



# Remuneration Report

as at 31 December 2013

*Disclosure in accordance with § 16 of the InstitutsVergV in conjunction with Article 450 of the Regulation (EU) no. 575/2013*

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## 1 Preliminary remarks and principles for remuneration

Norddeutsche Landesbank Girozentrale (NORD/LB) is a major institution according to the Remuneration Regulation for Institutions (InstitutsVergV) because its total assets in the last three financial years have exceeded € 15 billion. NORD/LB's remuneration system is therefore subject to the specific requirements of the InstitutsVergV.

This remuneration report relates to the remuneration of employees of NORD/LB Anstalt öffentlichen Rechts (AöR) in Germany and abroad for the financial year 2013. The disclosures relating to Landesförderinstitut Mecklenburg-Vorpommern and Investitionsbank Sachsen-Anhalt are added for information purposes only. The Group companies Bremer Landesbank Kreditanstalt Oldenburg Girozentrale, Deutsche Hypothekbank Actien-Gesellschaft and Norddeutsche Landesbank Luxembourg S.A. meet their disclosure requirements independently in accordance with the respective regulations.

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

By means of interbank and market comparisons and a function evaluation, the bank ensures that the structure and distribution of remuneration are appropriate

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

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

- The fixed and variable components are in appropriate proportion to one another and no incentives are provided for taking disproportionately high risks.
- The ratio of variable to fixed remuneration was set for the financial year 2013 both in Germany and abroad at a maximum of 100%.
- Payments from third parties which the employees or Managing Board receive in respect of their professional activities are reviewed on an annual basis to assess the appropriateness of remuneration and whether fixed and variable costs are in appropriate proportion to one another.
- NORD/LB's remuneration system does not run counter to the monitoring function of the control units. In particular there is no risk of a conflict of interests.
- The fixed remuneration represents the main part of total remuneration and is designed so that employees are not reliant on the variable remuneration to cover reasonable living costs.
- Guaranteed variable remuneration (e.g. guaranteed annual bonuses) is not granted, apart from at the start of a contract of employment and at the most for one year.
- In the case of termination of employment, guaranteed severance payments are not and will not be agreed. Severance payments are only made on the basis of a collective agreement or a negotiated agreement when an employee leaves the bank.

## 2 Governance structure in the area of remuneration

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

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

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

- Consistent with the objectives laid down in the strategies

- Prevention of incentives to take disproportionately high risk positions
- Remuneration for employees in non-business-generating areas appropriate for their responsibilities and duties

The main tasks of the Remuneration Committee were:

- Review the appropriateness of NORD/LB's remuneration systems taking into account the objectives laid down in the strategies
- Review the compliance, structure and development of NORD/LB's remuneration systems, in particular the rules for variable remuneration
- Examine the possibility of harmonising the remuneration systems in the NORD/LB Group taking into account the regulatory conditions
- Check the plausibility of the risk analysis conducted in accordance with § 17 of the InstitutsVergV
- Check the plausibility of the process for identifying risk takers in accordance with § 18 of the InstitutsVergV
- Report to the Managing Board and the Supervisory Board on the structure, review and development of the bank's remuneration systems and as and when required when significant changes are made to the remuneration system or other significant events relating to the remuneration system occur.

The Remuneration Committee had the right to make proposals to the Managing Board concerning the structure and development of the remuneration system.

The Remuneration Committee met seven times in the financial year 2013. In the second half of the year it worked intensively on the new bonus calculation and payment system for risk takers. The new system was created in close cooperation with the Personnel Department, the Finance and Risk Control Division and the Legal Department with support from the management consultancy Towers Watson. It takes into account the findings of the special audit in accordance with § 44 of the German Banking Act concerning the implementation of the InstitutsVergV and the

amendment of the InstitutsVergV that is to be applied for the first time in the financial year 2014 and will be applied for the first time for the financial year 2014. The duties of the Remuneration Committee will be performed from the financial year 2014 by the Remuneration Control Committee of the Supervisory Board.

The main features of the remuneration system for the respective employee groups are explained below. For

this purpose NORD/LB distinguishes between the following employee groups:

- Pay-scale and contract employees
- Risk takers (employees whose activities have a significant impact on the overall risk profile of the bank)
- Employees in the foreign branches including employees posted abroad
- and the Managing Board.

## 3 Remuneration system for pay-scale and contract employees

### 3.1 Fixed remuneration

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

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

### 3.2 Variable remuneration

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

In addition to this, the Managing Board approves a bonus volume which depends on the annual profit; this totalled € 24 million for the financial year 2013. NORD/LB's remuneration system is therefore, as required by § 4 of the InstitutsVergV, in line with NORD/LB's corporate strategy.<sup>1</sup> It is assured that the payment does not affect the bank's adequate capital and liquidity resources (§ 7 of the InstitutsVergV).

Variable remuneration is received by employees whose performance and target achievement in the past financial year is measured at least at performance level 3 ("Largely meets the requirements"). In addition to a staggered participation in the success of the bank (profit sharing) for certain employee groups that is dependent on the amount of the bonus volume and the respective remuneration classification, a performance bonus can be granted for outstanding performance and contribution. The level of the respective performance bonuses is set by the respective manager taking into account the department budget depending on the individual performance.

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

## 4 Remuneration system for risk takers

### 4.1 Identification of risk takers

In order to meet the specific requirements of the InstitutsVergV, NORD/LB identified in the financial year 2013 those employees whose activities have a significant impact on the overall risk profile of the bank (hereafter "risk takers"). The risk takers were identified using a scoring model based on qualitative and quantitative criteria.

### 4.2 Deferred payment of variable remuneration

The variable remuneration is paid solely in cash, as is the case with other employees. Other instruments such as shares are not used.

Special requirements apply for the payment of variable remuneration of risk takers. Some of it has to be paid over several years and it also has to be linked to the long-term performance of the bank. Where variable remuneration totals more than € 50,000, at least 40% is paid in instalments over a withholding period of three or five years taking into account risk criteria.

Risk criteria for the withheld variable remuneration for the financial year 2013 are NORD/LB's ability to pay a dividend, liquidity situation, capital adequacy and risk-bearing capacity and any negative contributions to earnings by the responsible department or employee or a serious breach of professional duties.

Irrespective of the deferral, 50% of the remuneration components to be paid in instalments are subject to a one-year withholding period and linked to the long-term performance of the bank. The long-term performance is measured using the net asset value based on the equity measured in accordance with the German Commercial Code. If the net asset value at the end of the respective withholding period is below a defined threshold, the amount to be paid is reduced on a straight-line basis.

For the withheld share of variable remuneration relating to previous years, negative contributions to earnings by NORD/LB, the risk takers, extraordinarily negative earnings by the organisational unit for which they are responsible and serious breaches of duty by an employee result in the deduction of the deferrals.

## 5 Remuneration system for employees in the foreign branches

### 5.1 Fixed remuneration

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

### 5.2 Variable remuneration

The level of bonuses to be paid to employees working abroad is decided by the Managing Board. The bonuses are distributed to the employees taking into ac-

count their individual performance appraisals, the achievement of targets by the division and the earnings position of the bank. The variable remuneration granted by NORD/LB is not a fixed component of the annual salary, but an additional, voluntary payment by the bank that allows the employees to share in the success of the bank. The upper limit for the ratio of fixed to variable remuneration in the foreign locations in terms of § 6 of the InstitutsVergV defined by NORD/LB was adhered to in 2013. The upper limit, as for Germany, was 100%. The variable remuneration of risk takers in the foreign branches is also spread in the same way as for the risk takers and is linked to the long-term performance of the bank.

### 5.3 Remuneration of employees posted abroad

For employees posted to a branch abroad, the German contract of employment is generally suspended and a local contract of employment is concluded for the duration of the posting. The employees receive

fixed and variable remuneration based on the local contract of employment. The particularities of a posting abroad are covered by an additional secondment package.

## 6 Remuneration system for members of the Managing Board

The remuneration of members of the Managing Board for the financial year 2013 is made up of a fixed annual salary and variable remuneration. Part of the fixed salary is subject to revocation. The Supervisory Board sets the amount of the variable remuneration based on the targets and the results achieved. These reflect the position of the bank, the success of the department and the individual duties and performance taking into account the risks taken.

The variable remuneration is to be spread paid over a withholding period of five years in accordance with §

20 of the InstitutsVergV and is paid in instalments taking into account risk criteria. 50% of the variable remuneration is linked to the long-term performance of the bank.

## 7 Fringe benefits

NORD/LB grants its employees a company pension, for which the bank makes accruals. All of NORD/LB's employer-funded defined benefits are based on bank-wide, non-discretionary rules and do not provide any incentive to take disproportionately high risks. Instead the aim of the bank's defined benefits is to motivate the employees and to work towards the long-term success of the bank.

Furthermore, from a certain function level NORD/LB provides its contract employees with a company car

for private and business use. In addition to this, frequent drivers can also receive a company car.

NORD/LB also maintains a number of day nursery places for its employees with children under three years old. They are allocated based on criteria and do not provide any incentive to take risks. Applicants who are not considered can obtain an allowance for childcare.

## 8 Disclosure of remuneration figures in accordance with § 16 of the InstitutsVergV

The general disclosure requirements for institutions in accordance with § 16 of the InstitutsVergV in conjunction with Article 450 of the Regulation (EU) no.

575/2013 are shown below. The underlying data was collected on 31 December 2013 and is reported per annum.

In the financial year 2013, 4,348 employees received a bonus. The share of bonuses in total remuneration in NORD/LB AöR in the financial year 2013 totalled 8.1 per cent; the ratio of fixed to variable remuneration was therefore appropriate. Based on the total number of employees, the average bonus for the financial year 2013 for employees was € 5,274.

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

Fixed and variable remuneration of employees (employees as at 31 December 2013) by business segment and employee group					
In accordance with Article 450 of the Regulation (EU) no. 575/2013 para. 19:					
Financial year 2013	Market	Back Office	Corporate Centre	Managing Board	Total
<b>Pay-scale employees</b>	<b>€ 46,810,131.00</b>	<b>€ 38,442,103.00</b>	<b>€ 40,940,635.00</b>		<b>€ 126,192,869.00</b>
of which fixed	€ 44,835,427.00	€ 36,906,155.00	€ 39,330,928.00		€ 121,072,510.00
of which variable	€ 1,974,704.00	€ 1,535,948.00	€ 1,609,707.00		€ 5,120,359.00
<b>Contract employees</b>	<b>€ 60,375,665.44</b>	<b>€ 28,199,499.28</b>	<b>€ 50,990,914.36</b>		<b>€ 139,566,079.08</b>
of which fixed	€ 53,530,792.44	€ 25,705,096.28	€ 46,941,000.36		€ 126,176,889.08
of which variable	€ 6,844,873.00	€ 2,494,403.00	€ 4,049,914.00		€ 13,389,190.00
<b>Employees abroad</b>	<b>€ 15,701,475.56</b>	<b>€ 1,867,222.88</b>	<b>€ 7,465,748.55</b>		<b>€ 25,034,446.99</b>
of which fixed	€ 11,517,635.35	€ 1,550,365.39	€ 6,589,281.07		€ 19,657,281.80
of which variable	€ 4,183,840.21	€ 316,857.49	€ 876,467.48		€ 5,377,165.19
<b>Total remuneration</b>	<b>€ 122,887,272.00</b>	<b>€ 68,508,825.16</b>	<b>€ 99,397,297.91</b>	<b>€ 2,999,992.36</b>	<b>€ 293,793,387.43</b>
of which fixed	€ 109,883,854.79	€ 64,161,616.67	€ 92,861,209.43	€ 2,999,992.36	€ 269,906,673.24
of which variable	€ 13,003,417.21	€ 4,347,208.49	€ 6,536,088.48	€ 0.00	€ 23,886,714.19
<b>Number of employees 31.12.2013</b>	<b>1,754</b>	<b>1,133</b>	<b>1,636</b>	<b>6</b>	<b>4,529</b>

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

Mecklenburg-Vorpommern is reported below for information purposes:

The total remuneration of Investitionsbank Sachsen-Anhalt and Landesförderinstitut

Fixed and variable remuneration by employee group in the development institutes in accordance with Article 450 of the Regulation (EU) no. 575/2013 para. 1g:			
Financial year 2013	Investitionsbank Sachsen-Anhalt	Landesförderinstitut Mecklenburg-Vorpommern	Total
<b>Pay-scale employees</b>	<b>€ 16,085,228.00</b>	<b>€ 12,676,749.00</b>	<b>€ 28,761,977.00</b>
of which fixed	€ 15,193,802.00	€ 11,885,315.00	€ 27,079,117.00
of which variable	€ 891,426.00	€ 791,434.00	€ 1,682,860.00
<b>Contract employees</b>	<b>€ 4,292,282.16</b>	<b>€ 981,977.00</b>	<b>€ 5,274,259.16</b>
of which fixed	€ 3,818,708.16	€ 878,556.00	€ 4,697,264.16
of which variable	€ 473,574.00	€ 103,421.00	€ 576,995.00
<b>Total</b>	<b>€ 20,377,510.16</b>	<b>€ 13,658,726.00</b>	<b>€ 34,036,236.16</b>
of which fixed	€ 19,012,510.16	€ 12,763,871.00	€ 31,776,381.16
of which variable	€ 1,365,000.00	€ 894,855.00	€ 2,259,855.00
<b>Number of employees</b>			
<b>31.12.2013</b>	364	260	624

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

The value of outstanding withheld remuneration (deferrals) including the consideration of bonuses for the financial year 2013 is € 4.2 million (including the Managing Board). Of which € 0.6 million has already been earned and € 3.6 million is still to be earned.

During the financial year 2013 € 1.5 million of deferrals were approved for payment by the Managing Board and Supervisory Board. Due to performance adjustments, the deferrals were reduced by € 109 thousand. Deferrals therefore totalled € 1.6 million.

The total value of severance payments paid to risk takers in the financial year 2013 in accordance with Article 450 of the Regulation (EU) no. 575/2013 para. 1h was € 0. In addition, no severance payments were granted for risk takers that will be due at a later date.

There were no cases of a guaranteed payment being agreed in connection with the recruitment of a risk taker in accordance with Article 450 of the Regulation (EU) no. 575/2013 para. 1h. No compensation for loss of earnings with a previous employer was paid to any risk takers.

In the financial year 2013 no employee received remuneration of € 1 million or more.

Fixed and variable remuneration of risk takers in accordance with Article 450 of the Regulation (EU) no. 575/2013 para. 1h:				
Financial year 2013	Market	MF & CC	Managing Board	Total
<b>Total remuneration</b>	<b>€ 6,490,686.54</b>	<b>€ 3,577,455.28</b>	<b>€ 2,999,992.36</b>	<b>€ 13,068,134.18</b>
of which fixed	€ 4,367,290.36	€ 2,432,204.28	€ 2,999,992.36	€ 9,799,487.00
of which variable	€ 2,123,396.18	€ 1,145,251.00	€ 0.00	€ 3,268,647.18
<b>Number of risk takers</b>	<b>25</b>	<b>11</b>	<b>6</b>	<b>42</b>

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

Variable remuneration of risk takers withheld and paid out in cash in accordance with Article 450 of the Regulation (EU) no. 575/2013 para. 1h:				
Financial year 2013	Market	MF & CC	Managing Board	Total
Deferral	€ 1,262,719.78	€ 841,175.70	€ 0.00	€ 2,103,895.48
Cash payment	€ 860,676.40	€ 304,075.30	€ 0.00	€ 1,164,751.70
<b>Number of risk takers</b>	<b>25</b>	<b>11</b>	<b>6</b>	<b>42</b>

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

Payments at the start of a contract of employment Article 450 of the Regulation (EU) no. 575/2013 para. 1h	
Payments at the end of a contract of employment Article 450 of the Regulation (EU) no. 575/2013 para. 1h	
Financial year 2013	Total
Payments at the start of a contract of employment	€ 0
Number of beneficiaries	€ 0
Payments at the end of a contract of employment	€ 0
Maximum severance payment	€ 0
Number of beneficiaries	€ 0

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

## Managing Board of NORD/LB

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Last revised: 08/2014