responsible handing of risks is of uppermost priority.

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

The maximum risk capital is also allocated to the material risk types in the risk strategy on the basis of the RBC model. Most of the cover pool is allocated to credit risk, reflecting NORD/LB's focus on customer-oriented lending business. NORD/LB is responsible for determining the allocation relevant for NORD/LB, although this must be consistent with the allocation for the NORD/LB group.

Focus on customer-oriented lending.

The group risk strategy and the risk strategy of NORD/LB were reviewed as scheduled and adjusted in 2013 and discussed with the Supervisory Board after being passed by the Managing Board.

The risk strategy aims at achieving an efficient 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.

Furthermore, NORD/LB has also made commitments in the restructuring plan agreed with the EU which are considered in the 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), which also includes the Chairmen of the Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo. Following the adoption of the group risk strategy and the risk strategy of NORD/LB by the Managing Board of NORD/LB, they 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 Finance and Risk Control Division is responsible for updating and developing the Risk-Bearing Capacity model, continually monitoring compliance and regularly reviewing the risk strategies of NORD/LB.

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

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

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

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

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

Risk management meets MaRisk.

The structure and organisation of risk management in 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-Bearing Capacity Model

The RBC model constitutes the methodical basis for monitoring NORD/LB's risk strategy. This monitoring is carried out by NORD/LB's Finance Risk Control Division. The Finance and Risk Control Division's Strategy and Models Department is responsible for the overall control and development of the RBC model.

The aim of the model is to aggregate and duly present the bank's risk-bearing capacity. 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 RBC model consists of the three pillars of going concern, gone concern and regulatory framework, in which the respective material risks (risk potential) are compared with the defined risk capital.

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

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

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

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

The configuration of the RBC model ensures that the gone-concern scenario can provide stimulus for the going-concern scenario, which is relevant for the assessment of the risk-bearing capacity. However, impetus directly relevant for control is provided by the going-concern scenario. Strategic limits are derived from the consideration of risk-bearing capacity taking into account the allocations of risk capital in the risk strategies of the NORD/LB group and NORD/LB based on the going-concern scenario.

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

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

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

The Finance and Risk Compass prepared on a quarterly basis and the preliminary summary of the risk situation of NORD/LB constitute the key instrument for the internal reporting of risks to the Managing Board and the Supervisory Board. 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 associated with Pfandbrief business on a quarterly basis. The report prepared meets the requirements of § 27 of the Covered Bond Act (Pfandbriefgesetz).

Credit Risk
Credit risk is a component of counterparty risk and is broken down into traditional credit risk and counterparty risk in trading. Traditional credit risk defines the risk of loss involved when a credit borrower defaults or when the credit rating of such a credit borrower deteriorates. Counterparty risk in trading defines the risk of loss involved when a borrower or contract partner in trading transactions defaults or when the credit rating of such a borrower or contract partner deteriorates. It is broken down into counterparty risk in trading, replacement risk, settlement risk and issuer risk:

- Counterparty risk in trading defines the risk of loss involved when a borrower defaults or when the credit rating of such a borrower deteriorates. It equates to traditional credit risk and relates to money market transactions.

- Replacement risk defines the risk of the contract partner in a pending transaction with a positive present value defaulting and this transaction having to be replaced with a loss.

- Settlement risk is broken down into advance payment risk and clearing risk. Advance payment risk defines the risk when the bank has completed a payment of the counter-payment not being made by the contract partner or, if payments are offset, the balance not being paid. Clearing risk defines the risk of transactions of transactions not being able to be cleared by either party upon or after the expiry of the contractually agreed performance date.

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

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

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 credit business and it positions itself with its customers accordingly.

Reliable universal bank with focus on lending.

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

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

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

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

Structure and Organisation

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

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

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

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

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

The central management of risk concentrations in 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 an economic borrower entity in accordance with § 19 para. 2 of the German Banking Act as well as by country and industry.

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

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

The credit portfolio is controlled by the Managing Board and the GRC …

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

… and from certain volumes by the General Working and Credit Committee (Allgemeinen Arbeits- und Kreditausschuss, AAKA) as well.

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

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

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 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, chattel mortgages, property, receivables and other rights and collateral assignment of chattel are accepted as credit security. Other securities can be contracted with the borrower, but these do not reduce the unsecured portion of the exposure.

The legal portfolio of collateral is maintained in the dedicated Collateral Management System which is also used for the inclusion of collateral when ascertaining minimum capital requirements and for regulatory reports.

In order to ensure the legal validity and enforceability of collateral, standard contracts are mainly used. In addition to this, external legal opinions are obtained and the preparation of contracts is assigned to authorised law firms. At the same time the relevant legislation is monitored continually. For foreign collateral, monitoring is performed by international law firms.

Control and Monitoring

In order to assess credit risks 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.

Credit rating assessed based on rating method.

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

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

Securitisations

Securitisation is a further instrument available to 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 banks own books can transferred to other market participants (NORD/LB as an originator) or additional credit risks are taken (NORD/LB as an investor or sponsor). NORD/LB also conducts securitisation activities as an arranger of structured transactions in the interest of customers. 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 conduit programme Hannover Funding.

Securitisation transactions are all subject to a strict process of approval and monitoring, so that potential risks before and after the conclusion of a contract can be identified and regulated. NORD/LB uses a rating system authorised by the regulatory authorities in accordance with the German Solvency Regulation Internal Assessment Approach as well as other approaches to assess the risk of securitisation transactions.

NORD/LB pursues a conservative exposure strategy in its role as investor and sponsor. The exposure strategy focuses on a reduction portfolio and customer-oriented new business. Here the new business concentrates on bigger, selected customers of NORD/LB and offers the financing of receivables with the conduit Hannover Funding. The reduction business concentrates on sales and the reduction of RWA while safeguarding profit interests.

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

Assessment

Key quantification indicators are expected loss and unexpected loss.

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

Unexpected loss for credit risk is quantified with the help of an economic credit risk model for four 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.

Calculation based on economic credit risk model.

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

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

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

Reporting

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

The Managing Board of NORD/LB also receives from the CRM Division 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).

Investment Risk

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

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

Management

Strategy

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

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

Investments support the customer-oriented business model.

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

Structure and Organisation

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

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

The result of the materiality analysis determines how closely the risks are monitored in all divisions of NORD/LB. A further differentiation is made from a risk point of view for the treatment of significant investments. The significant investments based on quantitative criteria, Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB Covered Finance Bank, Luxembourg (NORD/LB / CFB) are considered in the internal and external reporting using the look-through approach at the level of individual risk type. The significant investments of the NORD/LB Asset Management group based on qualitative criteria (in the year under review consisting of NORD/LB Asset Management Holding GmbH, NORD/LB Capital Management GmbH and NORD/LB Asset Management AG) and the Öffentliche Versicherungen Braunschweig group (consisting of Öffentliche Lebensversicherung Braunschweig and Öffentliche Sachversicherung Braunschweig) 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 direct investments based on quantitative criteria are reported in investment risk.

Control and Monitoring

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

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

The Erweiterter Konzernvorstand and the Konzernsteuerungskreise control all significant investments.

Assessment

Risks beyond the carrying amount considered.

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

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

When calculating the minimum capital requirements, NORD/LB currently treats investments which are not subject to capital deduction fully in accordance with the transition rules and exceptions defined in the German Solvency Regulation. However, it is planned that the IRBA will be used.

Reporting

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

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

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

Market-Price Risk

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

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

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

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

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. NORD/LB does not take up any positions on an opportunistic basis.

Market activity geared towards the needs of customers.

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.

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

Structure and Organisation

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

The strategic control of market-price risks is support by the Asset Liability Committee (ALCO). The ALCO is an advisory body that meets generally on a monthly basis. It supports the strategic control of market-price risk positions, liquidity positions and the investment portfolio with the aim of optimising the profitability of the risk capital tied up in the positions. For this purpose recommendations for action are developed as a basis for decision-making for the Financial Markets Director. The members of the ALCO with voting rights are, in addition to the director responsible for Financial Markets, the Managing Director of the ALCO and the heads of the trading divisions. Representatives of the Finance and Risk Control Division, the Research / Economy Division, the Finance / Taxes Division and the director responsible for the Finance and Risk Control Division also take part. The measures are implemented by the Bank-Assets Allocation Division and the Treasury Division.

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

Control and Monitoring

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

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

The Financial Markets units also include the Treasury Division, which plans interest rate, liquidity and current risks from lending and deposit business in the banking book centrally. The planning is done on a macro-control basis. Securities, interest derivatives and money and foreign exchange products are used as hedges. Details on the accounting of hedging relationships can be found in the disclosures in the Notes concerning the formation and accounting of valuation units.

Assessment

Calculated using the historical simulation method.

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 when calculating the risk-bearing capacity.

The VaR calculation is based on historical changes to risk factors over the previous twelve months. The models take account of correlation effects between risk factors and sub-portfolios. The calculation of credit-spread risks in the banking book was integrated in the year under review into the VaR model.

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

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

The validation of the VaR model shows an improvement in the number of backtesting exceptions in NORD/LB's banking book in the period under review, which was mainly attributable to technical improvements. The remaining exceptions result primarily from fundamental risks, i.e. differences in the scope of movements in the various swap curves within the same currency leading to higher daily fluctuations in the cash value in the Treasury Division. The VaR model is still valid as the material risks for the banking books in the longer term due to general changes in interest rate or credit spread levels are considered fully in the VaR model. In addition to this, as part of the operational risk control, conservative mark-ups are added to the VaR values calculated on a daily basis.

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

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

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

Reporting

In compliance with the MaRisk, the Risk Control Department, which is independent of the divisions responsible for the positions, reports daily on market-price risks to the respective Director. The Directors are therefore also informed about the effects of the stress scenarios beyond the scope of VaR scenarios. A weekly report is also provided on the credit-spread risks in the banking book. The entire Managing Board is informed in detail on a monthly basis about NORD/LB's market-price risks and profit / loss position.

Liquidity Risk

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

Refinancing risk constitutes potential declines in profit / loss resulting from the worsening of the banks own refinancing conditions on the money market or capital market. The most significant cause in this case is a change in the assessment of the bank's credit rating by other market participants. The focus of consideration here is on the entire range of terms to maturity. By considering the individual currencies, spread risks from cross-currency swaps will also be considered.

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

Management

Strategy

Securing perpetual liquidity for NORD/LB is a strategic necessity. While traditional liquidity risk is principally hedged by maintaining a sufficient supply of liquid assets (in particular central bank eligible securities), refinancing risks are allowed to be taken with a structural transformation of liquidity terms. Risks are constrained with suitable limits in both cases.

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

The limit for traditional liquidity risk serves to secure the ability to make payment even in a conservative stress scenario, while the limit for the funding strategy is derived from the risk strategy and the risk-bearing capacity of NORD/LB and allows term transformation to contribute to earnings.

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

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

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

Structure and Organisation

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

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

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

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

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

Liquidity risk is controlled by limits and stress scenarios.

Control and Monitoring

The refinancing risk of NORD/LB is limited by the present value limits and the volume structure limits for various maturity bands that are derived from the risk-bearing capacity. The liquidity progress is also considered by currency.

Traditional liquidity risk is primarily limited by analysing a dynamic stress scenario. The scenario describes the most likely crisis situation in each case, as at the reporting date describing a market environment which is characterised by economic problems in the periphery countries as well as the risk of high loan losses, particularly in the area of shipping financing. Analysis is based on liquidity cashflows and covers the coming twelve months on a daily basis. For products without fixed liquidity cashflows, optional components (e.g. from irrevocable credit commitments), planned new business and refinancing opportunities, assumptions are made in accordance with the market situation which are subject to regular validation.

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

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

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

When classifying the securities in the liquidity categories, in addition to the tradability, in particular the usability of the collateral of key importance, i.e. the suitability of the securities as collateral in repo transactions, with central banks or as cover for Pfandbriefe.

Assessment

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

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

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

Reporting

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

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

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

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

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

Operational Risk

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

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

Legal risk defines the risk of losses occurring due to the non- or insufficient consideration of the legal framework specified by legal regulations and case law. The risk of a change in law is the risk of a loss due to new laws or regulations, a disadvantageous change to existing laws or regulations or their interpretation or implementation by the courts. Legal risk only exists in the banks external relations.

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

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

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

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

Strategy

Operational risks are avoided where possible.

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

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

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

Structure and Organisation

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

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

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

Control and Monitoring

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

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

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

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

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

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

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

Maintaining the health of staff has top priority.

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

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

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

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

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

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

Accounting-Related ICS

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

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

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/Taxes Division. Many accountable facts are already recorded in the market and back office divisions in NORD/LBs 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 closing entries 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/Taxes Division by a central, intranet-based management application. This application allows all activities and milestones relevant to the financial statements to be tracked in relation to their respective completion dates and their processing status, so that in the event of delays immediate action can be taken.

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

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

Assessment

NORD/LB collects data on losses from operational risks in a loss event database, there is a minimum limit of € 1,000. Data in the loss database provides the basis for analyses in support of risk management and is an important element of the statistical/mathematical risk model developed by the bank.

Minimum limit of € 1,000.

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

A record of data concerning past losses is supplemented with future components with the help of the 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 are gathered are selected on a risk-oriented basis and on the basis of an analysis of various data sources (e.g. loss events and audit reports). The results are included in the internal model and as a result improve the measurement accuracy.

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

Calculated using loss distribution approach.

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

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

The methods and procedures implemented in 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 this approach. The methods used in overall bank management and to establish the risk-bearing capacity largely meet the requirements of the German Solvency Regulation for an advanced measurement approach.

Reporting

Within the framework of a continuous risk management process, results from the collection of loss events, risk assessment, risk indicators and internal model are analysed and communicated to the Managing Board on a quarterly basis (via NORD/LB's Finance and Risk Compass) and the responsible divisions as and when required and at least once a year.

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

ECONOMIC REPORT

GENERAL ECONOMIC AND INDUSTRY-SPECIFIC ENVIRONMENT

Economic Development

Global Economic Environment

In 2013 global economic growth made a slow start to the year, but positive economic forces gradually gained the upper hand, with global industrial production recovered from the economic downturn by the middle of the year. The eurozone came out of the stubborn recession in the spring. What helped here was that, unlike in previous years, there was no dramatic relapse concerning the debt crisis. The sentiment indicators developed positively in the major currency regions during the course of the year, reflecting the increasing optimism of businesses and consumers. Global trade also picked up in the second half of the year, as did production.

Global economic growth picks up in 2013.

In the USA, the economy was affected by the emerging headwind arising from its fiscal policy. However, with growth of just under 2 per cent, the USA again had one of the highest growth rates among industrial countries in 2013. The noticeable recovery in the real estate market should be highlighted, with house prices starting to rise again. The sustained low level of interest rates has contributed towards this. Although there was no change to the very expansive monetary policy in 2013, the announcement of a gradual reduction in the purchase of additional monthly bonds around the middle of the year was reflected in a significant increase in bond yields. There was also an outflow of capital in some emerging markets due to the growing fear among financial market players that the massive flooding of the markets with liquidity was about to come to an end.

The Chinese economy maintained its course of robust growth in 2013; GDP growth for the year as a whole was 7.7 per cent and therefore in line with expectations. At the same time the Chinese government has announced significant structural changes, the full effect of which will be felt long after the turn of the year. In the last twelve months in particular the People’s Bank of China (PBOC) made its mark with its first steps. For example, it has pressed ahead with the internationalisation of the Renminbi (RMB). The RMB continually gained in value against the US dollar. On the other hand the PBOC made several attempts to stem the the overflowing liquidity and the swelling of the shadow banking market, which resulted both at the mid-year point and in December in a significant increase in money market rates (SHIBOR).

Eurozone

The eurozone’s economy did not hold many surprises in 2013. As expected, the eurozone came out of the recession that began in the autumn of 2011. After a very weak final quarter in 2012, economic output only contracted slightly in the first quarter compared to the previous quarter by 0.2 per cent. However, bearing in mind the fact that production was slowed by the extreme weather conditions in much of Europe, this fall in gross domestic product (GDP) at the start of the year was moderate. Conversely, catch-up effects then had a positive impact in several European economies in the spring. However, as Italy and Spain were still in recession in at least the second quarter, real GDP for the whole eurozone only rose by a moderate 0.3 per cent in the second quarter. By the end of the year economic output picked up again and the economic recovery was also on a wider footing.

Eurozone comes out of recession.

In the past year the necessary adjustments in the public and private sector again dampened aggregate demand. This also resulted in a sustained wide growth gap in the eurozone. In 2013 real GDP fell in the eurozone despite the economic turnaround in the spring by a total of 0.4 per cent, and in the rest of the eurozone not including Germany by as much as 0.8 per cent compared to the previous year. France’s economy only expanded minimally by 0.3 per cent, while in Italy and Spain economic output for the year as a whole again contracted significantly by more than 1 per cent.

German economy recovers quickly from economic dip in 2013.

Germany

Germany's economy recovered quickly in mid-2013 from the lull in the winter half-year of 2012/2013. However, real GDP only rose by 0.4 per cent in 2013 compared to the previous year. The slightly lower annual growth rate for 2013 was primarily attributable though to the poor start to the year. After a sharp fall in GDP at the end of 2012, economic output stagnated in the spring. In addition to the low growth rate of the global economy, in particular weather effects played an important role here. As the year progressed, the German economy recovered from the economic dip and in the spring growth was fuelled by catch-up effects following the extraordinarily harsh winter. What helped here is the fact that the eurozone came out of recession in the spring and maintained its recovery, albeit at a moderate rate. Therefore the first half-year was characterised by major weather-related distortions, while the second half witnessed a recovery. In both the third and fourth quarters moderate economic growth of 0.3 and 0.4 per cent respectively compared to the previous quarter was recorded.

Private consumption was again the mainstay of the economy in 2013. Private consumption expanded by 0.9 per cent compared to the previous year and contributed half a percentage point to GDP growth. Real purchasing power benefited from the significant slowdown in price inflation to 1.4 per cent for the year, measured against the Harmonised Index of Consumer Prices. In particular employment developed very positively. Although the economic lull was also reflected in a slight rise in the unemployment rate to 6.9 per cent, the number of people in gainful employment rose due to the high level of immigration in the German labour market by the end of the year to a seasonally-adjusted 42 million, the highest level since reunification.

USA

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

Following growth of 1.8 per cent in 2011 and 2.8 per cent in 2012, the USA achieved GDP growth of 1.9 per cent in 2013. The largest economy in the world therefore felt the effect of the massive headwind resulting from the fiscal measures that took effect at the start of 2013. The USA continues to fair positively compared to many other regions in the world and its moderate recovery has even sped up of late.

In particular the public sector had a distinct dampening effect on the economy. While the uncertainty concerning the future fiscal policy initially caused some restraint among consumers and investors, the stop to tax relief and the automatic state spending cuts were felt in the private sector in the first quarter of 2013. The inability of the politicians in Washington to compromise resulted on the one hand in a massive brake on growth of an estimated good one percentage point, but it also resulted in a significant reduction in the budget deficit on the other. When a solution was not found to the budget dispute in October, a government shutdown with the temporary closure of public authorities took place for 16 days. Agreement was finally achieved, putting an end to this period of extreme uncertainty.

In order to boost the economy, the Federal Reserve had continued its expansive monetary policy with a $ 85 billion asset-purchase programme (Quantitative Easing 3, QE3). After the Federal Reserve indicated in May that it might start to ease back on QE3 in the rest of the year, the tapering announcement that was expected in September was not made until 18 December and can, based on the good economic data from the US, be described as appropriate.

As at the start of 2013, the euro was listed at just over $ 1.35 at the end of the year. While the euro twice fell below $ 1.28 in the first seven months of the year, gradually rose against the dollar in the second half of the year. In the second half of the year the EU single currency, driven by a decline in risk aversion among investors and a correspondingly positive stock market performance, climbed to $ 1.38. By comparison, relatively little consideration was given to the stronger data from the US and the start the tapering of quantitative easing.

ECB continues expansive monetary policy.

Financial Markets and Interest Rates

The development of the financial and debt crisis was also of importance to the eurozone in 2013. The recovery in the financial markets that had already begun in 2012 stabilised. There were only irritations for a short period following the parliamentary elections in Italy at the start of the year. Despite the political impasse which lasted for months, investors soon regained their confidence, particularly in Italian government bonds. Following the request by Cyprus for aid from its European partners in mid-2012, the details of the conditions for financial support were announced in March. However, there were also encouraging signs in relation to the debt crisis in 2013.

Around three years after its request for aid, Ireland became the first country to leave the rescue package provided by its European partners and the International Monetary Fund (IMF).

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

Share markets record significant gains in 2013 – yields on German bonds recover and briefly climb to above 2 per cent.

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

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

Aircraft

Positive development in the commercial aviation industry in 2013.

The commercial aviation industry can look back on an on-the-whole pleasing 2013. In particular global passenger transport (domestic and international) (RPK) performed strongly in 2013 in line with the forecasts made by the International Air Transport Association (IATA) with growth of 5.2 per cent. However, regional growth rates varied worldwide. While markets such as North America and Europe performed below average, in particular the Middle East performed much better. Due to the restrictive capacity expansion (ASK) worldwide of 4.8 per cent, average utilisation in passenger transport improved in 2013 to 79.5 per cent (2012: 79.2 per cent), while average returns fell slightly by 0.2 per cent.

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

Increase in overall profit for airlines worldwide.

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

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

Order activity was high in the market for civil aircraft with more than 100 seats in 2013. Airbus achieved a significant increase in orders compared to the previous year with orders for 1,503 aircraft (2012: 833). This was also achieved by Boeing with orders for 1,531 aircraft (2012: 1,338). As in recent years, narrowbodies accounted for most of these orders, and the majority of these were for the re-engined versions. The A320 and B737 families were again particularly in demand. Widebody aircraft (including from Airbus the A350 and A330 families and from Boeing the 777X and 787 families) were also in demand in 2013.

Shipping

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

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

The continuing crisis in the maritime industry was, despite the continuing positive effect of bunker prices, not without consequences. Increased consolidation efforts were noticeable in particular in the container sector in 2013. The unsuccessful attempts by shipping lines to introduce rate increases during the peak season doubtless played an important role here. In the sector characterised by overcapacity, the commissioning of an increasing number of new large container vessels, the resulting domino effects and continuing pressure on the charter market, the participants had to endure another difficult year.

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

In the bulk goods sector China once again proved to be a key factor. After the slow start to the year, the Baltic Dry Index tripled, driven primarily by the increase in demand in the Capesize segment. The increase in coal stocks and iron ore imports by China had an impact. The harvest season was also more positive than in 2012, and as a result support came temporarily from the smaller bulker segments (in particular Panamax). Slight increases in the prices of newbuilds with at the same time an increase in order book numbers in the bulker sector fuelled hopes that the market was bottoming out.

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

Real Estate

With a total volume of $ 549 billion, global investment in commercial real estate in 2013 was 18 per cent above the previous year's result, the highest level in the last seven years. In view of the global economic recovery that is start to take effect and the continued prospect of poor returns in other asset classes, interest from investors remains high.

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

€ 154 billion was invested in the European commercial real estate markets in the past year. This equates to an increase of around 21 per cent compared to the previous year.

SIGNIFICANT EVENTS IN THE FINANCIAL YEAR

Capital Measures

In 2013 NORD/LB continued the capital-boosting programme launched in 2011.

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

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

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

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

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

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

Efficiency Improvement Programme

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

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

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

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

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

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

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

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

EARNINGS POSITION

As in the previous year, NORD/LB's earnings in the financial year 2013 were again affected by the continuing crisis in the shipping sector. On the other hand, the financial markets continued to recover from the effects of the financial crisis in the past year. This also had something to do with the expansive monetary policy of the issuing banks, which kept interest rates at a low level.

NORD/LB's earnings were again affected by the continuing crisis in the shipping sector.

The table below shows the profit breakdown:

Income Statement

	2013 (in € million)	2012 (in € million)	Change (in %)
Net interest income	1 298	1 325	– 2
Net commission income	83	151	– 45
Profit / loss from trading activities	161	88	83
Administrative expenses	775	820	– 5
Other operating profit / loss	– 37	– 95	– 61
Operating result before risk provisioning / valuation	**730**	**649**	**12**
Valuation result of receivables, securities and investments	464	369	26
Assumption of investment losses	8	10	– 20
Allocation to funds for general banking risks	–	–	–
Operating result after risk provisioning / valuation	**258**	**270**	**– 4**
Extraordinary profit / loss	– 46	– 42	10
Partial profit transfer (silent participations)	71	97	– 27
Tax revenue (tax expenditure in previous year)	– 14	58	> 100
Profit for the year before appropriation of earnings	**155**	**73**	**> 100**

In the financial year 2013 the **Operating result before risk provisioning / valuation result** improved was improved once again. Profit / loss from financial transactions in the trading portfolio, administrative expenses and other operating income developed positively in the past year. However, interest income and commission income fell.

In addition, the risk situation worsened in the financial year 2013 due in particular to the continuing crisis in the shipping sector. Overall, net provision for loans and advances and the valuation result for securities and investments rose to € 472 million (€ 379 million). Accordingly, the item **Operating result after risk provisioning / valuation result** reduced by 4 per cent to € 258 million (€ 270 million).

After taking account of the negative extraordinary profit / loss of € 47 million (€42 million), the 27 per cent fall compared to the previous year in the partial profit transfer to silent participations to € 71 million (€ 97 million) and the tax revenue of € 14 million (tax expenditure of € 58 million), a profit for the period before the **appropriation of earnings** of € 155 million (€ 73 million) remains.

Net **interest income** is broken down as follows:

	2013 (in € million)	2012 (in € million)	Change (in %)
Interest income from			
Lending and money market transactions	2 663	3 074	– 13
Fixed-income and book entry securities	521	698	– 25
Current income from trading portfolio	835	1 500	– 44
	4 019	**5 272**	**– 24**
Interest for liabilities to			
banks	490	651	– 25
non-banks	850	1 008	– 16
Securitised liabilities	821	1 160	– 29
Current expenses from trading portfolio	891	1 557	– 43
	3 052	**4 376**	**– 30**
Remaining interest and similar expenses	205	308	– 33
	1 172	**1 204**	**– 3**
Current income from shares and other non fixed-interest securities, investments and shares in affiliated companies	62	114	– 46
Income from profit pooling, profit transfer and partial profit transfer agreements	64	7	> 100
Net interest income	**1 298**	**1 325**	**2**

Interest income and interest expenses fell sharply in the last financial year due to the reduction in the portfolio.

Interest income and interest expenses fell sharply in the past financial year due to the significant reduction in the portfolio. Net interest income is less than in the previous year because interest income has fallen by more than interest expenses. This is attributable in particular to lending and money market transactions. Net interest income comprises interest income from lending and money market transactions, interest expenses for liabilities to banks and non-banks and remaining interest and similar income. Although the level of transactions in the internet bank market fell by more than transactions with customers (non-banks), the reduced earnings is attributable in particular to the reduced volume in customer business as higher margins are generally achieved here. Less income from prepayment penalties reinforced this trend. The effect of this and a fall in income from interest derivatives have had a significant impact on remaining interest and similar income. This was partly compensated for by the first-time-reporting of interest income from valuation allowances on loans (unwinding) in net interest income. The result of interest income less interest expenses is, at € 1,172 million, in sum 3 per cent lower than in the previous year.

Current income from shares and other non fixed-interest securities, investments and shares in affiliated companies fell by around 46 per cent. This reduction is attributable in particular to lower earnings from shares in affiliated companies, as there is a requirement that the profits for Bremer Landesbank be retained; in the previous year Bremer Landesbank distributed € 26 million to NORD/LB. Although earnings from shares, other non fixed-interest securities and investments was lower than in the previous year, the reduction was much less pronounced. Earnings from profit pools, profit transfer or partial profit transfer agreements on the other hand have increased significantly due in particular to the first-time profit/loss transfer from Deutsche Hypothekenbank for 2013, compensating completely for the fall in income from shares, other non fixed-interest securities, investments and shares in affiliated companies.

The drop in the contribution from interest rate conditions was not entirely compensated for by an increase in profit/loss from term transformation and investments. Due to a drop in the interest-bearing volume with margins remaining fairly stable, the contribution from interest rate conditions in lending business reduced noticeably. At the same time the contribution from interest rate conditions in deposit business rose above the previous year's level; this was due in part to the ending of a limited-period special interest rate campaign which affected this item in the previous year, but which also resulted in a significant increase in volume in deposit business. Profit/loss from term transformation, referred to in NORD/LB as interest-rate risk control and liquidity control, improved significantly compared to the previous year. Structure contributions benefited from a steeper yield curve, which was the result of the disproportionately high increase in interest in medium and long-term maturity bands.

Net commission income is at € 83 million well below the previous year's result of € 151 million. The main reason for this is that disbursements for the provision of a possible guarantee were originated in the amount of € 69 million (€ 19 million) to the federal states of Lower Saxony and Saxony-Anhalt, which are reported under commission expenses from lending business. This already includes provisions for expenses which will be incurred in 2014. This guarantee is of a purely precautionary nature and may be used by NORD/LB if needed until the end of 2014. Here commission income of € 204 million (€ 219 million) is seen alongside commission expenses of € 121 million (€ 68 million). In the financial year 2013 NORD/LB generated commission income primarily from lending business in the amount of € 108 million (€ 120 million), from payment transactions in the amount of € 31 million (€ 30 million), from securities transactions in the amount of € 29 million (€ 24 million) and brokering in the amount of € 20 million (€ 22 million). Commission expenses were primarily incurred in lending business in the amount of € 85 million (€ 34 million) and in securities transactions in the amount of € 18 million (€ 18 million).

Net commission income is well below the previous year's result.

Profit/loss from financial transactions in the trading portfolio improved by € 73 million to € 161 million (€ 88 million) and were therefore once again positive. This profit/loss was influenced by the following factors: an increase in euro interest rates in 2013 resulted in expenses from interest-bearing securities on the assets side and receivables from the trading portfolio in the amount of € 102 million (earnings: € 189 million) and expenses from external interest derivatives due to the euro receive swap surplus in the amount of € 267 million (earnings: € 384 million). The contraction of the €/$ basis swap spread by an average of approx. 18.3 BP in 2013 resulted in losses of € 125 million (€ 196 million) for external currency derivatives. These negative profit/loss from external interest and currency derivatives are seen alongside gains from the valuation of internal derivatives in the amount of € 600 million (expenses: € 213 million). In addition, income from the change in counterparty-specific default risk for OTC derivatives in the amount of € 40 million (expenses: € 99 million) is included in the income from financial transactions in the trading portfolio, which is primarily the result of changes in market values in customer business.

The fall in **administrative expenses** to € 775 million (€ 820 million) was largely due to the significant reduction in expenditure on pension schemes and other benefits to € 36 million (€ 76 million). Following the collective wage agreement for private and public banks in June 2012, pension provisions rose as a result in the previous year. There was also an increased allocation to pension provisions in the previous year due to the lowering of the discount factor.

For other administrative expenses an increase of € 7 million to € 359 million was recorded. Here in particular expenses for changes in the IT architecture, which are partly the result of regulatory requirements, are to be highlighted.

Other operating income rose in the financial year 2013 by € 58 million to € –37 million (€ –95 million). The reduction in losses from the repurchase of liabilities totalling € 23 million (€ 49 million). These repurchases were completed for the purpose of investor relations reasons and the management of the overall bank's position had a positive effect. The annual contribution to the restructuring fund for banks included in this item amounts to € 28 million (€ 26 million). Furthermore, positive special effects relating to the reversal of provisions, reimbursements and settlement payments were responsible for the reduction in negative other operating income.

The **valuation result of loans and advances, securities and investments** was primarily influenced in the past financial year by the continuing and deepening crisis in the shipping sector. The negative valuation result of € 464 million (€ 369 million) is primarily attributable to the net provisions for loans and advances of € 519 million (€ 424 million). The write-down requirement for investments and investments in affiliated companies totalled € 30 million in the financial year 2013 (€ 64 million). Against this, earnings realised from the sale of securities classified as financial assets as part of the reduction in the portfolio in the amount of € 22 million (€ 25 million) and from the sale of promissory notes and registered bonds in the amount of € 83 million (€ 21 million) were accumulated.

Profit/losses transferred from investments are virtually unchanged at € 8 million (€ 10 million).

An **allocation to the fund for general banking risk** in accordance with § 340e (4) of the German Commercial Code (Handelsgesetzbuch, HGB) is not necessary for the financial year 2013.

Extraordinary profit/loss include in addition to transition effects in the amount of € 19 million (€ 19 million) relating to the initial application of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz, BilMoG) reorganisation expenses in the amount of € 28 million (€ 23 million). These mainly concern employee-related expenses for measures to reduce material costs, staff expenses and commission expenses as part of the efficiency-improvement programme.

Due to the reduction of silent participations, the **partial profit transfer** fell in the financial year 2013 from € 97 million to € 71 million.

The **tax revenue** in the amount of € 14 million comprises the current tax expenses and effects from previous years. NORD/LB's current tax expenses for the financial year 2013 in the amount of € 65 million is seen alongside tax rebates abroad and earnings from the reversal of tax provisions after an audit for previous years was completed.

ASSETS POSITION

The table below shows the condensed balance sheet items as at 31 December 2013 alongside the figures for the previous year. The development in the past financial year was characterised massively by the strategic reduction of portfolios.

Balance Sheet

	2013 (in € million)	2012 (in € million)	Change (in %)
Assets			
Loans and advances to banks	26 730	34 705	– 23
Loans and advances to customers	58 947	64 040	– 8
Securities	26 621	30 210	– 12
Trading portfolio	8 827	9 521	– 7
Investments and investments in affiliated companies	2 047	2 077	– 1
Other assets	8 448	8 293	2
Total assets	**131 620**	**148 846**	**– 12**
Liabilities			
Liabilities to banks	40 832	46 674	– 13
Liabilities to customers	37 110	36 940	0
Securitised liabilities	32 622	40 918	– 20
Trading portfolio	2 296	4 568	– 50
Provisions	1 352	1 331	2
Participatory capital and subordinated liabilities	2 783	2 641	5
Bank's own funds	6 744	7 044	– 4
Other liabilities	7 881	8 730	– 10
Total liabilities	**131 620**	**148 846**	**– 12**
Balance sheet data			
Contingent liabilities	5 289	5 840	– 9
Other obligations	8 230	7 010	17
Business volume	**145 139**	**161 696**	**– 10**

Total assets have fallen sharply compared to the previous year. The reason for this is that the measures taken in 2013 for the strategic reduction of total assets and the reduction of risk assets are taking effect.

Total assets have fallen sharply compared to the previous year.

Loans and advances to banks and loans and advances to customers have reduced by € 13 billion due to more restrictive lending with the aim of reducing the portfolio. Loans and advances to banks contribute to this with a reduction of € 8 billion. This is made up of reductions in other loans and advances (€ – 6 billion) and the municipal loans (€ – 2 billion). Loans and advances to customers have reduced by € 5 billion. This amount is essentially made up of a reduction in municipal loans (€ – 2 billion) and other loans and advances (€ – 3 billion). Loans and advances to banks and loans and advances to customers remain with 65 per cent (66 per cent) the biggest asset item.

The development of the item securities was also affected by the strategic reduction of investment items in order to reduce risk assets. The reduction was mainly the result of the reduction in bonds and debt securities. Securities represent at € 27 billion (€ 30 billion) 20 per cent (20 per cent) of total assets.

The change in the trading portfolio is primarily due to the valuation of interest derivatives at fair value. This item is largely made up of financial instruments which are used to control market-price risk.

There were no major changes in the investment portfolio and investments in affiliated companies compared to the previous year. The changes were mainly due to write-downs of investments and investments in affiliated companies.

Significant items under other assets include cash reserve, trust assets, deferred items other assets.

In line with the assets side of the balance sheet, on the liabilities side liabilities to banks fell significantly due in particular to the strategic reduction of the portfolio. All the same, they still make up the biggest item on the liabilities side with € 41 billion (€ 47 billion).

The balance of liabilities to customers in the amount of € 37 billion has on the other hand not changed significantly compared to the previous year (€ 37 billion).

Reflected in the reduction in securitised liabilities to € 33 billion (€ 41 billion) is the reduced requirement for long-term refinancing. Expired bearer bonds were not replaced in equal measure by new issues (€ –6 billion). In addition, the balance of public sector Pfandbriefe has reduced by € 2 billion.

The level of provisions has not changed significantly compared to the previous year.

Reported under other liabilities are trust liabilities, other liabilities, deferred items and the fund for general banking risk.

The measures of the capital-boosting programme to limit risk-weighted assets and retain profits were continued in the past financial year. In addition, in order to optimise the capital structure, a number of silent participations were cancelled in 2013. The own funds ratio as at the reporting date was 5.1 per cent (4.7 per cent).

The regulatory capital as at 31 December 2013 totalled € 8,005 million (€ 8,754 million), € 6,667 million of which related to core capital (€ 7,412 million). The own funds ratio (= total ratio) makes up 18.6 per cent of risk-weighted assets against 17.8 per cent in the previous year.

The fall in contingent liabilities to € 5 billion (€ 6 billion) is due to a reduction in the volume of guarantees and a reduction in liabilities for credit derivatives.

The increase in other liabilities is due solely to the increase in the volume of irrevocable credit commitments of around € 1 billion. This development was due to the increase in demand for finance as the economy picked up.

DEVELOPMENT OF THE BUSINESS SEGMENTS

(in € million)	NORD/LB Private and Commercial Customers	NORD/LB Corporate Customers & Markets	NORD/LB Energy and Infrastructure Customers	NORD/LB Ship and Aircraft Customers	NORD/LB Real Estate Banking Customers	NORD/LB Group Controlling/Others	NORD/LB Operating results	Income statement NORD/LB
2013								
Operating result before risk provisioning/valuation	29	298	76	314	50	– 37	730	730
Risk provisioning/valuation	2	– 27	– 4	– 486	– 25	69	– 472	– 472
Operating result after risk provisioning/valuation	31	271	71	– 172	25	31	258	258
Previous year	– 1	267	65	– 15	– 7	– 39	270	270
CIR	87 %	42 %	45 %	20 %	22 %		52 %	52 %
CIR for the previous year	101 %	41 %	42 %	20 %	23 %		56 %	56 %
RoRaC/RoE	9 %	29 %	21 %	– 8 %	8 %		2 %	2 %
RoRaC/RoE for the previous year	0 %	32 %	19 %	– 1 %	– 1 %		2 %	2 %

The segment reporting is based on the internal contribution margin statement produced by the Finance and Risk Control Division. The segments are defined as customer divisions which reflect the organisational structures and the internal controlling of the bank. An important criterion for the formation of segments is the greatest possible homogeneity of the customers aggregated in the segment in relation to financing and investment requirements and the products demanded. The contribution to net interest income is calculated based on the market interest rate method. In the process the contribution from the interest rate conditions for each customer transaction is calculated by comparing the customer conditions with the market interest rate for a fictitious counter transaction applicable at the time the transaction is completed. Segment expenses comprise primary expenses, expenses allocated on the basis of cost and service allocations and allocated overhead costs.

The cost-income ratio (CIR) in 2013 was 52 per cent, an improvement of 4 percentage points compared to 2012. Both the fall in administrative expenses and the increase in earnings are responsible for this. Administrative expenses were primarily affected by the significant reduction in staff expenses as a result of reduced allocations to pension provisions (double tariff agreement in 2012). Material costs have increased slightly. On the earnings side, the trading profit/loss in 2013 was increased significantly in the valuation result due in particular to the change in counterparty-specific default risk in derivative business, while net interest income fell slightly due to continued low interest rates and the reduction in volume. Net commission income from customer business was down slightly compared to the previous year (in particular restructuring fees); the overall significant reduction in net commission income is due expenses relating to the guarantee provided by the states.

The CIR was higher than in 2012.

A capital adequacy level of 8 per cent (7 per cent) of risk-weighted asset values applies for calculating committed capital in the segments. Return on risk-adjusted capital (RoRaC) calculations in the segments include earnings before taxes of committed capital (here 8 per cent (7 per cent) of the higher value out of the RWA limit and the amount called on). The calculation of the entire bank's return on equity (RoE) complies with the standard international definitions of financial. As the earnings before taxes and long-term equity under commercial law increase in relative terms roughly the same, the RoE is unchanged at 2 per cent.

Private and Commercial Customers

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

Braunschweigische Landessparkasse is a sales savings bank with approximately 217,000 private current accounts and 20,700 business current accounts (as at 30 September 2013) and has an extensive presence throughout the Braunschweig, Wolfenbüttel / Bad Harzburg, Helmstedt / Vorsfelde, Salzgitter / Seesen and Holzminden regions. As a member of the savings bank financial group it has access to its range of services. As an integral part of NORD/LB it also has direct access to the full range of an international Landesbank.

Based on its leading position in the market, its strategic goal of quality leadership in consulting and service was pursued systematically in 2013.

The key for quality leadership is a high standard of customised and long-term-oriented advice. The segment-specific S-Finance-Check, a tried-and-tested instrument, ensures that full consideration is given to the respective customer's individual situation.

Deka Asset Concept introduced.

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

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

Successful resumption of real estate agency business.

The bank strengthened its market position regarding property-related services due in large part to its resumption of real estate agency business in Braunschweig and Wolfenbüttel, which was very successful from the outset, and the provision of comprehensive advice taking into account funding options including explaining the legal requirements. Braunschweigische Landessparkasse is referred as a financing partner directly to interested customers on the website of the KfW.

For some years there has been activities and products aimed at young customers. For example, in March 2013 the prepaid credit card for young people who are 14 and over was launched, creating a modern means of payment for among other things stays abroad by pupils and students. The young customer segment remains of great strategic importance. Recent market surveys show that the Braunschweigische Landessparkasse has extended its reach among young customers in its business region in the last three years.

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

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

Activities in Hamburg increased.

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

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

The product range for corporate customers was extended with the Business Loan (BusinessKredit), which was successfully launched onto the market in a joint promotional campaign also aimed at private customers (Birthday Personal Loan, Geburtstagskredit).

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

Focus on freelancer business.

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

The risk situation in Braunschweigische Landessparkasse's middle-market corporate customers business eased considerably in 2013.

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

Earnings Performance in the Private and Commercial Customers Business Segment

Profit/loss in the Private and Commercial Customers segment rose significantly by € 32 million. This was largely due to an increase in interest income from deposit business, an increase in net commission income and at the same time a fall in administrative expenses.

The positive development in net interest income resulted in an increase of € 9 million compared to the previous year and was reflected by higher margins in sight and savings deposits business, which was characterised by special sales campaigns in 2012. The contributions to profit/loss in lending business and from the investment of capital employed were with in each case around € 2 million slightly below the previous year.

Net commission income also increase compared to the previous year by around € 5 million. This was largely due to both the positive developments in the capital markets, which encouraged in particular small investors to invest and was reflected in an increase in earnings from securities and an improved sales performance in insurance and real estate brokering.

Other operating profit/loss also had a positive impact on income. This was characterised in the year under review by the reversal of provisions, with the result that an improvement of approx. € 9 million was recorded in this item compared to the previous year.

Reversals of risk provisioning in the amount of € 2 million also had a positive impact on income in the past financial year. The resulting contribution was around € 1 million higher than in the previous year.

Largely due to a significant reduction in allocations to pension provisions compared to the previous year, staff expenses fell in the year under review by € 10 million. The increase in material costs of € 6 million compared to the previous year, which was affected by reimbursements, had a negative impact. Secondary costs and overhead charging reduced the item by € 3 million.

Due to the significant increase in income in this business segment, a RoRaC of 9 per cent above the previous year's figure was achieved. The CIR also improved compared to the previous year to currently 87 per cent.

Corporate Customers & Markets

Corporate Customers

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

Corporate customer business expanded in 2013 despite intense competition.

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

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

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

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

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

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

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

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

The Corporate Customers segment's contribution to the operating result after risk provisioning / valuation result totalled € 155 million. Due to the positive impact of a significant reduction in risk provisioning, this result is € 27 million above the previous year's figure.

The Corporate Customers segment's interest income fell slightly. In lending business the expansion strategy was successfully continued with an increase in volume. The increased pressure from competitors was reflected though in a fall in margins. In deposit business the result was slightly above the previous year's result.

Net commission income rose once again in 2013, after having risen in the previous year as well, by € 13 million to € 42 million. This is due to an increase in income from services from the cooperation business in Luxembourg. Trading profit / loss also significantly compared to the previously year by 48 per cent due to reversals of impairments for derivatives.

Markets

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

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

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

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

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

Successful issue of second public US dollar Pfandbrief.

After its first successful issue in the autumn of 2012, Norddeutsche Landesbank issued its second public US dollar Pfandbrief in October 2013. The Pfandbrief with a term of 5 ¼ years has a volume of $ 1 billion. The issue, rated “Aaa” and “AAA” by Moody’s and Fitch, was place under the lead of an international consortium. In accordance with Rule 144A of the US Securities Act, the Pfandbrief could also be directly acquired by qualified institutional investors in the USA. After just a few hours the order book for the advised benchmark volume of $ 1 billion was well oversubscribed and closed early.

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

Both close and long-standing customer relationships and new customer relationships resulted in a further increase in sales compared to the previous year. Due to the continued low level of interest rates, customers focused on the same types of investment as in the previous year. The need for customer-specific solutions in particular in the form of structured products increased in 2013. These structured products were primarily issued in the form of registered and bonded securities as well as bearer bonds. Due to the continued expansion and reorganisation of our relationship management for institutional customers and the systematic implementation of the customer-focused approach towards support, business relations with strategic target customers were strengthened both qualitatively and quantitatively. This included a further increase in custodian bank activities.

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

Markets segment generated a good income once again in 2013, but was unable to repeat the previous year’s very good result.

The operating result after risk provisioning/valuation fell compared to the previous year by € 22 million to € 114 million. This was primarily attributable to the fall in the trading and valuation result due to changes in market value. The sharp rise in net commission income compared to the previous year by 42 per cent to € 34 million was unable to compensate for these valuation losses. Interest income increased compared to the previous year due to higher margins being achieved and slightly lower refinancing costs by € 5 million.

Overall, the segment achieved earnings of € 232 million, which compared to the previous year equates to a fall of around 14 per cent. Compared to the previous year, operating costs fell by € 5 million. Here the increase in material costs due to additional expenditure on projects such as MUREX 3 Migration was more than compensated for by reductions in staff expenses and lower secondary costs.

Municipal Business

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

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

The Municipal Business sub-segment’s contribution to the operating result after risk provisioning/valuation totalled € 4 million, an improvement of € 1 million on the previous year’s result. Profit/loss from lending business with municipalities were in line with the previous year’s result, while administrative expenses fell due to cost reductions.

Earnings Performance in the Corporate Customers & Markets Business Segment

In the Corporate Customers & Markets segment the operating result after risk provisioning/valuation improved slightly compared to the previous year by € 5 million to € 271 million. The significant fall in the Markets segment's trading profit/loss was compensated for in part by the Corporate Customers segment's successful new customer initiative, and as a result earnings only fell overall by € 28 million (5 per cent). The € 28 million reduction in risk provisioning, stable administrative expenses despite additional expenditure on investments in projects and allocations to pension provisions, and the € 4 million reduction in overhead charges contributed to this positive result.

The RoRaC fell slightly due to the increased capital adequacy requirements from 32 per cent to 29 per cent. The CIR, however, remained at virtually the same level with good earnings position at 42 per cent despite the additional expenditure described above.

Energy and Infrastructure Customers

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

Many years of expertise in the renewable energies sector.

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

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

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

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

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

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

Earnings Performance in the Energy and Infrastructure Customers Business Segment

Overall the segment's contribution to the operating result after risk provisioning/valuation increased by € 6 million to € 71 million. This development is attributable to a fall in risk provisionings, which were reduced by € 14 million compared to the previous year.

The contribution to net interest income reduced in 2013 due to a drop in portfolio business and increasing pressure on margins. However, net commissions income and trading income was up on the previous year result. The increase in the trading profit/loss is primarily the result of change in the counterparty-specific default risk of derivatives. Overall, earnings fell by a total of € 7 million.

Administrative expenses reduced in the year under review by € 3 million. The reduction is the result of lower staff expenses and a fall in internal cost reallocations. This was seen alongside an increase in charges from the allocation of overhead costs.

The overall development of the income items resulted in the RoRaC rising to 21 per cent (19 per cent). The CIR is 45 per cent (42 per cent) due to the fall in earnings.

Ship and Aircraft Customers

Ship Customers

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

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

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

Freight rates were again below expectations in the container segment.

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

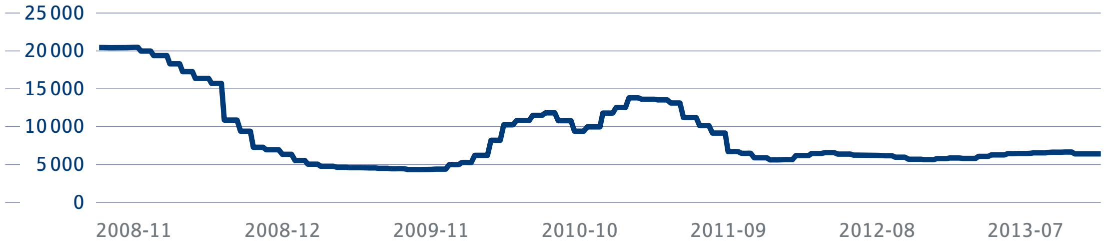
Crude oil tanker market reacts to increase in US oil production.

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

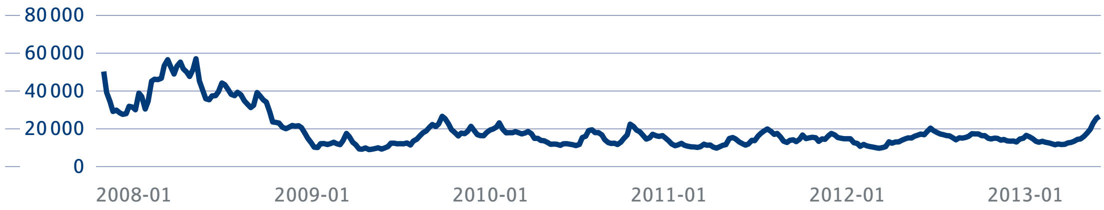
The charts below illustrate how charter rates have developed in recent years:

BULKER ($/day)

CONTAINER ($/day)



TANKER ($/day)



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

Highly volatile demand in the bulk goods sector.

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

Crisis in the shipping sector determines where business activities are focused.

Priority placed on the restructuring of finance …

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

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

… and the remarketing of ships.

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

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

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

Planned reduction of the existing portfolio on course.

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

Profit/loss affected by risk provisioning.

In line with NORD/LB's risk policy, the loan loss provisions for ship finance have been increased once again in 2013. Against this background, the earnings performance in the area of interest, which were positive despite volume effects (resulting in particular from a further increase compared to the previous year in the net credit margin as a result of risk-adjusted pricing) are unable to compensate for the effect of the risk provisionings on profit/loss.

The negative impact on earnings of the fall in business volume due to the targeted portfolio control was compensated for by a risk-adequate increase in the credit margin in various credit commitments, with the result of a moderate increase in interest income (€ 16 million). Net commission income fell sharply due to the crisis (€ –19 million). The very difficult situation in the shipping markets is reflected most clearly in risk provisionings. Compared to the previous year they have risen significantly by € 168 million to € 484 million. In combination with a € 3 million increase in administrative expenses due to higher costs for restructuring activities, the contribution to the earnings before taxes fell by € 158 million to € –271 million.

Aircraft Customers

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

Passenger transport continues to grow.

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

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

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

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

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

In 2013 global competition in the aircraft financing market continued to grow. The segment is comparatively attractive from a return point of view and in the past has had verifiably low risk patterns even in times of crisis. Well-known competitors have therefore forced themselves back into the cyclical market. A number of new competitors, particularly from Asia, are also competing for open finance positions, and as a result credit margins remained under pressure in the past year. In this highly competitive market environment NORD/LB managed to defend its good ranking position among the world's aircraft financers while at the same time meeting return targets. Here NORD/LB's special expertise in the leasing market and the resulting advantageous cooperation with well-known aircraft leasing customers should be highlighted as particular income drivers.

Interest income was down due to the fall in volume based on the concentration on achieving the balance sheet targets (€ –7 million), but was compensated for by an improvement in trading profit/loss (€ +6 million). Due to the very pleasing reduction in risk provisionings (€ –1 million) and a slight reduction in administrative expenses (€ –1 million), the contribution to the operating result remained practically unchanged at € 99 million.

Earnings Performance in the Ship and Aircraft Customers Business Segment

Overall, the operating result after risk provisioning/valuation was very negative in 2013 at € 172 million and fell once again compared to the previous year by € –157 million. The fall in profit/loss is entirely attributable to the increase in risk provisioning (€ 167 million), which was only partly compensated for by higher income (€ +13 million) in the area of ship finance. Profit/loss in the area of aircraft financing remained on the whole stable.

Accordingly, the segment's RoRaC is negative. Due to the increase in costs as a result of the high level of resources tied up during the crisis in the shipping sector, the CIR remained stable due to the slight increase in earnings at 20 per cent (20 per cent).

Real Estate Banking Customers

NORD/LB concentrates its commercial real estate business in the wholly-owned subsidiary Deutsche Hypothekenbank (Actien-Gesellschaft). Between 2009 and 2013 most of the existing business was transferred to Deutsche Hypo. This asset transfer is now complete. Credit commitments which have not been transferred, i.e. those for which NORD/LB will be liable until the end of the agreement, will be managed by Deutsche Hypo within the scope of a mandate.

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

NORD/LB's Real Estate Banking Customers segment records a positive contribution to the operating result after risk provisioning/valuation.

Earnings Performance in the Real Estate Banking Customers Business Segment

NORD/LB's Real Estate Banking Customers segment records a positive contribution to the operating result after risk provisionings/valuation of € 25 million following a negative profit/loss in 2012 (€ –7 million). The main reason for the negative profit/loss in the previous year was the extraordinarily high risk provisioning of € 61 million; these are much lower in 2013 at € 25 million.

Due to scheduled and unscheduled repayments in NORD/LB, income from interest rate transactions has fallen compared to the previous year in line with expectations, with interest income totalling € 50 million in 2013 (€ 65 million).

The much higher trading profit/loss compared to the previous year (€ + 14 million) is primarily the result of valuation effects from credit derivatives and the change in the counterparty-specific default risk of derivatives, while commission income fell by € 4 million in 2013.

The faster-than-expected reduction in the portfolio and the further reduction in personnel capacity resulted in a fall in staff expenses, material costs and internal cost reallocations. Overall, administrative expenses fell to € 8 million (€ 10 million)

Due to the positive contribution to the earnings before taxes, the RoRaC rose by – 1 per cent to 8 per cent. The CIR is at 22 per cent around the same level as the previous year (23 per cent).

Group Controlling/Others/Reconciliation

Reported under Group Controlling/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 and projects covering the entire bank. Elements of other operating income such as the bank levy, expenses relating to the restructuring 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.

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

Treasury

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

Low interest rates have had significant negative impact on business and earnings performance.

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

In the year under review the Treasury Division achieved a contribution to the operating result after risk provisioning/valuation of € 127 million, and with this an increase in the contribution to the operating result before taxes of € 72 million compared to the previous year.

The significant increase in income compared to the previous year of € 67 million is mainly attributable to positive one-time effects in interest income and in other operating income from the sale of promissory notes and registered bonds. Interest income was maintained at roughly the same level as the previous year. The aforementioned negative effects on income were therefore compensated for. Operating costs, and in particular staff expenses and material costs, were reduced in the year under review by a total of € 5 million.

Bank-Assets Allocation Sub-segment

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

Reorganisation of fund investments completed.

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

Overall, Bank-Assets Allocation increased its earnings once again compared to the very good previous year by € 2 million to € 67 million. The previous year's very high risk provision for loans and credit derivatives were not required in the year under review (€ –43 million compared to the previous year). Operating costs rose by € 2 million due to the increased use of internal services. However, the primary staff expenses and material costs were reduced further. After the high loan loss provisions and consequently slightly negative contribution to profit/loss in the previous year (€ –1 million), the segment achieved a very positive contribution to profit/loss of € 42 million in 2013.

Earnings Performance in the Group Controlling/Others Business Segment

The operating result after risk provisioning/valuation reported under Group Controlling/Others improved compared to the previous year by € 49 million to € 9 million. This positive development is attributable to the improvement in the profit/loss of investments (€ +32 million) and the Bank-Assets Allocation division (€ +43 million). The Treasury Division also increased its contribution to the operating result by € 72 million. The costs of the state guarantee under commission expenses (€ –51 million), the profit/loss from securities classified as financial assets (€ –3 million) and the valuation result relating to securities in the liquidity reserve (€ –35 million) had a negative effect due to the rise in interest rates.

PERSONNEL REPORT

NORD/LB Structural Data:

Reporting date	31 Dec. 2013	Of which female	Female (in %)	31 Dec. 2012	Of which female	Female (in %)
Non-tariff employees	1 492	416	27.9	1 461	400	27.4
Tariff employees	2 433	1 598	65.7	2 497	1 626	65.1
Trainees and apprentices	237	125	52.7	260	149	57.3
Abroad	241	102	42.3	254	106	41.7
Others	126	75	59.5	62	37	59.7
Employees total	**4 529**	**2 316**	**51.1**	**4 534**	**2 318**	**51.1**

NORD/LB again found itself in a challenging transformation process in 2013 which, with greater market and customer focus and as a result greater expectations with regard to customer focus, performance and results, at the same time involved clear cost restrictions and efficiency expectations:

- The bank continued to focus on efficiency improvements in 2013 with a programme started in 2011.
- With lean management, NORD/LB has since 2012 adopted an approach to management geared towards sustainability; in 2013 the bank improved efficiency and transparency and further established the continual improvement of quality standards and a management approach geared towards this.
- With the Internal Qualification and Brokering Centre, NORD/LB continued to use an instrument in 2013 which will enable the bank to adapt even more flexibly to current and future requirements.

Greater demands on NORD/LB's efficiency performance: unplanned special effects put a brake on the bank's restrictive personnel policy in 2013.

As at 31 December 2013 a total of 4,529 people were employed by NORD/LB. The number of employees has therefore fallen slightly compared to the previous year. The effects of the NORD/LB efficiency improvement programme which continued in 2013 were largely compensated for by special effects and the specific social responsibility of NORD/LB as a major provider of training in Lower Saxony:

- A number of personnel measures from the efficiency improvement programme will be implemented by the end of 2015.
- 36 staff with right of return returned from other companies to NORD/LB, 33 of these returning from the DWP Bank alone following the closure of its Hanover office.
- In addition, the first apprentices from the “double Abitur year” (two school years took the Abitur school-leaving examination at the same time), with approx. 50 per cent more apprenticeships, successfully completed their apprenticeships. A total of 83 apprentices were taken on a temporary and permanent basis in this segment.

Investment in the bank's young career starters remained high in 2013 despite the ongoing efficiency improvement programme, and as a result the bank will be able to draw on a qualified pool of talent in the next few years. However, the number of apprentices fell in the year under review from 232 to 207 as at 31 December 2013 as the first years of the “double Abitur year” completed their apprenticeships. As a result, the trainee rate is an exemplary 4.8 per cent (5.4 per cent).

The key employee figures in Germany are stable with a significant increase in the fluctuation rate:

- The sickness rate is unchanged at 5.2 per cent; the 1st quarter 2013 the special effect of an extraordinary flu epidemic prevented a noticeable fall.

- The proportion of female employees in the bank's overall workforce fell slightly to 51.6 per cent (51.7 per cent).

- The proportion of female employees in managerial positions remained stable at 22.7 per cent, but was slightly down on the previous year (23.3 per cent).

- The fluctuation rate, however, has risen in line with expectations to 4.7 per cent (3.7 per cent), as a number of staff have taken up the opportunity of early retirement as part of the ongoing efficiency improvement programme. The number of age-related exits has therefore approximately doubled.

In 2013 NORD/LB, in line with its positioning as an employer, focused on all of its unique characteristics as an employer using the slogan "Space to perform" for the first time. Particular importance is attached to promoting a culture of performance within the bank.

Employee development sustains quality development and is boosted by "space to perform".

With this in mind, in 2013 career paths in the bank, such as Expert and Project / Programme Management careers were widened (in supplement to the Management career path), publicised with in-house promotional events and in so doing rooted in the minds of the workforce.

In order to meet the high requirements of markets, in 2013 NORD/LB offered for its internal training an extensive, flexible training programme to support the employees in their professional development.

The portfolio of employer service packages was partly rearranged, as in the case of Diversity Management, which was further developed for the first time on a holistic basis in 2013 and documented for example by the formulation of voluntary target levels for women in management positions and the signing of the "Charta der Vielfalt" (Diversity Charta) as a milestone.

With the reorganisation of its Talent Management in 2013, NORD/LB also laid the foundation for a personnel policy which focuses even more on potential in the future.

TARGET / ACTUAL COMPARISON

NORD/LB met its key targets in 2013 and in so doing produced a satisfactorily profit / loss. The operating result before risk provisioning / valuation and the profit after taxes were above target. Only the operating result after risk provisioning / valuation was affected by the ongoing crisis in the shipping markets and reached around 83 per cent of the target figure.

As expected, earnings fell slightly in 2013, but were above target by approx. 8 per cent. In particular profit / loss from financial transactions due to positive valuation results, which were brought about by the change in the counterparty-specific default risk of derivatives and profits from interest derivatives, and other operating income due to the reversal of provisions, reimbursements and settlement payments contributed to this. Net interest income was exactly as anticipated: with earnings from lending business meeting its target, the income from deposit business and interest rate change risk control which was below target due to interest rates was compensated for by the above-target income from the investment portfolio. In net commission, however, the targets were missed by a clear margin, due in particular to pull-forward effects concerning expenses relating to the state guarantee and below-target restructuring fees relating to shipping and brokerage business.

Administrative expenses were only slightly above budget by 1 per cent in 2013. While, under staff expenses, current wages and salaries and social security contributions were below budget due to the efficiency improvement programme, pensions / support were well above expectations because of the need to make additional pension provisions due to interest rates. Other administrative expenses including write-downs on the other hand were slightly below budget; savings in material costs for personal expenses were opposed by additional expenditure on IT / telecommunications.

Due to the on the whole positive development concerning income compared to the budget with administrative expenses as budgeted, the operating result before risk provisioning / valuation exceeded expectations by approx. 15 per cent.

The assessment that there would be a reduced need for risk provisioning in 2013 compared to 2012 was incorrect. The ongoing crisis in the shipping markets resulted instead in high risk provisioning which were more than half over budget. Customers in the shipping sector accounted for over 90 per cent of risk provisioning in 2013, all NORD/LB's other customer groups remained well below their budgeted risk provisioning.

In the valuation result relating to securities and investments, a positive deviation from budget was recorded as the capital and redemption gains realised relating to securities in the liquidity reserve and financial assets more than compensated for the write-down of investments.

Due to the high, above-budget loan loss provisions, the operating result after risk provisioning / valuation was well below expectations in 2013, by 17 per cent. Apart from the shipping sector, whose contribution to the operating result after risk provisioning / valuation was very negative, all of the bank's other business segments exceeded their budgeted contributions to the operating result and in so doing more than compensated for the adverse cyclical effect of the shipping sector.

The development of the key figures compared to their targets was mixed. While the CIR was at 52 per cent around 3 percentage points above target due to the good earnings performance, the RoE was at 2 per cent around 1 percentage point below target due to the high risk provisioning. At business segment level the picture is as follows: With the RORAC, all of the bank's segments exceeded their targets, apart from ship and aircraft financing, which had a negative RORAC. The CIR in 2013 was in almost all business segments, apart from Private and Commercial Customers, below target value and therefore better than in the plan. In the ship and aircraft customers segment the target was met.

Due to positive one-time effects relating to the tax position, the profit after taxes was a good 10 per cent above target.

OVERALL ASSESSMENT

In the view of the Managing Board, the comprehensive income was satisfactory.

SUPPLEMENTARY REPORT

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

FORECAST, RISK AND OPPORTUNITIES REPORT

GENERAL ECONOMIC DEVELOPMENT

Global Economic Outlook

The outlook for the global economy gradually improved in 2013, and this was also underlined by an improvement in the economic data. For example, global industrial production picked up significantly following the slowdown around the turn of 2012 / 2013. This is also increasingly being reflected positively in the global trade figures. The development of most early indicators, not least of all in the eurozone, suggest stronger growth, and as a result the global economic dip can be considered to be over. Although risks for the global economy remain with the gradual turnaround in the monetary policy of the Federal Reserve and the still high structural adjustment requirements in the eurozone, these are though not so high as in previous years, particularly in view of the noticeable stabilisation of the financial markets. This is also the case against the background of turbulence in some emerging markets in mid-2013 and January 2014. In any case no significant risks from this development are expected for the forecast for economic development in the major currency zones in 2014.

Global economy picking up again in 2014.

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

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

Economic Forecast for Germany and the Eurozone

The outlook for economic development in the eurozone is currently as good as it has been since 2011. After two years of shrinking economic output, GDP will increase in the eurozone in the current year by a good 1 per cent. The most important sentiment indicators continued to improve to the start of 2014 and are currently rising. Although the wide growth gap will remain in the eurozone in the current year, more and more countries will come out of recession in Southern Europe as well and be on target for at least a moderate economic recovery. However, this growth will not be enough for a notable reduction in the high level of unemployment for the time being. The debt crisis remains, despite the financial markets having been stable for more than one year, the greatest economic risk for the eurozone. Besides those successes already achieved, such as the reduction in balance-of-payments deficits, for many countries reducing financial deficits and the government debt ratio remain challenging tasks. The eurozone's deficit ratio will fall back below 3 per cent of GDP in 2014 thanks to the consolidation efforts.

The German economy has started a new, strong recovery. Both businesses and consumers are very optimistic about the near future. In the manufacturing sector export expectations have risen significantly, which should herald a higher rate of export growth. German exports will accordingly be able to benefit from the improvement in the global economy. Due to the economic recovery, the job market will again show itself to be robust. Employment will continue to rise and the unemployment rate will fall slightly during the course of the year, despite the continued high level of immigration in the German labour market. Overall, NORD/LB is expecting the unemployment rate to fall to 6.7 per cent in 2014. Against this background, private consumption will growth by a good 1 per cent. In addition to the positive employment trend, further wage increases and the only moderate inflationary pressure contributed to this. As price inflation in Germany should be well below 2 per cent, a noticeable rise in real income is expected. Domestic demand will also be affected by an increased level of investment, in particular investments in plant and equipment will pick up. Overall NORD/LB is expecting moderate GDP growth for 2014 in Germany of 2 per cent compared to the previous year. Germany will therefore remain the engine of economic growth in the eurozone.

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

Financial Market Development and Interest Rate Forecast

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

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

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

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

Banking Market Development

Europe

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

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

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

USA

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

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

Asia

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

Shipping

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

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

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

The container sector will initially be characterised by an increase in the number of laid-up vessels in the winter season 2013/14. Most liner operators have already reduced their services early as a result of the moderate peak season, which has also had a negative impact on the employment situation. Up until the last quarter of 2013 the number of container vessels withdrawn from the market was less than twelve months previously. As the Chinese New Year, which is particularly relevant for demand in this sector, will end approximately two weeks earlier in 2014 than in 2013, there is hope that the lull will be less pronounced than in 2013. Of much more importance for container shipping remains especially the continued delivery of container carriers with very huge TEU capacity. It is expected that the number of carriers between 7,500 TEU and 10,000 TEU delivered onto the market will be at approximately the same level as 2013, while the number of new giant container vessels up to 18,500 TEU in 2014 will be 65 per cent up on the number of such vessels on the world's oceans in 2013, equating to an increase in capacity of approx. 0.8 million TEU. Following the constant increases in recent years, fleet growth is expected to rise to approx. 6.6 per cent in the whole container sector in 2014. As a consequence of this, in 2014 further cascade effects will have a negative impact espacially on in particular the medium-sized segments such as Panamax vessels. A further factor of uncertainty for the development of freight and as a result charter rates remains the practicality of the new alliance of the three biggest container liner companies, which will start in the second quarter of 2014. One of the top priorities of these newly allied market leaders will be to stabilise rate levels.

China remains the driving force in the bulker sector.

Key for developments in 2014 will be China in the bulker sector and Capesize demand. The raw materials of coal and iron ore required for the Chinese economy, which will grow only marginally less than in 2013, will be mainly shipped using Capesize bulkers. In addition, on the route between Latin America and Asia, the mega-bulkers of the Brazilian company Vale will play a not-to-be-underestimated role. If China relaxes its current port policy and allows these mega-bulkers of the Brazilian company Vale, this could have a negative effect on Capesize rates. For the time being, the improved prospects for the global economy compared to 2013 suggest a period of moderate stabilisation in the bulker segments. Seasonal fluctuations due to the harvest months in the granary of the world and the exploitation of raw materials prices (e.g. iron ore) and the building up of stocks will ensure a degree of volatility in the rates in the coming months. Further tonnage growth is also expected in the bulker sector due to newbuilds, which will be in line with the increase in demand (both approx. +5 per cent), and the general surplus supply will therefore not reduce significantly.

Tanker market remains under pressure.

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

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

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

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

Aircraft

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

Positive development again expected in air transport in 2014.

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

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

Based on the increase in production capacity at Airbus and Boeing, we are expecting an increase in the number of deliveries in 2014.

Real Estate

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

The expectations for the German retail market remain positive for 2014. In view of forecasted GDP growth of 2.0 per cent, a further slight fall in the unemployment rate and the continuing phase of low interest rates, it is expected that 2014 will again be a successful year for the commercial investment market. It is expected that the transaction volume will remain approximately the same or rise slightly. The low top returns are likely to result in a slight increase in risk appetite in the value-added segment. Against the background of the good economic situation compared to the rest of Europe, confidence in the German real estate market remain high. An increasing number of large-volume portfolio transactions was witnessed in 2013, and these are expected to continue in 2014.

BUSINESS DEVELOPMENT OF NORD/LB

Key Planning Assumptions

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

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

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

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

NORD/LB Planning for 2014

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

NORD/LB is expecting to face demanding challenges in 2014. The global crisis in the shipping sector is still not over, although it is expected to pass its peak in 2014. In many markets there will be increasing pressure from the competition and the Balance Sheet Assessment by the ECB and the subsequent stress test will together with various other regulatory requirements tie up capacity and therefore result in pressure on earnings and costs. On the other hand a stronger improvement in the economy and a sustained improvement in the national debt crisis could have a positive impact on the bank's profit/loss with an increase in earnings and lower risk provisioning. Overall NORD/LB is planning an operating result after risk provisioning/valuation for 2014 approximately 11 per cent. below the previous year's level.

The CIR rises in the plan for 2014 compared to the previous year by around 6 percentage points due to a fall in earnings and a moderate increase in administrative expenses; the RoE for 2014 is expected to be at the same level as in 2013; at approximately 2 per cent.

All business segments, with the exception of the Ship and Aircraft Customers business segment, are expecting, in line with the bank as a whole, a fall in the operating result after risk provisioning/valuation in 2014 compared to the previous year. The Ship and Aircraft Customers business segment, though, is planning a positive development compared to the previous year. NORD/LB therefore looks at this segment in more detail in the business segment forecast. For all other segments the specific opportunities and risks are highlighted.

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

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

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

Forecast for Ship and Aircraft Customers Business Segment

Earnings Plan in the Ship and Aircraft Customers Business Segment

The risk provisioning is affected by the crisis in the shipping sector and will remain high in 2014, although NORD/LB is expecting a significant reduction compared to 2013. Due to the expected stable earnings performance for aircraft in 2014 and the high reduction in risk provisioning in ship lending, a slightly positive contribution to the operating result after risk provisioning / valuation is planned in the overall segment, which equates to a significant increase compared to the previous year. For the Ship Finance sub-segment, NORD/LB is again expecting a obvious negative contribution to the profit / loss in 2014, although this is reduced by three quarters compared to the previous year.

In 2014 RWA are expected to remain at the level of 2013 due to the volume reduction in ship financing. The RoRac for the segment, which was negative in 2013, is slightly positive due to the development in shipping financing in the plan year 2014. The CIR rises in the plan by three to four percentage points, but remains at a low level.

Opportunities and Risks in the Ship and Aircraft Customers Business Segment

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

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

NORD/LB Planning for 2014 and Overall Assessment

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

EXTENDED RISK REPORT

Development of Risk-Bearing Capacity in 2013

Further improvement in the RBC situation.

The utilisation of risk capital in the going concern scenario improved slightly in the year under review and is 26 per cent as at the reporting date. The fall is primarily attributable to a reduction in RWA, which, with an improvement in capital ratios and an increase in available equity, also resulted in a significant increase in risk capital.

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

(in € million)[1]	Risk-bearing capacity 31 Dec. 2013		Risk-bearing capacity 31 Dec. 2012	
Risk capital[2]	**3 977**	**100 %**	**3 735**	**100 %**
Credit risks	460	12 %	562	15 %
Investment risks	147	4 %	172	5 %
Market-price risks	427	11 %	281	8 %
Liquidity risks	98	2 %	170	5 %
Operational risks	56	1 %	55	1 %
Other[1]	– 146	– 4 %	– 153	– 4 %
Total risk potential	**1 042**		**1 087**	
Utilisation		**26 %**		**29 %**

[1] Includes adjusted items from the comparison of regulatory and economical expected losses.
[2] Previous year's figures were adjusted.

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

Credit Risk

Development in 2013

The 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. Also included in the total exposure are investments.

Analysis of the total exposure

Total exposure fell by 13 per cent.

NORD/LB's credit exposure as at 31 December 2013 amounts to € 131 billion and has therefore fallen compared to the previous year's value by 13 per cent. The reduction in the volume is above all the result of the reduced exposure in the areas of financial institutions and shipping and aircraft. Most of the total exposure continues to lie in the very good to good rating classes.

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

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

Rating structure[1) 2)] (in € million)	Loans[3)] 31 Dec. 2013	Securities[4)] 31 Dec. 2013	Derivatives[5)] 31 Dec. 2013	Other[6)] 31 Dec. 2013	Total exposure 31 Dec. 2013	Total exposure 31 Dec. 2012
Very good to good	63 941	23 823	5 839	8 725	102 328	117 012
Good/satisfactory	5 785	1 832	232	616	8 465	9 552
Reasonable/satisfactory	4 648	191	157	452	5 449	6 778
Increased risk	5 159	196	100	307	5 763	7 300
High risk	2 066	121	24	25	2 235	3 224
Very high risk	2 350	91	86	17	2 544	3 257
Default (= NPL)	4 629	11	31	35	4 706	3 510
Total	**88 579**	**26 266**	**6 469**	**10 177**	**131 490**	**150 633**

1) Allocated in accordance with IFD rating categories.
2) Total differences are rounding differences.
3) 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 43 per cent (45 per cent) and revocable loan commitments at 38 per cent (25 per cent).
4) Includes the own stocks of securities issued by third parties (banking book only).
5) Includes derivative financial instruments such as financial swaps, options, futures, forward rate agreements and currency transactions.
6) Includes other products such as transmitted loans and loans administered for third-party account.

In line with the fall in in total exposure, the items in the rating class Very good to good fell in the year under review by 13 per cent. The very high share of these best rating categories in the total exposure of 78 per cent (77 per cent) is explained by the great importance of business with public authorities and with financing institutes with a good credit rating and therefore at the same time reflects the conservative risk policy of NORD/LB.

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

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

The breakdown of total exposure by industry group shows that business conducted with financing institutes and with public administrations, which basically remains low risk, accounts for 62 per cent (65 per cent) and still constitutes a considerable share of the total exposure.

Industries [1) 2)] (in € million)	Loans[3)] 31 Dec. 2013	Securities[4)] 31 Dec. 2013	Derivatives[5)] 31 Dec. 2013	Other[6)] 31 Dec. 2013	Total exposure 31 Dec. 2013	Total exposure 31 Dec. 2012
Financing institutes / insurance companies	27 079	15 815	4 131	6 708	53 733	65 876
Service industries / other	34 609	8 944	1 001	1 136	45 690	47 283
– of which: Land, housing	5 814	–	361	292	6 467	7 374
– of which: Public administration	18 883	8 746	306	27	27 962	31 339
Transport / communications	15 484	370	401	94	16 350	21 850
– of which: Shipping	9 688	–	144	10	9 842	11 336
– of which: Aviation	3 915	–	23	0	3 939	7 785
Manufacturing industry	3 397	595	367	161	4 520	4 735
Energy, water and mining	4 587	373	378	1 107	6 446	6 287
Trade, maintenance and repairs	1 727	97	89	118	2 032	1 776
Agriculture, forestry and fishing	656	27	3	838	1 524	1 381
Construction	1 040	45	98	15	1 197	1 445
Total	**88 579**	**26 266**	**6 469**	**10 177**	**131 490**	**150 633**

1) Allocated in alignment with the internal reporting in accordance with economic criteria.
2) to 6) See the previous chart on the rating structure.

Germany / the eurozone the most important business region.

The breakdown of the total exposure into regions shows that the eurozone accounts for a high share of 84 per cent (84 per cent) of total exposure and remains by far the most important business region of NORD/LB. Germany's share is 71 per cent (72 per cent).

Regions [1) 2)] (in € million)	Loans[3)] 31 Dec. 2013	Securities[4)] 31 Dec. 2013	Derivatives[5)] 31 Dec. 2013	Other[6)] 31 Dec. 2013	Total exposure 31 Dec. 2013	Total exposure 31 Dec. 2012
Euro countries	72 894	23 989	4 042	10 154	111 079	127 260
– of which: Germany	62 104	19 259	2 917	9 423	93 702	107 871
Other Europe	4 526	1 283	1 826	13	7 649	8 427
North America	4 234	385	428	0	5 047	7 143
Middle and South America	2 339	146	10	0	2 496	2 870
Middle East / Africa	964	–	2	–	966	1 031
Asia / Australia	3 621	463	161	10	4 255	3 903
Total	**88 579**	**26 266**	**6 469**	**10 177**	**131 490**	**150 633**

1) Allocated in alignment with the internal reporting in accordance with economic criteria.
2) to 6) See the previous chart on the rating structure.

Overall the exposure in Greece, Ireland, Italy, Portugal and Spain fell by 13 per cent to € 3.9 billion (€4.4 billion). Their share in the total exposure is only 3 per cent. The share of receivables owed by the respective countries, regional governments and municipalities also fell to € 179 million (€ 209 million) and is 0.1 per cent (0.2 per cent) of the total exposure.

Exposure in selected -countries [1) 2)] (in € million)	Greece		Ireland		Italy		Portugal		Spain		Total	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Sovereign Exposure	–	–	105	105	–	–	46	46	28	58	179	209
– of which CDS	–	–	–	–	–	–	–	–	–	–	–	–
Financing institutions/ insurance companies	–	–	221	421	506	753	61	76	146	183	934	1 433
Corporates/Other	193	242	2 230	2 124	121	136	84	126	148	175	2 776	2 802
Total	**193**	**242**	**2 556**	**2 650**	**627**	**888**	**191**	**247**	**321**	**416**	**3 889**	**4 444**

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

NORD/LB has an exposure of € 838 million in Cyprus in the Corporates/Others category. This primarily concerns a shipping exposure whose economic risk lies outside of Cyprus. NORD/LB does not have any sovereign exposure or exposure to financing institutes and insurance companies in Cyprus.

In Hungary, NORD/LB has an exposure of € 99 million (€ 32 million sovereign exposure, € 41 million financing institutions and insurance companies, € 26 million corporates/others). The exposure in Egypt, Slovenia and Ukraine is of minor significance.

NORD/LB is also closely monitoring and analysing developments in the countries mentioned. However, the bank does not consider it necessary to make any further valuation allowances at this stage.

In addition to direct exposure, the reported exposure also comprises indirect exposure (primarily credit default swaps). The calculation is based on utilisation (in the case of guarantees the nominal value and in the case of securities the carrying amount) and the credit equivalents resulting from derivatives (including add-ons and in consideration of netting). Irrevocable and revocable credit commitments are included in the total exposure, while securities against NORD/LB are ignored.

Sovereign exposure also comprises exposure to regional governments, municipalities and state-related public-sector companies enjoying government guarantees.

Non-Performing Loans

For acute 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 valuation allowances is based on a present value consideration of anticipated interest and redemption payments which are still expected as well as on other earnings, in particular from the realisation of collateral.

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

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

Increase in valuation allowances for the shipping portfolio.

The continuation of the shipping crisis resulted in a further increase in allowances for exposures and risk provisionings in this sector in 2013. The balance of specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions, national loan loss provisions and lumpsum loan loss provisions increased in NORD/LB due primarily to an increase in valuation allowances for the shipping portfolio. The ratio of this balance to total exposure rose in the period under review from 0.80 per cent to 1.00 per cent.

Risk provisioning 1 Jan. – 31 Dec. 2013 (in € million)	Specific valuation allowances (lumpsum specific loan loss provisions, loan loss provisions)	National loan loss provisions	General loan loss provisions
Opening balance	1 078	0	108
+ New provision/increase	754	–	1
– Disposal	– 529	– 0	– 5
of which: debt losses (consumption)	– 191	– 0	–
of which: reductions	– 338	– 0	– 5
+/– Other addition or disposal	– 45	–	–
+/– Transfer	– 4	–	–
+/– Currency conversion	– 23	–	– 0
= Closing balance	**1 231**	**0**	**104**

The balance of non-performing loans of € 4.7 billion is primarily secured by standard bank collateral and other credit enhancements valued on the basis of lending principles. The NPL exposure is covered 28 per cent (34 per cent) by risk provisioning before the inclusion of collateral. In addition to the impaired receivables these NPLs also include all off the receivables of rating notes 16 to 18 (IFD risk class default (NPL)).

The share of total NPLs in the total exposure rose significantly in the period under review and is as at 31 December 2013 3.5 per cent (2.3 per cent). The increased exposure in the amount of € 3.3 billion (€ 2.8 billion) makes up 2.5 per cent (1.9 per cent) of the total exposure.

Industries [1] [2]	Total exposure of impaired receivables		Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions	
(in € 000)	**31 Dec. 2013**	**31 Dec. 2012**	**31 Dec. 2013**	**31 Dec. 2012**
Financing institutes/ insurance companies	232 483	281 485	123 940	127 216
Service industries/other	657 846	841 296	255 330	319 810
Transport/ communications	2 186 448	1 279 739	709 337	439 103
Manufacturing industry	153 326	254 919	94 077	105 999
Energy, water and mining	42 336	69 620	22 535	24 835
Trade, maintenance and repairs	6 982	10 016	3 627	5 524
Agriculture, forestry and fishing	8 684	10 274	3 864	4 736
Construction	19 875	87 094	18 235	50 988
Total	**3 307 979**	**2 834 441**	**1 230 945**	**1 078 211**

[1] Allocated in alignment with the internal reporting in accordance with the borrower's jurisdiction.
[2] Total differences are rounding differences.

Regions [1] [2]	Total exposure of impaired receivables		Specific valuation allowances, lumpsum specific loan loss provisions, loan loss provisions for off-balance sheet transactions	
(in € 000)	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Euro countries	2 955 378	2 480 698	1 132 268	934 268
Other Europe	112 177	237 388	48 726	95 098
North America	51 991	116 222	14 201	38 774
Middle and South America	–	–	–	–
Middle East/Africa	188 366	–	35 683	–
Asia / Australia	68	134	68	10 071
Total	**3 307 979**	**2 834 441**	**1 230 945**	**1 078 211**

[1] Allocated in alignment with the internal reporting in accordance with the borrower's jurisdiction.
[2] Total differences are rounding differences.

Due to offsetting with collateral, NORD/LB's risk-weighted assets as at 31 December 2013 were reduced by € 6 billion (€ 6 billion); this equates to a share of 14 per cent (12 per cent) in total credit risk RWA. Here mainly guarantees from states and banks and financial collateral were offset.

Outlook

Against the background of the continuing difficult market conditions for ship financing, the NORD/LB Group expects that risk provisioning will again be significant in 2014, though less than in 2013. NORD/LB will continue to monitor developments closely and where necessary proceed with the measures to strengthen the risk quotas.

Risk provisioning for 2014 expected to be below the current level.

In 2014 measures to further optimise the model for quantifying and controlling credit risks are planned. In addition to developing the economic credit risk model, the collection of loss data to validate the LGD components and Credit Conversion Factor (CCF) will be expanded.

Investment Risk

Development in 2013

In order to enhance earnings potential and reduce capital tied and potential risk relating to investments the NORD/LB Group has, on the basis of a critical review of the investment portfolio, disposed of a range of participating interests since 2005. This strategy was continued in the year under review. A few smaller investments were also sold or liquidated in 2013.

Reduction of the investment portfolio continued.

The risk potential reported in the going concern has been reduced significantly due among other things to these sales and valuation adjustments in the year under review to € 147 million (€ 172 million).

Outlook

Significant tasks for 2014 will be the further systematic reduction of investments which are not relevant for NORD/LB's business model and the further development of stringent controls for investments in relation to the risk-return ratio, the further development of the materiality concept.

Market-Price Risk

Development in 2013

NORD/LB's market-price risk developed at a moderate level in the year under review relative to the allocated economic capital and the limits derived from this.

The rise in the VaR is primarily attributable to additional positive term transformations in the banking book, especially in the currencies USD, GBP and CHF.

VALUE-AT-RISK (95 PER CENT, 1 DAY) (in € million)

The average NORD/LB utilisation of market-price risk limits for the year was 52 per cent (49 per cent), with maximum utilisation amounting to 70 per cent (68 per cent) and minimum utilisation at 32 per cent (27 per cent).

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

During the course of 2013, the daily VaR (confidence level of 95 per cent and holding period of one day) fluctuated between € 10 million and € 19 million, with an average value of € 14 million. As at 31 December 2013, a VaR of € 19 million was calculated for NORD/LB, representing a fall of 44 per cent compared to the previous year (€ 13 million).

The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 124 million in NORD/LB on 31 December 2013 (€ 69 million). These figures also include, unlike the regulatory reporting, the interest rate and share price risks in the banking book.

Market-price risks (in € 000)	Maximum 1 Jan.– 31 Dec. 2013	Maximum 1 Jan.– 31 Dec. 2012	Average 1 Jan.– 31 Dec. 2013	Average 1 Jan.– 31 Dec. 2012	Minimum 1 Jan.– 31 Dec. 2013	Minimum 1 Jan.– 31 Dec. 2012	End-of-year risk 1 Jan.– 31 Dec. 2013	End-of-year risk 1 Jan.– 31 Dec. 2012
Interest-rate risk (VaR 95 per cent, 1 day)	18 378	19 840	13 776	14 620	9 112	7 849	18 378	12 563
Currency risk (VaR 95 per cent, 1 day)	698	1 091	505	547	272	241	698	363
Share-price and fund-price risk (VaR 95 per cent, 1 day)	1 005	926	720	524	138	109	688	924
Volatility risk (VaR 95 per cent, 1 day)	1 339	895	634	424	287	142	377	628
Other add-ons	104	171	45	73	4	19	8	42
Total	**18 594**	**20 262**	**14 408**	**14 585**	**9 502**	**8 119**	**18 594**	**12 926**

Unlike the credit-spread risks for the liquidity reserve, the credit-spread risks of fixed assets in the going-concern scenario are not included in the VaR for market-price risks. They were though integrated into the VaR model for the gone-concern case in the third quarter of 2013 and limited. In the 2013, the credit investment items concerned were also further reduced by means of slimming down and targeted sales.

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

The effects of a standardised interest rate shock in the banking book are also analysed in accordance with German Solvency Regulation requirements. The result for NORD/LB as at 31 December 2013 is at 7 per cent well below the regulatory threshold which provides for a maximum share of 20 per cent of authorised equity.

Outlook

NORD/LB will continue to closely monitor all of the relevant asset categories in 2014 as at least short-term, volatile market fluctuations can be expected. Based on its conservative risk policy, the gradual improvements to the risk models, the risk control process and focused trading strategy, NORD/LB believes though that it is also well prepared for turbulent market phases.

With regard to the methods used, for 2014 it is planned to integrate basic risks into the VaR model for the ongoing monitoring of risks.

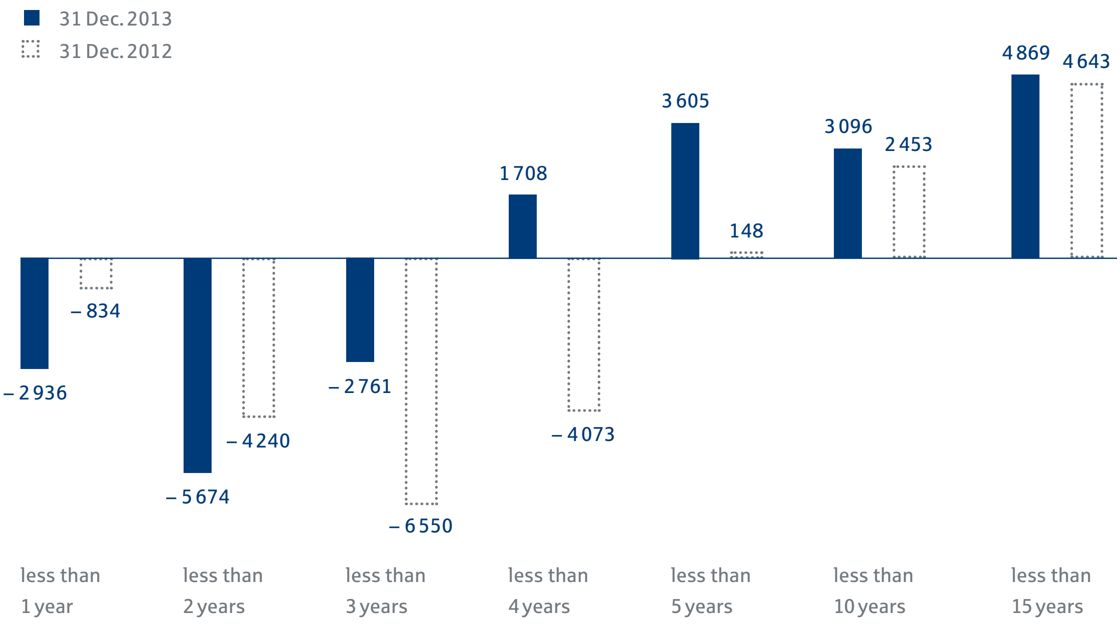
Liquidity Risk

Development in 2013

The liquidity situation in the markets stabilised in 2013 due to the measured of the European Central Bank, but is still characterised by uncertainty with regard to the possible impact in the medium to long term of the national debt crisis on the EU periphery countries.

In spite of this, NORD/LB had sufficient liquidity at all times in 2013. The liquidity maturity balance sheet shows liquidity surpluses in the year under review in the medium and long-term maturity bands. In the maturity bands up to two years on the other hand liquidity requirements have increased. The shift in these maturity bands is primarily due to the effect of reduced maturities of the banks own issues. The liquidity risk limits derived from the risk-bearing capacity and updated in the period under review were always complied with; this applies for all currencies considered together and for the principal individual currencies.

ACCUMULATED LIQUIDITY MATURITIES (in € million)



NORD/LB's refinancing primarily comprises liabilities to banks at 31 per cent (31 per cent) liabilities, to customers at 28 per cent (25 per cent) and securitised liabilities at 26 per cent (31 per cent). In addition to uncovered securities, NORD/LB also uses covered securities, including public-sector Pfandbriefe in euros and US dollars and mortage, ship and aircraft Pfandbriefe. Pfandbriefe in circulation total € 22 billion (€ 26 billion), with public-sector Pfandbriefe accounting for the biggest share.

NORD/LB has adequate liquidity under stress.

NORD/LB operates in markets with the highest possible level of liquidity and maintains a portfolio of high-quality securities. As at the reporting date it possesses securities in the amount of € 29 billion (€ 31 billion), 91 per cent (90 per cent) of which for repo transactions with the European Central Bank or the US Federal Reserve.

Due to the attentive monitoring of markets and active liquidity control, it was ensured at all times in the year under review that the liquidity ratio was well over the minimum of 1.00 required by regulatory provisions during the year. At the end of the year the ratio was 1.35 (1.52).

The liquidity stress tests used for internal control showed a satisfactory liquidity situation for NORD/LB Group as at the reporting date. The liquidity buffers for one week and one month in accordance with the MaRisk are also complied with.

Overall the measurement and control processes were extended in 2013. These include among others a new item included in the liquidity stress test which includes possible outflows of capital which would result due to contractual agreements from the downgrading of NORD/LB's rating.

Outlook

Liquidity risk is not expected to increase significantly in 2014 due to the active liquidity control. Due to the good quality of its security portfolios, NORD/LB is not expecting its liquidity situation to be significantly affected, even if the ECB adopts a more restrictive policy. Liquidity risk control in NORD/LB will continue to develop with for example the inclusion of further items in the liquidity stress test.

Focus will remain in 2014 on the continued implementation of the much more stringent requirements for the management and external reporting of liquidity risks announced by the international regulatory authorities in reaction to the financial market crisis. Here in particular the requirements of Basel III concerning the Liquidity Coverage Ratio (LCR) and der Net Stable Funding Ratio (NSFR) are of great importance to NORD/LB.

Operational Risk

Development in 2013

In 2013 NORD/LB continued to take a more integrated approach to the management of operational risks. The main aim of this was to revise the current reporting channels and formats and to make them interlink more, as well as extend risk control in the NORD/LB Group.

The previously separate reporting to the Managing Board and Supervisory Board on individual risk issues concerning the second line of defence (risk controlling, ICS, security and compliance) was consolidated in a joint Governance, OpRisk and Compliance Report, which was presented for the first time as at 31 December 2013. It reports on significant operational risks and the action the NORD/LB Group needs to take and at the same time satisfies regulatory requirements.

In addition, a start has been made with the consolidation of various expert-based risk identification instruments in an integrated risk assessment process. The current procedures for assessing operational risks, analysing the risk of money laundering and fraud, ICS scoring and business continuity management analyses will be combined, so that synergies in data collection can be exploited as well as possible and transparency can be further improved. The pilot stage will continue into the first quarter of 2014.

With the Risk Round Table set up in the first quarter of 2013, a central committee was established which offers a platform where issues concerning significant operational risks in NORD/LB can be discussed at management level. The committee focuses on operational risks including process, IT, personnel, legal, outsourcing and compliance risks as well as security and contingency management. The committee should set bank-wide control initiatives in motion, help to control risks more efficiently and in the process help to develop issues in a coordinated manner. A key task of the Risk Round Table is to encourage the integrated management of operational risks.

In order to improve the risk monitoring, changes were made in NORD/LB's internal reporting processes in 2013 with individual risk indicators being revised and the risk indicator system being further harmonised.

The operational risk potential as at 31 December 2013 based on the internal model is, with a confidence level of 95 per cent and a holding period of one year, € 56 million (€ 55 million). There are no significant legal risks as at the reporting date. For legal risks relating to the sale and financing of investment products, provisions were made in previous years and these are reviewed regularly and where applicable adjusted. The volume of provisions made for legal issues remained constant compared to the previous year.

Outlook

In 2014 we will continue to take a more integrated approach to the management of operational risks. The aim is in particular to further harmonise the methods and data used by the second level, increase efficiencies and further improve risk management. With this in mind, the piloting and rollout of the integrated risk assessment will be continued. In addition to this, significant events should be analysed is more detail than before and the results can be linked more closely to other bank control data and information (e. g. with stress testing).

Improvements are also planned for reputation risk management. This issue will receive greater attention in risk controlling and reporting and as a result be more integrated in the risk management systems.

OVERALL ASSESSMENT

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

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

NORD/LB complied with the applicable regulatory provisions concerning equity and liquidity throughout 2013. It also took due account of the regulations relating to large credits limits in accordance with § 13a of the German Banking Act (old version Kreditwesengesetz – alte Fassung).

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

NORD/LB development currently depends above all on the continuing uncertain developments in the shipping markets and the development of the euro countries. Risks may also emerge from the impending stress test by the ECB. In addition, the ongoing discussion about the EU periphery countries will have an impact on the future situation. Similarly, the development of the US dollar exchange rate with its effects on RWA and the transition to IFRS-based regulatory capital due to the implementation of Basel III in the EU affected the capital ratios and risk- bearing capacity. However, NORD/LB considers these effects to be manageable and will continue closely to monitor and analyse developments.

If the economic situation should develop better than expected, the shipping markets overcome the crisis earlier than expected and the national debt crisis eases permanently, this would result in opportunities for NORD/LB's results to develop better than planned. In addition, factors such as changes in interest rates and the US dollar exchange rate and the exploitation of segment-specific opportunities could have a positive impact on earnings position.

ANNUAL ACCOUNTS

Assets

Norddeutsche Landesbank Girozentrale

		€	€	€	31 Dec. 2012 € 000
1. Cash reserve					
a) Cash on hand			61 942 929.07		68 937
b) Balances with central banks			986 535 129.09		273 932
of which: with the "Deutsche Bundesbank" €	650 542 019.39			**1 048 478 058.16**	342 869 (0)
2. Claims on banks					
a) mortgage loans			41 545 553.99		44 173
b) municipal loans			12 918 441 063.67		14 924 230
c) Other claims			13 770 066 950.75		19 736 398
of which: Due on demand €	2 644 928 117.36			**26 730 053 568.41**	34 704 801 (4 458 104)
against securities lending €	0.00				(0)
3. Claims on customers					
a) mortgage loans			4 730 085 591.95		4 835 251
b) municipal loans			22 363 641 499.21		24 234 981
c) Other claims			31 853 044 255.70		34 970 129
of which: against securities lending €	0.00			**58 946 771 346.86**	64 040 361 (0)
4. Debt securities and other fixed-interest securities					
a) Money-market instruments					
aa) Issued by public sector borrowers		6 024 634.25			106 498
of which: eligible as collateral for "Deutsche Bundesbank" advances €	0.00				(0)
ab) Issued by other borrowers		10 877 631.55			53 772
of which: eligible as collateral for "Deutsche Bundesbank" advances €	0.00		16 902 265.80		160 270 (31 028)
b) Bonds and debt securities					
ba) Issued by public sector borrowers		8 716 025 429.98			9 897 537
of which: eligible as collateral for "Deutsche Bundesbank" advances €	8 628 349 062.76				(9 716 817)
bb) Issued by other borrowers		16 293 446 035.22			18 469 037
of which: eligible as collateral for "Deutsche Bundesbank" advances €	13 922 752 278.62		25 009 471 465.20		28 366 574 (15 178 821)
c) Debt securities, issued by the institution itself			385 994 284.08		482 520
Nominal amount €	381 010 000.00				(477 620)
				25 412 368 015.08	29 009 364
Amount carried forward				**112 137 670 988.51**	128 097 395

Balance Sheet NORD/LB Bank as at 31 December 2013

Assets

	€	€	€	31 Dec. 2012 € 000
Amount carried forward			**112 137 670 988.51**	128 097 395
5. Shares and other non fixed-interest securities			**1 208 606 134.06**	1 200 973
5a. Trading portfolio			**8 827 061 040.36**	9 520 524
6. Participating interests			**94 779 775.19**	110 755
of which: in banks €	4 197 333.41			(4 197)
in financial institutions €	2 226 223.31			(1 984)
7. Investments in affiliated companies			**1 952 346 089.45**	1 966 728
of which: in banks €	1 407 729 003.38			(1 407 729)
in financial institutions €	0.00			(0)
8. Assets held in trust			**4 542 444 137.83**	4 546 438
of which: loans on a trust basis €	4 542 444 137.83			(4 546 438)
9. Intangible assets				
a) internally generated industrial property rights and similar rights and values		50 230 967.55		56 288
b) Concessions, industrial property rights and similar rights and values including its licences against payment		32 511 529.83		17 299
c) Goodwill		0.00		0
d) Advance payments made		68 351.59		58
			82 810 848.97	73 645
10. Tangible assets			**218 857 871.15**	212 901
11. Other assets			**1 432 221 223.37**	1 962 118
12. Prepaid expenses				
a) from new issue and lending business		449 638 115.67		524 967
b) other		673 648 403.00		629 878
			1 123 286 518.67	1 154 845
Total assets			**131 620 084 627.56**	148 846 322

Liabilities

Norddeutsche Landesbank Girozentrale

		€	€	€	31 Dec. 2012 € 000
1. Liabilities to banks					
a) issued registered mortgage Pfandbriefe			50 865 490.41		25 310
b) issued registered public sector Pfandbriefe			1 245 552 229.64		1 795 130
c) other liabilities			39 535 971 386.69		44 853 235
				40 832 389 106.74	46 673 675
of which: Due on demand	€ 5 111 391 163.09				(6 891 043)
ensuring loans taken up registered mortgage Pfandbriefe transferred to lender	€ 0.00				(0)
and registered public sector Pfandbriefe	€ 342 405 906.16				(710 558)
2. Liabilities to customers					
a) issued registered mortgage Pfandbriefe			360 524 329.53		401 118
b) issued registered public sector Pfandbriefe			9 838 050 761.78		10 691 486
c) Savings deposits					
ca) with an agreed notice period more than three months		1 369 325 463.27			750 718
cb) with an agreed notice period more than three months		332 392 228.47	1 701 717 691.74		394 510
d) Other liabilities			25 209 432 688.48		24 702 122
				37 109 725 471.53	36 939 954
of which: Due on demand	€ 12 248 846 833.33				(11 180 159)
ensuring loans taken up					
registered mortgage Pfandbriefe transferred to lender	€ 0.00				(0)
and registered public sector Pfandbriefe	€ 0.00				(96)
3. Securitised liabilities					
a) Issued debt securities					
aa) mortgage Pfandbriefe		1 742 123 594.88			2 104 137
ab) public sector Pfandbriefe		8 575 028 612.38			10 833 267
ac) other debentures		21 886 320 253.60	32 203 472 460.86		27 659 847
b) Other securitised liabilities			418 855 163.65		320 569
				32 622 327 624.51	40 917 820
of which: money-market instruments	€ 234 652 940.52				(124 827)
3a. Trading portfolio				**2 295 562 207.46**	4 568 551
4. Liabilities held in trust				**4 542 444 137.83**	4 546 438
of which: loans on a trust basis	€ 4 542 444 137.83				(4 546 438)
5. Other liabilities				**1 483 912 600.64**	2 366 328
Amount carried forward				**118 886 361 148.71**	136 012 766

Balance Sheet NORD/LB Bank as at 31 December 2013 — Liabilities

	€	€	€	31 Dec. 2012 € 000
Amount carried forward			**118 886 361 148.71**	136 012 766
6. Deferred income				
a) from new issue and lending business		521 200 873.48		397 794
b) other		406 736 653.94		491 407
			927 937 527.42	889 201
7. Provisions				
a) Provisions for pensions and similar obligations		828 704 123.55		761 295
b) Tax provisions		105 260 263.48		154 643
c) Other provisions		418 010 205.93		415 681
			1 351 974 592.96	1 331 619
8. Subordinated liabilities			**2 667 537 538.89**	2 525 938
9. Participatory capital			**115 000 000.00**	115 000
of which: there of falling due in less than two years € 55 000 000.00				(20 000)
10. Funds for general banking risks			**927 632 805.66**	927 633
of which: special item for general banking risks in accordance with § 340e, para. 4 of the German Commercial Code € 75 000 000.00				(75 000)
11. Equity				
a) Subscribed capital				
aa) Share capital	1 607 257 810.00			1 607 258
ab) Capital contribution as per § 15 para. 1 State treaty	0.00			0
ac) Other Capital contributions	896 270 092.14	2 503 527 902.14		1 351 423
b) Capital reserves				
ba) Contribution as per § 15 para. 1 State treaty	0.00			0
bb) other reserves	3 324 313 451.76	3 324 313 451.76		3 324 313
c) Retained earnings		692 571 355.06		687 502
d) Profit shown on the balance sheet after appropriation to or transfer from reserves		223 228 304.96		73 669
			6 743 641 013.92	7 044 165
Total liabilities			**131 620 084 627.56**	148 846 322
1. Contingent liabilities				
a) Contingent liabilities under rediscounted bills of exchange		0.00		0
b) Liabilities from guarantees and other indemnity agreements		5 288 696 191.04		5 839 988
c) Liabilities from assets pledged as collateral for third-party liabilities		0.00		0
			5 288 696 191.04	5 839 988
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		8 229 815 062.00		7 009 802
			8 229 815 062.00	7 009 802

Norddeutsche Landesbank Girozentrale

	€	€	€	2012 € 000
1. Interest income from				
a) Lending and money market transactions	2 663 020 050.54			3 073 919
b) Fixed-income and book entry securities	521 134 288.39			697 639
c) current income from trading portfolio	835 203 720.71	4 019 358 059.64		1 499 510
2. Interest expenses		2 847 680 584.57		4 067 329
			1 171 677 475.07	1 203 739
3. Current income from				
a) Shares and other non fixed-interest securities		9 973 888.01		15 458
b) Participating interests		12 283 966.58		19 218
c) Shares in affiliated companies		40 087 842.71		79 222
			62 345 697.30	113 898
4. Income from profit pooling, profit transfer and partial profit transfer agreements			**64 136 699.67**	7 227
5. Commission income		203 971 264.62		219 102
6. Commission expenses		121 059 122.67		67 896
			82 912 141.95	151 206
7. Net income deriving from trading business			**160 735 833.06**	88 171
8. Other operating income			**124 199 584.56**	93 714
9. General administrative expenses				
a) Staff expenses				
aa) Wages and salaries	298 106 450.98			294 143
ab) Social security contributions and expenses for pension provision and other employee benefits	81 878 439.12	379 984 890.10		135 676
of which: for pensions € 35 710 804.96				(76 266)
b) Other administrative expenses		358 901 565.86		352 320
			738 886 455.96	782 139
10. Depreciations and write-downs of intangible assets			**36 018 438.05**	38 184
11. Other operating expenses			**161 424 135.13**	188 584
12. Write-downs of and value adjustments to claims and certain securities and allocations to loan loss provisions			**473 190 642.24**	351 339
Amount carried forward			**256 487 760.23**	297 709

Income Statement for the reporting period from 1 January 2013 to 31 December 2013

	€	€	€	2012 € 000
Amount carried forward			**256 487 760.23**	297 709
13. Depreciations and write-downs to investments, investments in affiliated companies and securities treated as fixed assets			**0.00**	18 042
14. Earnings from write-ups to claims and certain securities and allocations to loan loss provisions			**9 257 376.26**	0
15. Expenses on assumption of losses			**7 845 094.21**	9 974
16. Profit on ordinary activities			**257 900 042.28**	269 693
17. Extraordinary income		0.00		0
18. Extraordinary expenses		46 546 440.32		42 035
19. Extraordinary result			**– 46 546 440.32**	– 42 035
20. Refund from income taxes		– 6 766 228.03		55 928
21. Refund from other taxes not show under item 11		– 7 138 370.32		1 651
			– 13 904 598.35	57 579
22. Income from profit pooling, profit transfer and partial profit transfer agreements			**70 629 895.35**	97 341
23. Annual profit			**154 628 304.96**	72 738
24. Earnings brought forward from the previous year			**68 600 000.00**	931
25. Profit			**223 228 304.96**	73 669

NOTES TO THE COMPANY ACCOUNTS

I. INFORMATION ON THE ACCOUNTING POLICIES AND PRINCIPLES FOR CURRENCY TRANSLATION

(Previous year figures for the 2013 accounting period or as at 31 December 2012 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 2013 were prepared in accordance with the regulations of the German Commercial Code (Handelsgesetzbuch, HGB), the German Accounting Regulation for Credit and Financial Services Institutions (Kreditinstituts-Rechnungslegungsverordnung, RechKredV) and the Covered Bond Act (Pfandbriefgesetz, PfandBG).

The structure 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 of the German Commercial Code taking into account partial appropriation of the annual profit.

Against the background of the European Banking Authority's (EBA) tighter requirements concerning minimum core capital for banks and the future Basel III requirements, NORD/LB has agreed a capital-boosting programme with its owners. Significant components of this capital-boosting programme from 2012 were continued in the year under review (limiting of risk-weighted assets, the retention of profits, optimisation of the equity structure). In order for the capital measures to be implemented in 2012, the measures needed to be reviewed and approved by the EU Commission on the basis of a restructuring plan submitted by NORD/LB. One of these measures concerns the guaranteed provided by the states of Lower Saxony and Saxony-Anhalt for the mezzanine tranch of a credit portfolio of NORD/LB brought into a securitisation structure. The guarantee will be paid for by NORD/LB in the form of a premium to be reported under commission expenses. Further commitments by NORD/LB in connection with the restructuring plan continued to have an effect in 2013. These include in particular the requirement that the profits for 2012 and 2013 be retained and an efficiency improvement programme, for which costs were again incurred in 2013 and which are reported in restructuring expenses.

Accounting Policies – Trading Portfolio

Financial instruments in the trading portfolio are valued in accordance with § 340e para. 3 clause 1 of the German Commercial Code at fair value less a risk premium. The change in fair value compared to the previous balance sheet date or compared to the acquisition cost, 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 of the German Commercial Code 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 non fixed-interest 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 of the German Commercial Code, 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 a correlated VaR for the following risk types:
  - General interest-rate risk
  - Specific interest-rate risk (issuer-specific credit-spread risk, no risk of default)
  - Currency risk
  - Share-price risk
  - Option price risk
- Confidence level: 99 %
- Holding period: 10 days
- Monitoring period: 1 year

The average rate is used for the valuation of the trading portfolio. The effects of the inclusion of counterparty-specific default risks for OTC derivatives are also reported. The bank also uses OIS discounting for the valuation of secured OTC derivatives where OIS discounting has developed at the current market standard.

Accounting Policies – Non-Trading Portfolio (Banking Book)

The cash reserve is reported at nominal value.

Loans and advances to customers and banks are reported at nominal value or at acquisition cost. 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 of the German Commercial Code. 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 national loan loss provisions risks were calculated based on principles which have not changed. Appropriate lumpsum loan loss provisions have been made for other general credit risks. Lumpsum loan loss provisions are still calculated in accordance with the communiqués of the BFA 1/1990 and the BMF Circular of 10 January 1994.

Securities in the liquidity reserve are valued in accordance with the strict lower-of-cost-or-market principle. Securities in fixed assets are valued at acquisition cost in accordance with the mitigated lower-of-cost-or-market principle provided that they are not the subject of a likely permanent loss in value.

Structured products are broken down into their components (basic instrument and embedded derivatives) in accordance with IDW RS HFA 22 and reported separately. The relevant accounting methods are applied for the components. The separate derivatives are considered in the loss-free valuation of the banking book or included in valuation units. Structured products that are valued at fair value or in accordance with the strict lower-of-cost-or-market principle are not reported separately.

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.

In cases in which risks from the non-trading portfolio are transferred to the trading portfolio, internal transactions are, like external transactions, considered under commercial law in accordance with the deputisation principle.

Investments and investments in affiliated companies are reported at acquisition cost or at the lower fair value in the case of permanent impairment. If the reasons for unscheduled depreciation no longer exist, the value is written up to no more than the acquisition cost.

The Öffentliche Versicherung Braunschweig (ÖVBS) dividend concerns the constant payment of interest on the respective guarantor capital which is only slightly dependent on the business performance of ÖVBS. This fact is taken into account by the change in the valuation method in the form of the underlying discounting factor.

Property, plant and equipment are reported at acquisition cost and, if they have a finite useful life, are subject to scheduled depreciation. The useful life is based on the tax options. There was no unscheduled depreciation in accordance with § 253 para. 3 clause 3 of the German Commercial Code in the year under review. 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 five 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 of the German Commercial Code and reported self-made intangible fixed assets. Here the external costs incurred during the development phase and internal development services are recognised. The useful life of self-made software is set at five years.

Where it is likely that a permanent loss in value has occurred, NORD/LB reduces the value with unscheduled depreciation. If the reasons for this no longer exist, the value is written up to no more than the amortised cost.

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 the acquisition price.

Provisions are valued at the necessary settlement value based on reasonable commercial assessment. Provisions with a term of more than one year are discounted using the average market interest rate relevant for the residual term calculated and published by the Deutsche Bundesbank in accordance with the Provisions Discounting Regulation (Rückstellungsabzinsungsverordnung, RückAbzinsV). Income and expenses from the discounting of provisions are reported under other operating income and expenses.

The bank makes use of the option to offset expenses and income in accordance with § 340 f para. 3 of the German Commercial Code.

Unlike in the previous year, interest income from valuation allowances on loans (unwinding) in the amount of $ 45.1 million ($ 33.6 million) are no longer reported under “income from write-ups of receivables and certain securities and the reversal of loan loss provisions”, but under “interest income from lending and money market transactions”, to achieve a better transparency and for controlling the net interest income.

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 publicly-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
Discounted Cashflow Method	Illiquid interest-bearing Securities	Swap curves, Credit rating information
	Credit Default Swaps	Swap curves, credit-spreads and where applicable credit rating information
	Interest-rate swaps, FRAs	Swap curves
	Securities forward contracts	Contract data, specific securities forward prices, swap curves
	Interest-rate currency swaps, Forward exchange contracts transactions	Swap curves in the currencies exchanged, basic swap spreads, exchange rate
Hull & White Model for Options	Bermudan swaptions	Volatility of the underlying market price, risk-free interest rate, swap rate, mean reversion
Black-Scholes Model	FX options	Exchange rates volatility of the underlying market price, risk-free interest rate for both currencies
	OTC share options (European)	Volatility of the underlying market price, risk-free interest rate, underlying (share), dividends
Barone-Adesi, Whaley-Modell	OTC share options (American)	Volatility of the underlying market price, risk-free interest rate, underlying (share), dividends
Black-76 Model	Caps and floors Swaptions Bond options	Exchange rates volatility of the underlying market price, risk-free interest rate
CVA/DVA Add-On Method	All derivatives	Internal ratings, swap curves

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 (Bilanzrechtsmodernisierungsgesetz, BilMoG) 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 of the German Commercial Code) being discounted in accordance with § 253 para. 2 of the German Commercial Code 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 of the German Commercial Code is used and the interest rate is set at a flat rate for a remaining term of 15 years.

As at 1 January 2013 the present value of pension obligations in accordance with the German Accounting Law Modernisation Act (BilMoG) was € 999.965 million. The difference resulting from the change in the valuation of pension obligations in accordance with the German Accounting Law Modernisation Act (BilMoG) as at 1 January 2010 totals € 301.921 million for the registered public institute. Using the simplification rule in accordance with art. 67 para. 1 clause 1 Introductory Act of the German Commercial Code (EGHGB), the allocation will be spread over 15 years. The value in 2013, after taking into account repayments, was € 18.745 million and was shown under extraordinary expenses. The first-time effect for the New York branch, however, was already recognised in full through profit or loss in 2010. The provision as at 31 December 2013 was € 828.704 million, whereby an obligation of € 215.880 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. 2013	31 Dec. 2012
Interest rate	4.88 %	5.04 % [1]
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 %

[1] A portion in the amount of € 53.054 million was calculated with an interest rate of 5.07 per cent.

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

For the branch in New York, the bank has offset the cover assets against the related pension obligations in accordance with § 246 para. 2 of the German Commercial Code (new version). The settlement value of the pension obligation (converted into euros) as at the balance sheet date was € 4.298 million. This is seen alongside the fair value of the cover assets as at 31 December 2013 in the amount of € 2.986 million. Acquisition costs amount to total € 2.443 million.

The allocation to the pension obligation for 2013 was € 0.178 million. This is seen alongside income generated from the cover assets in the amount of € 0.088 million.

For the indirect pension obligations of the London branch there was a shortfall as at 31 December 2013 of € 2.022 million.

Based on a service agreement, the employees of NORD/LB have the option of placing the credit balance of time credits and deferred remuneration in long-term working time credit accounts which are invested in a special fund by a trustee.

This is a securities-linked commitment, so that in accordance with § 253 para. 1 of the German Commercial Code the relevant provision is to be set in the amount of the fair value of the fund assets and netted with the cover assets.

As at 31 December 2013 the fair value of the special fund is € 4.1 million against an acquisition cost of € 4.1 million.

The expenses and income from the cover assets and the corresponding provisions are offset under other operating income.

Currency Translation

The currency translation takes place in the non-trading portfolio in accordance with the principles of § 256 a in conjunction with § 340h of the German Commercial Code (“special cover”) and the statement made by the “Bankenfachausschuss” (Banking Committee) of the “Institut der Wirtschaftsprüfer” (Institute of Public Auditors in Germany) (IDW RS BFA 4), 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 and the valuation of forward foreign exchange transactions and spot exchange transactions which have not yet been completed are translated using the average spot exchange rate (ECB reference exchange rate) or rates from other reliable sources on the balance sheet date.

For futures transactions in the non-trading portfolio, the pro-rata, swap mark-ups / mark-downs which have not yet been amortised 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 € 41,043.1 million (€ 44,834.5 million) and € 41,119.9 million (€ 44 783.7 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 (€ 831.768 million; previous year € 64.500 million);

- 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 (€ 313.047 million; previous year: € 625.694 million);

- Individual-transaction-specific hedge of the currency risk of the highly likely repayment of a hybrid capital bond issued in USD with a currency swap (€ 362.555 million; previous year: € 378.960 million);

- Individual-transaction-specific passing on of inflation risk hedged against customers to the market (€ 142.679 million; previous year: € 152.488 million).

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 of the German Commercial Code.

- 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 net hedge presentation method is used.

Loss-free Valuation of Interest-rate-based Transactions in the Banking Book (Interest Book)

Interest-rate-based financial instruments in the banking book (interest book) are subject to a loss-free valuation in accordance with IDW RS BFA 3. If the value of the payment obligation from the interest-bearing transaction is greater than the value of the counterperformance, a provision for anticipated loss in the amount of the net liability is to be made.

In the present value approach, NORD/LB compares the cashflows, discounted as at the balance sheet date, of all on-balance-sheet and off-balance-sheet interest-rate-based financial instruments not in the trading portfolio with their book values taking into account the expected refinancing, risk and administrative expenses. As at the balance sheet date there is no net liability.

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. 2013	31 Dec. 2012
2. Claims on banks		
with a residual term of		
Due on demand	4 173 057	4 471 295
less than 3 months	6 233 983	5 768 531
more than 3 months but less than 1 year	3 205 188	6 419 067
more than 1 year less than 5 years	7 479 240	9 391 618
more than 5 years	5 638 585	8 654 290
Balance sheet value	**26 730 053**	**34 704 801**
of which		
Claims on affiliated companies	6 081 251	8 946 318
Claims on companies in which an equity investment exists	861 844	1 397 556
Subordinated receivables	873 395	878 837
Used to cover old stock	905 431	2 713 822
The full amount of receivables from banks includes:		
Claims on affiliated savings banks	6 499 249	6 474 586
3. Claims on customers		
with a residual term of		
less than 3 months	5 613 257	8 943 966
more than 3 months but less than 1 year	4 637 843	1 377 654
more than 1 year less than 5 years	15 490 935	17 483 790
more than 5 years	33 204 736	36 234 951
Balance sheet value	**58 946 771**	**64 040 361**
of which		
Claims on affiliated companies	686 667	660 567
Claims on companies in which an equity investment exists	251 191	190 488
Subordinated receivables	20 042	33 476
Used to cover old stock	2 986 519	5 055 543
With an indefinite term	1 725 559	1 607 181
4. Debt securities and other fixed-interest securities		
a) Money-market instruments		
aa) Issued by public sector issuers		
Balance sheet value	**6 025**	**106 498**
of which		
due in the following year	6 025	106 498
marketable and unlisted money-market instruments	6 025	106 498

Assets

(in € 000)	31 Dec. 2013	31 Dec. 2012
ab) Issued by other issuers		
Balance sheet value	**10 878**	**53 772**
of which		
due in the following year	10 878	53 772
marketable and listed money-market instruments	10 878	53 772
b) Bonds and debt securities		
ba) Issued by public sector issuers		
Balance sheet value	**8 716 025**	**9 897 537**
of which		
due in the following year	1 369 817	2 559 487
marketable and listed money-market instruments	8 676 004	9 586 836
marketable and unlisted money-market instruments	40 022	310 701
Used to cover old stock	395 378	413 373
bb) Issued by other issuers		
Balance sheet value	**16 293 446**	**18 469 037**
of which		
due in the following year	2 756 390	3 402 492
marketable and listed money-market instruments	15 524 896	17 524 282
marketable and unlisted money-market instruments	768 772	944 755
Affiliated company securities	2 582 616	3 075 975
Subordinated debt securities	665 908	1 340 385
c) Debt securities, issued by the institution itself		
Balance sheet value	**385 994**	**482 520**
of which		
due in the following year	137 561	176 791
marketable and listed money-market instruments	385 994	482 520
5. Shares and other non fixed-interest securities		
Balance sheet value	**1 208 606**	**1 200 973**
of which		
marketable and listed shares and other non fixed-interest securities	1 460	1 710
5a. Trading portfolio		
Balance sheet value	**8 827 061**	**9 520 524**
of which		
Derivative financial instruments	2 380 065	4 534 425
Claims	2 437 830	1 902 454
Debt securities and other fixed-interest securities	3 872 995	2 994 305
Shares and other non fixed-interest securities	139 505	97 506
Risk discount	3 333	8 166

Assets

(in € 000)	31 Dec. 2013	31 Dec. 2012
6. Participations		
Balance sheet value	**94 780**	**110 755**
of which		
Marketable unlisted shares	10 836	13 994
The equity holding is shown in III. Paragraph 9		
7. Investments in affiliated companies		
Balance sheet value	**1 952 346**	**1 966 728**
of which		
Marketable unlisted shares	1 003 391	930 011
The equity holding is shown in III. Paragraph 9		
8. Assets held in trust		
Balance sheet value	**4 542 444**	**4 546 438**
of which		
Claims on banks	526 018	522 855
Claims on customers	4 016 426	4 023 583
9. Intangible assets		
Balance sheet value	**82 811**	**73 645**
of which		
internally generated software	50 231	56 288
In the 2013 year under review there are development costs for software in the amount of € 7.0 million but not any research costs.		
12. Other assets		
Balance sheet value	**1 432 221**	**1 962 118**
of which		
The following are reported as significant items:		
Interest and interest due from interest-rate swaps	735 142	901 438
Option premiums and margins	612 077	886 352
Claims against fiscal authorities	42 797	12 523
Reported assets on interim accounts	18 595	139 366
Pro rata interest claims from flat-traded securities of the trading portfolio	14 234	10 196
As a result of the reorganisation of the process for the accounting treatment of interim accounts, various interim accounts were closed and reclassified in the financial year. Loans and advances to and liabilities to banks and customers were affected significantly by this. This resulted in reductions in “other assets” and “other liabilities”.		
13. Deferred expenses and accrued income		
Balance sheet value	**1 123 287**	**1 154 845**
of which		
deferred premiums in accordance with § 340e Paragraph 2 HGB	358 061	397 251
discounts and maturing premiums	91 577	127 716

Assets

The table below shows the changes to fixed assets:

(in € 000)	Aquisition/ manufac-turing cost	Additions	Disposals	Accu-mulative depreciation	Balance sheet value 31 Dec. 2013	Balance sheet value 31 Dec. 2012	Deprecia-tion for the account-ing-period
Intangible assets	157 865	26 482	1 014	100 522	82 811	73 645	17 357
Tangible assets	454 334	24 800	3 838	256 438	218 858	212 901	18 661
		Change [1]					
Participating interests		– 15 975			94 780	110 755	
Investments in affiliated companies		– 14 382			1 952 346	1 966 728	
Securities in fixed assets		– 2 853 119			10 811 282	13 664 401	
of which:							
Bonds and debt securities		– 2 413 490			10 687 897	13 101 387	
Shares		– 439 630			123 384	563 014	

[1] The possibility of a summary according to § 34, para. 3 RechKredV was used.

Liabilities

(in € 000)	31 Dec. 2013	31 Dec. 2012
1. Liabilities to banks		
a) Due on demand		
Balance sheet value	**5 111 391**	**6 891 043**
of which		
Liabilities to affiliated companies	111 978	42 519
b) With an agreed term or notice period		
of which with a residual term of		
less than 3 months	18 517 190	18 467 756
more than 3 months but less than 1 year	2 565 580	5 457 345
more than 1 year but less than 5 years	5 157 624	5 085 545
more than 5 years	9 480 604	10 771 986
Balance sheet value	**35 720 998**	**39 782 632**
of which		
Liabilities to affiliated companies	356 944	677 173
Liabilities to companies in which an equity investment exists	320 093	481 002
Assets pledged as collateral	16 800 243	14 647 173
The full amount of bank loans and overdrafts includes:		
Liabilities to affiliated savings banks	1 731 376	3 448 073
2. Liabilities to customers		
a) Savings deposits		
aa) with an agreed notice period of three months		
Balance sheet value	**1 369 325**	**750 718**
ab) Savings deposits with an agreed notice period of more than three months		
of which with a residual term of		
less than 3 months	39 716	48 987
more than 3 months but less than 1 year	238 139	40 666
more than 1 year but less than 5 years	54 346	303 882
more than 5 years	191	975
Balance sheet value	**332 392**	**394 510**

[1] The previous year's figure for assets assignet as collateral under liabilities to banks was adjusted.
[2] Collateral has been provided for borrowing undertaken within the scope of genuine repos. Collateral has also been provided for refinancing funds for specific purposes and open market transactions to the Deutsche Bundesbank.

Liabilities

(in € 000)	31 Dec. 2013	31 Dec. 2012
b) Other liabilities		
ba) Due on demand		
Balance sheet value	**12 248 847**	**11 180 159**
of which		
Liabilities to affiliated companies	68 831	69 504
Liabilities to companies in which an equity investment exists	88 095	84 499
bb) With an agreed term or notice period		
of which with a residual term of		
less than 3 months	4 112 797	5 805 950
more than 3 months but less than 1 year	2 610 038	1 179 056
more than 1 year but less than 5 years	4 797 545	5 119 083
more than 5 years	11 638 781	12 510 478
Balance sheet value	**23 159 161**	**24 614 567**
of which		
Liabilities to affiliated companies	135 371	154 860
Liabilities to companies in which an equity investment exists	329 462	157 215
3. Securitised liabilities		
a) Issued debt securities		
Balance sheet value	**32 203 472**	**40 597 251**
of which		
Due in the following year	10 658 128	10 860 191
Liabilities to affiliated companies	3 557 602	537 743
Liabilities to companies in which an equity investment exists	77 508	198 723
b) Other securitised liabilities		
of which with a residual term of		
less than 3 months	154 649	–
more than 3 months but less than 1 year	80 004	126 575
more than 1 year but less than 5 years	111 290	121 082
more than 5 years	72 912	72 912
Balance sheet value	**418 855**	**320 569**
3a. Trading portfolio		
Balance sheet value	**2 295 562**	**4 568 551**
of which		
Derivative financial instruments	2 185 602	4 354 550
Liabilities (for short-term securities)	109 960	214 001
4. Liabilities held in trust		
Balance sheet value	**4 542 444**	**4 546 438**
of which		
Liabilities to banks [1]	1 605 103	1 622 932
Liabilities to customers	2 937 341	2 923 506

[1] Investitionsbank Sachsen-Anhalt equity to the amount of € 143.5 million is included in the figures and for the Group.

Liabilities

(in € 000)	31 Dec. 2013	31 Dec. 2012
5. Other liabilities		
Balance sheet value	**1 483 913**	**2 366 328**
of which		
reported as significant items:		
Countervalues for outstanding securities purchases	526 299	606 443
Interest payable and accrued interest from swaps	410 247	417 623
Balancing item from currency valuation	340 608	1 005 223
Interest payable from profit participation rights, subordinated liabilities and capital contributions	113 051	137 093
Outstanding items on interim accounts, not classified	46 899	149 748
Trade payables	31 331	29 483
As a result of the reorganisation of the process for the accounting treatment of interim accounts, various interim accounts were closed and reclassified in the financial year. Loans and advances to and liabilities to banks and customers were affected significantly by this. This resulted in reductions in “other assets” and “other liabilities”.		
6. Deferred income		
Balance sheet value	**927 938**	**889 201**
of which		
Separation of premiums from issuing and loan business	472 667	498 608
deferred discounts in accordance with § 340e Paragraph 2 HGB	47 630	38 774
7. Provisions NORD/LB forms provisions for pensions and similar duties, tax provisions and other provisions for uncertain liabilities.		
Basically the following items are shown under other provisions:		
Provisions for uncertain liabilities		
Staff expenses – other	179 318	196 307
Risks from lending business	77 309	103 887
Staff expenses – reorganisation provisions (efficiency improvement programme)	46 088	22 709
Legal risks	24 348	28 142
Other	90 947	64 636
	418 010	**415 681**

8. Subordinated liabilities

NORD/LB spent € 123.767 million (€ 123.657 million) on the liabilities reported. Borrowings which exceed 10 per cent of the total amount respectively are defined as follows:

Currency amount	Interest rate	Due on
€ 580 million	5.75 % p.a.	1 Dec. 2015
€ 350 million	6.00 % p.a.	29 June 2020

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.

Liabilities

(in € 000)	31 Dec. 2013	31 Dec. 2012
10. Participatory capital		
Balance sheet value	**115 000**	**115 000**
of which		
there of falling due in less than two years	55 000	20 000

With the exception of those capital components which have a maturity of less than two years, the other tranches of the participatory capital issued by NORD/LB meet in full the conditions of § 10 para. 5 of the German Banking Act and are therefore to be allowed for.

11. Equity

The balance sheet profit includes the profit carried forward from the previous year in the amount of € 68,600,000.00.

Of the silent participations in NORD/LB's portfolio which are reported in the balance sheet under other capital contributions, as at 31 December 2013 participations in the nominal amount of € 0.0 million have been cancelled.

As part of the scope of the capital-boosting measures, NORD/LB acquired capital notes in the amount of € 400 million held indirectly by the state of Lower Saxony in 2012. These securities were issued by special purpose entities in order to refinance silent participations at NORD/LB. In the past financial year the capital notes purchased in 2012 by NORD/LB were recalled and repaid by the special purpose entities Fürstenberg Capital Erste GmbH and Fürstenberg Capital II GmbH. At the same time silent participations held by the two special purpose entities were cancelled in the same amount.

Furthermore, NORD/LB has purchased in 2013 by way of a tender for the remaining capital notes of the three special purpose entities based in Fürstenberg securities in the amount of € 99.2 million. Like the capital notes purchased in 2012, these securities were reported by NORD/LB on the assets side under debt securities at the time they were recalled and repaid.

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

1. Contingent liabilities

Under contingent liabilities there are as at 31 December 2013 nine significant liabilities relating to sureties and guarantees. The individual values range from € 48.1 million to € 199.8 million.

NORD/LB's maximum liability to customers from guarantees is € 3,796.6 million and from letters of credit € 199.4 million.

The risk of the contingent liabilities being used is considered to be low as the liabilities are arranged and monitored on a credit-related basis. A risk provisioning in the amount of € 50.0 million (€ 63.8 million) has been allocated.

2. Other obligations

The irrevocable credit commitments in the reporting period 2013 are broken down as follows:

– Commercial enterprises	6 526
– Banks	1 110
– Public households	510
– Private customers	84

Based on credit rating analyses that have been conducted, it is largely expected that the borrowers will meet their obligations. Risks may arise from a drop in the customers' credit ratings, for which an appropriate provision has been made. The provision is € 6.7 million (€ 21.7 million).

3. Hard letter of comfort

NORD/LB ensures that the following companies are able to meet their obligations:
- Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover,
- Nieba GmbH, Hanover,
- Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel/Luxembourg,
- NORD/LB Asset Management Holding GmbH, Hanover,
- NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel/Luxembourg,
- Skandifinanz AG, Zurich/Switzerland

Notes to the Income Statement

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

(in € 000)	Federal Republic of Germany	Europe (excl. of Federal Republic of Germany)	North America	Asia	Total
1. Net interest income	3 713 362 (4 842 067)	93 200 (131 043)	117 270 (164 689)	95 526 (133 269)	4 019 358 (5 271 068)
3. Current income	62 346 (113 898)	0 (0)	0 (0)	0 (0)	62 346 (113 898)
5. Net commision income	162 847 (173 498)	14 447 (12 125)	21 916 (23 794)	4 761 (9 686)	203 971 (219 103)
7. Net profit of trading portfolio	159 606 (106 658)	– 196 (257)	1 629 (– 19 471)	– 303 (727)	160 736 (88 171)
8. Other operating income	123 547 (92 331)	234 (481)	207 (554)	212 (349)	124 200 (93 715)
Income statement items	4 221 708 (5 328 452)	107 685 (143 906)	141 022 (169 566)	100 196 (144 031)	4 570 611 (5 785 955)

(in € 000)	2013	2012
7. Net profit/loss of trading portfolio		
The following are reported as material items:		
Net income from securities	–	111 154
Net expediture from securities	59 391	–
Net income from loans	–	77 995
Net expediture from loans	42 240	–
Net income from derivatives	240 186	–
Net expediture from derivatives	–	121 242
Income from the change in value at risk reduction	4 833	2 624
8. Other operating income		
The following are reported as material items:		
Reversal of provisions	39 785	8 207
Profit from hedge derivatives of own issues	22 289	16 740
Income from the resale of hardware, software and services	17 249	16 868
Reimbursement of costs from shipping exposures	5 753	–
Settlement payments	5 670	–
IT services for third parties	5 454	7 601
Income from rents	4 889	4 846
Interest income from tax refunds	4 053	1 022
Offsetting of services with promotion institutes	3 349	3 439
Book profits from disposal of property and equipment	119	21 709
11. Other operating expenses		
The following are reported as material items:		
Interest expenses from the valuation of provisions	54 977	50 622
Price losses from redemption of promissory notes and registered bonds	43 085	66 895
Payments to the restructuring fund for banks	27 617	25 987
Expenses for the resale of hardware, software and services purchased	16 231	17 151
Expenses for KSN services	12 481	11 229
Concession fee for BLSK	1 450	1 600
Expenses for losses resulting from operational risks	268	1 086
Interest expenses for payments of tax arrears	208	5 435
Allocation to provisions for recourse risks	–	3 157

18. Extraordinary expenses

Extraordinary expenses include the transition effects of the valuation of provisions in the amount of € 18.7 million (€ 18.6 million) as a result of the implementation of the German Accounting Law Modernisation Act (BilMoG) and restructuring expenses in the amount of € 27.8 million (€ 23.4 million). These concern employee-related expenses for measures to reduce material costs, staff expenses and commission expenses as part of the efficiency-improvement programme.

Other Financial Obligations

With regard to the security reserve for landesbanks, NORD/LB's maximum obligation to make additional contributions is € 57.9 million (€ 159.6 million). In the event of a need for support these subsequent contributions could be collected immediately.

NORD/LB has further obligations to make additional contributions to 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.

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 guarantor 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 guarantor 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 guarantor of the security reserve for landesbanks and giro centres all expenditure including interest and interest lost for supporting measures which cannot be paid from the fund established for Deutsche Hypothekenbank in accordance with the agreement concluded between Deutscher Sparkassen- und Giroverband e.V. and Deutsche Hypothekenbank AG on 19 December 2008.

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 partnership loans totalling approximately € 7.0 million (€ 11.0 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.

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 the purchaser that taxes for periods for which tax audits had not yet been conducted have been fully paid or adequate provisions have been set up. In this respect NORD/LB is liable for any additional back taxes if the value exceeds € 0.5 million.

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

Call-in obligations for shares and other interests amounted to € 12,8 million at year-end (€ 13.4 million).

In the course of normal business activities NORD/LB has provided security in the nominal amount of € 2,138.2 million (€ 2,778.5 million) in the form of securities.

In connection with the measures to boost the amount of NORD/LB's regulatory capital by converting silent participations into share capital and reserves, NORD/LB has made a commitment to the other owners of Bremer Landesbank that in the event of a further retention of profits and until a distribution takes place, to finance it in advance with the funds it requires at terms that are still to be negotiated.

NORD/LB intends, in order ease the pressure on regulatory equity, to transfer part of the credit risk of a credit portfolio defined precisely by a finance guarantee ("PEGASUS") to an external third party. If the finance guarantee becomes effective as planned in 2014, this would result in a financial burden with charges of up to € 36 million incurred for 2014 and up to € 45 million per year for the remainder of the period of the guarantee.

NORD/LB has concluded a framework contract with Wincor Nixdorf International GmbH, Paderborn, to regulate the collaboration in the area of information technology. The contract, which bundles the IT infrastructure services with one service provider, commences with effect of 1 July 2013 and will run to 30 June 2020. The annual costs are volume-dependent; the value of the contract over the entire term is approx. € 200 million.

NORD/LB has obligations from long-term rental and lease agreements for land and buildings to 2024 in the nominal amount of € 340.9 million (€ 366.4 million), € 293.4 million (€ 307.7 million) of which towards affiliated companies.

In accordance with the Restructuring Fund Regulation (Restrukturierungsfonds-Verordnung, RstruktFV), NORD/LB has to pay a bank levy.

III. OTHER DISCLOSURES

1. Members of the Managing Board

Dr. Gunter Dunkel
(Chairman)

Dr. Johannes-Jörg Riegler
(Deputy Chairman until 1 March 2014)

Ulrike Brouzi

Eckhard Forst

Dr. Hinrich Holm

Christoph Schulz

Thomas Bürkle
(since 1 January 2014)

2. Members of the Supervisory Board

Peter-Jürgen Schneider (Chairman)
Minister of Finance, State of Lower Saxony
(since 19 February 2013)

Hartmut Möllring (Chairman)
(until 19 February 2013)

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

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

Frank Berg
Chairman of the Managing Board,
OstseeSparkasse Rostock

Norbert Dierkes
Chairman of the Managing Board,
Sparkasse Jerichower Land

Edda Döpke
Bank employee,
NORD/LB Hannover

Ralf Dörries
Senior Vice President,
NORD/LB Hannover

Hans-Heinrich Hahne
Chairman of the Managing Board,
Sparkasse Schaumburg

Frank Hildebrandt
Bank employee,
NORD/LB Braunschweig

Martin Kind
Managing Director
KIND Hörgeräte GmbH & Co. KG

Frank Klingebiel
Mayor, City of Salzgitter

Prof. Dr. Susanne Knorre
Management consultant
(since 1 May 2013)

Ulrich Mädge
Mayor, City of Hansestadt Lüneburg

Antje Niewisch-Lennartz
Minister of Justice, State of Lower Saxony
(since 1 July 2013)

Heinrich von Nathusius
IFA ROTORION – Holding GmbH

Freddy Pedersen
ver.di Vereinte Dienstleistungsgewerkschaft

Jörg Reinbrecht
ver.di Vereinte Dienstleistungsgewerkschaft

Ilse Thonagel
Bank employee
Landesförderinstitut Mecklenburg-Western Pomerania

Mirja Viertelhaus-Koschig
Deputy Chairman of the Managing Board, VIEROL AG
(until 26 April 2013)

Klaus-Peter Wennemann
Management consultant
(until 30 June 2013)

3. Disclosures concerning mandates

As at 31 December 2013 the following mandates where held in accordance with § 340a para. 4 no. 1 HGB by members of NORD/LB:

Managing Board

Name	Company [1]
Dr. Gunter Dunkel	Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Continental AG, Hanover Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel
Dr. Johannes-Jörg Riegler	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel LHI Leasing GmbH, Pullach
Ulrike Brouzi	NORD/LB Capital Management GmbH, Hanover Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel NORD/LB Kapitalanlagegesellschaft AG, Hanover Salzgitter AG Stahl und Technologie, Salzgitter (since 7 May 2013)
Eckhard Forst	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover LHI Leasing GmbH, Pullach
Dr. Hinrich Holm	Lotto-Toto GmbH Sachsen-Anhalt, Magdeburg Investitionsbank Sachsen-Anhalt, Magdeburg LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Liquiditäts- und Konsortialbank GmbH, Frankfurt am Main NORD/LB Capital Management GmbH, Hanover NORD/LB Kapitalanlagegesellschaft AG, Hanover
Christoph Schulz	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel Toto-Lotto Niedersachsen GmbH, Hanover

[1] Banks and large corporate entities are on equal terms.

Other employees

Name	Company [1]
Dr. Rüdiger Fuhrmann	Niedersächsische Landgesellschaft mbH, Hanover
Martin Hartmann	LHI Leasing GmbH, Pullach
Dr. Michael Lange	Toto-Lotto Niedersachsen GmbH, Hanover
Ingo Wünsche	Niedersächsische Bürgschaftsbank (NBB) GmbH, Hanover
Berit Zimmermann	Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg
Jörn Zimmermann	Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin

[1] Banks and large corporate entities are on equal terms.

4. Remuneration and Loans to Governing Bodies

(in € 000)	2013	2012
Emoluments paid to active members of executive bodies		
Board of Management	3 335	3 757
Supervisory Board	386	361
	3 721	**4 118**
Emoluments paid to former members of the executive bodies and their dependants		
Board of Management	4 081	4 146
Advances payments and loans		
Board of Management	1 331	1 397
Supervisory Board	60	614

€ 33.599 million (€ 32.785 million) was put back for pension obligations towards former members of governing bodies and their surviving dependents, whereby an obligation of € 12.275 million (€ 12.234 million) is not reported in the balance sheet.

5. Auditor's fees

NORD/LB has made use of the option in accordance with 285 no. 17 of the German Commercial Code of reporting the auditor's fees in the consolidated financial statements.

6. Average number of employees

	Male 2013	Male 2012	Female 2013	Female 2012	Total 2013	Total 2012
Employees	2 101	2 096	2 190	2 175	4 291	4 271

Investitionsbank Sachsen-Anhalt and Landesförderinstitut Mecklenburg-Vorpommern account for an additional 619 employees (608 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.

Omitted depreciations to lower fair value

The items “debt securities and other fixed-interest securities” and “shares and other non fixed-interest 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)	Book values 31 Dec. 2013	Fair values 31 Dec. 2013	omitted depriation 31 Dec. 2013	Book values 31 Dec. 2012	Fair values 31 Dec. 2012	omitted depriation 31 Dec. 2012
Bonds and debt securities	2 817 125	2 734 870	82 255	5 685 498	5 480 818	204 680
Shares	0	0	0	563 014	554 307	8 707

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 intention is to hold the shares long term. Write-downs are only to be made if there is a likely permanent loss in value. There were no reasons for a write-down to lower fair value as at the balance sheet date.

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)	Book values 31 Dec. 2013	Fair values 31 Dec. 2013	Book values 31 Dec. 2012	Fair values 31 Dec. 2012
Bonds and debt securities	6 545 680	6 873 573	6 336 572	6 816 207
Shares	123 384	125 226	–	–

Marketable securities not valued at lower of cost or market

The items “debt securities and other fixed-interest securities” and “shares and other non fixed-interest 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. 2013	31 Dec. 2012
Debt securities and other fixed-interest securities	10 665 237	12 967 410
Shares and other non fixed-interest securities	0	0

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.

The tables below also include the disclosures in accordance with § 36 of the RechKredV concerning the foreign currency, interest-based and other futures transactions which have not yet been completed as at the balance sheet date.

Derivatives not valued at fair value in external relations (derivatives in the non-trading portfolio)

(in € million)	Nominal values 31 Dec. 2013	Positive fair values 31 Dec. 2013	Negative fair values 31 Dec. 2013	Book values 31 Dec. 2013	Recorded in balance sheet item 31 Dec. 2013
Interest-rate risks					
Interest-rate swaps	4 903	897	– 106	300	Assets 13./ Liabilities 6.
FRAs	–	–	–	–	–
Interest-rate options					
purchases	5 033	906	–	515	Assets 12.
sales	1 767	–	– 496	– 349	Liabilities 5.
Caps, Floors	3 714	29	– 72	– 33	Assets 13./ Liabilities 6.
Stock-exchange contracts	–	–	–	–	–
Other forward interest rate transactions	782	0	– 107	–	–
Interest-rate risks – total –	**16 199**	**1 832**	**– 781**	**433**	
Currency risks					
Forward foreign exchange transactions	899	8	– 12	– 15	Liabilities 5.
Currency swaps/ interest-rate currency swaps	525	45	– 10	31	Assets 13./ Liabilities 5./ Liabilities 6.
Currency options					
purchases	–	–	–	–	–
sales	–	–	–	–	–
Currency risks – total –	**1 424**	**53**	**– 22**	**16**	
Shares and other price risks					
Share futures contracts	–	–	–	–	–
Share swaps	–	–	–	–	–
Share options					
purchases	–	–	–	–	–
sales	–	–	–	–	–
Stock-exchange contracts	4	–	–	0	–
Shares and other price risks – total –	**4**	**–**	**–**	**0**	**–**
Credit derivatives					
Assignor	57	–	– 1	–	Assets
Assignee	1 343	9	– 1	6	Assets
Credit derivatives – total –	**1 400**	**9**	**– 2**	**6**	
Derivatives not valued at fair value – total	**19 027**	**1 894**	**– 805**	**455**	

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 excluding accrued interest are shown. 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 in external relations (derivatives in the trading portfolio)

Derivatives valued at fair value – broken down by risk type and transaction type

(in € million)	Nominal values 31 Dec. 2013
Interest-rate risks	
Interest-rate swaps	152 109
FRAs	1 029
Interest-rate options	
purchases	2 995
sales	5 820
Caps, Floors	4 769
Stock-exchange contracts	–
Other forward interest rate transactions	1 079
Interest-rate risks – total –	**167 801**
Currency risks	
Forward foreign exchange transactions	19 080
Currency swaps/interest-rate currency swaps	26 666
Currency options	
purchases	117
sales	119
Currency risks – total –	**45 982**
Shares and other price risks	
Share futures contracts	–
Share swaps	–
Share options	
purchases	61
sales	–
Stock-exchange contracts	35
Shares and other price risks – total –	**96**
Credit derivatives – total –	
Assignor	32
Assignee	27
Credit derivatives – total –	**59**
Derivatives valued at fair value – total	**213 938**

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.

The amount, dates and reliability of future cashflows relating to derivatives are uncertain. The main factors which affect this are the future development of interest rates, exchange rates and share prices. Counterparty risk also exists. The tables below provide an overview of the volumes affected by these factors.

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

(in € million)	Nominal values 31 Dec. 2013
Interest-rate risks	
Residual terms to maturity	
up to 3 months	14 594
up to 1 year	17 366
up to 5 years	58 584
more than 5 years	77 257
	167 801
Currency risks	
Residual terms to maturity	
up to 3 months	16 015
up to 1 year	7 604
up to 5 years	12 980
more than 5 years	9 383
	45 982
Shares and other price risks	
Residual terms to maturity	
up to 3 months	66
up to 1 year	27
up to 5 years	3
more than 5 years	–
	96
Credit derivatives	
Residual terms to maturity	
up to 3 months	3
up to 1 year	10
up to 5 years	46
more than 5 years	–
	59

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)	Nominal values 31 Dec. 2013
Banks in the OECD	178 280
Banks outside the OECD	163
Public institutions in the OECD	7 118
Other counterparties[1]	28 377
Total	**213 938**

[1] 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. 2013 Underlying transaction hedged against			
(in € 000)	Interest rate risk	Share price risk	Inflation risk	Currency risk
Assets				
Fixed-interest securities for the liquidity reserve	880 150	–	–	–
Assets – total	**880 150**	**–**	**–**	**–**
Pending transactions				
Derivatives separated from structured issues				
share-price-related derivatives	–	308 047	–	–
exchange-rate-related derivatives	–	–	–	5 000
Other	–	–	142 679	–
Pending transactions – total	**–**	**308 047**	**142 679**	**5 000**
Transactions expected with a high probability[1)]				
Repayment of an issued USD hybrid capital bond	–	–	–	362 555
Transactions expected with a high probability – total	**–**	**–**	**–**	**362 555**
Valuation units – total	**880 150**	**308 047**	**142 679**	**367 555**

[1)] 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 € 1,330.876 million.

The prospective and retrospective effectiveness of all valuation units is measured using the Critical Terms Match method. Basically the final maturity of the underlying transactions corresponds to the final maturity of the hedging instrument. The underlying transactions will mature between 2013 and 2019.

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, plant and equipment, the trading portfolio and other liabilities were offset with deferred tax assets against temporary differences in loans and advances to customers, pension provisions and other provisions.

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 of the German Commercial Code.

Values subject to dividend payout restrictions

After the deduction of deferred tax liabilities, self-made intangible fixed assets in the amount of € 34.4 million remain. The difference between the present value and the acquisition cost of the cover assets after the deduction of deferred tax liabilities is € 0.3 million. The dividend payout restriction for such values enshrined in § 268 para. 8 of the German Commercial Code does not affect the profit for the financial year 2013 as the disposable reserves plus the profit carried forward are greater than the intangible fixed assets and the cover assets.

Repos

Repos are reported in accordance with § 340b of the German Commercial Code. Only genuine repos are completed.

Securities and other assets with a book value totalling € 3,889.3 million (€ 12,858.4 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 65	NORD/LB AM ALCO
Former	NORDCON-Fonds SP 56	–
Type of special asset	Special asset	Special asset
Investment objective	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 Anstalt öffentlichen Rechts.	The fund is part of the ALCO-portfolio and thus part of the strategic investments.
Reporting date	31 Dec. 2013	31 Dec. 2013
Special assets (in € 000)	125 231	1 089 613
Shares – total	1 253 136	10 562 800
Currency of shares	EUR	EUR
Shares of NORD/LB as at the reporting date	1 253 136	10 562 800
Values of the shares according to § 26 of the German Investment Act (InvG) as at reporting date	99.93	103.15
Carrying amount (in € 000)	123 384	1 083 762
Difference between fair value and carrying amount (in € 000)	1 847	5 852
Dividends paid out in the final year acc. to shares of NORD/LB (gross in € 000)	–	4 667
Reporting year of NORD/LB	1 Jan. – 31 Dez.	1 Jan. – 31 Dez.
Reporting year of the special asset	1 Jan. – 31 Dez.	1 Jan. – 31 Dez.
Restrictions in the possibility of daily return	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. 2013	31 Dec. 2012
Mortgage bond coverage		
Liabilities requiring cover		
Pfandbriefe	0	1 027 000
discharged and cancelled items	0	0
Registered Pfandbriefe (as security on loans taken up)	0	0
	0	**1 027 000**
Covering assets		
Loans to customers secured by mortgages	0	1 033 226
Public issuer securities	0	200 000
Substitute credit institution cover	0	130 000
	0	**1 363 226**
Surplus cover	**0**	**336 226**
Municipal cover		
Liabilities requiring cover		
Municipal debentures	2 787 210	4 776 820
discharged and cancelled items	0	0
Registered municipal debentures (to secure loans taken up)	300 962	664 027
	3 088 172	**5 440 847**
Covering assets		
Municipal loans		
to financial institutions	905 431	1 773 714
to customers	2 886 519	4 022 317
Public issuer securities	395 378	413 373
Fixed deposits from public-sector banks	0	0
Substitute credit institution cover	100 000	810 108
	4 287 329	**7 019 512**
Surplus cover	**1 199 157**	**1 578 665**

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 § 35 of the RechKredV.

(in € million)	Mortgage Pfandbriefe	Public-sector Pfandbriefe	Ship Pfandbriefe	Aircraft Pfandbriefe	Total
Covering assets loans and advances banks	0 (0)	4 904 (6 727)	0 (0)	0 (0)	4 904 (6 727)
Covering assets loans and advances banks	2 503 (2 085)	16 372 (15 508)	158 (317)	1 239 (907)	20 271 (18 819)
Covering assets loans and advances banks	160 (150)	1 854 (3 162)	9 (118)	20 (20)	2 043 (3 450)
Total	**2 663** **(2 235)**	**23 129** **(25 397)**	**167** **(435)**	**1 259** **(927)**	**27 217** **(28 995)**

10. Pfandbriefe for NORD/LB in accordance with § 28 of the Covered Bond Act

Pfandbriefe 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 Pfandbriefe					
Total circulation	1 543 (755)	1 611 (839)	1 560 (780)	1 640 (864)	1 560 (780)
Guarantee fund total [1]	2 663 (2 235)	2 884 (2 459)	2 704 (2 309)	2 995 (2 517)	2 687 (2 280)
Excess coverage	**1 120** (1 480)	**1 273** (1 620)	**1 144** (1 529)	**1 355** (1 653)	**1 127** (1 500)
Excess coverage in per cent	73 (196)	79 (193)	73 (196)	83 (191)	72 (192)
Public-sector Pfandbriefe					
Total circulation	16 519 (18 080)	18 475 (20 784)	16 321 (18 360)	20 645 (22 609)	16 827 (18 756)
Guarantee fund total [2]	23 129 (25 397)	25 427 (28 730)	22 811 (25 723)	28 026 (30 928)	22 911 (25 817)
Excess coverage	**6 610** (7 317)	**6 952** (7 946)	**6 490** (7 363)	**7 380** (8 319)	**6 084** (7 061)
Excess coverage in per cent	40 (40)	38 (38)	40 (40)	36 (37)	36 (38)
Ship Pfandbriefe					
Total circulation	90 (200)	89 (201)	82 (191)	93 (205)	82 (191)
Guarantee fund total [3]	167 (435)	174 (450)	165 (429)	179 (455)	138 (375)
Excess coverage	**77** (235)	**85** (249)	**84** (238)	**86** (250)	**57** (184)
Excess coverage in per cent	85 (118)	95 (124)	103 (125)	93 (122)	70 (96)
Aircraft Pfandbriefe					
Total circulation	506 (506)	522 (530)	479 (476)	539 (547)	479 (476)
Guarantee fund total [4]	1 259 (927)	1 355 (1 042)	1 242 (951)	1 442 (1 086)	1 048 (806)
Excess coverage	**753** (421)	**832** (511)	**763** (475)	**903** (539)	**568** (330)
Excess coverage in per cent	149 (83)	159 (97)	159 (100)	167 (99)	119 (70)

[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 € 673 million (€ 811 million).
[3] Amounts acc. to § 26, para. 1, no. 3 and 4 are not included in the cover pool.
[4] Amounts acc. to § 26f, 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 Pfandbriefe 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 Pfandbriefe	30 (204)	74 (50)	258 (63)	0 (257)	0 (0)	1 131 (131)	50 (50)
Guarantee fund total	373 (424)	313 (265)	367 (278)	297 (291)	228 (219)	1 045 (744)	39 (14)
Public-sector Pfandbriefe	2 172 (2 833)	1 891 (2 047)	2 156 (1 953)	832 (2 129)	1 069 (899)	5 001 (4 583)	3 399 (3 636)
Guarantee fund total	2 823 (2 433)	2 889 (3 006)	2 259 (4 479)	2 438 (2 038)	1 703 (2 247)	6 472 (6 747)	4 544 (4 447)
Ship Pfandbriefe	10 (110)	0 (10)	0 (0)	50 (0)	30 (50)	0 (30)	0 (0)
Guarantee fund total	58 (195)	42 (72)	26 (54)	15 (47)	8 (30)	11 (37)	6 (0)
Aircraft Pfandbriefe	0 (0)	0 (0)	0 (0)	501 (0)	0 (501)	5 (5)	0 (0)
Guarantee fund total	192 (124)	146 (188)	166 (88)	148 (109)	213 (90)	393 (287)	0 (41)

Receivables used to cover Pfandbriefe by size:

(in € million)	Covering assets	Over-collateralisation	Securing liquidity	Total
Mortgage Pfandbriefe				
Less than € 0.3 million	1 032 (973)	0 (0)	0 (0)	1 032 (973)
More than € 0.3 million and less than € 5 million	645 (480)	0 (0)	0 (0)	645 (480)
More than € 5 million	826 (632)	50 (40)	110 (110)	986 (782)
	2 503 (2 085)	**50 (40)**	**110 (110)**	**2 663 (2 235)**
Ship Pfandbriefe (ocean-going vessels only)				
Less than € 0.5 million	3 (1)	0 (0)	0 (0)	3 (1)
More than € 0.5 million and less than € 5 million	79 (180)	0 (5)	3 (5)	82 (190)
More than € 5 million	75 (137)	6 (8)	0 (100)	81 (245)
	158 (318)	**6 (13)**	**3 (105)**	**167 (435)**
Aircraft Pfandbriefe				
Less than € 0.5 million	0 (0)	0 (0)	0 (0)	0 (0)
More than € 0.5 million and less than € 5 million	157 (94)	0 (0)	0 (0)	157 (94)
More than € 5 million	1 081 (814)	20 (20)	0 (0)	1 101 (834)
	1 239 (908)	**20 (20)**	**0 (0)**	**1 259 (927)**

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

(in € million)	Germany	Luxembourg	Austria	Poland	USA	Total
Covering assets commercial						
Office Buildings	266 (252)	116 (117)	0 (0)	0 (23)	92 (164)	474 (556)
Nonresidential Building	160 (130)	0 (0)	9 (9)	0 (0)	0 (0)	169 (139)
Industrial Building	11 (5)	0 (0)	0 (0)	0 (0)	0 (0)	11 (5)
Other commercial real estate	175 (180)	0 (0)	0 (0)	0 (0)	0 (0)	175 (180)
Unfinished and Non-Productive New Buildings	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Building sites	0 (0)	0 (0)	0 (0)	0 (0)	4 (0)	4 (0)
Covering assets residential						
Condominiums	183 (175)	0 (0)	0 (0)	0 (0)	0 (0)	183 (175)
One- and Twofamily houses	655 (621)	0 (0)	0 (0)	0 (0)	0 (0)	655 (621)
Apartment Buildings	831 (409)	0 (0)	0 (0)	0 (0)	0 (0)	831 (409)
Unfinished and Non-Productive New Buildings	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Building sites	1 (0)	0 (0)	0 (0)	0 (0)	0 (0)	1 (0)
Subtotal	**2 282** (1 772)	**116** (117)	**9** (9)	**0** (23)	**96** (164)	**2 503** (2 085)
Over-collateralisation	50 (40)	0 (0)	0 (0)	0 (0)	0 (0)	50 (40)
Securing liquidity	110 (110)	0 (0)	0 (0)	0 (0)	0 (0)	110 (110)
Total	**2 442** (1 922)	**116** (117)	**9** (9)	**0** (23)	**96** (164)	**2 663** (2 235)

The value of receivables used to cover mortgage Pfandbriefe which were outstanding by at least 90 days was € 34 thousand (€ 8 thousand) for land securities in Germany.

There were no cases of forced sale, forced receivership or takeovers of land to prevent losses. The total arrears on interest to be paid by mortgage debtors were € 0.042 million (€ 0.003 million) for commercial property and € 0.439 million (€ 0.111 million) for residential property.

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

(in € million)	Country	Regional local authorities	Public local authorities	Other debtors [1]	Total
Germany	1 324 (1 288)	7 243 (7 227)	4 904 (4 982)	6 184 (9 269)	19 655 (22 766)
Belgium	4 (0)	0 (0)	0 (0)	0 (0)	4 (0)
Great Britain	54 (63)	0 (0)	0 (0)	0 (0)	54 (63)
Finnland	26 (62)	0 (0)	0 (0)	0 (0)	26 (62)
Canada	77 (0)	0 (0)	0 (0)	0 (0)	77 (0)
Latvia	0 (0)	0 (0)	43 (45)	0 (0)	43 (45)
Luxembourg	0 (0)	0 (0)	0 (0)	0 (106)	0 (106)
Austria	120 (157)	0 (0)	0 (0)	164 (258)	284 (415)
Switzerland	4 (5)	0 (0)	0 (0)	0 (0)	4 (5)
USA	445 (483)	0 (0)	0 (0)	12 (0)	457 (483)

[1] The additional coverage in accordance with § 20, sec. 2, No. 2, the over-collateralisation acc. to § 4, No. 1 and the securing liquidity acc. to § 4, sec. 1a PfandBG are not taken into account any longer.

As in the previous year, no receivables were used to cover mortgage Pfandbriefe which were outstanding by 90 days or more.

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

	Covering assets					
	Maritime navigation	Maritime navigation	Inland shipping navigation	Inland shipping navigation	Other	Other
(in € million)	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
Germany	119	254	0	0	9	118
Cyprus	38	63	0	0	0	0

There were no cases of forced sale, forced receivership or takeovers of ships or shipbuilding to prevent losses. The total arrears on interest to be paid by loan debtors were € 0.0 million (€ 0.0 million) for ocean-going ships and € 0.0 million (€ 0.0 million) for inland ships

Receivables used to cover aircraft mortgage Pfandbriefe by country in which the aircraft are registered:

	Covering assets			
(in € million)	Airplanes 31 Dec. 2013	Airplanes 31 Dec. 2012	Other 31 Dec. 2013	Other 31 Dec. 2012
Germany	245	163	20	20
France	114	120	0	0
Great Britain	258	246	0	0
Ireland	116	114	0	0
Norway	37	35	0	0
USA	469	229	0	0

Arrears on interest to be paid amounted to € 0.0 million (€ 0.0 million).

11. 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) 8)]	100.00	141	– 7
2	BGG Oldenburg GmbH & Co. KG, Bremen [1) 8)]	100.00	7 815	910
3	BLB Grundbesitz KG, Bremen [1) 8)]	100.00	47 800	473
4	BLB Immobilien GmbH, Bremen [1) 8)]	100.00	15 386	0
5	BLB Leasing GmbH, Oldenburg [1) 8) 10)]	100.00	511	0
6	BLBI Beteiligungs-GmbH, Bremen [1) 8)]	100.00	65	7
7	BLBI Investment GmbH & Co. KG, Bremen [1) 8)]	100.00	42 400	3 664
8	Braunschweig Advisors GmbH, Braunschweig [1) 7)]	100.00	89	44
9	Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [3) 8)]	100.00	9 061	0
10	Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig [2) 7)]	100.00	608	220
11	Braunschweig Grundstücksentwicklungsgesellschaft mbH, Braunschweig [1) 7)]	100.00	31	2
12	Braunschweig-Beteiligungsgesellschaft mbH, Braunschweig [1) 7)]	100.00	8 597	0
13	Braunschweig-Informationstechnologie-GmbH, Braunschweig [1) 8)]	100.00	3 160	0
14	Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen [8) 10)]	54.83	1 343 069	36 300
15	Bremische Grundstücks-GmbH, Bremen [1) 8)]	100.00	56 841	2 600
16	Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen [1) 8)]	100.00	100	797
17	Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn, Bremen [1) 8)]	100.00	150	59
18	City Center Magdeburg Hasselbach-Passage Grundstücksgesellschaft mbH, Hanover [7)]	100.00	1	1
19	Deutsche Hypo Delaware Blocker Inc., Wilmington, USA [1) 7)]	100.00	7 059	– 2 463
20	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover [3) 8) 10)]	100.00	913 172	0
21	FL FINANZ-LEASING GmbH, Wiesbaden [2) 8)]	58.00	105	– 102
22	Flying Sun Shipping Ltd., Valletta, Malta [1) 13)]	100.00	–	–
23	General Partner N666DN GP, LLC, Wilmington, USA [13)]	100.00	–	–
24	IRC Verwaltung GmbH & Co. Objekt Nienburg KG, Pullach i. Isartal [1) 7)]	98.00	24	0
25	IRC Verwaltung GmbH & Co. Objekt Unterföhring KG, Pullach i. Isartal [1) 7)]	98.00	23	0
26	KreditServices Nord GmbH, Braunschweig [3) 8)]	100.00	581	0
27	LBT Holding Corporation Inc., Wilmington, USA [7)]	100.00	885	1 239
28	LHI Leasing GmbH & Co. Immobilien KG, Pullach i. Isartal [2) 7)]	90.00	1 015	21
29	MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Pullach i. Isartal [8)]	77.81	7 302	581
30	NBN Grundstücks- und Verwaltungs-GmbH, Hanover [1) 7)]	100.00	735	5
31	NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover [2) 7)]	90.00	946	– 57
32	New Owner Participant – N666DN OP, L. P., Wilmington, USA [2) 13)]	100.00	–	–
33	Nieba GmbH, Hanover [3) 8)]	100.00	162 700	0
34	NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover [7)]	100.00	39	– 1
35	NORD/FM Norddeutsche Facility Management GmbH, Hanover [3) 8)]	100.00	636	0

No.	Name / registered office	Share of capital held (in %)	Equity (in € 000)	Profit/Loss (in € 000)
36	NORD/LB Asset Management Holding GmbH, Hanover [8]	100.00	6 899	211
37	NORD/LB Beteiligungsgesellschaft in Mecklenburg-Vorpommern und Sachsen-Anhalt mbH, Hanover [3] [8]	100.00	513	0
38	NORD/LB Capital Management GmbH, Hanover [1] [8] [10]	100.00	2 510	510
39	NORD/LB COVERED FINANCE BANK S.A., Luxembourg-Findel, Luxembourg [1] [8] [9] [10]	100.00	76 759	101
40	NORD/LB G-MTN S.A., Luxembourg-Findel, Luxembourg [8]	100.00	31	0
41	NORD/LB Informationstechnologie GmbH, Hanover [3] [8]	100.00	25	0
42	NORD/LB Kapitalanlagegesellschaft AG, Hanover [1] [8] [10]	100.00	4 034	43
43	NORD/LB Project Holding Ltd., London, Great-Britain [7]	100.00	623	142
44	NORD/LB RP Investments LLC, Wilmington, USA [7]	100.00	6 321	3 147
45	Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hanover [7]	100.00	15 290	22
46	Norddeutsche Landesbank Luxembourg S.A., Luxembourg-Findel, Luxembourg [8] [9] [10]	100.00	699 411	26 955
47	Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover [3] [8]	100.00	289 520	0
48	NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen [1] [8]	100.00	100	2 665
49	NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen [1] [8]	100.00	1 107	431
50	N666DN LP, LLC, Wilmington, USA [1] [13]	100.00	–	–
51	Öffentliche Facility Management GmbH, Braunschweig [1] [8]	100.00	25	0
52	Öffentliche Facility Management Leben GmbH & Co. KG, Braunschweig [1] [8]	100.00	19 030	475
53	Öffentliche Facility Management Sach GmbH & Co. KG, Braunschweig [1] [8]	100.00	15 982	0
54	Öffentliche Lebensversicherung Braunschweig, Braunschweig [8]	75.00	35 479	668
55	Öffentliche Sachversicherung Braunschweig, Braunschweig [8]	75.00	266 734	6 001
56	PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hanover [7]	100.00	28	– 1
57	Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [1] [3] [8]	98.00	3 088	0
58	RAINBOW LS SHIPPING Ltd., Valletta, Malta [1] [13]	100.00	–	–
59	Ricklinger Kreisel Beteiligungs GmbH, Hanover [1] [7]	100.00	26	– 6
60	Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen [1] [7]	100.00	1 107	12
61	SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main [7]	100.00	775	– 277
62	Skandifinanz AG, Zurich, Switzerland [1] [8]	100.00	12 923	– 699
63	TANGENS Grundstücksverwaltung GmbH & Co. Vermietungs-KG, Pullach i. Isartal [7]	100.00	22	0
64	Terra Grundbesitzgesellschaft am Aegi mbH, Hanover [1] [7]	100.00	442	96
65	Themis 1 Inc., Wilmington, USA [7]	100.00	3 896	– 23
66	Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [1] [7]	100.00	32 603	2 215
67	Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hanover [7] [11]	72.70	– 3 186	523
68	Vermögensverwaltungsgesellschaft Thiede GmbH u. Co. Grundschulen-Vermietungs-KG, Hanover [7] [11]	79.80	– 16	– 10
69	Vermögensverwaltungsgesellschaft Thiede GmbH u. Co. Tiefgarage Stade Vermietungs KG, Hanover [7] [11]	90.00	– 2 834	18
70	Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [1] [3] [8]	100.00	1 278	0

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	Adler Funding LLC, Dover, USA [1) 7)]	21.88	5 800	9 802
2	Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede [1) 7)]	32.26	29 466	1 319
3	BREBAU GmbH, Bremen [1) 7) 10)]	48.84	55 361	7 672
4	Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [1) 7) 12)]	49.00	–	–
5	Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [7)]	50.00	4 500	415
6	Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [7) 10)]	20.89	15 488	192
7	Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [7) 10)]	20.44	12 625	760
8	Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen [1) 7) 10)]	27.50	102 366	24 197
9	Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [1) 7)]	20.46	10 854	688
10	GSG Oldenburg Bau- und Wohngesellschaft mit beschränkter Haftung, Oldenburg [1) 7) 10)]	22.22	82 437	3 496
11	Grundstücksgemeinschaft Escherweg 5 GbR, Bremen [1) 8)]	50.00	– 2 319	– 378
12	Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. – Objekt Zietenterrassen – KG, Göttingen [2) 7)]	52.56	3 353	627
13	INI International Neuroscience Institute Hannover GmbH, Hanover [1) 4)]	22.70	– 11 857	– 726
14	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover [1) 7) 10)]	44.00	297 458	0
15	LHI Leasing GmbH, Pullach i. Isartal [2) 8) 10)]	49.00	50 339	6 589
16	LINOVO Productions GmbH & Co. KG, Pöcking [7) 11)]	45.17	– 47 113	984
17	LUNI Productions GmbH & Co. KG, Pöcking [7) 11)]	24.29	– 115 653	– 83
18	Medical Park Hannover GmbH, Hanover [1) 7)]	50.00	2 484	233
19	Medicis Nexus GmbH & Co. KG, Icking [5)]	66.01	9 224	720
20	Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [7)]	26.00	11 040	837
21	Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover [7)]	39.82	10 437	770
22	NBV Beteiligungs-GmbH, Hamburg [2) 7)]	42.66	19 862	2 211
23	NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hanover [7)]	28.66	4 405	2 283
24	Öffentliche Versicherung Bremen, Bremen [1) 7)]	20.00	6 020	60
25	SALEG Sachsen-Anhaltinische-Landesentwicklungsgesellschaft mbH, Magdeburg [7)]	56.61	14 010	545
26	Toto-Lotto Niedersachsen GmbH, Hanover [7) 10)]	49.85	29 392	19 163
27	USPF III Beteiligungsgesellschaft mbH & Co. KG, Düsseldorf [1) 6)]	42.86	1 818	338
28	Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [1) 7)]	21.72	18 785	380
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) Data as at 31 Dec. 2010 is available.
5) Data as at 31 Dec. 2011 is available.
6) Data as at 30 Sep. 2012 is available (different financial year).
7) Data as at 30 Dec. 2012 is available.
8) Preliminary data as at 31 Dec. 2013.
9) Values in the financial statements in accordance with IAS/IFRS.
10) Disclosure also in accordance with § 340a para. 4 no. 2 of the German Commercial Code (banks are interpreted as large corporate entities).
11) The company is not actually overindebted.
12) No disclosure in accordance with § 286 para. 3 clause 2 of the German Commercial Code.
13) Equidity as defined in §§ 266 and 272 HGB of the German Commercial Code less outstanding contributions.

OTHER INFORMATION

RESPONSIBILITY STATEMENT

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
20 February 2014

Norddeutsche Landesbank Girozentrale

The Managing Board

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

AUDITOR'S REPORT

"We have audited the annual financial statements, consisting of the balance sheet, income statement and notes, taking into account the accounting and the management report of Norddeutsche Landesbank – Girozentrale –, Hannover, Braunschweig and Magdeburg (NORD/LB) for the financial year from 1 January to 31 December 2013. Under German commercial law, NORD/LB's Managing Board is responsible for the accounting and preparing the annual financial statements and management report. Our responsibility is to express an opinion on the annual financial statements including the accounting and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). These standards require that we plan and conduct the audit such that misstatements materially affecting the presentation of the assets, financial and earnings position in the annual financial statements taking into account generally accepted accounting principles and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of NORD/LB 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 information in the accounting, annual financial statements 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 the Managing Board, as well as evaluating the overall presentation of the annual financial statements and the 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 regulations and taking into account generally accepted accounting principles give a true and fair view of the assets, financial and earnings position of NORD/LB in accordance with these requirements. The management report is consistent with the annual financial statements and overall provides an accurate view of the position of NORD/LB and accurately presents the opportunities and risks concerning future development."

Hanover, 21 February 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer
Wirtschaftsprüfer
[German Public Auditor]

Leitz
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. 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 relating to these articles.

The Supervisory Board also looked closely at NORD/LB AöR's business and risk policy. Fundamental issues concerning business policy and operational areas were discussed in detail in several meetings. The Supervisory Board also dealt with the bank's capital development.

The annual financial statements of NORD/LB for the financial year 2013 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft who issued an unqualified audit opinion. The auditors also took part in the meeting of the Supervisory Board to discuss the annual financial statements, which was held on 21 March 2014, and reported on their findings 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 21 March 2014 the Supervisory Board adopted the annual financial statements as at 31 December 2013 and recommended the appropriation of the balance sheet profit to the Owners Board.

The following have left the Supervisory Board:

with effect of 19 February 2013	Mr. Hartmut Möllring
with effect of 26 April 2013	Ms. Mirja Viertelhaus-Koschig
with effect of 30 June 2013	Mr. Klaus-Peter Wennemann

The following were appointed to the Supervisory Board:

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

The Supervisory Board thanks the Managing Board of the bank for the trustful cooperation and expresses its appreciation for the work performed in 2013 by the Managing Board and by all of the employees of the bank.

Hanover / Braunschweig / Magdeburg
March 2014

Peter-Jürgen Schneider
Minister of Finance
State of Lower Saxony

REPORT OF THE OWNERS BOARD

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

In its meetings in 2013 the Owners Board also decided on capital measures for 2014 and 2015.

The following left the Owners Board:

with effect of 28 February 2013	Ms. Cora Jeanette Hermenau
with effect of 31 May 2013	Dr. Michael Ermrich

The following were appointed to the Owners Board:

with effect of 1 March 2013	Mr. Ulrich Böckmann
with effect of 28 October 2013	Mr. Harri Reiche

The Owners Board thanks the Managing Board and the Supervisory Board for the work they have performed.

Hanover / Braunschweig / Magdeburg
March 2014

Thomas Mang
President
Association of Savings Banks in Lower Saxony

NORD/LB
Die norddeutsche Art.

RESPONSIBLE BANKING

NORD/LB
Norddeutsche Landesbank Girozentrale

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Finanzgruppe