

Norddeutsche Landesbank Girozentrale
(Anstalt öffentlichen Rechts)

NORD/LB at a glance

Figures of success (in € million)	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013	Change (in %)
Net interest income	1421	1298	-9
Net commission income	138	83	66
Profit/loss from trading portfolio	16	161	-90
Administrative expenses	852	775	10
Other operating profit/loss	-64	-37	73
Operating result before risk provisioning/valuation	659	730	-10
Valuation result of receivables, securities and investments	373	464	-19
Assumption of investment losses	28	8	> 100
Allocation to funds for general banking risks	-	-	-
Operating result after risk provisioning/valuation	258	258	0
Extraordinary profit/loss	-54	-46	17
Partial profit transfer	70	71	-1
Tax revenue	-5	-14	-64
Profit for the year before appropriation of earnings	138	155	-11

Balance figures (in € million)	31 Dec. 2014	31 Dec. 2013	Change (in %)
Total assets	131 022	131 620	-0
Liabilities to customers	40 146	37 110	8
Loans and advances to customers	58 106	58 947	-1
Equity	6 782	6 744	1
Regulatory key figures			
Common equity tier 1 capital (in € million)	6 364	6 667	
Tier 1 capital (in € million)	7 865	8 005	
Total capital ratio (in %)	17.64	18.58	

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.

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Foundations of the Bank

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Business Model

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

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

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

- As a landesbank for the states of Lower Saxony and Saxony Anhalt, it performs the functions of a central and clearing bank for the savings banks (Girozentrale). The Bank also handles promotional loans on behalf of the federal states through Investitionsbank Sachsen-Anhalt, an institute of Norddeutsche Landesbank Girozentrale, and through Landesförderinstitut Mecklenburg-Vorpommern (LFI), a division of Norddeutsche Landesbank Girozentrale.

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

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

- Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen (hereafter Bremer Landesbank),
- Norddeutsche Landesbank Luxembourg S.A., Luxembourg (hereafter NORD/LB Luxembourg),
- Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover (hereafter Deutsche Hypo),
- LBS Norddeutsche Landesbausparkasse, Berlin, Hanover (hereafter LBS).

The Bank also holds other investments as shown in the disclosures of the notes. As at 30 September 2014, Öffentliche Lebensversicherung Braunschweig, Braunschweig, and Öffentliche Sachversicherung Braunschweig, Braunschweig (the latter two together being the Öffentliche Versicherungen Braunschweig or ÖVBS) are no longer fully consolidated. Further information on this can be found in the Notes to the Interim Report, Note (4) Basis of consolidation.

Business Segments

Private and Commercial Customers

As well as segment (synonymous: business) with Commercial, Private, Individual, and Private-Banking customers, the Private and Commercial Customers segment also includes Commercial and Corporate Customers in the Braunschweig region, Hanover and Hamburg. While NORD/LB is present in the last two locations in its own name, in the Braunschweig region it conducts its business under the name Braunschweigische Landessparkasse.

Braunschweigische Landessparkasse is a sales savings bank with approximately 218,000 private current accounts and 20,400 business current accounts (as at 30 September 2014) and has an extensive presence throughout the Braunschweig, Wolfenbüttel/Bad Harzburg, Helmstedt/Vorsfelde, Salzgitter/Seesen and Holzminden regions.

In Hanover and Hamburg it looks after a further 12,000 private current accounts and 2,800 business current accounts (as at 30 September 2014), primarily in the segments Individual and Private Banking and Commercial and Corporate Customers.

The product range for the segment Private and Commercial Customers is based on the savings bank finance concept (S-finance concept) and comprises all of the banking services and products for lending business and investment business as well as all financial services. Insurance, Real Estate Brokering and Home Loan Savings. Extended services for private customers range from the integrated advisory approach of asset structure analysis, financial planning, asset succession and inheritance and foundation management.

The strategic goal is to consolidate the leading market position in the business region by increasing market shares in the high potential areas of the Private and Commercial Customers segment. NORD/LB also wants to establish itself as the first

choice in the Private Banking and Corporate Customers segments in its locations in Northern Germany with excellent service and advice. At the same time business activity also focuses on profitability.

Corporate Customers & Markets

NORD/LB conducts its Corporate Customers business in its core regions (excluding the business of Braunschweigische Landessparkasse and Bremer Landesbank) and other selected locations in Germany. It comprises the Middle-Market Corporate Customers business, Agricultural Banking and Housing. 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.

As a full-service provider, NORD/LB provides its corporate customers with an extensive range of traditional banking products and services. The services include transaction management, tailored business financing, management of interest and currency risk, and complex business financing. Professional liquidity and risk management, the structuring of equity and innovative financing instruments supplement the product range.

In its Corporate Customers business, NORD/LB aims to position itself as a quality service provider in the region as well as with nationwide appeal as one of the top addresses for Middle-Market Customers. By expanding the customer base and extending the product range and strengthening the sales channels, it aims to intensify existing customer relations, acquire high-potential new customers and increase the granularity of the customer and business portfolio. The essential aim is to achieve core-bank status with customers.

Within the savings bank network, NORD/LB offers the savings banks private-banking-products, investment products in the form of for example open or closed funds (real estate or aircraft), prod-

ucts for individual asset management, inheritance management and foundation management, for their own trading business or to complete their product range in their business with private or corporate customers. Business with the savings bank network also comprises the municipal lending business, the KfW development business and the relationship function with publicly-owned savings banks.

NORD/LB's Markets Division provides market access for the Financial Markets activities performed on behalf of customers. The Markets Division is also responsible for the sales of institutional customers and savings banks.

Alternative products which are detached from retail banking including derivatives, e.g. special kinds of debt securities, and tailored solutions for institutional customers such as for example the structuring of special funds, pool funds solutions, portfolio management mandates and institutional public funds are also offered. In the secondary business all kinds of securities are sold and traded.

NORD/LB's Markets Division is pursuing a customer-focused expansion strategy. This will be achieved by intensifying the existing customer care with a more-products approach, the systematic acquisition of new customers (regional banks, savings banks, pension funds) and the increasing placement activities in Asia and the USA. This should establish the placement and risk-distribution products of NORD/LB and its cooperation partners among customers and investors.

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. In this segment NORD/LB concentrates on the structuring and arranging of individual financing solutions for primarily project-related transactions.

In the area of energy, the focus is on financing energy production from wind and solar energy/ photovoltaics in Germany and other selected countries. Gas power plants and pipeline projects are also financed. NORD/LB has been active in the renewable energies sector since the beginning of the 1990s. Its core customers include established project developers, operating companies and plant manufacturers.

In the Infrastructure segment, NORD/LB focuses on the structuring of projects in the public sector (public private partnership/private finance initiative). Here NORD/LB finances 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.

It is expanding its business volume by focusing on the growth sectors of energy and infrastructure. The resulting enhance in the share of business will increase NORD/LB income and risk diversification. The widening of advisory and structuring services will sustainably increase commission income. Active portfolio management and optimisation also takes place with the use of suitable placement products and risk-distribution products.

Shipping and Aircraft

In this segment NORD/LB combines the strategic business units Ship and Aircraft Finance. The central location of the strategic business segment is Hanover, with support also being given to customers from the New York and Singapore branches. The customers are offered for their projects short to long-term financing, equity pre-financing, interim finance, construction period finance (short and medium term) and financing to completion (long term). Ships or aircraft are financed by the provision of loans or guarantees on a property-related and normally property-secured basis. Products such as for example swap, option, future or forward transactions complete the product range.

NORD/LB has been involved in ship finance (commercial and specialist ships) for over 40 years and has become one of the world's leading providers in this global market, which has an established customer structure. The focus is on the object-based financing of commercial ships as well as offshore and cruise ships for national and international customers. The target customers are primarily shipping lines and inland shipyards and issuing houses that have a good credit rating, are in a good financial position and have a convincing and crisis-tested market strategy.

In the Aircraft Finance unit, the focus is on the object-based financing of passenger aircraft produced by well-known manufacturers. The target customers are airlines and leasing companies who are offered tailored financing solutions in addition to NORD/LB'S high expertise with core productions. Covered export business will also be financed.

The business volume is being increased in the Ship Customers segment by focusing on cruise ships and offshore ships at the expense of commercial shipping. In the Aircraft Customers segment, strategic growth is being pursued in the areas of operating lease, engine and helicopter financing. The aim is to consolidate the Ships and Aircraft business segment's good position in the market.

Active portfolio management and optimisation takes place with the use of suitable placement products and refinancing instruments.

Real Estate Banking Customers

Since 2008 Commercial Real Estate Finance has been concentrated in Deutsche Hypo. The wholly-owned subsidiary acts as a competence centre for this business segment in the Group. NORD/LB will continue to be liable for a small credit portfolio, which will be managed by Deutsche Hypo within the scope of a mandate.

The real estate portfolio of NORD/LB in the year under review, comprises existing financing projects in the target markets of Germany, Great Britain, France and Benelux as well as Spain and the USA. The portfolio includes office and retail properties, multi-storey residential properties, hotels and logistics properties.

The strategic development of the Commercial Real Estate Finance segment will be pursued in Deutsche Hypo. NORD/LB therefore no longer takes on new business, and as a result the real estate finance portfolio will be steadily phased out in the next few years.

Group Controlling/Others

Reported under Group Controlling/Others are all sources of income directly related to business activities which are not controlled by the segments. These are mainly sources of income which are not allocated to the segments, 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 profit/loss such as the bank levy, certain provisions, requirements for valuation and income realised from the liquidity reserve portfolio and the asset portfolio are also allocated to this segment. Also reported here are reconciliation items between profits/losses reported in internal accounting and externally in the income statement.

Further shown are the earnings from the Financial-Markets-segments that are not the direct result of customer business, such as interest-rate risk control, the balancing provision, liquidity management and self-acquired assets.

The Financial-Markets-segments reported here are key for controlling interest-rate, exchange-rate and liquidity risks and responsible for refinancing and provide access to the national and international financial markets (Treasury Division). For the

short-term refinancing and liquidity control, the Financial Markets segments use the various instruments of the European Central Bank in addition to the interbank market and the repo market. The refinancing mix is supplemented by new issue business in euros and US dollars. In addition, for the purpose of overall bank control and TREA management, investments are completed in the banking book (Bank Assets Allocation Division). The portfolios are subject to the control of NORD/LB's Asset Liability Committees.

Strategic Development of NORD/LB

NORD/LB is a customer-oriented bank that focuses on lending business. Its business model reflects with its business activities its role as a business bank, landesbank (state bank) and the central institution for the savings banks. Granularity, diversification and a conservative risk policy are the principles for its basic strategic direction. Its risk philosophy is expressed in strict financing principles and an asset-based financing approach for complex assets such as ships, aircraft and commercial real estate, which, besides providing high collateralisation rates and protection against inflation, also provides opportunities for refinancing with assets which are eligible for cover funds (e.g. Immobilienpfandbriefe and Flugzeugpfandbriefe). Overall NORD/LB aims to achieve in the long term a business mix which provides a balance between large-volume wholesale finance business with ship and aircraft customers, energy and infrastructure customers and real estate banking customers on the one hand and business activities with granular risk structures in business with private and corporate customers, institutional customers and savings banks on the other. In this way NORD/LB expects to continue to benefit from the high level of diversification in its business portfolio with activities in sectors with varying market cycles.

Focus is also being placed on separating new business growth from balance sheet growth. NORD/LB therefore aims to extend its value chain by using its competence in structuring the financing of complex assets and the associated expertise in various sectors in order to offer institutional capital market investors credit-based investment products.

As well as the portfolio-related aspects of diversification, NORD/LB's business activities continue to be strongly influenced by the interests and needs of its owners and the economic structure of its owner states.

• Private Customers:

The Private and Commercial Customers segment, which through the founding institutes of NORD/LB can look back on 250 years of history and therefore represents the nucleus of today's bank, has always been very important for NORD/LB and is a mainstay of the business model. Taking into account changing customer needs and demographic developments, in particular in retail business the strategic focus should be on pushing product innovation, the continual automation and improvement of value-adding processes and digital sales.

- **Corporate Customers:**

Providing credit to the regional economy is one of the primary tasks of a landesbank. Nothing defines the Lower Saxony economy as much as its successful automotive industry; however, there are many more sides to the economy. Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania are states with vast expanses of land and the quality of the soil and the flat topography provide ideal conditions for high-yield and efficient farming. Agriculture therefore accounts for a major part of economic activity in this region. This is reflected in NORD/LB's business model, with the Agricultural Customers subsegment an important part of the Corporate Customers segment. A further speciality of the Corporate Customers segment lies in the financing of residential housing companies. NORD/LB's Corporate Customers segment also covers a wide range of other sectors in which NORD/LB provides finance to regional SMEs in Lower Saxony, Saxony-Anhalt and Mecklenburg Western Pomerania. In doing so it cooperates closely with the regional savings banks. NORD/LB is striving to expand its Corporate Customers business by being present in locations outside of the owners' regions.

- **Savings Bank Network:**

NORD/LB acts as the central bank for the savings banks in Lower Saxony, Saxony-Anhalt and Mecklenburg Western Pomerania and provides them with all of the services they need in their role as the regional business bank. This business is part of NORD/LB's genetic code and will be strengthened by focusing on lending business and capital market business.

- **Institutional Customers:**

A further important role of a landesbank is the provision of credit for public budgets. In view of the fact that NORD/LB covers large parts of its own refinancing requirement with capital market instruments, it has already started to use its related market knowledge and skills to advise issuers of debt securities on the structuring and placement of such securities. It is today one of the key players in the issuing and trading of public-sector debt instruments, Pfandbriefe and other interest-bear-

ing securities in Germany. Business with institutional customers is becoming increasingly important in the context of the intended expansion of the product range with semi-liquid investment products.

- **Shipping Customers:**

All of the major German sea ports are located in the North Sea and Baltic Sea regions, therefore many German shipping lines are based here as well. It is due to this reason that NORD/LB accumulated its expertise in ship financing, and today this is an important part of the business model. Ship financing will remain a mainstay of the business model in future. The downsizing of commercial shipping in combination with a widening of the customer base and the building up of the offshore, cruise ship and special tonnage segments should contribute towards greater diversification and a more balanced risk structure.

- **Aircraft Customers:**

Lower Saxony is the third largest location for the aviation industry in the world after Seattle and Toulouse. In addition to the Airbus locations in Buxtehude, Stade, Varel and Nordenham, a large number of middle-market suppliers based all over the federal state play an important role in this industry. In its aircraft financing, NORD/LB maintains business relations with major aircraft manufacturers and suppliers (e.g. Airbus) who have moved to Northern Germany, and finances aircraft for well-known major airlines. NORD/LB believes that aircraft financing offers growth and earnings potential in particular in Asia and that this should be tapped on a perspective basis. In the aircraft sector, in order to further extend activities, as well as opening up further aircraft segments (e.g. helicopter and cargo aircraft), the addition of higher-margin credit products to the product range is being considered.

• **Energy and Infrastructure Customers:**

The favourable climatic conditions in Northern Germany provide NORD/LB with the opportunity to support economically viable projects. This has helped the region become the leading producer of in particular renewable energies in Germany. Here the focus is on the building of wind parks and solar/photovoltaics and biogas plants. Renewable energies business and infrastructure projects will

continue to play an important role in NORD/LB's business model. The business volume should be expanded specifically in these two segments, including some international projects in order to achieve greater diversification at country level as well. The widening of advisory and structuring services should sustainably increase commission income.

Control Systems

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 and valuation.¹⁾

Definitions of the key control indicators:

RoE (Return on Equity) for the overall bank =	$(\text{net income before taxes}) / \text{Long-term equity under commercial law}$ (= reported equity capital – silent participations – net income after taxes + fund for general banking risk)
RoRaC (Return on Risk-adjusted Capital) for the business segments =	$(\text{Earnings before taxes})^{2)} / \text{Committed core capital}$ (8 per cent of the higher of the TREA limits and the amount called on)
CIR (Cost-Income-Ratio) =	$\text{Administrative expenses} / (\text{Total earnings})^{3)}$

¹⁾ Corresponds with the earnings from normal business activities in accordance with the Income Statement.

²⁾ Segment's contribution to profit before taxes.

³⁾ Sum of Net Interest Income, Net Commission income, Net Income Deriving From Trading Business and other operating profit/loss.

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 Minimum Requirements for Risk Management (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 Group'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, pension risk, model risk and real estate 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 Minimum Requirements for Risk Management on the basis of § 25a of the German Banking Act. In accordance with these requirements, proper business organisation includes the specification of strategies on the basis of procedures for ascertaining and securing risk-bearing capacity, which comprises both risks and the capital available for covering these risks.

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/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 Minimum Requirements for Risk Management published in December 2012 resulted in new requirements for risk management. The implementation of the new requirements where there was a need for action was completed on time in 2014.

Strategies

The responsible handing of risks is the uppermost priority in the business policy of NORD/LB. 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.

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.

The Group risk strategy and the risk strategy of NORD/LB were reviewed as scheduled and adjusted in 2014 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 the 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 Managing Board of 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.

The responsibility of maintenance and further development of the RTF-model, running supervision of compliance and regular verification of the risk strategy of the NORD/LB reside with the NORD/LB Finance and Risk Control Division.

The optimisation of the organisation of the Finance and Risk Control Division that commenced in 2014 takes into account the increasing requirements for risk-return management that is more process oriented and covers all risk types.

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.
- Methods Board: In the Methods Board set up in 2014 appropriate standards are developed and approved for key risk controlling methods and reports at the level of the NORD/LB Group. The members are the heads of specialist departments of significant companies of the NORD/LB Group from a risk point of view.

- **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, the Credit Risk Management Division, the Special Credit Management Division and Research/Economy 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 TREA. 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 committee the relevant information on TREA 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 (asset strategies) and the Risk Round Table (governance, operational risk and compliance issues).

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 appropriate 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 Capital Requirements Regulation (CRR) with fixed minimum ratios (total capital and Common Equity Tier 1) 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 scenario and the official notification of capital adequacy in accordance with the Capital Requirements Regulation (CRR). 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 scenario, 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). If the required capital to cover risks is consumed in a gone-concern scenario, there would be no possibility for the bank to continue under otherwise changed assumptions.

The design 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 calculations are also considered, both within a risk type as well as across risk types. Concentrations within a risk type essentially concern credit risks as the most significant risk type for 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. In its risk control for the bank as a whole, NORD/LB employs its stress test instruments in order to analyse the effect of potential adverse scenarios and derive appropriate actions for risk management.

The revolving stress-testing process starts with a structured process to identify and determine the scenarios that are relevant for and represent a potential threat to the bank's business model. These scenarios are reviewed by a Case Manager who examines their economic cause-effect chains taking into account all of the risks and their impact on key control and risk variables. The focus is on understanding the interdependencies and deriving necessary actions.

In addition to this case-oriented procedure, the effects of a global recession on the bank's key control groups are reviewed ongoing. Risk-type-specific stress reviews are also conducted (for example as part of liquidity control).

In the year under review, the "Stresstest24" instrument was developed in order to allow events or scenarios to be considered on an ad-hoc basis within 24 hours and result in an initial thorough evaluation of their relevance, the key cause-effect chains and their impact. In addition, the stress test instruments are currently being refined from an infrastructure and technical point of view, taking in particular the experiences and targets of the 2014 European Central Bank (ECB) stress test into account.

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 covered bond business on a quarterly basis. The report prepared meets the requirements of § 27 of the German Covered Bond Act.

Credit Risk

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

broken down into default risk in trading, replacement risk, settlement risk and issuer risk:

- Default risk in trading defines the risk of loss involved when a borrower defaults or when the credit rating of such a borrower deteriorates. It equates to traditional credit risk and relates to money market transactions.
- Replacement risk defines the risk of the contract partner in a pending transaction with a positive present value defaulting and this transaction having to be replaced with a loss.
- Settlement risk is broken down into advance payment risk and clearing risk. Advance payment risk defines the risk when the bank has completed a payment of the counter-payment not being made by the contract partner or, if payments are offset, the balance not being paid. Clearing risk defines the risk of transactions not being able to be cleared by either party upon or after the expiry of the contractually agreed performance date.
- Issuer risk defines the risk of loss involved when an issuer or reference entity defaults or when the credit rating of such an issuer or reference entity deteriorates.

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

Management

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.

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 of the relevant market division.

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. The focus is on commercial shipping, aircraft, energy, the automotive industry (including automotive banks) and real estate banking in accordance with the business strategies of the NORD/LB Group and NORD/LB is limited strategically to prevent risk concentrations.

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

Structure and Organisation

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

NORD/LB market divisions conduct the operational financing business relating to customers, properties and projects on a national and international level within a framework of specified limits. They are primarily responsible for the core tasks of acquisition and sales. The market divisions are responsible for the initial vote, for structuring conditions and for earnings. In the case of minor-volume, low-risk exposures, the market divisions will in some cases also bear sole responsibility for the risk (unilateral authorisation) as well as responsibility for analysing and 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 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 subsegments 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 of a group of related customers in accordance with § 19 para. 2 of the German Banking Act as well as by country and industry.

The processing of non-performing exposures or exposures requiring debt readjustment is the responsibility of the Special Credit Management (SCM) Division at NORD/LB. Credits with a rating of 11 on the rating master scale of the German Association of Savings Banks and Girobanks (DSGV) (i. e. allocation to the "high risk" category in accordance with the "Initiative Finanzstandort Deutschland" (IFD, initiative for Germany as a financial location)) or lower must be reported to the SCM division. Other defined indicators of risk (e.g. suspicion of behaviour not in the interests of creditors or the initiation of restructuring processes) may also require reporting. The SCM decides whether it will assume full responsibility,

whether coaching is to take place or whether the exposure remains in the Market or CRM division with intensive support. From a rating of 16 (allocation to the IFD Default risk category (non-performing loans)), the SCM division is obliged to take over responsibility for an exposure. Exceptions are made with both the reporting requirement and assuming of responsibility for low-risk business and business-specific reasons. For financial institutions including central governments and foreign regional authorities, asset-backed securities (ABS) and corporate bonds, processing takes place in the Credit Risk Management Division.

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

The Managing Board is responsible for controlling NORD/LB's credit portfolio. In performing its tasks, the Board consults among other things the Group Risk Committee, which ensures that a link between individual credit decisions and portfolio management 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 groups of related customers, countries and industries within the strategic limit systems. The individual credit decision remains the responsibility of the Managing Board.

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

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

Collateral

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 collateral is assessed both at the time the loan is granted and during the subsequent ongoing (normally at least once a year) monitoring as to whether it appears to be disposable at the assumed value based on foreseeable economic developments during the (remaining) term of the loan. They are therefore reviewed on a case-by-case basis as to whether the valuation appears to be justified based on the respective type of security and based on its legal and economic applicability in respect of the person of the borrower and the type

of loan. If factors relevant to the assessment have changed, the assessment is adjusted accordingly.

The credit guidelines and lending principles of 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 collateral can be contracted with the borrower, but this does 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.

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 groups of related customers. 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 be 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 Internal Assessment Approach of the Capital Requirements Regulation (CRR) 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 TREA while safeguarding profit interests.

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

In the year under review the bank structured a securitisation for a credit portfolio with an initial volume of approx. About € 11 billion consisting of the asset classes of aircraft, renewable energies, commercial real estate and German middle market under the name of "NorthVest". In order to hedge the credit risks that this entailed, a guarantee with an initial volume of € 450 million was concluded with a private guarantor with effect of the 17 March 2014. The term of the guarantee is for 10 years. By the 31 October 2014 the volume had been reduced as planned by € 40 million, and as at the reporting date it totals € 410 million. The first loss tranche held by NORD/LB totals € 80 million; to date it has not been utilised. With this transaction the bank can lower its risk-weighted assets by approx. € 4 billion as at the balance sheet date and release approx. € 320 million of equity.

Assessment

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

Unexpected loss for credit risk is quantified 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.

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

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

In order to calculate capital adequacy requirements for credit risks, NORD/LB uses the Internal Ratings Based Approach (IRBA). This does not apply to a small number of 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 the Finance and Risk Compass for NORD/LB which shows and analyses all the significant structural features and parameters required for controlling the credit portfolio of the 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 subsegments by Industry Portfolio Reports from the Credit Risk Management Division.

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

Investment Risk

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

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

Management

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.

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 analysis methods and the materiality concept were reviewed in the year under review and refined in some areas.

The result of the materiality analysis determines how closely the risks are monitored in all divisions of NORD/LB. A further differentiation is made from a risk point of view for the treatment of significant investments. The significant investments based on quantitative criteria of Bremer Landesbank, NORD/LB Luxembourg, Deutsche Hypo and NORD/LB CFB are considered in the internal and external reporting 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 (until 29. January 2014) 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

The method for measuring investment risk also considers risks beyond the carrying amount, e.g. additional contributions 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 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.

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 for substantial and significant investments the strengths and weaknesses of the investments.

In addition, the significant and important investments are reported on quarterly in the Finance and Risk Control Division's Finance and Risk Compass. In addition to this, realised or anticipated income from investments is reported on a monthly basis to the Finance/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 commodity risk.

- Interest-rate risk always occurs when the value of an item or a portfolio reacts to changes to one or several interest rates or to changes in full yield curves and when these changes may consequently impair the item. This also includes the credit-spread risk in the trading portfolio and the liquidity reserve in accordance with the German Commercial Code.
- Credit-spread risk in the banking book defines potential changes in value which would result in the banking book if the credit spread applicable for the respective issuer, borrower or reference entity used for the market value of the item changed.
- Other partial risks relevant for NORD/LB include the risk that the value of an item reacts to changes in one or more currency exchange rates (currency risk), share prices or share indexes (share-price risk), fund prices (fund-price risk) or volatilities applied for valuing options (volatility risk) and the changes result in a reduction in the items value.

Management

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.

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 supported by the Asset Liability Committee (ALCO). The ALCO is an advisory body that normally meets on a monthly basis at the level of NORD/LB. 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 CRR report. The responsibility for the development and validation of the risk model also lies with the Risk Control/Performance Measurement 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 treatment of hedging instruments and the type of hedges can be found in the notes.

Assessment

The VaR figures 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. Until the planned inclusion of these risks in the VaR model, a reserve item will be considered in the RBC model.

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, volatility risk and credit-spread 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 quarter, 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 to calculate the capital adequacy requirements for general interest-rate risks and for general and special share-price risks in accordance with the Capital Requirements Regulation (CRR) 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 Minimum Requirements for Risk Management, the Risk Control Department, which is independent of the divisions responsible for the positions, reports daily on market-price risks to the respective Director.

In addition to this, the market-price risks under a gone-concern scenario, which also include the credit-spread risks in the banking book, are reported on at least a weekly basis. The Managing Board is informed in detail once a quarter about NORD/LB's and the NORD/LB Group's market-price risks and earnings position of the trading divisions.

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, refinancing 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 earnings resulting for the NORD/LB Group from the worsening of the banks own refinancing conditions on the money market or capital market. The most significant cause in this case is a change in the assessment of the bank's credit rating by other market participants. The focus of consideration here is on the entire range of terms to maturity. By considering

the individual currencies, spread risks from cross-currency swaps will also be considered.

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

Management

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.

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 covered bond 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/Performance Measurement Department of the Finance and Risk Control Division is responsible for the implementation and development of liquidity-risk models. The Risk Control Department 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.

Monitoring and Control

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, and hence also describes as at the reporting date a significant risk of a rating downgrade for NORD/LB related to the credit portfolios affected by the crisis in the shipping sector. Analysis is based on liquidity cash flows and covers the coming twelve months on a daily basis. For products without fixed liquidity flows, optional components (e.g. from irrevocable credit commitments), planned new business and refinancing opportunities, assumptions are made in accordance with the market situation which are subject to regular validation.

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

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

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

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, enabling it to plan for the future and to be well-prepared for cases of emergency.

The analysis of stress scenarios takes into consideration the overriding significance of the market liquidity of all of the securities in the portfolio. In addition, the credit-spread risks for all securities are considered when calculating market-price risks. Since the spreads observed on the market reflect both the credit rating of an issuer and the market liquidity of the securities, the risk report

also indirectly takes into account the market liquidity of the securities. No separate risk dimension is applied for market liquidity risks.

Reporting

The Risk Control Department provides the responsible divisional heads every day with the data on the dynamic stress test scenarios for 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 also informed in detail in the "Finance and Risk Compass" and "Report on the risk situation" quarterly reports of the liquidity-risk situation. It also has the opportunity to obtain current information on the liquidity situation on a daily basis from the Risk Control Division's Liqui Cockpit.

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, to the control divisions and to the Managing Board of NORD/LB.

Operational Risk

Operational risks are possible and from the point of view of NORD/LB unintended events which occur as a result of the inadequacy or failure of internal procedures, employees, technology or as a result of external events and result in a loss or have a very negative consequence for NORD/LB. In accordance with this definition, legal risks, risks due to a change in law, compliance risks, outsourcing risks, misconduct risks, verity risks, fraud risks and vulnerabilities in contingency and crisis management are included in operational risk. Not included are strategic risks and business risks.

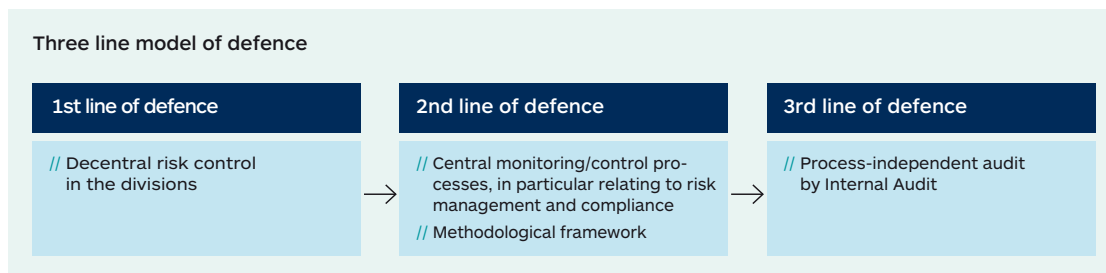
NORD/LB pursues the goal of efficient and sustainable management of operational risks, i. e.:

- The avoidance or transfer where this makes economic sense.
- The relevant legal requirements are met at all times.
- The avoidance of future losses with a strong risk culture, which includes an open approach to operational risks. Employee awareness is raised and promoted with measures as required.
- 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.
- Implementation of an appropriate and effective internal control system management.

Management

Risk management for operational risks based on the “three lines of defence” model. Responsibility for the control of operational risk within the general environment specified is decentralised and lies with the divisions (first line of defence). Along the second line of defence, downstream risk

management and compliance control processes are installed, which are supplemented by a central methodological framework for risk identification and assessment and higher-level control and reporting processes. The process-independent audit is conducted by Internal Audit (third line of defence).



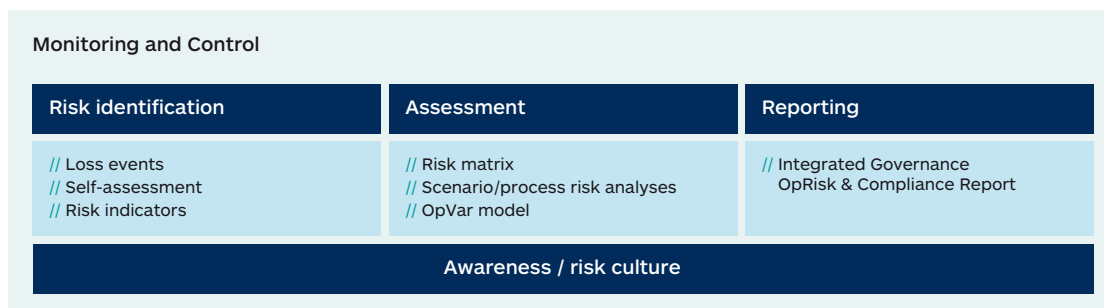
NORD/LB has an integrated approach to controlling operational risks and is continually developing this. The aim is to optimally link the processes along the second line of defence with one another. Within this in mind, in the year under review a consolidated Governance, OpRisk & Compliance Report was introduced which has harmonised the reporting landscape significantly and resulted in greater transparency of operational risks. In addition, methods continued to be consolidated.

NORD/LB has a uniformly structured internal control system (ICS) which is based on the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). With the use of standardised methods and procedures, an appro-

priate 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.

With interlinked business continuity management which focuses on time-critical activities and processes, contingency measures are in place to ensure appropriate operation in the event of an emergency and a return to normal operations as quickly as possible. The higher-level contingency and crisis organisation ensures communication and decision-making capability in the event of escalating emergencies and crises.

Monitoring and Control



NORD/LB collects data on losses from operational risks above a minimum limit of € 1,000. This data provides the basis for analyses to optimise risk management. The loss events collected are exchanged in anonymous form in the Data Consortium of Operational Risks (DakOR) with other banks. The consortium data is added to the data which is used for the internal model. In addition information contained in the Öffentliche Schadenfälle OpRisk (ÖffSchOR) database is available in which press reports on major losses resulting from operational risk are collected, structured and processed.

An annual self-assessment with the use of expert knowledge should help in the early identification of future developments. The assessment was re-designed in the year under review and now all of the questions relating to the second line of defence are consolidated in one questionnaire. 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.

In scenario analyses and process-risk analyses, detailed insight into the risk situation is gained at issue or process level and relevant measures are derived as necessary. The analysis planning is done on a risk-oriented basis, based on all of the available data (e.g. loss events, self-assessments, audit reports, results of the ICS control cycle). The results are included in the internal OpVaR model and as a result improve the measurement accuracy.

All of the risks are assessed based on a bank-wide risk matrix and are included in the bank's risk reporting. The results are reported to the Managing Board on quarterly basis (in the Finance and Risk Compass), while information on material risks in reported on an ad-hoc basis. The responsible divisions are reported to as and when required, and at least once a year.

For the purpose of integrated OpRisk management, the Risk Round Table was established; it acts a central committee which offers a platform where issues concerning significant operational risks and methods 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 Risk Round Table shall create transparency across the divisional boundaries of the second line of defence and enable bank-wide control initiatives.

A particular feature of the bank's protection against operational risks lies in raising a high level of awareness and establishing an open risk culture. Employee awareness of risks is raised with classroom and online-based training, a regular Governance, OpRisk & Compliance newsletter and ad-hoc information on risks. "Lessons learned" from events that have actually occurred play a particularly important role.

For IT and safety risks, specific control cycles have been implemented. They should ensure that internal and external threats are recognised quickly and can be actively controlled. In the IT Division, instructions on procedures, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Security concepts and contingency plans supplement pre-emptive measures in order to prevent loss or damage resulting from the failure or the manipulation of systems and information.

Personnel risk is countered by an appropriate level of staff in terms of quality and quantity. The aim is to ensure that all employees have the required skills for their tasks. Staff shortages are included in the contingency planning.

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. Continual control and monitoring activities help to identify relevant issues. If there are any indications of major fraud, the further course of action is decided in an ad-hoc committee at management level. There is a whistleblowing system for employees and customers so that information can be passed on securely.

Legal risks are safeguarded against by using contract templates and close consultation with the Legal Department. In order to ensure that there are no unintended loopholes in contracts, the Compliance Department identifies new banking regulatory requirements, informs the divisions concerned of the resulting requirements for action and provides evidence across all divisions. The aim is to ensure compliance with the legal regulations and requirements by implementing effective procedures in the divisions.

The quality of external suppliers and service providers is ensured by risk-adequate service-provider control. For significant services outsourced, a quarterly risk assessment takes place using

defined 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

NORD/LB's ICS 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 external accounting,
 - compliance with legal regulations which are relevant to NORD/LB and to
 - ensuring the effectiveness and efficiency
- of the accounting.

The purpose of the ICS is to prevent the risks associated with accounting processes, e.g. erroneous presentation, recording or assessment of transactions or incorrect reporting of information in the financial reporting.

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 in tests that are conducted throughout the bank. The testing is part of a control cycle that ensures the quality of the internal control system.

The NORD/LB accounting process is structured decentrally. The preparation of the annual accounts and the management report for the

NORD/LB in compliance with legal regulations is the responsibility of the Finance/Taxes Division of NORD/LB. Many accountable facts are already recorded in the market and back-office divisions in upstream systems of NORD/LB 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.

In order to meet new reporting requirements and new related financial reporting standard new processes are implemented. In this respect necessary controls and key controls are integrated into and amended in the existing control system.

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

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

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

The accounting process is partly 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. In addition, the divisions involved communicate daily regarding the processing status, so that in the event of delays immediate action can be taken by management.

NORD/LB's Internal Audit conducts a process-independent audit to ensure compliance with the ICS. The accounting-related ICS is also the subject of a yearly audit by the auditor. The conclusions are reported to the Audit Committee.

Assessment

NORD/LB uses the standard approach of CRD IV (Pillar I) to calculate the capital adequacy requirement. The requirement as at 31 December 2014 totalled € 222 million.

For the risk-bearing capacity (Pillar II) and internal control, a Value-at-Risk model, which is based on a loss distribution approach, is used. 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. An allocation process which combines size indicators with risk-sensitive elements is used to distribute the model results to the individual institutes. Risk indicators in the warning area impact on the models. 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. NORD/LB considers the use of customary insurance products to be part of active risk control. The model was developed based closely on the requirements for an AMA in accordance with CRD IV.

Reputation Risk

Definition und Strategy

Reputation risk defines the risk of the bank suffering serious or permanent losses due to a loss of trust among customers/business partners, the public, employees or the owners.

NORD/LB wants to maintain and continually extend the trust of stakeholders at all times and be perceived to be a reliable partner. The aim is also to establish an efficient management of reputation risks that makes economic sense. The following specific objectives are pursued:

- Prevent the occurrence of reputation risks with guidelines, knowledge of expectations of stakeholders and safe management of risky transactions
- Early identification of emerging and existing reputation risks
- Safe management of reputation risks that have emerged

Risk Management

As a matter of priority, each and every employee is responsible for preventing reputation risks. Key roles are played by Corporate Communications, Sustainability Management, the Compliance Department and the Finance Risk Control Division.

With the help of general and bank-wide rules for preventing reputation risks, the scope for decision-making is defined. Here the following central rules exist:

- Financing principles
- Guidelines for controversial business activities (ESG guidelines)
- Guidelines for external communication
- Guidelines for the recruitment of personnel
- Policies for money laundering and fraud
- Monitoring of sanctions
- Ethic principles and management of conflicts of interest

Mechanisms such as defined test steps and checklists should help in control processes to identify reputation and safely manage issues. If an individual case with a high reputation risk is not covered by the general rules, the RepRisk Committee is convened.

Employee awareness of issues is raised by courses and web-based training (e.g. the German Securities Trading Act (WpHG), the German Money Laundering Act (GwG), fraud, security/data protection). Newsletter on issues relating to the 2nd line of defence in which current cases are discussed also help to raise awareness.

In addition to the continual, bank-wide exchange of reputation-related information, since third quarter 2014 an early-warning system has existed in NORD/LB that is made up of several indicators and should be continually developed. These indicators will be introduced where issues relevant for the reputation of NORD/LB can potentially be identified early.

The findings concerning reputation risks are included in the regular risk report and sustainability reports.

Economic Report

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General Economic Environment

Global Economic Environment

Global economic growth was affected by severe weather conditions at the start of 2014. While the cold spell in the USA slowed economic growth notably, the German construction industry in particular, and indirectly economic growth eurozone as a whole, benefited from the very mild temperatures. Supported by domestic demand, the US economy then showed itself to be very robust in the remainder of the year and achieved growth of 2.4 per cent, while Germany and the eurozone experienced an economic dip in mid-2014. At the same time, the dramatic drop in crude oil prices resulted in a significant fall in inflation rates. In China a difficult economic situation was avoided yet again in 2014. However, the steady slowdown in growth continued.

Eurozone

The economic recovery remained sluggish in 2014, as expected. Although the year got off to what at first sight appeared to be a very good start with a growth rate of 0.3 per cent in the first quarter compared to the fourth quarter of the previous year, these positive figures were primarily due to the growth rate in Germany that had been skewed upwards by weather-related factors (+0.8 per cent compared to the previous quarter). Following the temporary boost provided by Germany, growth in the eurozone was only slightly above zero in the subsequent quarters. Business and consumer sentiment indicators have meanwhile deteriorated significantly. One explanation for this is the increasing escalation of the conflict between Ukraine and Russia. Following Russia's annexation of the Crimea and support for militant separatists in east Ukraine, most western states imposed and extended sanctions on Russia. Although the slump in German exports to Russia might have been accelerated by the sanctions, the decline started in the second half of 2013 and is therefore largely due to the weakening Russian economy.

Although economic output increased moderately in the last three months of 2014, in 2014 as a whole real gross domestic product only rose by 0.9 compared to the previous year. The deficit ratio in the eurozone is likely to have fallen slightly below 3.0 per cent of gross domestic product.

Germany

Real gross domestic product rose in Germany in the past year by 1.6 per cent and therefore by much more than in the previous two years. Private consumption was again the mainstay of the economy. Private consumption expanded by 1.2 per cent compared to the previous year and contributed around 0.7 percentage points to growth. Public consumption also grew to a similar degree by 1.1 per cent. Foreign trade on the other hand only made a moderate contribution to growth of 0.4 percentage points. Export growth was affected by the slow economic growth in the eurozone. Gross fixed capital formation contributed to growth again in 2014 following two successive years of decline. The investment activity slowed noticeably transitionally during the course of the year due to the economic downturn in the eurozone and the geopolitical conflicts. The German economy has therefore proven itself to be very resilient in a difficult economic environment, which was supported once again by the robust labour market situation.

Financial Markets and Interest Rates

Taking into account the improved economic situation, the US central bank reduced its expansive monetary policy by gradually reducing the bond purchase programme. The additional purchases were stopped in October. However, the base rate was not adjusted and stagnated on a record low. After the inflation rate had risen to 2.1 per cent by mid-2014, it fell to 0.8 per cent by the end of the year due to oil prices. As at the end of the year 2014, the US central bank has every opportunity to engineer the desired normalisation of monetary policy. Despite this outlook and a robust economic situation, the yield of ten-year US treasuries fell from

3.0 per cent at the start of the year 2014 to below 2.2 per cent at the end of the year. This is due to investors looking increasingly for Safe-Haven investments.

Against the background of falling inflation in the eurozone, the ECB took a range of measures during the course of 2014 to counter the increased risks of deflation. The tender rate for example was lowered to 0.05 per cent and a negative deposit facility rate was introduced. Towards the end of the year, though, it became increasingly apparent that a bigger purchase government bond purchase programme would follow at the start of 2015. The yield of German government bonds with a ten-year term fell increasingly in this environment by the end of the year and reached a new record low of 0.54 per cent.

The German share index DAX ended a volatile year without a major rise in share prices. In particular geopolitical risks, namely the crisis in Ukraine and the conflict in Syria and Iraq, had a negative impact. In particular the recovery of the US economy had a positive impact. The US share markets, compared to the DAX, also experienced a more stable upward trend. However, at the end of 2014 political uncertainty emerged in Greece again, as following the failure of the presidential election, new elections needed to be called in January. The new government agreed a four-month extension to the credit programme with the eurozone, after several weeks of difficult negotiations, and therefore avoided bankruptcy.

The euro was still relatively stable in the first half of 2014 and fluctuated between \$ 1.35 and \$ 1.40 per €. Due to the increasingly diverging economic performance and monetary policy in Europe and the USA, the euro fell by the end of the year to \$ 1.21 per €. The euro came under pressure mainly due to ECB policy and only stabilised in February 2015 at around \$ 1.13 to \$ 1.15 \$ per €.

The narrowing of the EUR/USD cross currency basis swap spreads seen in the first quarter of 2014 initially continued in the second quarter. In mid-April 2014 spreads touched the zero line, and for five and ten year terms they were even positive for a while. Until the start of September the EUR/USD basis swap spreads were much steadier. With the lowering of the base rate by the ECB on the 4 September 2014, which came as a surprise to almost all market participants, and the heavy impact on exchange rates in the foreign currency market, particularly on the exchange rate between the euro and the US dollar, a significant widening of spreads occurred. At the end of the year the spreads in the short and medium-term segment were quoted at close to -15 basis points, and at slightly below in the ten year segment. This market development was consistent with the strong rise in the US dollar against the euro.

Banks

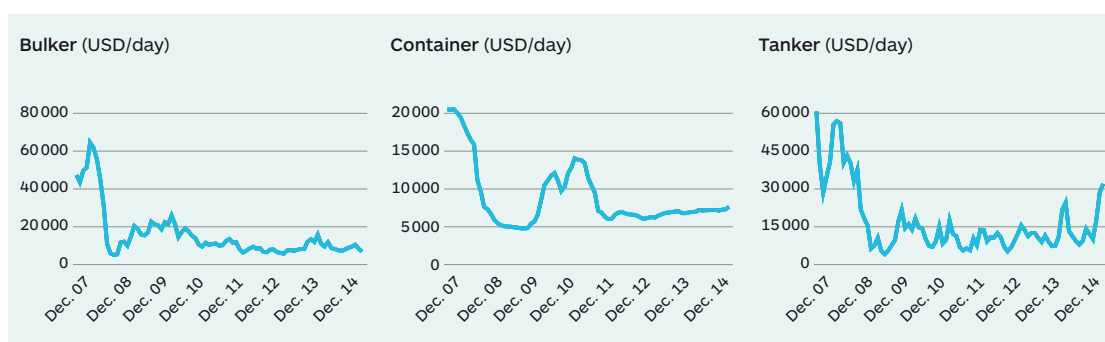
The whole European banking market continues to experience market adjustment. This is accompanied by measures to reduce risk and boost capital, as well as further financial market regulation. In particular the implementation of the CRR and CRD IV are expected to have a dampening effect on banks' capital ratios and earnings potential. The growth in credit volume remained weak despite the slight increase in demand for credit since the start of 2014. Competition is intense. European banks only have limited potential for growth, particularly as the historically environment of low interests is putting pressure on interest margins. The associated drop in earnings potential mean at the same time a reduced ability to absorb risks and build capital reserves. The transfer of financial supervision to the ECB presented the European banks with great challenges in the financial years 2013 and 2014. The results of the Asset Quality Review and stress test show that the European banks have already made a major contribution towards the stabilisation of the banking system.

Aircraft

Passenger transport (revenue passenger kilometres, RPK) grew according to the International Air Transportation Organisation (IATA) in 2014 by 5.9 per cent compared to the previous year. Airfreight volume (measured in freight tonne kilometres sold, FTK) increased by 4.5 per cent.

Airlines worldwide recorded according to projections by the IATA a record profit of \$ 19.9 billion in 2014 (2013: \$ 10.6 billion). In particular factors such as the improvement in global economic growth, the fall in oil prices at the end of 2014 and increase in passenger and airfreight figures had a positive impact on profits.

Shipping Source: Clarkson Research and Services Limited 2014



2014 was characterised by high rate volatility in the shipping markets. The shipping crisis entered a further year. Economic downturns (China, Europe) are affecting demand. For example, at the end of 2014 freight rates for the long-distance Shanghai-Europe container route were 35 per cent below rates at the start of the year. At one point freight rates were as much as 60 per cent lower. However, rates for the Pacific routes fared better (+17 per cent). Container traffic was affected though by completion delays in the handling of cargo in the ports on the US west coast. The increased demand resulting from the difficult situation had a positive impact though on the number of laid-up ships and the charter market, which picked up from May. Apart from a few exceptions, charter rates rose in all subsegments, and this was reflected for example in the Harpex (Harper Petersen Charter Rate Index) with a year-on-year rise of 8 per cent.

In the bulk goods sector the recovery in the second half of 2014 only lasted for a brief period. Overall the Baltic Dry Index fell in the past year by 63 per cent. The price of iron ore fell sharply due to influential market participants; however, the hoped-for increase in demand, in particular from China, did not materialise. For example, in December 2014 charter rates for Capesize bulkers that are focused mainly on coal and iron ore were only 50 per cent of the level of January 2014. The picture in the crude oil market is different. Although the iron ore market was virtually flooded by the major players, which resulted in a collapse in the price of iron ore, the hoped-for increase in demand in particular from China did not take place. The picture in the crude oil market was different.

The price of oil almost halved and resulted in particular in the fourth quarter in a boost in the demand for giant tankers. Their charter rate rose by 41 per cent in 2014. Cost-intensive offshore projects on the other hand are increasingly sought after by the market. In 2014 average charter rates for both big anchor tugs (+2 per cent) and supply ships (+3 to 4 per cent) were higher than in the previous year.

Real Estate

Global investment in commercial real estate rose in the financial year 2014 by around 20 per cent to \$ 710 billion (2013: \$ 589 billion).

The European commercial real estate markets recorded a transaction volume of around € 218 billion in 2014, which represented an increase of 32 per cent compared to the previous year. Great Britain remained the leader in the European investment market by some distance.

The German investment market for commercial real estate again benefited in the financial year 2014 from the low level of interest rates. The transaction volume rose for the fifth time in a row by around 30 per cent to € 39.8 billion.

Significant Events in the Financial Year

Bank Stress Test

NORD/LB has, as part of the NORD/LB Group, passed the EU-wide bank stress test. The minimum requirements for the Common Equity Tier 1 ratio of 8 per cent in the Baseline Scenario and 5.5 per cent in the Adverse Scenario were well exceeded by the NORD/LB Group with scores of 10.93 per cent and 8.77 per cent respectively.

NORD/LB also views these results as proof of the robustness of its business model, with the effects of the shipping crisis having been more than compensated for by successes in other asset classes. They are though also attributable to the conservative risk policy, which has already proven to be successful in the past during for example the financial crisis. Irrespective of the results of the stress test, NORD/LB will continue its policy of consistently making valuation allowances and boosting its capital by its own efforts.

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 future focus of the Group's business segments, a reduction in the Group's total assets and the optimisation of cost levels.

An independent trustee will monitor whether the commitments that have been made are being kept and report to the EU Commission on the progress made in half-yearly reports. In all reports provided to date, the trustee has confirmed that the commitments are being kept as planned.

Based on the commitments that apply at most to the end of 2016, NORD/LB can continue to focus on its proven business model. By the end of 2014 some of the commitments had already been successfully implemented.

Capital Measures

In 2014 NORD/LB continued the capital-boosting programme launched in 2011. In order to boost its equity ratio, in 2014 NORD/LB retained its earnings from 2013. In addition a number of silent participations held by a special purpose entity in the total amount of € 99 million were cancelled in 2014. At the same time capital notes which had been issued by this special purpose entity in order to refinance the silent participations and purchased by NORD/LB in 2013, were called in and paid back by the special purpose entities.

In order to prepare for the future regulatory requirements (including models in which the creditors of a bank participate in its losses in the event of restructuring or insolvency (bail-in)), in 2014 NORD/LB took on subordinated liabilities in two tranches of € 30 million.

In addition, NORD/LB concluded a guarantee with a private guarantor in 2014 for the mezzanine tranche of a credit portfolio of NORD/LB brought into a securitisation structure ("Northvest"). This transaction allowed NORD/LB to reduce its risk-weighted assets by around € 4 billion. The guarantee provided by the states of Lower Saxony and Saxony Anhalt provided until now for the largely identical portfolio could no longer be drawn on by the bank due to the largely identical nature of the underlying credit portfolio and was therefore terminated in mid-2014.

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 (before 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 2014 further concrete measures were developed to improve NORD/LB's structures and processes were developed and instructions were given for their implementation.

In 2014 provisions for contractual agreements concerning the termination of contracts of employment including severance payments were made for NORD/LB in the amount of € 45.5 million (previous year: € 29.3 million).

Assets and Earnings Position

Earnings Position

As in previous years, NORD/LB's earnings in the financial year 2014 were greatly affected by the continuing crisis in the shipping sector and by the reduction of interest rates.

The table below shows the profit breakdown:

Income Statement

	2014 (in € million)	2013 (in € million)	Change (in %)
Net interest income	1 421	1 298	9
Net commission income	138	83	66
Earnings from financial transactions in the trading portfolio	16	161	-90
Administrative expenses	852	775	10
Other operating profit/loss	-64	-37	73
Operating result before risk provisioning/valuation	659	730	-10
Valuation result of receivables, securities and investments	373	464	-19
Assumption of investment losses	28	8	> 100
Allocation to funds for general banking risks	-	-	-
Operating result after risk provisioning/valuation	258	258	0
Extraordinary earnings	-54	-46	17
Partial profit transfer (silent participations)	70	71	-1
Tax income	-5	-14	-64
Profit for the year before appropriation of earnings	138	155	-11

In the financial year 2014 the **operating result before risk provisioning/valuation** reduced by € 71 million. The significant fall in earnings from financial transactions in the trading portfolio, administrative expenses and other operating profit/loss were mainly responsible for this development despite a significantly higher net interest income. However, the increase in commission income had a positive effect.

The risk situation in the financial year 2014 was, due in particular to the continuing effects of the crisis in the shipping sector, at a similar level to the

previous year. Overall, the net provision for loans and advances and the **valuation result for securities and investments** including loss takeover fell to € 401 million (€ 472 million). Accordingly, the operating result after **risk provisioning/valuation** stagnated on the level of € 258 million (€ 258 million).

After taking into account the extraordinary earnings the stagnant partial profit transfer to silent participations and the tax expense, a profit for the period before the **appropriation of earnings** of € 138 million (€ 155 million) remains.

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

	2014 (in € million)	2013 (in € million)	Change (in %)
Interest income from			
Lending and money market transactions	2 474	2 663	-7
Fixed-interest securities and debt register claims	485	521	-7
Current income from trading portfolio	889	835	6
	3 848	4 019	-4
Interest for liabilities to			
banks	435	490	-11
non-banks	788	850	-7
Securitised liabilities	484	821	-41
Current expenses from trading portfolio	906	891	2
	2 613	3 052	-14
Remaining interest and similar income	95	205	-54
	1 331	1 172	14
Profit/loss from shares and other non-fixed-interest securities, investments and shares in affiliated companies	55	62	-11
Income from profit pools, profit transfer or partial profit transfer agreements	36	64	6
Net interest income	1 421	1 298	12

Interest income and interest expenses fell again in the past financial year due to the continuing strategic reduction of the portfolio. However, the fall was much less than in the previous year. Net interest income is more than in the previous year because the interest expense has fallen by more than interest income.

In particular interest expenses from securitised liabilities reduced compared to the previous year by 40 per cent, mainly due to the portfolio reduction.

This is attributable in particular to the improved interest income from securities business, which increased compared to the previous year. Due to the reduction in new issues and high maturities in the liability portfolio, in particular interest expenses from securitised liabilities have fallen.

Current income from shares and other variable-yield securities and investments are roughly at the previous year's level. Current income from

shares in affiliated companies has fallen, however, by € 7 million. The reason for this is in particular the silent participation in Deutsche Hypo in the amount of € 7.5 million that is no longer included and was converted into share capital. Income from profit pools, profit transfer or partial profit transfer agreements mainly comprise the profit transfer from Deutsche Hypothekenbank for 2014 in the amount of € 61 million (€ 50 million). The current profit from the trading portfolio rose compared to the previous year due to an increase in income by € 39 million.

Interest income from lending and money market transactions had the opposite effect in the amount of **Net commission income** is at € 138 million well below the previous year's result of € 83 million. In the financial year 2014 **NORD/LB** generated commission income primarily from lending business in the amount of € 128 million (€ 108 million), from payment transactions in the amount of € 31 million (€ 31 million), from securities transactions in the amount of € 29 million (€ 29 million) and

brokering in the amount of € 22 million (€ 20 million). Income from lending business was improved in particular due to new business in the Energy and Structured Finance segments, Aircraft Finance, the opening of new branches and more intensive support of corporate customers from existing branches. Net commission income for 2013 was affected in particular by guarantee costs in the amount of € 69 million for a credit portfolio guaranteed by the states of Lower Saxony and Saxony-Anhalt. In 2014 charges for the "Northvest" credit portfolio guaranteed by a private investor totalled € 34.7 million.

Earnings from financial transactions in the trading portfolio reduced by € 145 million to € 16 million (€ 161 million). This result was influenced by the following factors. The lowering of EUR interest rates in 2014 resulted in income from interest-bearing securities on the assets side and receivables from the trading portfolio in the amount of € 314 million (expense: € 126 million) and income from external interest derivatives due the EUR receiver swap surplus of € 666 million (expense: € 267 million). The increase in the EUR/USD basis swap spread by an average of approx. 4.9 basis points in 2014 resulted for external currency derivatives in gains of € 46 million (expense: € 125 million). These positive results from external interest and currency derivatives are seen alongside losses from the valuation of internal derivatives in the amount of € 1,021 million (income: € 600 million). In addition, a loss from the change in counterparty-specific default risk for OTC derivatives in the amount of € 17 million (income: € 40 million) is included in the earnings from financial transactions in the trading portfolio.

The **increase in administrative expenses** to € 852 million (€ 775 million) is almost entirely due to the significant increase in expenditure on pension schemes in the amount of € 100 million (€ 36 million) and allowances in the amount of € 16 million (€ 4 million). The increase in expenditure on pension schemes is mainly attributable to the need to make allocations to pension provisions

due to interest rates and the double tariff agreement in 2014. The increased need to make pension provisions is primarily due to the lowering of the calculation interest rate. The reduction in other administrative expenses of € 5 million is due in particular to the € 20 million reduction in expenses for IT/Telecommunications.

Other comprehensive income fell in the financial year 2014 by € 27 million to € -64 million (€ -37 million). Here the higher losses compared to the previous year from the repurchase of liabilities in the amount of € 54 million (€ 23 million) had a negative effect. These repurchases were made for the purpose of investor relations reasons and the management of the overall bank's position at the individual transaction level. The annual contribution to the restructuring fund for banks included in this item amounts to € 20 million (€ 28 million).

The **valuation result of loans and advances, securities and investments** was repeatedly affected significantly in the past financial years well as the previous years by the continuing and deepening crisis in the shipping sector. The negative valuation result of € 373 million (€ 464 million) is primarily attributable to the net provisions for loans and advances of € 501 million (€ 519 million). This was partly compensated for by the reduced write-down requirement for investments and shares in affiliated companies. The valuation result was also affected positively by an increased write-up requirement and realization gains from disposals of securities of the liquidity reserve.

Losses transferred from investments have risen significantly to € 28 million (€ 8 million) essentially involves the losses transferred from the investments NOB Beteiligungs GmbH & Co. KG and Braunschweig GmbH.

Extraordinary earnings 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) re-

organisation expenses in the amount of € 36 million (€ 28 million) relating to the efficiency improvement programme. These concern employee-related mainly expenses for measures to reduce staff expenses.

The tax income in the amount of € 5 million comprises the current tax expense and effects from previous years. NORD/LB's current tax expense for the financial year 2014 is, as in the previous year, seen alongside income from the reversal of tax provisions.

Assets and financial Position

The table below shows the condensed balance sheet items as at 31 December 2014 alongside the figures for the previous year.

Balance Sheet

	31 Dec. 2014 (in € million)	31 Dec. 2013 (in € million)	Change (in %)
Assets			
Loans and advances to banks	24 266	26 730	- 9
Loans and advances to customers	58 105	58 947	- 1
Securities	27 111	26 621	2
Trading portfolio	11 516	8 827	30
Investments and investments in affiliated companies	2 106	2 047	3
Other assets	7 918	8 448	- 6
Total assets	131 022	131 620	- 0
Liabilities			
Liabilities to banks	40 359	40 832	- 1
Liabilities to customers	40 146	37 110	8
Securitised liabilities	24 628	32 622	- 25
Trading portfolio	5 927	2 296	> 100
Provisions	1 492	1 352	10
Participatory capital and subordinated liabilities	2 913	2 783	5
Bank's own funds	6 782	6 744	1
Other liabilities	8 790	7 881	11
Total liabilities	131 022	131 620	- 0
Balance sheet data			
Contingent liabilities	6 074	5 289	15
Other obligations	6 859	8 230	- 17
Business volume	143 955	145 139	- 1

Total assets were virtually unchanged compared to the previous year. While the portfolio reduction initiated in the previous year was continued to a lesser degree in 2014, this effect was compensated for by the further lowering of interest rates and the associated increase in the trading portfolio. All the same, the structure of the balance sheet, especially at the liabilities side, has changed.

Loans and advances to banks and customers have reduced once again, by € 3 billion, due to more restrictive lending with the aim of reducing the portfolio. Loans and advances to banks contribute to this with a reduction in municipal loans in the amount of € 6 billion.

Under the item **securities**, the balance of bonds and debt securities rose by half a billion euros.

The change in the **trading portfolio** is primarily due to the valuation of interest derivatives at fair value. Due to the alignment of interest derivatives, the continued lowering of interest rates in an increase in the value of these financial instruments, and therefore an increase in the related balance sheet items. The trading portfolio position 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 shares in affiliated companies** compared to the previous year. The change was primarily due to the write-up.

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

Liabilities to customers have increased in the past financial year by € 3 billion to € 40 billion (€ 37 billion). This is mainly due to the increase in the volume of sight deposits.

Reflected in the reduction in securitised liabilities to € 25 billion (€ 33 billion) is the reduced funding requirement due to the liquidity reserves. Due to the strategic reduction in the portfolio in order to reduce risk-weighted assets, there were fewer new issues. In particular expired bearer bonds were not replaced in equal measure by new issues.

The level of provisions has increased compared to the previous year by € 140 million. This is due to the increase in pension provisions of € 131 million.

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

The capital-boosting programme continued in the past financial year. In addition to the active management of risk-weighted assets, in 2014 a number of silent participations were cancelled in order to optimise the capital structure. The reported equity ratio as at the reporting date was 5.2 per cent (5.1 per cent). The **regulatory capital** as at 31 December 2014 totalled € 7,865 million (€ 8,005 million), € 6,364 million of which related to Common Equity Tier 1 (€ 6,667 million)¹⁾. The regulatory capital ratio was 17.7 per cent compared to 18.6 per cent in the previous year. The Common Equity Tier 1 ratio was 14.3 per cent (15.5 per cent).

The increase in contingent **liabilities** to € 6 billion (€ 5 billion) is due to higher liabilities relating to sureties and guarantees.

The fall in **other liabilities** is due solely to the reduction in the volume of irrevocable credit commitments of around € 1 billion.

Further information on refinancing and the liquidity position can be found in the Risk Report.

¹⁾ The reference figures as at 31 December 2013 are still essentially based on the regulations of the German Banking Act that were applicable to the end of 2013, but have been adjusted based on the CRR regulations.

Development of the Business Segments

2014 (in € million)	NORD/LB Private and Com- mercial Customers	NORD/LB Corporate Customers & Markets	NORD/LB Energy and Infra- structure Customers	NORD/LB Shipping and Aircraft Customers	NORD/LB Real Estate Banking Customers	NORD/LB Group Controlling/ Others	Income Statement NORD/LB
Operating result before risk provision- ing/valuation	5	297	71	277	27	- 17	659
Risk provision- ing/valuation	4	- 13	5	- 505	- 2	109	- 401
Operating result after risk provision- ing/valuation	9	284	76	- 228	25	92	258
Previous year	31	271	71	- 172	25	31	258
CIR	97 %	43 %	49 %	24 %	31 %		56 %
CIR for the previous year	87 %	42 %	45 %	20 %	22 %		52 %
RoRaC/RoE	3 %	25 %	22 %	- 11 %	11 %		2 %
RoRaC/RoE for the previous year	9 %	29 %	21 %	- 8 %	8 %		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.

NORD/LB has analysed as part of a project all of the Back Office and Corporate Centre Divisions in respect of the services they perform for Braunschweigische Landessparkasse and compared them with an independent savings bank. As a result less costs for services performed and over-

heads will be allocated to NORD/LB's retail business, while the cost allocation to the bank's wholesale divisions will increase accordingly.

The cost-income ratio (CIR) in 2014 was 56 per cent, an improvement of 4 percentage points compared to 2013. The main reason for this is the 10 per cent increase in administrative expenses with income remaining fairly stable. Administrative expenses were affected by the significant increase in staff expenses as a result of increased allocations to pension provisions (double tariff agreement in 2014 and lower calculation interest rate). Material costs on the other hand decreased slightly. On the income side, the trading profit/loss in 2014 fell significantly due in particular to unrealised valuation losses from security transactions and the change in counterparty-specific default risk in derivative business. Net interest income, despite the reduction in total assets, rose significantly due to the reduction in interest expenses following the phasing out of high-interest products on the liabilities side. Net commission income rose noticeably compared to the previous year. This rise is partly due to the reduction in expenses relating to the guarantee provided by the states, which was terminated in mid-2014, and the increased restructuring fees and account management fees.

A capital securitisation level of 8 per cent of TREA 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 of the higher value out of the TREA 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 ratios (see above for the definition). The RoE stagnated to 2 per cent in 2014.

Private and Commercial Customers

The operating result after risk provisioning/valuation in the Private and Commercial Customers segment fell significantly by € 22 million to € 9 million. This development was mainly due to recent court rulings on the refunding of loan processing fees and cancellation policies, which resulted in provisions being made for risks. The increased allocation to pension provisions under staff expenses has had a negative effect on the result.

The continuing low level of interest rates only had a minor effect with the income under net interest income only € 3 million less than the previous year. The impact of provisions for loan processing fees was compensated for by the increase in interest income from deposit business (reduction in customer conditions). The low level of interest rates has a negative impact, though on the return on capital employed. Here the contribution to earnings is around € 4 million below the previous year's figure.

Net commission income fell compared to the previous year by around € 2 million. Developments in the capital markets continued to put small investors off from investing in securities. Income under this item was around € 3 million less than in the previous year. Income from account management and from sales in insurance and real estate brokering on the other hand developed positively.

Trading profit/loss is € 4 million below the previous year due to negative valuation effects. While a positive change in the counterparty-specific default risk of derivatives in the Corporate Customers segment of Braunschweigische Landessparkasse was reported in 2013, this was negative due to market conditions in 2014.

The segment's result was affected greatly by other operating profit/loss, which was € 11 million below the previous year's figure in 2014 due in particular to the provisions made following the recent court ruling on cancellation policies in loan agreements. The previous year's result included the reversal of provisions in the amount of around € 7 million due to a special effect.

Overall, income in the Private and Commercial Customers segment fell compared to the previous year by € 20 million. The positive impact of income from receivables written off in the risk provisioning in the amount of almost € 2 million above the previous year's figure only partly compensated for the fall in income and special effects in the segment.

Staff expenses rose in 2014 due to the high level of allocations to pension provisions made relating to the double tariff agreement and the lower calculation interest rate by around € 11 million. The reduction in material costs had a positive impact in the amount of € 3 million. On top of this, secondary costs and overhead charging reduced the item significantly. Overall, administrative expenses in the segment were, however, € 4 million above the previous year's figure.

Due to the significant fall in the segment's contribution to earnings, the RoRaC is at 3 per cent well below the previous year's figure (9 per cent), and the CIR rose to 97 per cent (87 per cent).

Corporate Customers & Markets

In the Corporate Customers & Markets segment the operating result after risk provisioning and valuation improved compared to the previous year by € 12 million to € 284 million. The positive development is due to the Corporate Customers segment, which, due to much lower risk provisioning, contributed € 175 million before taxes to the segment result. The result in the Markets segment was close to the previous year's good level despite the difficult market conditions.

The much higher net interest income compared to 2013, was achieved due in particular to the growth initiative in the Corporate Customers segment. On top of this, coupon payments from security portfolios in the Markets segment contributed to the increased net interest income. Commission income improved slightly in the segment. However, in the trading profit/loss, valuation losses from the change in the counterparty-specific default risk of derivatives had a significant impact in the Corporate Customers segment.

Overall, income in the Corporate Customers & Markets segment rose by 2 per cent.

Operating costs increased by € 12 million due to staff expenses (higher allocations to pension provisions) and allocated secondary costs. This was partly compensated for by the significant fall in material costs related to IT/telecommunications and consultancy/opinions.

The RoRaC fell slightly due to the increased capital adequacy requirements, due in equal measure to among other things the regulatory requirements in the Markets segment and the growth initiatives in corporate customer business, from 29 per cent to 25 per cent. The CIR remained, with a slight increase in income and administrative expenses, at 43 per cent (42 per cent) close to the previous year's level.

Energy and Infrastructure Customers

The Energy and Infrastructure Customers segment's contribution to the operating result after risk provisioning and valuation increased by € 5 million to € 76 million. This development is due in particular to the pleasing growth in interest and commission income and risk provisioning characterised by the reversal of valuation allowances, which showed an improvement of € 10 million compared to the previous year.

The contribution to net interest income rose significantly in 2014 due to an increase in portfolio business and higher margins by approx. 18 per cent. Due to the increase in transactions concluded, the contribution to net commission income also improved by a similar rate due to loan processing fees and derivative business. However, the trading profit/loss was significantly below the previous year's result due to the change in counterparty-specific default risk of derivatives.

Overall, income fell by a total of € 2 million.

Administrative expenses rose in the year under review by € 7 million due to an increase in staff expenses due to business activities and higher allocations to pension provisions and an increase in internal cost reallocations and allocation of overhead costs.

The overall development of the income items resulted in the RoRaC rising slightly to 22 per cent (21 per cent). The CIR is 49 per cent (45 per cent) due in particular to the increase in administrative expenses.

Shipping and Aircraft Customers

The operating result after risk provisioning and valuation was very negative in 2014 in the Ship and Aircraft Customers segment at € -228 million and fell once again compared to the previous year by € 56 million. The fall in earnings is due among other things to a drop in income (€ 25 million) in ship financing. The main reasons for this were the negative one-time effects of the arrangement of

restructured, long-term refinanced loans and a reduced portfolio of assets. Earnings in the area of aircraft financing remained on the whole stable.

The risk provisioning had to be increased once more by a total of € 19 million compared to the previous year. Increased personnel resources, allocations to pension provisions and internal cost allocations resulted in an increase in administrative expenses of around € 9 million in the segment.

Accordingly, the segment's RoRaC is negative and down by 3 percentage points to -11 per cent compared to the previous year. Due to the increase in costs as a result of the high level of resources tied up during the crisis in the shipping sector and due to the fall in income, the CIR rose to 24 per cent (20 per cent).

Real Estate Banking Customers

Despite the planned portfolio reduction and therefore lower interest income, the Real Estate Banking Customers segment achieved an operating result after risk provisioning/valuation of € 25 million which was therefore at the same level as the previous year. This is due in particular to the significantly reduced risk provisioning compared to the previous year. There were only minor valuation allowances in 2014 to the portfolio which is being phased out and managed by Deutsche Hypo.

Due to scheduled and unscheduled repayments, income from interest-rate transactions has fallen again compared to the previous year in line with expectations, with interest income falling by € 17 million. The significantly reduced trading profit/loss compared to the previous year (€ -10 million) is largely due to counterparty-specific valuation effects with interest derivatives. This was compensated for by the reduction in risk provisioning to € 2 million and the 17 per cent reduction in internal cost allocations.

Due to a significant reduction in capital tied up due to the portfolio reduction, the RoRaC rose by 4 percentage points to 11 per cent. The CIR is at 31 per cent higher than in the previous year (22 per cent) due to the fall in income, but is still at a low level.

Group Controlling/Others

The operating result after risk provisioning and valuation reported under Group Controlling/Others improved compared to the previous year by € 61 million to € 92 million. This positive development is attributable to the improvement in the earnings of investments in the Bank Assets Allocation Division (€ +29 million) and the Treasury Division (€ +41 million).

Further positive and negative changes at overall bank level virtually cancelled each other out. The valuation changes and income realised from investments, securities and derivatives (€ +53 million), one-time effects in other operating profit/loss (€ +65 million) and the liquidation of premiums had a positive effect under others. Net commission income was increased by the termination of the guarantee increased in the amount of € 24 million. Under trading profit/loss (€ -89 million), in particular negative valuation effects on derivatives in the trading portfolio, the increase in operating costs (€ +50 million) due to the double tariff agreement and the lower calculation interest rate and the increased expenses from the issuing of subordinated bonds (€ 20 million) had a negative impact. The costs for projects covering the entire bank fell slightly.

In the year under review the Treasury Division increased its contribution to the operating result after risk provisioning and valuation by € 41 million to € 169 million. The significant increase in income compared to the previous year of € +43 million is mainly attributable to positive one-time effects in interest income from swap terminations due among other things to a reduction of items and to the sale of bonded loans and registered bonds.

Also considered under interest income in the year under review are positive effects from the internal allocation of arrangement losses from restructured, long-term refinanced loans to lending divisions. Administrative expenses rose in the Treasury Division compared to the previous year due to the increase in staff expenses by € 2 million.

The Bank-Assets Allocation Division increased its earnings compared to the previous year by € 16 million to € 83 million. The unrealised performance (€ 14 million increase compared to the previous year) and a € 3 million higher distribution of the special funds have contributed to this. Administrative expenses were reduced by € 5 million due to less use being made of internal services and a reduction in overhead costs allocated. The primary staff expenses and material costs were virtually unchanged. Due to the positive earnings performance and the reversal of provisions, the segment's contribution to the operating result after risk provisioning and valuation in 2014 increased by € 29 million compared to the previous year to € 72 million.

Significant Developments in the Business Segments

Private and Commercial Customers

Due to changing customer behaviour, increasing digitalisation, a heterogeneous business region and a changing market environment, a change in strategy has taken place. This change involved not only an extensive location analysis, but staff of all levels developing targets in so-called Future Workshops.

The strategic focus in the next few years will be on the one hand on increasing income by exploiting customer potential, of both existing and new customers. In particular in the customer segments Branch Consultation Customers, Retail Corporate Customers and Private Banking and Corporate Customers, the strategy will be implemented with segment-specific sales concepts. On the other hand

the strategy of improving efficiency will essentially be pursued by standardising customer care for service customers, by among other things establishing a Customer Service Centre and an Online Branch.

The location concept was developed to take into account demographic change and extensive provision of services to the population. Although branches have been closed or merged, the Customer Service Centre and the Online Branch will in future make the bank more accessible, including outside of normal opening hours, and take into account customer needs for greater digital media services.

Alongside the strategic changes, in April a resolution was passed by the Administrative Board of the Landessparkasse in close consultation with the boards of NORD/LB, which has resulted in much greater scope for the Managing Board of the Landessparkasse. This allows it to arrange the organisation and the processes in a manner typical for a savings bank and with this directly control the associated income and costs.

In the Private Customers business, Individual and Commercial Customer Advisers have been reintegrated in selected branches with the aim of establishing closer ties to the customer and strengthening the advisory competence of the branches. These advisers are supported by a special competence centre which provides the advisers with coaching and professional training and assistance with specific issues concerning securities business and commercial customer loans.

The Young Customer segment remains of great strategic importance. Each region has several Young Customer Coordinators who look after the customer segment as the regional contact.

In the Private and Commercial Customers segment's real estate business, in the past year important steps were taken for a realignment of the business, which is currently in the process of being

implemented. By providing a higher level of advice in a special department, by modifying the advice processes and introducing common standards for advice, customer satisfaction levels should be raised and business volume increased in 2015. In addition to this, the Real Estate Brokering business, which is being expanded, performed very positively.

The DEKA Asset Concept (Deka-Vermögenskonzept, DVK) launched in 2013 in cooperation with the network partner Deka Bank Deutsche Girozentrale Luxembourg S.A. was expanded.

In Private Banking the focus was again on providing comprehensive and individual support with an extensive range of private and family asset management services. Particular focus was placed on giving advice and support to foundations and the financing of real estate used by third parties as income generators. Here the focus was on financing apartment buildings.

Braunschweigische Landessparkasse also performed successfully in the Middle-Market Corporate Customers segment in 2014. Once again the issuing of investment loans is highlighted. Following on from the good result in 2013, the volume was increased by a further 14 per cent. There were also significant successes in the Real Estate Banking Customers segment. Income from new business was 32 per cent above the figure originally planned for 2014.

The MittelstandsPortal (SME Portal) created in the Braunschweig region and supported by 17 partners enjoyed a successful start. It enjoys regional exclusivity in the business region of Braunschweigische Landessparkasse and serves as the regional business portal with an online business directory and a monthly corporate customers newsletter. It now has over 1,000 subscribers.

Use of the S finance concept continued to be pushed in all customer segments. Comprehensive and tailored customer advice is provided using the

respective specialists. The S finance concept was completely revised for the Commercial and Corporate Customers segments in 2014.

In 2014 the city of Salzgitter successfully issued a promissory note on the capital market for the third time in order to reschedule existing loans; the issue was managed by Braunschweigische Landessparkasse.

Corporate Customers & Markets

NORD/LB's corporate customers have stepped up their activities in Asia in recent years, and in particular in China. As their activities increase, so does the demand for structured finance products, and in particular the purchasing of receivables. Here the focus is above all on optimising working capital, as well as providing finance in China in local currency. As an efficient quality provider of finance solutions, NORD/LB is increasingly using its Asian branches to offer customers banking products locally in the local currency.

A very positive result was recorded in acquisition finance. Overall 19 transactions were successfully completed in the German Middle-Market with financial investors. In more than half of the transactions, the NORD/LB team put its own structuring competence into practice as the lead arranger. In a highly competitive market environment with many foreign market participants, NORD/LB has managed to acquire new customers and in so doing widen and increase the portfolio in line with the strategy.

NORD/LB has, together with ERGO Versicherungsgruppe, provided finance for the acquisition of a residential property portfolio in Berlin in the amount of € 87 million. The collateral for the finance provided by the consortium partner ERGO Versicherungsgruppe was provided for the first time by registering in NORD/LB's refinancing register. From 2014, when acquiring credit portfolios, insurance companies and pension funds can register the mortgages associated with the receivables in a refinancing register in order to benefit from

the associated cost advantages. NORD/LB therefore provides an attractive solution for the increasing demand of institutional investors looking for alternative investment opportunities in an environment of low interest rates.

NORD/LB's Agricultural Banking segment continued to successfully build on its nationwide market position. NORD/LB participated in the financing of the biggest greenhouse in Bavaria. A unique energy-management concept that intelligently combines different renewable energy components such as geothermics and photovoltaics makes the supply of CO₂-free energy possible. As the produce is sold in the region, the costs of long transport routes are not incurred.

Significant drivers of the overall result in the Markets segment were transactions with institutional customers and savings banks in traditional capital market products and the issuing of bonds.

In the financial year 2014 the Debt Capital Markets segment again performed positively in the primary market despite a fall in the total volume of issues. Significant growth was recorded primarily due to the high issuing competence of the sales divisions in particular with insurance policies in the new "Private Placements" market segment. Within the scope of these activities, private placements were contracted and issued for the first time for three French issuers.

In addition, the newly acquired mandates with SSA (Sub-Sovereigns Supranationals and Agencies) and Financial Institutions in 2014 is highlighted. The Markets segment acted for the first time as the joint lead arranger for a 7-year Italian benchmark bond for the Crédit Agricole subsidiary Cariparma and supported for the first time Belfius Bank & Verzekeringen in Belgium with a 10-year benchmark new issue. The continuous mandating in the Senior Bonds market segment for benchmark issues by KfW in Germany and CADES (Caisse d'Amortissement de la Dette Sociale) in France

are proof of NORD/LB's established position in the primary market.

In the financial year 2014 NORD/LB built on its position in supporting companies in the issue of bonded loans eligible for the capital market. In the Covered Bonds segment including Pfandbriefe, NORD/LB was among the top 13 arrangers in the European primary market. NORD/LB also improved its position in Germany for new issues compared to the previous year and is now among the top 5 arrangers.

NORD/LB acted as the sole syndicate leader for transactions with among others Duisburger VersorgungsVerbund, Envie AG and W. Classen. NORD/LB also participated as the book runner for issues by for example Schoeller-Technocell and STEAG as the biggest single transaction with a volume of € 325 million. Overall, the Markets segment participated in the arrangement of over € 900 million.

Within the scope of its funding activities, in February 2014 NORD/LB successfully issued its second Flugzeugpfandbrief with a five-year term and a volume of € 500 million in the market. After this, subordinated capital (Tier 2) in the amount of \$ 500 million was acquired in April 2014 with the issue of a 10-year benchmark bond. The bond was issued to both European and Asian investors. The issue was placed for the first time with a so-called "non-resettable" structure, in which 30 per cent of the volume was subscribed by Asian investors, who again appeared in the market as hybrid investors.

On a related note, NORD/LB improved its position in the ranking list published by EUROMONEY for the "Best Borrowers" category for 2014 from seventh to third.

NORD/LB also arranged, again with other landesbanks and the support of the regional savings banks associations and the German Association of

Savings Banks and Girobanks (DSGV), a Savings Bank Loan Basket (Sparkassen-Kreditbasket). With the record participation of 59 savings banks, middle-market credit risks were pooled. The aim is, by bringing together various regions, to benefit from the advantages of as wide a degree of diversification as possible.

For the state of Lower Saxony, NORD/LB concluded the Agreement for the Future II (Zukunftsvertrag II) in 2014 and will probably take on further finance in 2015.

Energy and Infrastructure Customers

In the Energy segment, NORD/LB, despite increasing competition, maintained its market position as one of the leading financers of renewable energies in its core European markets of Germany, France, Ireland and Great Britain. It has also managed to open up, together with German project sponsors, new markets such as the onshore wind market in Italy.

In addition to several other onshore wind finance projects in Germany, a major wind park in Brandenburg was also financed. NORD/LB structured this project as the sole lender together with the project development company of one of the biggest independent energy companies in Germany.

A financing vehicle developed in the previous year for the French market has proven to be successful as a further four wind park projects in France have been financed with this vehicle. This financing vehicle enables the project developer involved to finance and implement its projects in France more quickly and more flexibly. Overall NORD/LB structured and financed by the end of 2014 projects with a total energy production of around 330 megawatts in the Renewable Energies segment in France.

In the Irish onshore wind market, NORD/LB successfully confirmed its position as the market leader in the area of project financing by financing several projects and has already been instructed for the coming financial year as the mandated lead arranger for the structuring of several major projects.

In the North American market NORD/LB was successful with new business in the wind and solar energy sector as well as gas power plant and pipeline projects. With one energy company, with which NORD/LB already has a longstanding relationship, a major wind park in the north of Mexico was financed for example.

Also highlighted are the financing of a solar park in the USA and the acquisition of two further mandates in the solar sector, which involves one of the USA's biggest insurance companies.

NORD/LB also managed to combine its expertise in project finance with its export finance know-how. It was part of a bank consortium which structured the financing of a wind park in the Philippines which was partly covered by a government export financier.

The infrastructure sector was characterised by increased competition. NORD/LB was successful with a number of transactions in the rail sector. For example, it won a mandate to finance around 30 passenger trains in one of the East German states.

Among the projects completed in Great Britain, the financing of a hospital in Scotland with one of NORD/LB's core customers and a blood transfusion centre in Scotland are highlighted. The bank's good customer base bore fruit in France as well. Here the financing of a new building for a university was structured.

Shipping and Aircraft Customers

With ship financing, NORD/LB concentrated not only on dealing with the effects of the ongoing shipping crisis, but also on the systematic reconstruction and diversification of the portfolio. Here focus is placed on reducing the commercial shipping portfolio and increasing the cruise ship and offshore business.

In the restructuring of existing finance, significant focus is being placed on improving the liability and cash flow structures in order to avoid and reduce risk provisioning.

As part of this strategy, for example, two existing multipurpose (MPP) financing agreements in the form of single ship financing agreements with two new MPP ships were converted into one financing agreement with revenue pooling and cross-over collateral. In order to increase the security, the financing agreement was secured with a company guarantee.

With the help of an investor, various financing agreements for individual ships that required restructuring were consolidated into one new fleet financing agreement including fresh equity. NORD/LB was therefore able to improve the loan-to-value ratios and ratings and avoid the need to make specific valuation allowances.

The offshore and cruise ship business was characterised in 2014 by participation in various syndicated loans which contributed to the diversification of the portfolio. NORD/LB also financed in particular in Asia single long-term chartered ships with the help of an Asian government credit insurance and a company guarantee.

The active management of restructuring commitments and NORD/LB's conservative risk policy resulted overall in further significant risk provisioning for ship financing.

The Aircraft Finance unit developed its product range further with its established asset approach. Here NORD/LB acted increasingly as the responsible structurer of larger credit facilities and granted other banks or investors the opportunity to participate. Commission-based advisory services also played a greater role in NORD/LB's aircraft financing.

One transaction highlight for the past financial year was the launch of a Junior Loan Fund with established industry partners around the manufacturer EADS (Airbus). In addition to this, the business with Chinese leasing companies keenly contested by the competition was increased using an innovative China onshore structure. NORD/LB now also has considerable expertise recognised by the market in supporting major portfolio transactions financed in the commercial interest of e.g. pension funds.

Real Estate Banking Customers

In NORD/LB's Real Estate Banking Customers segment, there were no significant changes in 2014. Here the portfolio is being reduced. This is reflected in a reduced level of finance. NORD/LB no longer takes on new business involving commercial real estate. The competence centre for commercial real estate finance is located in Deutsche Hypo.

Target v Actual Comparison

NORD/LB largely met its key targets in 2014 and in so doing produced a satisfactory result above expectations. The operating result before risk provisioning and valuation, the operating result after risk provisioning and valuation and the profit after taxes were well above target.

The income performance (including other operating profit/loss) was very pleasing. It exceeded both the previous year's result (by € 7 million) and the target (by € 139 million).

In particular net interest income contributed to this performance. Both income from lending business and interest-rate and liquidity risk management exceeded expectations. In particular income from swap terminations contributed to income from lending business, while earnings from lending business were slightly below target with the planned margins due to lower volumes. Despite the continuing phase of low interest rates, income from deposit business met its target due to the increase in the volume of sight deposits. The earnings from interest-rate risk and liquidity management were well above expectations due to internally-allocated prepayment penalties for cash flow disruptions in lending business and due to active-management of interest-rate and liquidity risk positions.

The net commission income was slightly above target, which was due in particular to commissions of lending business and account management, while the targets for restructuring fees in shipping and brokerage business were not met.

Earnings from financial transactions were only just positive and therefore well below expectations. Unplanned negative valuation results due to the change in the counterparty-specific default risk on the one hand and market price related to derivatives on the other were responsible for this. Other operating profit/loss was a good € 20 million better than planned due to the reversal of provi-

sions and proceeds from the partial redemption of the Fürstenberg bond.

Administrative expenses exceeded the planned expenses significantly by approx. € 65 million in 2014. 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 due to interest rates and due to the need to make additional pension and allowance provisions due to the double tariff agreement. Other administrative expenses including depreciation on the other hand were below budget, due in particular to savings in material costs for personal expenses and expenditure on IT/telecommunications and as a result of partially activation of project costs.

Due to the on the whole positive development concerning income compared to the budget, the operating result before risk provisioning and valuation exceeded expectations by approx. 13 per cent despite the significant increase in administrative expenses.

The assessment in the budget for 2014 that there would be a reduced need for risk provisioning in 2014 compared to 2013 was incorrect. The ongoing crisis in the shipping markets resulted instead in high risk provisioning which was almost 30 per cent over budget. The risk provisioning in 2014 was almost entirely for shipping. All of NORD/LB's other customer groups remained well below their budgeted risk provisioning, and in the Private and Commercial Customers and Energy and Infrastructure Customers segments net reversals of risk provisioning were even recorded.

In the valuation result relating to securities and investments, significant positive deviations from budget were recorded due to capital and redemption gains realised relating to securities, receivables and write-ups of investments.

Despite the high risk provisioning, the operating result after risk provisioning and valuation was about 13 per cent higher than the plan.

With the exception of the Shipping segment, whose contribution to the operating result after risk provisioning and valuation was very negative, and the Private and Commercial Customers segment, which due to the allocation to provisions following the recent ruling on the refunding of loan processing fees was only able to achieve half of its target figure, all of the bank's other business segments exceeded their planned contributions to the operating result and as a result more than compensate for the cyclical negative impact of shipping.

The development of the key figures compared to their targets was mixed. While the CIR was at 56 per cent around 2 percentage points above target due to the good earnings performance, the RoE was at 2 per cent in line with the target due to the high risk provisioning. At business segment level the picture is as follows: With the RoRaC, all of the bank's segments exceeded their targets, apart from Ship and Aircraft Finance and the Private and Commercial Customers segment, which had due to the outcome of ship financing a negative RoRaC. The actual CIRs, however, were worse than the target CIRs in all customer business segments in 2014 due to the increase in staff expenses due to allocations to pension and allowance provisions.

Due to the tax position being lower than planned, profit after taxes reaches more than twice than planned.

Overall Assessment

In the view of the Managing Board, NORD/LB's business performance was satisfactory.

Supplementary Report

The Austrian Financial Market Authority took over control of Heta Asset Resolution AG (wind-down company for Hypo Alpe Adria Bank) on the 1 March 2015 and imposed a payment standstill for all liabilities to the 31 May 2016. All due dates (for both liabilities and interest) have been put back to the 31 May 2016. The state of Carinthia has provided a letter of indemnity for all positions within the NORD/LB Group.

Personnel & Sustainability Report

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Personnel Report

Economic Personnel Work develops and secures value-adding Jobs

The bank's own ambitious business model, increasing market requirements and an increasingly complex regulatory environment, demand more efficiency, value adding and flexibility in the personnel organisation for the optimisation of the bank as a whole.

The guiding principle for NORD/LB's personnel work is to accept challenges such as external and internal changes due to market and competition conditions, increased costs due to regulatory requirements, the decreasing attractiveness of the industry and increasing pressure on income and costs as dynamic drivers and accelerators for the bank's own work. This also includes appropriate demands being placed on employees, in particular in relation to performance, training, flexibility and willingness to change.

NORD/LB has therefore focused its own personnel business and the working capacity required for this even more than in previous years on economic and performance-related aspects. The aim of NORD/LB's personnel work is to create, develop and secure value-adding jobs in order to ensure that NORD/LB has the ability to invest, remains competitive and is fit for the future.

Personnel Objectives dovetail with Business Strategy

NORD/LB personnel work takes into account the bank's strategic business and risk objectives and is therefore consistent with the corporate strategy. In 2014 NORD/LB developed a new set of objectives for the medium term which will result in a refined, dynamic personnel strategy from 2015. The personnel strategy is based on a robust four-pillar model that can react like a "breathing" personnel policy to the increasingly significant changes in the banking industry. The model has four central control levers and therefore provides the framework for the Group:

- efficiency and productivity by controlling the number of personnel,
- performance orientation and value adding by controlling the remuneration systems,
- innovation and production quality by controlling the quality of personnel and
- the associated transformation management.

Personnel Tools support Efficiency and Cost Programmes

NORD/LB again found itself, like the rest of the NORD/LB Group, in a challenging transformation process in 2014. Against a background of increasing market pressure and greater focus on customer needs, material costs and staff expenses were reduced and as a result value adding and productivity increased.

For NORD/LB the key lied in better exploiting its own internal pool of knowledge and the internal job market while at the same time having a demographic-proof trainee recruitment policy. With internal teaching and training, positions were filled very flexibly and on the basis of potential. This was done with tight central control of staff capacity combined with timely controlling.

As part of the Group-wide Efficiency Improvement Programme EIP with very ambitious cost targets, new personnel tools were developed and introduced in 2014 in NORD/LB to promote the internal job market. These new tools made significant contributions to improving efficiency soon after their implementation and acted as a guarantee for the stabilisation of value-adding jobs. For example, internalisation measures helped to create new jobs and at the same time generate efficiency improvements.

NORD/LB's number of employees reduced according to plan. At the end of 2014 NORD/LB employed 4,369 people (2013: 4,529). The total external employee turnover rate therefore rose to 9.3 per cent compared to the previous year

(8.5 per cent). At the same time NORD/LB actively tried to counter this with its potential-oriented personnel policy and was able, despite ambitious cost and headcount targets in the Group, to prevent know-how leaving the NORD/LB Group.

Challenging Remuneration Issues Shape Personnel Work

Regulatory requirements, in particular the new Remuneration Ordinance for Institutions (Institutsvergütungsverordnung) introduced in 2014, were implemented in NORD/LB and used as an opportunity to refine the bank's remuneration governance. The result of this work is, among other things, a NORD/LB Group-wide, market-based, competitive and therefore for employees attractive remuneration strategy. At the same time NORD/LB has refined its remuneration system taking into account the market and competition, and in so doing ensured that there is a performance-related incentive effect for staff.

NORD/LB has used the complex requirements as an opportunity to efficiently redefine the entire remuneration product mix in 2014, to govern more actively and basically to create more transparency. For this purpose, a Total Compensation Approach (taking into account all of the monetary and material remuneration components) has been developed. Therefore the foundation has been laid in 2014 to ensure that the remuneration policy for all of the companies in the NORD/LB Group will in future be more in line with the Total Compensation Statement.

Remuneration is disclosed due to extended regulatory requirements in separate remuneration reports published by the divisions of the NORD/LB Group.

Potential-oriented Personnel Policy

Limiting factors for personnel work in NORD/LB are the constraints placed on resources by exogenous market and governance factors. This current situation, which is specific to the entire banking industry, has resulted in NORD/LB, and in the rest of the NORD/LB Group, in a highly resource-active personnel policy in 2014. As a consequence, in 2014 great importance was attached to the use and development of available resources and staff potential with investment in professional and personal training and tailored education programmes. NORD/LB takes into account with its potential-oriented personnel policy its current demographic situation with its specific challenges, e.g. rising average age and increasing demands placed on management. Training is controlled and validated in NORD/LB with regular, structured development meetings between management and staff.

Due to increasing demands placed on management, NORD/LB's Competence Model was fundamentally revised in 2014. Tasks, attitudes and competences needed to be redefined uniformly. The new Competence Model comprises four areas focusing on different competences: performance competence, change competence, decision-making competence and leadership competence. At the same time, based on the new Competence Model, 360 degree management feedback was also relaunched in NORD/LB.

Recruitment Focus on Trainees

NORD/LB continued its personnel marketing and recruitment work currently focused on career trainees at a positive level in 2014, therefore ensuring that the bank will have a pool of qualified Young Professionals that will meet its needs in both the short and medium term. The wide range of high-quality apprenticeships, primarily in commercial professions, and in some cases a placement as part of a degree course, plus the college-oriented trainee programmes developed for applicants had a positive pull-effect. Bucking the industry trend, NORD/LB even managed to

increase the number of applications from school-leavers and students in 2014.

Campaigns targeted at trainees in the media and stable, regionally focused partnerships with universities, primarily with the Leuphana University of Lüneburg, the Leibniz Universität Hannover and the Hannover Center of Finance e.V. (HCF), ensured that NORD/LB would have a high number of applicants in 2014.

As part of the Group-wide Efficiency Improvement Programme EIP with very ambitious cost targets, the number of trainee positions advertised was also adjusted in line with demand. In 2014 almost 200 apprentices and trainees were trained by NORD/LB (2013: 188 apprentices and trainees); this equates to a positive trainee rate of 4.3 per cent.

Ambitious Diversity Programme

A working environment in which all staff are treated equally- regardless of gender, nationality, ethnic origin, religion, belief, disability, age, sexual orientation and identity – is inextricably linked to the values of NORD/LB and its personnel work. The principles of the “Charta der Vielfalt” (Diversity Charta) of the companies in Germany, which NORD/LB signed up to in 2013, also defined its diversity work in 2014.

With a medium-term vision for diversity in mind (age with stage of life orientation), NORD/LB initiated a diversity research project with the Leibniz FH Hannover in July 2014: Demographic change and age structure. NORD/LB’s diversity programme includes a family-friendly personnel policy that supports a balance between work and family life.

With its high share of women in its overall workforce in 2014 (50.9 per cent), NORD/LB had a balanced mix of women and men. The share of women on the Supervisory Board rose in 2014, from 22.3 per cent in 2013 to 27.8 per cent in 2014. Among the six members of NORD/LB’s Managing Board was one woman in 2014 (16.7 per cent). The share of women in management positions remained sta-

ble in NORD/LB in 2014 at 22.0 percent compared to the previous year (22.6 per cent). NORD/LB also employed people from 26 nations.

Sustainable Health Management

Great importance is attached in NORD/LB to the holistic maintenance of the health and fitness for work of all, also taking into account demographic change and the shortage of resources. In 2014 NORD/LB also offered a Corporate Health Management Programme with proactive, preventive, needs-based modular support mechanisms. The objectives of NORD/LB’s Health Management Programme are summarised by a specific vision. The recertification within the scope of the “Corporate Health Award” last year was not only proof of the quality and competence of the Corporate Health Management Programme, but also maintained the high standards for support in 2014.

NORD/LB’s efforts focused on the needs-oriented arrangement of the Corporate Health Management Programme and in particular on awareness-raising, training and qualification measures for managers.

Employee demand for the services of the Corporate Health Management Programme remained stable in 2014 and had a positive effect on the key figures. For example, NORD/LB’s sickness rate improved in 2014, falling from 4.6 per cent in 2013 to 4.4 per cent.

Sustainability Report

Sustainability stands for lifestyles and consumption patterns that allow current and future generations to have a good life without using up the natural resources.

Sustainability is therefore the guiding principle for a society that is fit for the future and for NORD/LB a principle for operating a responsible business. On the basis of this principle, the Managing Board has passed a Sustainability Strategy which covers aspects of our corporate governance and the awareness of our responsibility towards customers, staff, society and the environment.

NORD/LB wants to make use of the opportunities presented by global change, manage reputation and business risks in a responsible manner and in so doing remain a good investment for its investors. The Sustainability Strategy should ensure that the Group will remain successful in the long term and that it will meet its responsibilities as a “corporate citizen”. The Sustainability Report, which complies with the standards of the Global Reporting Initiative (GRI), informs regularly about the progress made with the sustainability targets and also includes a progress report on its commitment for the ten principles of the UN Global Compact.

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General Economic Development

Global Economic Outlook

In the USA the signs are that the economy will remain robust. It is possible that the Federal Reserve will raise the base rate again in June or September 2015. In the eurozone the early indicators are giving rise to cautious hope that the economic situation will stabilise. The growth gap between the individual economies in the eurozone will remain wide though.

Economic Forecast for Germany and the Eurozone

Sentiment indicators in Germany and the eurozone, taking into account the economic development in Germany, improved significantly towards the end of 2014 and at the start of 2015. In the surveys conducted by the Centre for European Economic Research and sentix, in particular economic expectations rose notably. The Ifo Business Climate Index has also risen, also driven by more optimistic assessments of the near future. The falling price of oil, the depreciation of the euro and the prospects of the continuation of the extremely expansive monetary policy of the ECB in 2015 have notably improved the sentiment of market participants and businesses. The key driver of growth will again be domestic demand, and in Germany in particular private consumption. This will be supported by an inflation rate that will remain low due to the falling price of oil, a further increase in employment and a further slight reduction in unemployment, as well as further wage increase. Private consumption will therefore increase by slightly more than 1.5 per cent and in so doing experience its strongest growth since 2011. The German economy is on the verge of a recovery. Compared to the previous year, it is expected that economic output will increase by 1.5 per cent.

In the eurozone the economic recovery will continue in 2015, but will probably remain relatively weak. The growth forecast of around 1.0 per cent assumes that the price advantages of crude oil and further stimulus via monetary measures will help

economic growth to gradually pick up during the course of the year. It is expected that domestic demand will increase at a slightly faster rate than in the previous year. For investments, a gradual recovery is expected in 2015. The most important contributions to growth will once again be made by private and public consumption. The growth gap will remain high, with the German economy again expanding at a much faster rate than the rest of the eurozone. Regarding the reduction in unemployment and the deficit ratio, slight improvements, but no resounding successes are expected.

Financial Market Development and Interest Rate Forecast

The monetary policy of the Federal Reserve will gradually normalise in 2015. Following the end of the bond purchase programme, an initial moderate increase in interest rates is due in 2015. Although the Federal Reserve will proceed with caution, irritation among market participants and businesses regarding the timing cannot be ruled out entirely. The US monetary policy will therefore basically remain expansive this year, albeit a little less expansive than before. The trend for the yield of ten year US treasuries will depend on the discussions concerning the timing of the first increase in interest rates and will, following a gradual rise in the base rate, be upwards.

For the eurozone very low inflation rates that will fall below zero for a longer period of time are expected. In view of the mixed picture, in January the ECB decided to launch a broad asset purchase programme for public and private assets in the amount of € 60 billion per month. Initially the purchases are planned at least until September 2016. The total volume of the programme is therefore well above € 1 trillion and also includes the current purchase programmes for asset backed securities and covered bonds. From March 2015 the ECB will invest in government bonds and securities issued by state-related issuers with a term of between two and thirty years. In the bond market

this measure has resulted once again in a significant fall in yields. The sustained downward trend for yields of European government bonds at the start of the year anticipated the ECB's decision to launch the government bond purchase programme at the end of January. The yields of ten year German Bunds (federal bonds) fell due to the issuing bank's decision to below 0.40 per cent, in addition the gap between the spreads of the government bonds of many member countries to German government bonds narrowed further. The German yield curve at the start of the year is therefore extremely flat and is expected to only steepen slightly by the end of 2015.

It is expected that the exchange rate of the euro will continue to be determined by the national debt crisis in Europe, the growth and interest-rate difference and the monetary policies in the USA and in Germany in 2015. Essentially, there are currently many reasons why the fall in the value of the euro experienced in 2014 might continue. However, many of these factors should already be priced in, therefore a continuation of the recent rise in the value of the greenback is not expected. By the end of 2015 the euro should be able to stabilise at around \$ 1.20. Against this background, no reasons for greater fluctuations can be seen across the entire time curve for the EUR/USD cross currency basis swap spreads.

The calculations of the econometric forecast models indicate that, following the somewhat excessive market reaction in the wake of the ECB's decision, a spread level of -25 basis points across the entire time curve is fundamentally justified. Here NORD/LB expects the exchange rate between the US dollar and the euro to remain steady for the time being, with a more stable euro in the medium term.

Banking Market Development

The continuing credit risks in the European banking market will require further capital measures in order to achieve a sustainably stronger banking market. The regulatory requirements will continue to increase. These will include in particular the

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), the requirements for holding receivables that are available to be bailed in and other related capital ratios (including Total Loss Absorbing Capacity (TLAC)). The ECB has also announced that it will perform its financial supervision role vigorously and strictly. The European banks will therefore have to continue to review their business models thoroughly in 2015 and show high cost discipline.

Shipping

Based on the expected economic growth, there will be no significant growth for shipping. However, in the individual sectors there are signs at the start of the first quarter that the sectors will experience mixed developments with challenges to varying degrees. Low fuel costs will alleviate the income situation across all sectors though.

As the Chinese New Year celebrations will not take place in 2015 until the end of February, the peak season will start relatively late this year. The numerous new large container ships that will enter service in 2015 are intended for the Far East-Europe route. Following the new alliances, a degree of rate discipline should be possible. Due to the new deliveries, the cascade effect will also have an impact on the market in 2015, ships with a capacity of 12 000 TEU (twenty-foot equivalent units) are now being affected. As the expansion of the Panama Canal is no longer expected to be completed before 2016, there will be no change for the time being in the general conditions for the sub-segments concerned (Panamax). The recent wave of scrappings is having a positive effect on these subsegments as the increase in demand for larger container ships for intra-Asia trade and off the west coast of Africa.

Following the collapse of the leading index in January to its lowest level since 1986, the initial reactions in the market can now be seen, e.g. switching from bulker orders. The Baltic Dry Index fell at the start of the year (18 February 2015) to 509 points. The Index was last at such a low level in

1986 (31 July 1986: 554 points). In particular weak trading activity on the Australia-China and Brazil-China routes squeezed rate levels in the important Capesize segment. Hopes are based on data concerning stock levels in China. It is expected that an increase in stock levels in the first half of 2015 will revive the poor rate levels. The reduced economic forecasts for China and in places high order book levels in the bulker sector only give cause for limited optimism for the time being. As the bulker fleet has expanded significantly in recent years, the scrapping potential is relatively low. Accordingly pressure from the competition and on margins remains high. In the medium term it is expected that tonnage growth (supply side) will reduce due to less deliveries, therefore, assuming that demand will rise, an increase in charter rates is expected.

A sustained shortage in the supply of crude oil is currently not foreseen. The OPEC price war has already had an effect, with oil drilling reduced in the USA at the start of the year. The major oil giants have also announced that they will be cutting back on investment. As the onshore storage facilities were well filled, the use of supertankers as floating storage experienced a renaissance. Following the very fast and extreme rise in charter rates in January, further increases should be limited, but a temporary recovery in the crude oil tanker market in 2015 is in sight. As has been the case with shale oil drilling projects in the USA, deep-sea oil-production projects will face falling returns if oil prices remain low. Accordingly, it is expected that new-exploration growth will slow for the time being especially for offshore oil and gas.

Taking into account statements made by external forecasting institutes for the ship industry and based on general cyclical developments, it is still expected that the ship markets and (charter) rates will start to recover in the medium term. Volatility will continue across all segments, while the probability of a return to the highs in the recent past is considered to be low due to the change in economic and fiscal conditions.

Aircraft

The IATA is forecasting for 2015 growth of 7.0 per cent for global passenger transport (RPK), which is well above the average growth for the last 20 years of 5.5 per cent. The IATA is expecting the demand for airfreight volume (FTK) to increase by 4.5 per cent.

The net profit for global airlines increases to \$ 25 billion according to the IATA, which would equate to a net margin of approximately 3.2 per cent (2.7 per cent).

Real Estate

For 2015 as a whole, global investment in commercial real estate is expected to rise. It is expected that the ECB's monetary measures will encourage growth. In view of the low level of interest rates and the associated pressure to invest, it is expected that the positive trend will also continue in the German real estate investment market. A transaction volume of over € 40 billion is forecasted. Against the background of the increasing risk appetite of investors, the demand for B cities, B locations and other types of use such as office and retail will continue to rise.

The continuation of the economic recovery in Europe together with low interest rates should also encourage demand in the European real estate market. It is expected that the risk appetite of investors will remain high. The trend towards investments in secondary cities and in alternative market segments (such as logistics properties) could continue. Overall it is expected that the difference between rents and capital values (for both core and non-core properties) will remain high.

Business Development of NORD/LB

Planning Assumptions

NORD/LB has decided, in order for forecast reporting to be as transparent as possible, to present integrated reports. Accordingly the forecasts for the business segments will be explained alongside the associated opportunities and risks. In addition, in the Risk Report the risks are reported by risk category, including a description of the risk-control measures and quantitative information.

In line with the strategic policy of NORD/LB, 2015 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. Further proof of the robustness of NORD/LB's business model was provided by the bank last year passing the European Central Bank's stress test.

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 2015 it is assumed that interest rates in the short-term will be slightly and in the long ten year term noticeably below the previous year's interest rates. In addition, a significant stabilized USD/EUR average exchange rate, a rise in consumer prices of 1.5 per cent, the positive GDP growth and stability in the iTraxx are assumed in the planning. Detailed information can be found in the section dealing with general economic development.

This year's plan is also based on the targets set by the Managing Board for 2015 (earnings before risk provisioning, earnings before taxes, regulatory TREA, cost development and total assets). These measures were supported in the decentralised planning process by the profit and service centres with measures.

The planning of NORD/LB's risk-weighted assets and regulatory capital for 2015 considers the relevant capital requirements derived from EU Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR) including transitional arrangements. In NORD/LB's plan, these regulatory requirements concerning the required level of regulatory capital are met in full and continually.

NORD/LB Plan for 2015

On the income side, in the plan for 2015 about 9 per cent fall income compared to the previous year is expected. This is primarily attributable to the significant fall in net interest income in the plan. An increase in income from customer business is unable to compensate for the special effects of the previous year such as income from swap terminations, expenses related to the taking up of subordinated capital planned for 2015 and an instrument of Common Equity Tier 1. Net commission income and earnings from financial transactions on the other hand increase significantly in the plan for 2015 due to anticipated income from customer business.

A significant improvement in the result of risk provisioning/valuation is forecasted in the plan for 2015. Risk provisioning will once again be primarily influenced by the shipping portfolio, however NORD/LB is expecting a reduction of around 45 per cent compared to 2014. The valuation result is much lower in the plan for 2015 due to the nonrecurrence of the previous year's special effects such as income realised from securities and write-ups of investments.

Administrative expenses increase moderately in the plan for 2015 by approx. 5 per cent. The biggest relative increase is expected in staff expenses primarily due to an increase in the allocation to pension provisions due to the low level of interest rates. Reflected in the slight increase in other administrative expenses are investments in selected customer divisions and IT.

Other operating profit/loss is slightly below the previous year's level in the plan as positive one-time effects in the previous year such as income realised from the sale of bonded loans and the partial redemption of the Fürstenberg bond will not recur.

A moderate reduction in reorganisation expenses is planned in extraordinary earnings.

Overall, a fall in income, a moderate increase in administrative expenses and a significant reduction in risk provisioning in the plan for 2015 result in a fall of almost 8 per cent in the operating result after risk provisioning and valuation.

The CIR rises in the plan for 2015 compared to the previous year by around 9 percentage points due to a fall in income and an increase in administrative expenses; the RoE stays at the previous year's level and is expected to be around 2 per cent.

Overall, a moderate increase in TREA is planned in NORD/LB mainly due to investments in selected business segments and exchange rate effects USD/EUR.

Business Segment Forecast with Opportunities and Risks Report

Private and Commercial Customers

Earnings Plan in the Private and Commercial Customers Segment

A moderate increase in earnings in customer business due to the nonrecurrence of negative special effects (provisions for the refunding of loan processing fees) and a reduction in allocated overhead costs have a positive effect on the operating result after risk provisioning and valuation in the plan, which is expected to more than double with a corresponding positive effect on the segment's key figures.

The CIR falls as a result by 10 percentage points, while the RoRaC rises in the plan by 4 percentage points.

Opportunities and Risks in the Private and Commercial Customers Segment

The historically low level of interest rates is currently being exploited extensively in particular by private customers to finance owner-occupied property. If the ECB maintains the low level of interests in 2015 in line with prevailing market expectations, this might have a further positive effect on the sale of real estate and the volume of housing construction loans.

It is also possible that any deviations of a positive or negative nature from the forecasted economic growth, together with changes in the forecasted stable job market situation, might have a significant impact on the demand for loans from businesses or private persons.

For many investors in this segment, the security and liquidity considerations outweigh their needs in terms of returns. This is expressed in increased levels of liquidity being held by customers. This represents an opportunity for further volume growth with sight and savings deposits. A further lowering of interest rates can be viewed as a potential risk to earnings due to the associated margin losses in deposit business.

The increasing level of competition seen in the business region of Braunschweigische Landesbanksparkasse entails an increased risk of loss of volume and/or margin erosion lending and deposit business.

Risks exist in particular in the Private and Commercial Customers segment due to the recent court ruling concerning the admission of certain fees. These impact on the earnings position in the segment in the year of the ruling.

Corporate Customers & Markets

Earnings Plan in the Corporate Customers & Markets Segment

The operating result after risk provisioning and valuation is accordingly well below the previous year's level in the plan for 2015. Increases in commission income and trading profit/loss are unable to compensate for the higher risk provisioning planned in the Corporate Customers sub-segment, which is at the level of the required protection that has been calculated in keeping with the bank's conservative risk management policy.

Despite the moderate increase in income in the plan, due to the expected increase in TREA attributable to volume growth, the higher capital commitment due to the effects of Basel III and the significant increase in risk provisioning in the Corporate Customers segment, the RoRaC falls by approx. 7 percentage points compared to the previous year. In the plan for 2015 the CIR is expected to be at the same level as the previous year as income and costs are expected to rise at a similar rate.

Opportunities and Risks in the Corporate Customers & Markets Segment

In the Corporate Customers segment opportunities will result from improving the good market position with a stable customer base and a broad diversification of risk and the good position of the Agricultural Banking and Housing segments.

Challenges lie in realising the segment's planned growth with qualified personnel and in the more competitive situation due to the market entrance further competitors in the high-end middle-market segment in Germany. Risks will also arise due to further regulatory requirements of the regulatory authorities.

In the Markets segment there is an opportunity to intensify customer relationships with new product initiatives in order to exploit existing earnings potential. With the planned further expansion of the customer base in Asia, there is potential to increase market share in this market.

Challenges lie above all in potential changes in the market environment, which is characterised by shrinking margins, negative interest rates and changing investor behaviour, as well as regulatory issues that affect customer business, such as the increased capital adequacy requirements. There is also the risk that the planned business initiatives cannot be implemented as planned.

Energy and Infrastructure Customers

Earnings Plan in the Energy and Infrastructure Customers Segment

The contribution to the operating result after risk provisioning and valuation falls in the plan by a figure in the low double-digit millions due mainly to the higher risk provisioning. This effect is reflected in the RoRaC, which falls by 7 percentage points. Overall, higher income in both net interest income and trading profit/loss is seen alongside a lower increase in administrative expenses, as a result an improved CIR of just under 2 percentage points is expected.

Opportunities and Risks in the Energy and Infrastructure Customers Segment

Potential is seen in this segment which can be realised by exploiting NORD/LB's many years of expertise and good market position and by intensifying customer relationships. Furthermore, the efforts to tie in institutional investors with among other things the development of new products will be

intensified in order to improve NORD/LB's competitive position. This significant challenges for the future lie in the increasing competition. Competitors, including institutional organisations, are increasingly providing customers with alternative financing options and in so doing are placing increasing pressure on future capacities, margins and commission. There is also the risk of a change in technological, legal, economic and political circumstances such as government support.

Shipping and Aircraft Customers

Earnings Plan in the Shipping and Aircraft Customers Segment

Due to the planned growth scenarios in Asia in the next few years, a noticeable increase in net interest income and net commission income is expected. Investments in Asia and an increase in allocated operating costs result in administrative expenses increasing accordingly.

The risk provisioning is affected by the crisis in the shipping sector which transgression is expected in 2015 and will remain high in 2015, although NORD/LB is expecting a noticeable reduction compared to 2014. Due to the slightly increase in earnings from aircraft financing in 2015 and the high reduction in risk provisioning in ship lending, a positive contribution to the operating result after risk provisioning and valuation in the low-triple-digit millions is planned in the overall segment for 2015, which equates to a significant increase compared to the previous year.

The RoRaC in the segment increases due to the planned earnings performance from the negative figure in 2014 to a positive single-digit figure in the plan for 2015. The CIR remains stable at a low level as the rates of change for income and costs are in balance.

Opportunities and Risks in the Shipping and Aircraft Customers Segment

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

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

Real Estate Banking Customers

Earnings Development in the Real Estate Banking Customers Segment

Overall, NORDBANK is forecasting a slightly negative contribution that is below the previous year's contribution to the operating result after risk provisioning and valuation in the rest of the Real Estate Banking Customers segment. The main reason for this is the much higher risk provisioning compared to the previous year. This is based on a conservative assessment of the development of existing exposures. Due to the absence of significant allocations to risk provisioning in 2014, the previous year's figure was very low compared to the plan for 2015.

Due to income and administrative expenses falling at a similar rate, the CIR is expected to be at the previous year's level in 2015. A significant fall in the RoRaC is expected based on the reduction in income and increase in risk provisioning.

Group Controlling/Others

Earnings Plan in the Group Controlling/Others

In this segment, a significant fall in earnings is expected in the plan for 2015. The main reason for this is the significant fall in net interest income and the valuation result, as special effects in the previous year from swap terminations and the investment portfolio will not recur.

Opportunities and Risks in the Group

Controlling/Others/Reconciliation Segment

Opportunities and risks exist in this segment in the distribution of dividends from and valuation of investments. In Bank Asset Allocation, opportunities and risks arising from rating-induced sale transactions with a corresponding effect on earnings are seen. Opportunities and risks for the Treasury Division primarily arise as a result of market parameters (currency and interest-rate fluctuations including negative interest rates) deviating from the forecast and the associated effect on the result of interest-rate change risk control.

Opportunities and risks also exist in the implementation of projects covering the entire bank.

Extended Risk Report

Risk Management – Development in 2014

The utilisation of risk capital in the going-concern scenario declined slightly in the year under review and is 31 per cent as at the reporting date. Here a reduction in risk capital needs to be mentioned, which is primarily due to the increased capital adequacy requirements for the for the increase in TREA compared to 31 December 2013.

Of the material risks included in the model, namely credit, investment, market-price, liquidity and operational risk, credit risk is by far the most significant. The reduction in market-price risk can only partly compensate the rise in the other risk types. The utilisation of risk capital in the going concern can be seen in the following table which shows risk-bearing capacity.

Risk-bearing capacity (in € million)	31 Dec. 2014		31 Dec. 2013	
Risk capital	3 933	100 %	3 977	100 %
Credit risks	485	12 %	460	12 %
Investment risks	206	5 %	148	4 %
Market-price risks	334	8 %	427	11 %
Liquidity risks ¹⁾	113	3 %	98	2 %
Operational risks	73	2 %	56	1 %
Other ²⁾	-87	-2 %	-146	-4 %
Total risk potential	1 124		1 042	
Utilisation		29 %		26 %

¹⁾ 2014 includes liquidity pay commitments for Hannover Funding, 2013 Hannover Funding was totally consolidated.

²⁾ Includes adjusted items from the comparison of regulatory and economical expected losses.

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.

At the start of 2015 NORD/LB was informed of the requirements of the future Supervisory Review and Evaluation Process (SREP) of the banking supervision that need to be considered and met at Group level. The bank has taken suitable measures to meet the requirements.

Credit Risk – Development in 2014

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. After the closing date, the Austrian Financial Market Authority took over control of Heta Asset Resolution AG (wind-down company for Hypo Alpe Adria Bank) on the 1st March 2015 and imposed a payment standstill for all liabilities to the 31 May 2016. The effects on NORD/LB known at the time the Risk Report was prepared are considered below.

Analysis of the total exposure

NORD/LB's total exposure as at 31 December 2014 amounts to € 136 billion and has therefore risen compared to the previous year's value by 3 per cent. 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. 2014	Securities ⁴⁾ 31 Dec. 2014	Derivatives ⁵⁾ 31 Dec. 2014	Other ⁶⁾ 31 Dec. 2014	Total exposure 31 Dec. 2014	Total exposure 31 Dec. 2013
Very good to good	65 102	25 978	7 173	9 205	107 458	102 328
Good/satisfactory	6 639	530	317	632	8 118	8 465
Reasonable/satisfactory	4 392	157	122	478	5 148	5 449
Increased risk	5 035	48	121	326	5 530	5 763
High risk	2 116	0	19	39	2 174	2 235
Very high risk	1 718	46	70	15	1 849	2 544
Default (= NPL)	5 098	113	11	34	5 256	4 706
– of which rating class 16	788	112	4	13	917	1 089
Total	90 099	26 871	7 833	10 728	135 531	131 490

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 (43 per cent) and revocable loan commitments at 38 per cent (38 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.

The rise in total exposure was accompanied by a 5 per cent rise in items in the rating class very good to good in the year under review. The very high share of these best rating categories in the total exposure of 79 per cent (78 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.

While the exposure in rating categories with a high to very high risk fell slightly in the year under review, the exposure in non-performing loans (NPL) rose slightly 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 financial institutes and with public administrations, which basically remains low risk, accounts for 60 per cent (62 per cent) and still constitutes a considerable share of the total exposure.

Industries¹⁾²⁾ (in € million)	Loans³⁾ 31 Dec. 2014	Securities⁴⁾ 31 Dec. 2014	Derivatives⁵⁾ 31 Dec. 2014	Other⁶⁾ 31 Dec. 2014	Total exposure 31 Dec. 2014	Total exposure 31 Dec. 2013
Financing institutes/ insurance companies	29 261	16 411	3 290	6 815	55 777	53 733
Service industries/other	32 680	8 800	2 100	1 140	44 720	45 690
– of which: Land, housing	5 791	–	567	277	6 635	6 467
– of which: Public administration	15 939	8 587	983	27	25 536	27 962
Transport/communications	16 585	419	546	103	17 653	16 350
– of which: Shipping	10 831	–	113	24	10 968	9 842
– of which: Aviation	3 953	–	19	0	3 972	3 939
Manufacturing industry	2 959	634	690	156	4 439	4 520
Energy, water and mining	5 237	431	805	1 429	7 901	6 446
Trade, maintenance and repairs	1 796	87	268	149	2 300	2 032
Agriculture, forestry and fishing	636	30	4	921	1 591	1 524
Construction	945	60	130	16	1 150	1 197
Total	90 099	26 871	7 833	10 728	135 531	131 490

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

²⁾ to ⁶⁾ See the previous chart on the rating structure.

The breakdown of the total exposure into regions shows that the eurozone accounts for a high share of 83 per cent (84 per cent) of total exposure and remains by far the most important business region of NORD/LB. Germany's share is 68 per cent (71 per cent).

Regions¹⁾²⁾ (in € million)	Loans³⁾ 31 Dec. 2014	Securities⁴⁾ 31 Dec. 2014	Derivatives⁵⁾ 31 Dec. 2014	Other⁶⁾ 31 Dec. 2014	Total exposure 31 Dec. 2014	Total exposure 31 Dec. 2013
Euro countries	72 354	24 566	5 010	10 654	112 584	111 079
– of which: Germany	59 793	19 237	3 815	9 926	92 771	93 702
Other Europe	5 183	1 386	1 945	47	8 562	7 649
North America	4 344	263	384	0	4 991	5 047
Middle and South America	2 891	147	22	–	3 060	2 496
Middle East/Africa	956	–	7	15	978	966
Asia/Australia	4 371	509	464	12	5 355	4 255
Total	90 099	26 871	7 833	10 728	135 531	131 490

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 increased slightly to € 4.1 billion (€ 3.9 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 fell to € 72 million (€ 179 million).

Exposure in selected countries ¹⁾²⁾ (in € million)	Greece		Ireland		Italy		Portugal		Spain		Total	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Sovereign Exposure	–	–	19	105	–	–	46	46	7	28	72	179
Financing institutions/insurance companies	–	–	257	221	345	506	8	61	153	146	764	934
Corporates/Other	218	193	2 627	2 230	206	121	75	84	144	148	3 270	2 776
– of which CDS	–	–	–	–	13	–	–	–	13	–	26	–
Total	218	193	2 903	2 556	551	627	129	191	305	321	4 107	3 889
– of which CDS	–	–	–	–	13	–	–	–	13	–	26	–

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

²⁾ to ⁶⁾ See the previous chart on the rating structure.

NORD/LB has an exposure of € 904 million in Cyprus in the corporates/others category. This primarily concerns a ship 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 € 18 million (corporates/others), and in Russia it has an exposure of € 253 million (€ 82 million Corporates, € 171 million financing institutions and insurance companies). The exposure in Egypt, Argentina, 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 provisions 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 requirement for loan loss provisions is based on a present value consideration of anticipated interest and redemption payments which are still expected as well as on other earnings, in particular from the realisation of collateral.

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

Irrecoverable loans of up to € 10,000 for which there is no specific valuation allowance are written off immediately. Payments received for written-off

loans and advances are recognised through profit or loss.

The continuation of the shipping crisis resulted in a further increase in valuation allowances on exposures and risk provisioning in this sector in 2014. The balance of specific valuation allowances,

lumpsum specific loan loss provisions, loan loss provisions, national valuation allowances 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 1.0 per cent to 1.3 per cent.

Risk provisioning 1 Jan.–31 Dec. 2014	Specific valuation allowances (lumpsum specific loan loss provisions, loan loss provisions)	National loan loss provisions	General loan loss provisions
(in € million)			
Opening balance	1 231	0	104
+ New provision/increase	865	–	1
– Disposal	– 486	– 0	– 10
of which: debt losses (consumption)	– 97	– 0	–
of which: reductions	– 359	– 0	– 10
+/- Other addition or disposal	– 52	–	–
+/- Transfer	0	–	–
+/- Currency conversion	93	–	1
= Closing balance	1 651	0	95

The amount of non-performing loans of € 5.3 billion is primarily secured by standard bank collateral and other credit enhancements valued on the basis of lending principles. The NPL exposure is covered 33 per cent (28 per cent) by risk provisioning before the inclusion of collateral. In addition to the impaired receivables, these NPLs also include all of the receivables of rating notes 16 to 18 (IFD risk class default (NPL)).

The share of total NPLs in the total exposure rose slightly in the period under review and is as at 31 December 2014 3.9 per cent (3.6 per cent). The increased exposure in the amount of € 3.6 billion (€ 3.3 billion) makes up 2.7 per cent (2.5 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 € Tsd.)	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Financing institutes/insurance companies	223 387	232 483	102 618	110 207
Service industries/other	644 671	657 846	244 163	255 330
Transport/communications	2 487 464	2 186 448	1 174 734	709 337
Manufacturing industry	196 831	153 326	81 693	94 077
Energy, water and mining	71 477	42 336	26 386	22 535
Trade, maintenance and repairs	5 877	6 982	3 205	3 627
Agriculture, forestry and fishing	5 611	8 684	3 101	3 864
Construction	13 664	19 875	15 165	18 235
Total	3 648 982	3 307 979	1 651 066	1 217 212

¹⁾ Allocated in alignment with the internal reporting in accordance with the borrower's jurisdiction and under consideration of the IFRS accounting regulation.

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	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
(in € Tsd.)				
Euro countries	3 215 407	2 955 378	1 553 829	1 118 535
Other Europe	139 564	112 177	59 377	48 726
North America	–	51 991	–	14 201
Middle and South America	11 169	–	2 307	–
Middle East / Africa	166 501	188 366	34 137	35 683
Asia / Australia	116 342	68	1 415	68
Total	3 648 982	3 307 979	1 651 066	1 217 212

¹⁾ Allocated in alignment with the internal reporting in accordance with the borrower's jurisdiction and under consideration of the IFRS accounting regulation.

²⁾ Total differences are rounding differences.

Due to offsetting with collateral, NORD/LB's risk-weighted assets as at 31 December 2014 were reduced by € 6 billion (€ 6 billion); this equates to a share of 24 per cent (14 per cent) in the total TREA credit risk. Here mainly financial securities and guarantees from states were offset.

Credit Risk – Outlook

Against the background of the continuing difficult market conditions for ship financing, NORD/LB expects that risk provisioning will again be significant in 2015, though less than in 2014. NORD/LB will continue to monitor developments closely and where necessary proceed with the measures to strengthen the risk quotas.

In 2015 measures to further optimise the models for quantifying and controlling credit risks are planned. In addition to developing the economic credit risk model, the collection of loss data to validate the Loss Given Default (LGD) components and Credit Conversion Factor (CCF) will be expanded.

Investment Risk – Development in 2014

In order to enhance earnings potential and reduce capital tied and potential risk relating to investments the NORD/LB Group has, on the basis of a critical review of the investment portfolio, disposed of a range of investments since 2005. This strategy was continued in the year under review. A few smaller investments were also sold or liquidated in 2014.

The risk potential reported in the going concern of the investment portfolio rose in the year under review to € 206 million (€ 148 million) despite these disposals. The reason for this is the share held by the bank in LBS Norddeutsche Landesbausparkasse, for which a write-down was made in view of the difficult low-interest-rate environment for building societies.

Investment Risk – Outlook

Significant tasks for 2015 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 and the further development of the materiality concept with a view to improved integration of investment control and risk control at overall bank level.

Market-PriceRisk – Development in 2014

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 greater fluctuations in the VaR, in particular in mid-2014, were mainly attributable to a change in the strategic interest-rate positioning of NORD/LB.



The average NORD/LB utilisation of market-price risk limits for the year was 60 per cent (52 per cent), with maximum utilisation amounting to 89 per cent (70 per cent) and minimum utilisation at 40 per cent (32 per cent).

During the course of 2014, the daily VaR (confidence level of 95 per cent and holding period of one day) fluctuated between € 13 million and € 25 million, with an average value of € 20 million. As at 31 December 2014, a VaR of € 19 million was

calculated for NORD/LB, the same as in the previous year.

The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 63 million in NORD/LB on 31 December 2014 (€ 124 million). These figures also include, unlike the regulatory reporting, the interest-rate and share-price risks in the banking book.

Market-price risks ¹⁾	Maximum		Average		Minimum		End-of-year risk	
	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
(in € Tsd.)								
Interest-rate risk (VaR)	23 760	18 378	18 842	13 793	13 061	9 112	18 465	18 378
Currency risk (VaR)	1 365	698	685	505	366	272	1 063	698
Share-price and fund-price risk (VaR)	1 654	1 005	1 320	720	815	138	1 654	688
Volatility risk (VaR)	1 212	1 339	644	632	329	287	947	377
Other add-ons	115	104	48	45	0	4	50	8
Total	24 584	18 594	19 505	14 424	13 239	9 502	18 887	18 594

¹⁾ The previous year's figures were adjusted.

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. In 2014 the credit investment items concerned were also further reduced by means of slimming down and targeted sales. At the same time, targeted new investments in corporate bonds, credit default swaps and European covered bonds were made on a limited scale for portfolio management.

The effects of a standardised interest-rate shock in the banking book are also analysed in accordance with the requirements of the Capital Requirements Regulation (CRR). The result according to internal calculations for NORD/LB as an individual institute as at 31 December 2014 is at 7.31 per cent well below the regulatory threshold which provides for a maximum share of 20 per cent of authorised equity capital. The interest-rate shocks are not reported at individual institute level, but at the level of the NORD/LB Group.

Market- Price Risk – Outlook

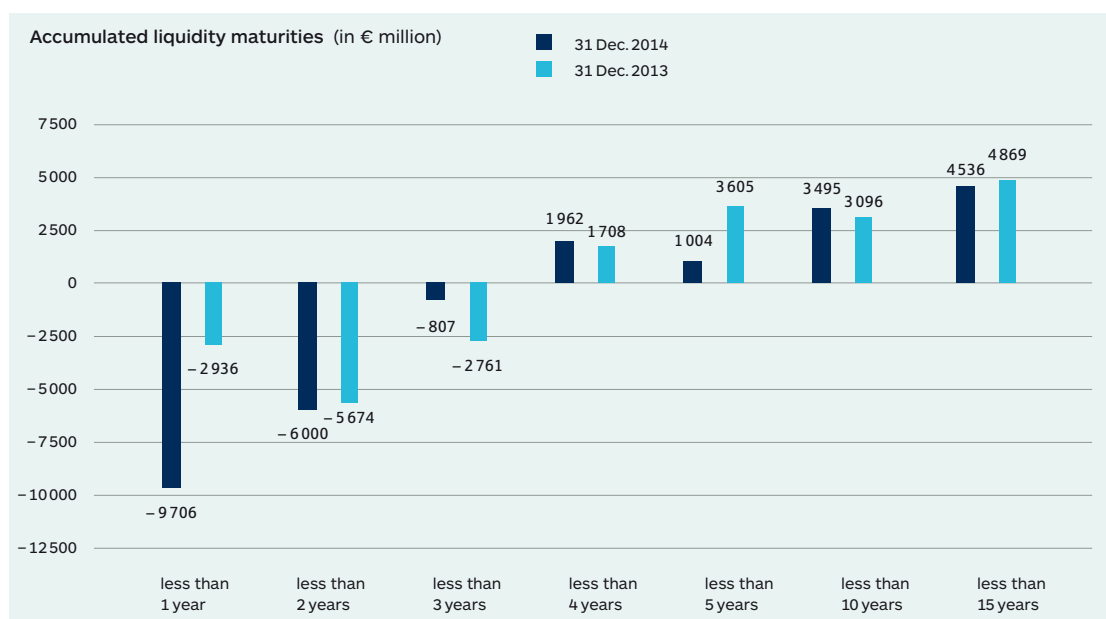
NORD/LB will continue to closely monitor all of the relevant asset categories in 2015 as at least short-term, volatile market fluctuations can be expected. Based on its conservative risk policy, the gradual improvements to the risk models, the risk control process and focused trading strategy, NORD/LB believes though that it is also well prepared for turbulent market phases.

With regard to the methods used, for 2015 it is planned that the basic risks from the various swap curves will be added to the VaR model in the banking book.

LiquidityRisk – Development in 2014

2014 was characterised for NORD/LB by the continuing crisis in the shipping sector and the stress test measures required by the European regulatory authorities. The separation of credit portfolios at risk of default and the reorganisation measures initiated are progressing well. With its good performance in the stress tests, NORD/LB has also maintained its standing in the markets.

In spite of this, NORD/LB had sufficient liquidity at all times in 2014. The liquidity maturity balance sheet shows in the maturity bands up to one year and up to five years in the year under review an increased liquidity requirement. The increase in risk seen in up to 1 year maturity band is within the approved RBC limits and are largely due to the effect that the bank's own issues have on reducing maturities. 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.



NORD/LB's refinancing primarily comprises liabilities to banks at 31 per cent (31 per cent), to customers at 31 per cent (28 per cent) and securitised liabilities at 19 per cent (25 per cent). In addition to uncovered securities, NORD/LB also uses covered securities, including Öffentliche Pfandbriefe in euros and US dollars and Immobilienpfandbriefe, Schiffspfandbriefe and Flugzeugpfandbriefe. Covered bonds in circulation, including bonds which were issued before the Covered Bond Act (Pfandbriefgesetz) came into effect, total € 24 billion (€ 22 billion), with public-sector covered bonds accounting for the biggest share.

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 (€ 29 billion), 92 per cent (91 per cent) of which are eligible for repo transactions with the ECB or the US Reserve.

Due to the attentive monitoring of markets and active liquidity control, it was ensured at all times in the year under review that NORD/LB had sufficient liquidity. The liquidity ratio calculated in accordance with the German Liquidity Regulation was at all times well over the minimum of 1.00 required by regulatory provisions. At the end of the year the ratio was 1.33 (1.35). 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 Minimum Requirements for Risk Management are also complied with.

Overall the measurement and control processes were extended in 2014. This includes among others the inclusion of a normal case in connection with newly developed clearing scenarios (Minimum Requirements for Recovery Plans, MaSan) which also include liquidity aspects. A new position was also introduced in the liquidity stress tests which includes an outflow of funds due to the return of the bank's own issues.

Liquidity Risk – Outlook

In 2015 liquidity management will face the challenge of phasing out benchmark issues (guarantor liability) while at the same time taking into account profitability aspects (negative interest rates).

Liquidity risk control in NORD/LB will continue to develop with for example the inclusion of further items in the liquidity stress test and greater consideration of the Basel III requirements (including LCR control).

Focus will remain in 2015 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 LCR and NSFR and the monitoring tools are of great importance to NORD/LB.

Operational Risk – Development in 2014

The total amount of NORD/LB's damages rose significantly to € 16 million 2014 (€ 4 million). The main reason for this rise is repayments to customers and provisions made following a ruling by the Federal Court of Justice (Bundesgerichtshof) on loan processing fees for consumer loans. The cause category "external influences" continues to dominate.

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.

Operational Risk – Outlook

The efforts for integrated operational risk management have helped to further increase the transparency of operational risks and make targeted control possible. The associated tightening up of reporting, consolidation of questions and raising of general awareness are resulting in a noticeable lightening of administrative activities and increas-

ing acceptance. This makes it easier to control operational risks and further expand the risk culture.

With scenario analyses that are conducted on a regular basis and that also simulate the effect of externally observed events in NORD/LB, targeted recommendations for action can be derived. Indicators help to identify risks early.

Overall Assessment

The utilisation determined in the RBC model shows that risks were covered at all times during the period under review. NORD/LB also complied with the applicable regulatory provisions concerning equity capital and liquidity throughout 2014. It also took due account of the regulations relating to large credits limits in accordance with § 387–403 of the CRR and all risks known to the bank with precautionary measures. Suitable instruments have been implemented for the purpose of recognising risks early.

NORD/LB does not believe that there are any risks at present that would put the existence of the bank at risk.

General opportunities and risks exist in deviations from planning assumptions for the USD/EUR exchange rate, interest-rate curves and costs related to regulatory requirements.

Further challenges exist in the implementation of the cost-reduction programme.

NORD/LB development currently depends above all on the continuing uncertain developments in the shipping markets and the development of the euro countries, particularly peripheral countries. The current global trouble spots, in particular in Ukraine and in the Middle East, continue to present risks. A further drop in the value of the euro against the US dollar might also have a negative effect. A longer period of low interest rates might also affect particularly the bank's net interest income. On the other hand a stronger improve-

ment in the economy and a sustained improvement in the national debt crisis could have a positive impact on the bank's results with an increase in income and lower risk provisioning.

In many markets the level of competition is increasing with effects on margins and new businesses and a range of regulatory requirements will tie up capacity and result in pressure on income and costs.

Based on the current state of the analyses, NORD/LB considers the foreseeable effects of these events to be manageable and will continue closely to monitor and analyse developments.

Overall NORD/LB is planning an operating result after risk provisioning and valuation for 2015 that is moderate lower the previous year's level.

Annual Accounts

88 Balance Sheet

92 Income Statement

Assets	Norddeutsche Landesbank Girozentrale			
	€	€	€	31 Dec. 2013 € 000
1. Cash reserve				
a) Cash on hand		60 333 650.86		61 943
b) Balances with central banks		716 908 420.72		986 535
of which: with the "Deutsche Bundesbank" _€ 594 807 546.72			777 242 071.58	1 048 478 (650 542)
2. Claims on banks				
a) mortgage loans		44 329 294.14		41 546
b) municipal loans		10 075 768 801.35		12 918 441
c) Other claims		14 146 215 246.11		13 770 067
of which: Due on demand _____ € 3 871 630 941.77			24 266 313 341.60	26 730 054 (2 644 928)
against securities lending _____ € 0.00				(0)
3. Claims on customers				
a) mortgage loans		4 940 756 813.18		4 730 086
b) municipal loans		19 524 241 931.20		22 363 641
c) Other claims		33 640 280 457.02		31 853 044
of which: against securities lending _____ € 0.00			58 105 279 201.40	58 946 771 (0)
4. Debt securities and other fixed-interest securities				
a) Money-market instruments				
aa) Issued by public sector borrowers	12 752 745.44			6 025
of which: eligible as collateral for "Deutsche Bundesbank" advances _____ € 0.00				(0)
ab) Issued by other borrowers	12 355 036.65			10 878
of which: eligible as collateral for "Deutsche Bundesbank" advances _____ € 0.00		25 107 782.09		16 903 (0)
b) Bonds and debt securities				
ba) Issued by public sector borrowers	8 588 013 123.80			8 716 025
of which: eligible as collateral for "Deutsche Bundesbank" advances _____ € 8 522 509 630.09				(8 628 349)
bb) Issued by other borrowers	17 031 302 325.13			16 293 446
of which: eligible as collateral for "Deutsche Bundesbank" advances _____ € 14 803 842 182.08		25 619 315 448.93		25 009 471 (13 922 752)
c) Debt securities, issued by the institution itself		217 255 459.94		385 994
Nominal amount _____ € 212 072 746.07				(381 010)
			25 861 678 690.96	25 412 368
Amount carried forward			109 010 513 305.54	112 154 574

Balance Sheet NORD/LB Bank as at 31 December 2014

Assets

	€	€	€	31 Dec. 2013 € 000
Amount carried forward			109 010 513 305.54	112 154 574
5. Shares and other non fixed-interest securities			1 249 696 739.03	1 208 606
5a. Trading portfolio			11 515 629 470.60	8 827 061
6. Participating interests			138 628 373.26	94 780
of which:				
in banks _____ € 296 480.46				(4 197)
in financial institutions _____ € 266 670.94				(2 226)
7. Investments in affiliated companies			1 967 564 545.25	1 952 346
of which:				
in banks _____ € 1 458 201 750.52				(1 407 729)
in financial institutions _____ € 0.00				(0)
8. Assets held in trust			4 450 467 308.71	4 542 444
of which: loans on a trust basis _____ € 4 450 467 308.71				(4 542 444)
9. Intangible assets				
a) internally generated industrial property rights and similar rights and values		52 048 127.53		50 231
b) Concessions, industrial property rights and similar rights and values including its licences against payment		43 131 400.06		32 512
d) Advance payments made		0.00		68
			95 179 527.59	82 811
10. Tangible assets			203 958 477.54	218 858
11. Other assets			1 453 233 780.17	1 432 221
12. Prepaid expenses				
a) from new issue and lending business		389 981 867.10		449 638
b) other		547 283 647.40		673 649
			937 265 514.50	1 123 287
Total assets			131 022 137 042.19	131 620 085

Liabilities

Norddeutsche Landesbank Girozentrale

	€	€	€	31 Dec. 2013 € 000
1. Liabilities to banks				
a) issued registered mortgage Pfandbriefe		15 308 313.70		50 866
b) issued registered public sector Pfandbriefe		1 036 736 727.13		1 245 552
c) Other liabilities		39 307 052 209.50		39 535 971
			40 359 097 250.33	40 832 389
of which:				
Due on demand _____ € 5 984 539 333.61				(5 111 391)
ensuring loans taken up registered mortgage Pfandbriefe transferred to lender _____ € 0.00				(0)
and registered public sector Pfandbriefe _____ € 116 593 697.27				(342 406)
2. Liabilities to customers				
a) issued registered mortgage Pfandbriefe		785 988 168.71		360 524
b) issued registered public sector Pfandbriefe		9 094 930 901.78		9 838 051
c) Savings deposits				
ca) with an agreed notice period more than three months	1 453 841 015.29			1 369 325
cb) with an agreed notice period more than three months	71 097 052.64	1 524 938 067.93		332 392
d) Other liabilities		28 740 126 000.90		25 209 433
			40 145 983 139.32	37 109 725
of which:				
Due on demand _____ € 12 253 684 041.17				(12 248 847)
ensuring loans taken up registered mortgage Pfandbriefe transferred to lender _____ € 0.00				(0)
and registered public sector Pfandbriefe _____ € 0.00				(0)
3. Securitised liabilities				
a) Issued debt securities				
aa) mortgage Pfandbriefe	2 216 446 992.59			1 742 124
ab) public sector Pfandbriefe	7 694 012 964.09			8 575 029
ac) other debentures	14 318 340 977.18	24 228 800 933.86		21 886 320
b) Other securitised liabilities		399 197 104.36		418 855
			24 627 998 038.22	32 622 328
of which:				
money-market instruments ____ € 316 177 807.62				(234 653)
3a. Trading portfolio			5 927 076 458.58	2 295 562
4. Liabilities held in trust			4 450 467 308.71	4 542 444
of which: loans on a trust basis _ € 4 450 467 308.71				(4 542 444)
5. Other liabilities			2 608 316 195.77	1 483 913
Amount carried forward			118 118 938 390.93	118 886 361

Balance Sheet NORD/LB Bank as at 31 December 2014

Liabilities

	€	€	€	31 Dec. 2013 € 000
Amount carried forward			118 118 938 390.93	118 886 361
6. Deferred income				
a) from new issue and lending business		462 514 805.79		521 201
b) other		340 917 211.53		406 737
			803 432 017.32	927 938
7. Provisions				
a) Provisions for pensions and similar obligations		960 121 165.05		828 704
b) Tax provisions		75 230 684.84		105 260
c) Other provisions		457 060 732.80		418 010
			1 492 412 582.69	1 351 974
8. Subordinated liabilities			2 817 572 575.53	2 667 538
9. Participatory capital			95 000 000.00	115 000
of which: there of falling due in less than two years _____ € 95 000 000.00				(55 000)
10. Funds for general banking risks			912 632 805.66	927 633
of which: special item for general banking risks in accordance with § 340e, para. 4 of the German Commercial Code € 60 000 000.00				(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	797 063 092.13	2 404 320 902.13		896 270
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		3 324 314
c) Retained earnings		702 546 457.02		692 571
d) Profit shown on the balance sheet after appropriation to or transfer from reserves		350 967 859.15		223 228
			6 782 148 670.06	6 743 641
Total liabilities			131 022 137 042.19	131 620 085
1. Contingent liabilities				
a) Contingent liabilities under rediscounted bills of exchange		0.00		0
b) Liabilities from guarantees and other indemnity agreements		6 074 431 662.69		5 288 696
c) Liabilities from assets pledged as collateral for third-party liabilities		0.00		0
			6 074 431 662.69	5 288 696
2. Other obligations				
a) Repurchase obligations from non-genuine partial repurchase agreements		0.00		0
b) Placement and underwriting obligations		0.00		0
c) Irrevocable credit commitments		6 858 588 512.16		8 229 815
			6 858 588 512.16	8 229 815

Norddeutsche Landesbank Girozentrale

	€	€	€	2013 € 000
1. Interest income from				
a) Lending and money market transactions	2 473 983 628.50			2 663 020
b) Fixed-income and book entry securities	485 448 623.35			521 134
c) Current income from trading portfolio	888 651 665.50	3 848 083 917.35		835 204
2. Interest expenses		2 518 130 677.06		2 847 681
			1 329 953 240.29	1 171 677
3. Current income from				
a) Shares and other non fixed-interest securities		10 104 558.73		9 974
b) Participating interests		12 161 675.81		12 284
c) Shares in affiliated companies		33 108 149.33		40 088
			55 374 383.87	62 346
4. Income from profit pooling, profit transfer and partial profit transfer agreements			35 734 010.07	64 137
5. Commission income		234 223 615.93		203 971
6. Commission expenses		95 843 575.87		121 059
			138 380 040.06	82 912
7. Net income deriving from trading business			16 186 072.34	160 736
8. Other operating income			105 755 621.83	124 199
9. General administrative expenses				
a) Staff expenses				
aa) Wages and salaries	301 034 715.75			298 106
ab) Social security contributions and expenses for pension provision and other employee benefits	160 681 714.80	461 716 430.55		81 878
of which: for pensions _____ €	6 139 814.26			(35 711)
b) Other administrative expenses		353 581 364.65		358 902
			815 297 795.20	738 886
10. Depreciations and write-downs of intangible assets			37 002 163.84	36 018
11. Other operating expenses			170 228 964.78	161 424
12. Write-downs of and value adjustments to claims and certain securities and allocations to loan loss provisions			472 356 212.31	473 191
Amount carried forward			186 498 232.33	256 488

Income Statement for the reporting period from 1 January 2014 to 31 December 2014

	€	€	€	2013 € 000
Amount carried forward			186 498 232.33	256 488
13. Earnings from write-ups to claims and certain securities and allocations to loan loss provisionsren			98 821 919.16	9 257
14. Expenses on assumption of losses			27 660 569.94	7 845
15. Profit on ordinary activities			257 659 581.55	257 900
16. Extraordinary income		0.00		0
17. Extraordinary expenses		54 332 126.66		46 546
18. Extraordinary result			- 54 332 126.66	- 46 546
19. Refund from income taxes		- 8 094 763.61		- 6 766
20. Refund from other taxes not show under item 11		3 916 997.68		- 7 138
			4 177 765.93	- 13 904
21. Income from profit pooling, profit transfer and partial profit transfer agreements			69 790 564.67	70 630
22. Annual profit			137 714 656.15	154 628
23. Earnings brought forward from the previous year			213 253 203.00	68 600
24. Profit			350 967 859.15	223 228

Notes to the Consolidated Financial Statements

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I. Disclosures concerning the Accounting Policies and Principles for Currency Translation

(Previous year figures for the 2014 accounting period or as at 31 December 2013 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 2014 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 layout of the balance sheet and the income statement is based on the RechKredV.

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

In 2012, against the background of the European Banking Authority's (EBA) tighter requirements concerning minimum Tier 1 common capital ratio for banks and the future Basel III requirements, NORD/LB agreed a capital-boosting programme with its owners. 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 concerned a guarantee provided by the states of Lower Saxony and Saxony-Anhalt for the mezzanine tranche of a credit portfolio of NORD/LB brought into a securitisation structure. This guarantee was terminated early by NORD/LB with the effect of 30 June 2014. The expenses for this are reported in the expenses for public guarantees related to reorganisation.

Taking into account the new Capital Requirements Regulation applicable in the European Union since the start of 2014, individual components of the capital-boosting programme from 2012 were continued in the past year (limiting of risk-weighted assets, optimisation of the capital structure). In order to limit risk-weighted assets, since the start of March 2014 NORD/LB has allowed parts of a credit portfolio to be guaranteed by private investors. Compared to the guarantee provided by the states of Lower Saxony and Saxony-Anhalt that was terminated in 2014, this guarantee provided by private investors for NORD/LB is more efficient at providing regulatory capital relief. The premium paid for this is reported under commission expenses.

Further commitments by NORD/LB in connection with the reorganisation plan continued to have an effect in 2014. These include in particular an efficiency-improvement programme, for which costs were again incurred in 2014 and which are reported under reorganisation 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 variable-yield securities”.

As there is currently no difference in terms of balance between the trading portfolio reported in the balance sheet and the regulatory trading book, NORD/LB has used the Value-at-Risk (VaR) calculated for regulatory purposes directly as a risk premium in terms of § 340e para. 3 clause 1 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 per cent;
- 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 loan loss provisions. The provisions for country 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 shares 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.

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 an unscheduled depreciation in accordance with § 253 para. 3 clause 3 of the German Commercial Code in the year under review of € 48 million.

Fixed assets with an acquisition cost of between € 150 and € 1,000 are capitalised under a collective item and depreciated at a flat rate of 20 per cent per annum over 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.

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 2014 the present value of pension obligations in accordance with the German Accounting Law Modernisation Act (BilMoG) was € 1,043.275 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 2014, after taking into account repayments, was € 18.746 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 2014 was € 960.121 million, whereby an obligation of € 196.258 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. 2014	31 Dec. 2013
Interest rate	4.54%	4.88%
Salary increases	2.00%	2.00%
Pension increases	2.75%/2.87%/1.00%	2.75%/2.87%/1.00%
Fluctuation	3.00%	3.00%

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 Ger-

man Commercial Code (new version). The settlement value of the pension obligation (converted into euros) as at the balance sheet date was € 4.883 million. This is seen alongside the fair value of the cover assets as at 31 December 2014 in the amount of € 3.738 million. Acquisition costs total € 2.443 million.

The allocation to the pension obligation for 2014 was € 213 thousand. This is seen alongside income generated from the cover assets in the amount of € 422 thousand.

For the indirect pension obligations of the London branch there was a shortfall as at 31 December 2014 of € 4.506 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 2014 the fair value of the special fund is € 5.3 million against an acquisition cost of € 5.3 million.

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

Currency Translation

The currency translation takes place in the non-trading portfolio in accordance with the principles of § 256a 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 € 43,685.3 million (€ 41,043.1 million) and € 41,968.4 million (€ 41,119.9 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 (€ 1,065.264 million; previous year € 831.768 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 (€ 347.562 million; previous year: € 313,047 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 (€ 411.828 million; previous year: € 362.555 million);
- Individual-transaction-specific passing on of inflation risk hedged against customers to the market (€ 145.957 million; previous year: € 142,679 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 cash flows, 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 carrying amounts 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. 2014	31 Dec. 2013
2. Claims on banks		
with a residual term of		
Due on demand	3 828 852	4 173 057
less than 3 months	5 020 662	6 233 983
more than 3 months but less than 1 year	4 119 734	3 205 188
more than 1 year less than 5 years	5 363 735	7 479 240
more than 5 years	5 933 330	5 638 585
Balance sheet value	24 266 313	26 730 053
of which		
Claims on affiliated companies	5 131 771	6 081 251
Claims on companies in which an equity investment exists	344 421	861 844
Subordinated receivables	685 695	873 395
Used to cover old stock	471 723	905 431
The full amount of receivables from banks includes:		
Claims on affiliated savings banks	5 608 943	6 499 249
3. Claims on customers		
with a residual term of		
less than 3 months	5 288 860	5 613 257
more than 3 months but less than 1 year	3 101 170	4 637 843
more than 1 year less than 5 years	15 762 341	15 490 935
more than 5 years	33 952 908	33 204 736
Balance sheet value	58 105 279	58 946 771
of which		
Claims on affiliated companies	598 175	686 667
Claims on companies in which an equity investment exists	335 999	251 191
Subordinated receivables	38 393	20 042
Used to cover old stock	1 914 159	2 986 519
With an indefinite term	1 849 875	1 725 559
4. Debt securities and other fixed-interest securities		
a) Money-market instruments		
aa) Issued by public sector issuers		
Balance sheet value	12 753	6 025
of which		
due in the following year	12 753	6 025
marketable and unlisted money-market instruments	12 753	6 025

Assets

(in € 000)	31 Dec. 2014	31 Dec. 2013
ab) Issued by other issuers		
Balance sheet value	12 355	10 878
of which		
due in the following year	12 355	10 878
marketable and listed money-market instruments	–	10 878
b) Bonds and debt securities		
ba) Issued by public sector issuers		
Balance sheet value	8 588 013	8 716 025
of which		
due in the following year	2 254 401	1 369 817
marketable and listed money-market instruments	8 546 400	8 676 004
marketable and unlisted money-market instruments	41 613	40 022
Used to cover old stock	448 150	395 378
bb) Issued by other issuers		
Balance sheet value	17 031 302	16 293 446
of which		
due in the following year	6 648 006	2 756 390
marketable and listed money-market instruments	16 305 371	15 524 896
marketable and unlisted money-market instruments	725 931	768 772
Affiliated company securities	2 860 428	2 582 616
Subordinated debt securities	495 399	665 908
c) Debt securities, issued by the institution itself		
Balance sheet value	217 255	385 994
of which		
due in the following year	134 722	137 561
marketable and listed money-market instruments	217 255	385 994
5. Shares and other non fixed-interest securities		
Balance sheet value	1 249 697	1 208 606
of which		
marketable and listed shares and other non fixed-interest securities	291	1 460
5a. Trading portfolio		
Balance sheet value	11 515 629	8 827 061
of which		
Derivative financial instruments	5 941 423	2 380 065
Claims	2 222 255	2 437 830
Debt securities and other fixed-interest securities	3 206 527	3 872 995
Shares and other non fixed-interest securities	152 783	139 505
Risk discount	7 359	3 333

Assets

(in € 000)	31 Dec. 2014	31 Dec. 2013
6. Participations		
Balance sheet value	138 628	94 780
of which		
Marketable unlisted shares	10 836	10 836
The equity holding is shown in III. Paragraph 9		
7. Investments in affiliated companies		
Balance sheet value	1 967 565	1 952 346
of which		
Marketable unlisted shares	1 055 373	1 003 391
The equity holding is shown in III. Paragraph 9		
8. Assets held in trust		
Balance sheet value	4 450 467	4 542 444
of which		
Claims on banks	596 313	526 018
Claims on customers	3 854 154	4 016 426
9. Intangible assets		
Balance sheet value	95 180	82 811
of which		
internally generated software	52 048	50 231
Creation of software implementation expenses incurred in the amount of € 15.4 million (€ 7.0 million) in the reporting year 2014. Research expenses are not incurred.		
10. Tangible assets		
Balance sheet value	203 958	218 858
of which		
Own used land and buildings	165 799	170 299
Operating and office equipment	38 159	48 559
12. Other assets		
Balance sheet value	1 453 234	1 432 221
of which		
The following are reported as significant items:		
Option premiums and margins	713 269	612 077
Interest and interest due from interest-rate swaps	555 216	735 142
Reported assets on interim accounts	99 565	18 595
Claims against fiscal authorities	43 920	42 797
Balancing item from currency valuation	20 048	-
Pro rata interest claims from flat-traded securities of the trading portfolio	12 343	14 234
13. Deferred expenses and accrued income		
Balance sheet value	937 266	1 123 287
of which		
deferred premiums in accordance with § 340e Paragraph 2 HGB	318 686	358 061
discounts and maturing premiums	71 296	91 577

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. 2014	Balance sheet value 31 Dec. 2013	Deprecia- tion for the account- ing-period
Intangible assets	183 333	29 215	8	117 360	95 180	82 811	16 774
Tangible assets	475 296	9 293	15 981	264 650	203 958	218 858	20 227
		Change ¹⁾					
Participating interests		43 848			138 628	94 780	
Investments in affiliated companies		15 219			1 967 565	1 952 346	
Securities in fixed assets		- 1 302 039			9 509 243	10 811 282	
of which:							
Bonds and debt securities		- 1 178 655			9 509 243	10 687 897	
Shares		- 123 384			-	123 384	

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

Liabilities

(in € 000)	31 Dec. 2014	31 Dec. 2013
1. Liabilities to banks		
a) Due on demand		
Balance sheet value	5 984 539	5 111 391
of which		
Liabilities to affiliated companies	176 356	111 978
b) With an agreed term or notice period		
of which with a residual term of		
less than 3 months	17 066 567	18 517 190
more than 3 months but less than 1 year	4 506 169	2 565 580
more than 1 year but less than 5 years	4 226 536	5 157 624
more than 5 years	8 575 286	9 480 604
Balance sheet value	34 374 558	35 720 998
of which		
Liabilities to affiliated companies	339 379	356 944
Liabilities to companies in which an equity investment exists	306 824	320 093
Assets pledged as collateral	14 685 728	16 800 243
The full amount of bank loans and overdrafts includes:		
Liabilities to affiliated savings banks	2 739 273	3 078 949
2. Liabilities to customers		
a) Savings deposits		
aa) with an agreed notice period of three months		
Balance sheet value	1 453 841	1 369 325
ab) Savings deposits with an agreed notice period of more than three months		
of which with a residual term of		
less than 3 months	42 759	39 716
more than 3 months but less than 1 year	10 083	238 139
more than 1 year but less than 5 years	16 893	54 346
more than 5 years	1 362	191
Balance sheet value	71 097	332 392

¹⁾ 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.

²⁾ The previous year's figure for assets assigned as collateral under liabilities to banks was adjusted.

Liabilities

(in € 000)	31 Dec. 2014	31 Dec. 2013
b) Other liabilities		
ba) Due on demand		
Balance sheet value	12 253 684	12 248 847
of which		
Liabilities to affiliated companies	65 103	68 831
Liabilities to companies in which an equity investment exists	151 328	88 095
bb) With an agreed term or notice period		
of which with a residual term of		
less than 3 months	8 429 157	4 112 797
more than 3 months but less than 1 year	3 030 639	2 610 038
more than 1 year but less than 5 years	3 996 256	4 797 545
more than 5 years	10 911 309	11 638 781
Balance sheet value	26 367 361	23 159 161
of which		
Liabilities to affiliated companies	116 979	135 371
Liabilities to companies in which an equity investment exists	313 752	329 462
Assets assigned as collateral	177 267	–
3. Securitised liabilities		
a) Issued debt securities		
Balance sheet value	24 228 801	32 203 473
of which		
Due in the following year	8 822 723	10 658 128
Liabilities to affiliated companies	1 401 127	3 557 602
Liabilities to companies in which an equity investment exists	67 502	77 508
b) Other securitised liabilities		
of which with a residual term of		
less than 3 months	233 571	154 649
more than 3 months but less than 1 year	83 328	80 004
more than 1 year but less than 5 years	1 648	111 290
more than 5 years	80 650	72 912
Balance sheet value	399 197	418 855
3a. Trading portfolio		
Balance sheet value	5 927 076	2 295 562
of which		
Derivative financial instruments	5 804 870	2 185 602
Liabilities (for short-term securities)	122 206	109 960
4. Liabilities held in trust		
Balance sheet value	4 450 467	4 542 444
of which		
Liabilities to banks ¹⁾	1 599 613	1 605 103
Liabilities to customers	2 850 854	2 937 341

¹⁾ Including the equity of Investitionsbank Sachsen-Anhalt in the amount of € 150.9 million.

Liabilities

(in € 000)	31 Dec. 2014	31 Dec. 2013
5. Other liabilities		
Balance sheet value	2 608 316	1 483 913
of which		
reported as significant items:		
Balancing item from currency valuation	1 609 136	340 608
Countervalues for outstanding securities purchases	457 275	526 299
Interest payable and accrued interest from swaps	364 177	410 247
Interest payable from profit participation rights, subordinated liabilities and capital contributions	113 440	113 051
Outstanding items on interim accounts, not classified	36 775	46 899
Trade payables	16 779	31 331
6. Deferred income		
Balance sheet value	803 432	927 938
of which		
Separation of premiums from issuing and loan business	421 937	472 667
deferred discounts in accordance with § 340e Paragraph 2 HGB	40 887	47 630
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	187 166	179 318
Risks from lending business	84 762	77 309
Staff expenses – reorganisation provisions (efficiency improvement programme)	73 098	46 088
Legal risks	36 400	24 348
Other	75 635	90 947
	457 061	418 010
8. Subordinated liabilities		
Balance sheet value	2 817 573	2 667 538
of which ¹⁾		
due within two years in accordance with the German Banking Act	–	1 190 968
due within five years in accordance with the CRR	1 410 245	–

NORD/LB's expenses for subordinated liabilities were € 143.698 million (€ 123.767 million).
The following subordinated liabilities exceed 10% of the total amount:

Currency amount	Interest rate	Due on
€ 580 million	5.75 % p. a.	1 Dec. 2015
€ 350 million	6.00 % p. a.	29 Jun. 2020
500 million USD	6.25 % p. a.	10 Apr. 2024

An early repayment obligation only exists if a change in taxation results in additional payments to the transferee.
The subordination conditions for these funds are in accordance with the German Banking Act.
The conversion of these funds into capital or any other form of debt has not been agreed and is not planned.

¹⁾ The difference is due to the the different legal regulations that applied in financial years 2013 and 2014 for calculating regulatory capital.

Liabilities

(in € 000)	31 Dec. 2014	31 Dec. 2013
10. Participatory capital		
Balance sheet value	95 000	115 000
of which ¹⁾		
due within two years in accordance with the German Banking Act	–	55 000
due within five years in accordance with the CRR	95 000	–

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 +€ 213,253,203.00.

Of the silent participations in NORD/LB's portfolio which are reported in the balance sheet under other capital contributions, as at 31 December 2014 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 2013 capital notes purchased in 2013 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.

NORD/LB continued this procedure in the year under review. For this purpose, of the capital notes remaining in 2013, further securities in the amount of € 92.2 million were purchased by way of a tender and paid back in 2014. In the previous year these capital notes were reported on the assets side under debt securities. The silent participations in NORD/LB held by the special purpose entities based in Fürstenberg were equally reduced.

Beforehand NORD/LB had taken 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.

1. Contingent liabilities

Under contingent liabilities there are as at 31 December 2014 nine significant liabilities relating to sureties and guarantees. The individual values range from € 53.9 million to € 149.8 million.

NORD/LB's maximum liability to customers from guarantees is € 4,177.4 million and from letters of credit € 185.7 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 € 57.1 million (€ 50.0 million) has been allocated.

2. Other obligations

Irrevocable credit commitments in 2014 are broken down as follows:

– Commercial enterprises	6,226,073
– Private persons	310,042
– Banks	220,532
– Public authorities	101,942

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 € 23.7 million (€ 6.7 million).

3. Hard Comfort Letters

NORD/LB ensures that the following companies are able to meet their obligations:

- Deutsche Hypothekbank (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.

¹⁾ The difference is due to the the different legal regulations that applied in financial years 2013 and 2014 for calculating regulatory capital.

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	3 561 789 (3 713 362)	90 968 (93 200)	101 986 (117 270)	93 341 (95 526)	3 848 084 (4 019 358)
3. Current income	55 374 (62 346)	0 (0)	0 (0)	0 (0)	55 374 (62 346)
5. Net commission income	182 934 (162 847)	12 036 (14 447)	28 310 (21 916)	10 944 (4 761)	234 224 (203 971)
7. Net profit of trading portfolio	20 764 (159 606)	260 (– 196)	– 7 004 (1 629)	2 166 (– 303)	16 186 (160 736)
8. Other operating income	103 238 (123 547)	1 625 (234)	541 (207)	352 (212)	105 756 (124 200)
Income statement items	3 924 099 (4 221 708)	104 889 (107 685)	123 833 (141 022)	106 803 (100 196)	4 259 624 (4 570 611)

(in € 000)	2014	2013
7. Net profit/loss of trading portfolio		
The following are reported as material items:		
Net income from securities	156 750	–
Net expenditure from securities	–	59 391
Net income from loans	161 061	–
Net expenditure from loans	–	42 240
Net income from derivatives	–	240 186
Net expenditure from derivatives	– 328 130	–
Income from the change in value at risk reduction	–	4 833
Expense from the change in the Value at Risk deduction	– 4 026	–
The net result therefore includes an amount of € 15 million from the reversal of the special item in accordance with § 340e para. 4 clause 2 no. 4 of the German Commercial Code.		
8. Other operating income		
The following are reported as material items:		
Reversal of provisions	30 172	39 785
Income from repayments	23 501	–
Income from the resale of hardware, software and services	13 925	17 249
Income from rents	5 863	4 889
IT services for third parties	5 106	5 454
Offsetting of services with promotion institutes	4 724	3 349
Foreign exchange of investment book	4 137	–
Profit from hedge derivatives of own issues	1 490	22 289
Book profits from disposal of property and equipment	743	119
Interest income from tax refunds	71	4 053
Reimbursement of costs from shipping exposures	10	5 753
Settlement payments	–	5 670
11. Other operating expenses		
The following are reported as material items:		
Interest expenses from the valuation of provisions	56 284	54 977
Price losses from redemption of promissory notes and registered bonds	55 266	43 085
Payments to the restructuring fund for banks	22 410	27 617
Expenses for the resale of hardware, software and services purchased	13 906	16 231
Expenses for KSN services	12 151	12 481
Allocation to provisions for recourse risks	5 532	–
Interest expenses for payments of tax arrears	1 673	208
Concession fee for BLSK	1 100	1 450
Expenses for losses resulting from operational risks	502	268
18. Extraordinary expenses		
Extraordinary expenses include the transition effects of the valuation of provisions in the amount of € 18.7 million (€ 18.7 million) as a result of the implementation of the German Accounting Law Modernisation Act (BilMoG) and reorganisation expenses in the amount of € 35.6 million (€ 27.8 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.		

Other Financial Obligations

With regard to the security reserve for landesbanks, NORD/LB's maximum obligation to make additional contributions is € 61.0 million (€ 57.9 million). In the event of a need for support these subsequent contributions could be collected immediately. Following the publication of the EU Directive 2014/49/EU and the transposition into national law in 2015, the method for calculating the deposit protection system will change and increase the amount of the payment obligations.

NORD/LB has further obligations to make additional contributions to the amount of € 0.0 million (previous year € 30.5 million) in addition to extra joint liabilities for other partners on the part of Liquiditätskonsortialbank GmbH i.L.

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 and the Sparkassenverband Niedersachsen (SVN, Association of the Savings Banks of Lower Saxony), 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- und 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 € 2.9 million (€ 7.0 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, together with the other limited partner Braunschweig Grund Objektgesellschaft Driebergen mbH & Co., indemnified the general partner from liability.

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 com-

pany 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 € 17.4 million at year-end (€ 12.8 million).

In the course of normal business activities NORD/LB has provided security in the nominal amount of € 1,394.0 million (€ 2,138.2 million) in the form of securities.

NORD/LB has, in order to ease the pressure on regulatory equity, transferred part of the credit risk of a credit portfolio defined precisely by a finance guarantee ("Northvest") to an external third party. The finance guarantee will result in a financial burden with charges in the amount of € 40 million in 2015. In the next few years the fees will fall steadily until the guarantee ends in 2024.

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, commenced 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. € 150 million.

NORD/LB has obligations from long-term rental and lease agreements for land and buildings to 2044 in the nominal amount of € 401.5 million (€340.9 million), € 275.0 million (€ 293.4 million) of which towards affiliated companies.

In accordance with the Restructuring Fund Regulation (Restrukturierungsfonds-Verordnung, RstruktFV), NORD/LB has to pay a bank levy. On the 1 January 2015 the Commission Delegated Regulation (EU) 2015/63 of the 21 October 2014 with regard to ex ante contributions to resolution financing arrangements entered into force. The regulation supplements the Bank Recovery and Resolution Directive (BRRD; Directive 2014/59/EU) and will result in a permanently higher bank levy.

III. Other Disclosures

1. Members of the Managing Board

Dr. Gunter Dunkel (Chairman)	Thomas Bürkle (since 1 January 2014)
Dr. Johannes-Jörg Riegler (Deputy Chairman) (until 28 February 2014)	Eckhard Forst
Ulrike Brouzi	Dr. Hinrich Holm
	Christoph Schulz

2. Members of the Supervisory Board

Peter-Jürgen Schneider (Chairman) Finance Minister of Lower Saxony	Frank Hildebrandt Bank employee NORD/LB Braunschweig
Thomas Mang (First Deputy Chairman) President of Sparkassenverband Niedersachsen	Martin Kind Managing Director KIND Hörgeräte GmbH & Co. KG (until 30 June 2014)
Jens Bullerjahn (Second Deputy Chairman) Finance Minister of Saxony-Anhalt	Frank Klingebiel Mayor of Salzgitter
Frank Berg Chairman of the Managing Board OstseeSparkasse Rostock	Prof. Dr. Susanne Knorre Management Consultant
Norbert Dierkes Chairman of the Managing Board Sparkasse Jerichower Land	Ulrich Mägde Mayor of the Hanseatic City of Lüneburg
Edda Döpke Bank employee NORD/LB Hanover	Antje Niewisch-Lennartz Justice Minister of Lower Saxony
Ralf Dörries Senior Bank Director NORD/LB Hanover	Heinrich von Nathusius IFA ROTORION – Holding GmbH
Dr. Elke Eller Personnel Director, VW Commercial Vehicles, Volkswagen AG (since 1 July 2014)	Freddy Pedersen ver.di Trade Union
Hans-Heinrich Hahne Chairman of the Managing Board Sparkasse Schaumburg	Jörg Reinbrecht ver.di Trade Union
	Ilse Thonagel Bank employee Landesförderinstitut Mecklenburg-Vorpommern

3. Disclosures concerning Mandates

As at 31 December 2014 the following mandates were held in accordance with § 340a para. 4 no. 1 of the German Commercial Code by members of NORD/LB:

Managing Board

Name	Society ¹⁾
Dr. Gunter Dunkel	Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover Norddeutsche Landesbank Luxembourg S. A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S. A., Luxembourg-Findel Continental AG, Hanover
Ulrike Brouzi	Norddeutsche Landesbank Luxembourg S. A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S. A., Luxembourg-Findel NORD/LB Asset Management, Hanover Salzgitter AG Stahl und Technologie, Salzgitter
Thomas Bürkle	Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover Norddeutsche Landesbank Luxembourg S. A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S. A., Luxembourg-Findel LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover LHI Leasing GmbH, Pullach
Eckhard Forst	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen LHI Leasing GmbH, Pullach
Dr. Hinrich Holm	NORD/LB Asset Management, Hanover Investitionsbank Sachsen-Anhalt, Magdeburg LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Liquiditäts- und Konsortialbank GmbH (until 1 June 2014) Lotto-Toto GmbH Sachsen-Anhalt, Magdeburg
Christoph Schulz	Norddeutsche Landesbank Luxembourg S. A., Luxembourg-Findel NORD/LB COVERED FINANCE BANK S. A., Luxembourg-Findel LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Berlin and Hanover Toto-Lotto Niedersachsen GmbH, Hanover

¹⁾ Banks are treated as large corporations.

Other employees

Name	Society ¹⁾
Dr. Rüdiger Fuhrmann	Niedersächsische Landgesellschaft mbH, Hanover
Dr. Michael Lange	Toto-Lotto Niedersachsen GmbH, Hanover
Dr. Ulf Meier	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover
Ingo Wünsche	Niedersächsische Bürgschaftsbank (NBB) GmbH, Hanover
Berit Zimmermann	Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg
Werner Schilli	Öffentliche Sachversicherung Braunschweig, Braunschweig Öffentliche Lebensversicherung Braunschweig, Braunschweig

¹⁾ Banks are treated as large corporations.

4. Remuneration of and Loans to Governing Bodies

(in € 000)	2014	2013
Total remuneration of current board members		
Managing Board	4 198	3 335
Supervisory Board	445	386
	4 643	3 721
Total remuneration of former board members and their surviving dependents		
Managing Board	4 036	4 081
Advances and loans granted		
Managing Board	708	1 331
Supervisory Board	52	60

€ 36.830 million (€ 33.599 million) was put back for pension obligations towards former members of governing bodies and their surviving dependents, whereby an obligation of € 12.360 million (€ 12.275 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 2014	Male 2013	Female 2014	Female 2013	Total 2014	Total 2013
Employees	2 069	2 101	2 152	2 190	4 221	4 291

Investitionsbank Sachsen-Anhalt and Landesförderinstitut Mecklenburg-Vorpommern account for an additional 631 employees (619 employees).

7. Further Disclosures

Services performed for third parties

Significant services performed for third parties concern:

- the management of trust assets
- the management of custodian accounts
- the brokering building loan contracts, investment products, loans and insurance
- the brokering of foreign notes and coins and precious metals for associated savings banks
- asset management
- the brokering of loans and investment products

No write-down to lower fair value

The items “debt securities and other fixed-interest securities” and “shares and other variable-yield securities” include securities valued like fixed

assets which have not been written down to their lower fair value. These concern the following securities (all book values and fair values disclosed do not include accumulated interest):

(in € 000)	Book values	Fair values	omitted depreciation	Book values	Fair values	omitted depreciation
	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014	31 Dec. 2013	31 Dec. 2013	31 Dec. 2013
Bonds and debt securities	1 568 356	1 496 342	72 013	2 817 125	2 734 870	82 255
Shares	0	0	0	0	0	0

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	Fair values	Book values	Fair values
	31 Dec. 2014	31 Dec. 2014	31 Dec. 2013	31 Dec. 2013
Bonds and debt securities	6 189 774	6 518 007	6 545 680	6 873 573
Shares	0	0	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 variable-yield

securities” include marketable securities not valued at lower of cost or market, i.e. they are treated as fixed assets (book values do not include accumulated interest).

(in € 000)	31 Dec. 2014	31 Dec. 2013
	Debt securities and other fixed-interest securities	9 427 899
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)

	Nominal values	Positive fair values	Negative fair values	Book values	Recorded in balance sheet item
(in € million)	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014
Interest-rate risks					
Interest-rate swaps	5 334	1 413	- 224	219	Assets 13./ Liabilities 6.
FRAs	-	-	-	-	-
Interest-rate options					
purchases	4 591	1 625	-	459	Assets 12.
sales	1 193	-	- 824	- 264	Liabilities 5.
Caps, Floors	3 091	16	- 56	- 20	Assets 13./ Liabilities 6.
Stock-exchange contracts	-	-	-	-	-
Other forward interest rate transactions	1 472	4	- 198	-	-
Interest-rate risks - total -	15 681	3 058	- 1 302	394	
Currency risks					
Forward foreign exchange transactions	1 977	6	- 28	- 22	Liabilities 5.
Currency swaps/interest-rate currency swaps	188	14	-	11	Assets 13./ Liabilities 5./ Liabilities 6.
Currency options					
purchases	-	-	-	-	-
sales	-	-	-	-	-
Currency risks - total -	2 165	20	- 28	- 11	
Shares and other price risks					
Share futures contracts	-	-	-	-	-
Share swaps	-	-	-	-	-
Share options					
purchases	-	-	-	-	-
sales	-	-	-	-	-
Stock-exchange contracts	4	-	-	-	-
Shares and other price risks - total -	4	-	-	-	
Credit derivatives					
Assignor	44	-	- 1	-	Assets
Assignee	1 768	16	- 1	12	Assets
Credit derivatives - total -	1 812	16	- 2	12	
Derivatives not valued at fair value - total	19 662	3 094	- 1 332	395	

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. 2014
Interest-rate risks	
Interest-rate swaps	165 656
FRAs	1 800
Interest-rate options	
purchases	3 555
sales	6 111
Caps, Floors	4 667
Stock-exchange contracts	–
Other forward interest rate transactions	414
Interest-rate risks – total –	182 203
Currency risks	
Forward foreign exchange transactions	18 425
Currency swaps/interest-rate currency swaps	22 316
Currency options	
purchases	162
sales	184
Currency risks – total –	41 087
Shares and other price risks	
Share futures contracts	–
Share swaps	–
Share options	
purchases	28
sales	–
Stock-exchange contracts	30
Shares and other price risks – total –	58
Credit derivatives – total –	
Assignor	26
Assignee	23
Credit derivatives – total –	49
Derivatives valued at fair value – total	223 397

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 cash flows 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. 2014
Interest-rate risks	
Residual terms to maturity	
up to 3 months	9 166
up to 1 year	18 516
up to 5 years	67 934
more than 5 years	86 587
	182 203
Currency risks	
Residual terms to maturity	
up to 3 months	13 146
up to 1 year	6 937
up to 5 years	12 338
more than 5 years	8 666
	41 087
Shares and other price risks	
Residual terms to maturity	
up to 3 months	39
up to 1 year	17
up to 5 years	2
more than 5 years	–
	58
Credit derivatives	
Residual terms to maturity	
up to 3 months	40
up to 1 year	6
up to 5 years	3
more than 5 years	–
	49

Derivatives valued at fair value – broken down by counterparty:

(in € million)	Nominal values 31 Dec. 2014
Banks in the OECD	92 112
Banks outside the OECD	92
Public institutions in the OECD	5 977
Other counterparties ¹⁾	125 216
Total	223 397

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):

(in € 000)	31 Dec. 2014			
	Underlying transaction hedged against			
	Interest rate risk	Share price risk	Inflation risk	Currency risk
Assets				
Fixed-interest securities for the liquidity reserve	1 153 337	–	–	–
Assets – total	1 153 337	–	–	–
Pending transactions				
Derivatives separated from structured issues				
share-price-related derivatives	–	266 241	–	–
exchange-rate-related derivatives	–	–	–	81 321
Other	–	–	145 957	–
Pending transactions – total	–	266 241	145 957	81 321
Transactions expected with a high probability¹⁾				
Repayment of an issued USD hybrid capital bond	–	–	–	411 828
Transactions expected with a high probability – total	–	–	–	411 828
Valuation units – total	1 153 337	266 241	145 957	493 149

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 € 2,058.683 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 2015 and 2044.

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 € 35.2 million remain. The difference between the present value and the acquisition cost of the cover

assets after the deduction of deferred tax liabilities is € 0.8 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 2014 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 totaling € 5,427.6 million (€ 3,889.3 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 ALCO	NORD/LB Horizont Fonds-TF B	Nordlux Pro-Aktiv-B
Former	–	–	–
Type of special asset	Special asset	Mutual fund	Mutual fund
Investment objective	The fund is part of the ALCO-portfolio and thus part of the strategic investments.	The fund is for conservative investors sensitive to inflation. NORD/LB holds a strategic share in order to have a positive argument for customers in selling.	The fund follows the principle of asset management, is actively managed and invests in international capital market products or currencies. It was launched on 1 April 2014 and is currently in the start-up finance phase, which should last until mid-2016.
Reporting date	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014
Special assets (in € 000)	1 250 373	34 330	16 138
Shares – total	11 902 648	343 492	160 365
Currency of shares	EUR	EUR	EUR
Shares of NORD/LB as at the reporting date	11 902 648	101 720	151 256
Values of the shares according to § 26 of the German Investment Act (InvG) as at reporting date	105.05	99.78	101
Carrying amount (in € 000)	1 224 536	9 944	14 926
Difference between fair value and carrying amount (in € 000)	25 837	205	292
Dividends paid out in the final year acc. to shares of NORD/LB (gross in € 000)	7 900	–	–
Reporting year of NORD/LB	1 Jan.–31 Dec.	1 Jan.–31 Dec.	1 Jan.–31 Dec.
Reporting year of the special asset	1 Jan.–31 Dec.	1 Oct.–30 Sep.	1 Oct.–30 Sep.
Restrictions in the possibility of daily return	None	None	None
Reasons for no write-down § 253 para. 3 clause 4 of the German Commercial Code	–	–	–
Pointers for the loss of value not being permanent	–	–	–

8. Cover statement

(Old portfolio/issues before 19 July 2005)

(in € 000)	31 Dec. 2014	31 Dec. 2013
Mortgage bond coverage		
Liabilities requiring cover		
Pfandbriefe	0	0
discharged and cancelled items	0	0
Registered Pfandbriefe (as security on loans taken up)	0	0
	0	0
Covering assets		
Loans to customers secured by mortgages	0	0
Public issuer securities	0	0
Substitute credit institution cover	0	0
	0	0
Surplus cover	0	0
Municipal cover		
Liabilities requiring cover		
Municipal debentures	1 698 223	2 787 210
discharged and cancelled items	0	0
Registered municipal debentures (to secure loans taken up)	0	300 962
	1 698 223	3 088 172
Covering assets		
Municipal loans		
to financial institutions	421 723	905 431
to customers	1 914 159	2 886 519
Public issuer securities	448 150	395 378
Fixed deposits from public-sector banks	0	0
Substitute credit institution cover	50 000	100 000
	2 834 031	4 287 329
Surplus cover	1 135 808	1 199 157

This old portfolio (cover and in circulation) was encapsulated in accordance with § 51 of the Covered Bond Act and is held separately from the

new cover in accordance with the regulations applicable up until the Covered Bond Act came into effect.

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

The total value of **Hypothekendarbriefe** in circulation and the cover assets used for this are broken down as follows:

(in € million)	Nominal value	Present value	Risk-adjusted present values ¹⁾ + 250 bp	Risk-adjusted present values ¹⁾ – 250 bp	Risk-adjusted present values ¹⁾ Currency stress
Hypothekendarbriefe					
Total Pfandbriefe in circulation	1 913.2 (1 542.8)	1 981.4 (1 610.5)	1 938.7 (1 560.1)	1 988.9 (1 639.8)	1 938.7 (1 560.1)
Total cover pool	2 955.4 (2 662.6)	3 274.7 (2 884.0)	3 035.8 (2 703.6)	3 325.3 (2 994.5)	3 026.5 (2 686.6)
Over-collateralisation	1 042.2 (1 119.8)	1 293.3 (1 273.5)	1 097.1 (1 143.5)	1 336.4 (1 354.7)	1 087.8 (1 126.5)
Over-collateralisation in %	54.5 (72.6)	65.3 (79.1)	56.6 (73.3)	67.2 (82.6)	56.1 (72.2)
Net present value per foreign currency item					
USD	– (–)	– (–)	– (–)	– (–)	55.9 (–)

¹⁾ Static method in accordance with §§ 5, 6 of the Pfandbrief Present Value Regulation (PfandBarwertV)

Disclosures concerning further cover assets for Hypothekendarbriefe in accordance with § 28 para. 1 no. 4, no. 5 and no. 6:

(in € million)	Balancing receivables in accordance with § 19 (1) no. 1 PfandBG	Loans and advances to banks in accordance with § 19 (1) no. 2 PfandBG	Loans and advances to banks in accordance with § 19 (1) no. 2 PfandBG of which: covered debt securities ¹⁾	Loans and advances to the public sector in accordance with § 19 (1) no. 3 PfandBG	Total
Germany	0.0 (–)	35.0 (–)	0.0 (–)	40.0 (–)	75.0 (–)

¹⁾ in accordance with Article 129 of the Regulation (EU) no. 575/2013

Key figures for Hypothekendarbriefe and their cover assets:

(in € million)	31 Dec. 2014	31 Dec. 2013
Pfandbriefe in circulation	1 913.2	1 542.8
Share of fixed-interest Pfandbriefe in %	23.56	–
Share of derivatives	0.0	0.0
Cover pool	2 955.4	2 662.6
Share of fixed-interest cover assets in %	76.30	–
Share of derivatives	0.0	0.0
Total value of receivables that exceed the limits of § 13 para. 1	0.0	–
Total value of receivables that exceed the limits of § 19 para. 1 no. 2	0.0	–
Total value of receivables that exceed the limits of § 19 para. 1 no. 3	0.0	–
Volume-weighted average of the time passed since loan issue in years	6.5	–
Average weighted loan-to-value ratio in %	max. 60.0	–

Maturity structure of Hypothekendarfbriefe and fixed-interest periods of cover assets:

(in € million)	31 Dec. 2014 Pfandbriefe in circulation	31 Dec. 2014 Cover pool	31 Dec. 2013 Pfandbriefe in circulation	31 Dec. 2013 Cover pool
Less than 6 months	64.0	482.4	–	–
More than 6 but less than 12 months	40.0	180.1	–	–
Less than 12 months	104.0	662.5	30.0	373.0
More than 12 but less than 18 months	257.5	132.6	–	–
More than 18 months but less than 2 years	40.0	228.2	–	–
Less than 2 years	297.5	360.8	74.0	313.0
More than 2 but less than 3 years	40.0	309.1	257.5	367.1
More than 3 but less than 4 years	40.0	274.3	0.0	297.2
More than 4 but less than 5 years	859.2	312.6	0.0	227.9
More than 5 but less than 10 years	572.5	920.3	1 131.3	1 045.1
More than 10 years	0.0	115.8	50.0	39.2
Key figures total	1 913.2	2 955.4	1 542.8	2 662.5

Breakdown of cover assets for Hypothekendarfbriefe by size category:

(in € million)	31 Dec. 2014	31 Dec. 2013
Less than € 300 thousand	1 124.1	–
More than € 300 thousand but less than € 1 million	269.1	–
More than € 1 million but less than € 10 million	673.7	–
More than € 10 million	813.5	–
Size categories total	2 880.4	–

Breakdown of cover assets for Hypothekendarfbriefe by country and type of use (residential):

(in € million)	Property used for residential purposes					Total
	Owner-occupied apartments	Single and twofamily houses	Apartment buildings	Unfinished new buildings not yet capable of yielding a return	Construction sites	
Germany	195.9 (182.8)	712.0 (655.3)	1.101.4 (831.4)	0.0 (0.0)	0.3 (0.6)	2.009.6 (1 670.1)
Luxembourg	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)
Austria	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)
USA	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)
Receivables by country total	195.9 (182.8)	712.0 (655.3)	1 101.4 (831.4)	0.0 (0.0)	0.3 (0.6)	2 009.6 (1 670.1)

Breakdown of cover assets for Hypothekendarbriefe by country and type of use (commercial):

(in € million)	Property used for commercial purposes						Total
	Office Buildings	Retail buildings	Industrial building	Other buildings used for commercial purposes	Unfinished new buildings not yet capable of yielding a return	Construction sites	
Germany	259.7 (266.1)	217.4 (160.0)	8.5 (10.7)	204.4 (174.9)	0.0 (0.0)	0.1 (0.0)	690.1 (611.7)
Luxembourg	119.8 (115.7)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	119.8 (115.7)
Austria	0.0 (0.0)	8.5 (8.7)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	8.5 (8.7)
USA	52.4 (92.4)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (3.9)	52.4 (96.3)
Receivables by country total	431.9 (474.2)	225.9 (168.7)	8.5 (10.7)	204.4 (174.9)	0.0 (0.0)	0.1 (3.9)	870.8 (832.4)

Breakdown of the total value of payments for Hypothekendarbriefe outstanding by at least 90 days by country:

(in € million)	31 Dec. 2014 Total value of payments outstanding by at least 90 days	31 Dec. 2014 Total value of covering receivables, where the amount outstanding is at least 5 % of the covering receivable	31 Dec. 2013 Total value of payments outstanding by at least 90 days	31 Dec. 2013 Total value of covering receivables, where the amount outstanding is at least 5 % of the covering receivable
Germany	0.0	0.0	0.0	-
Luxembourg	0.0	0.0	0.0	-
Austria	0.0	0.0	0.0	-
USA	0.0	0.0	0.0	-
Total value	0.0	0.0	0.0	0.0

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 is € 181 thousand (€ 42 thousand) for com-

mercial property and € 125 thousand (€ 439 thousand) for residential property.

The total value of **Öffentliche Pfandbriefe** in circulation and the cover assets used for this are broken down as follows:

(in € million)	Nominal value	Present value	Risk-adjusted present values ¹⁾ + 250 bp	Risk-adjusted present values ¹⁾ – 250 bp	Risk-adjusted present values ¹⁾ Currency stress
Öffentliche Pfandbriefe					
Total Pfandbriefe in circulation	15 785.7 (16 519.1)	18 658.4 (18 474.7)	16 505.6 (16 321.3)	19 533.2 (20 645.4)	17 047.7 (16 827.1)
Total cover pool	21 043.8 (23 128.8)	24 285.1 (25 427.1)	21 655.5 (22 811.3)	25 342.4 (28 025.7)	21 772.7 (22 910.8)
Over-collateralisation	5 258.1 (6 609.7)	5 626.7 (6 952.4)	5 149.9 (6 490.0)	5 809.2 (7 380.3)	4 725.0 (6 083.7)
Over-collateralisation in %	33.3 (40.0)	30.2 (37.6)	31.2 (39.8)	29.7 (35.7)	27.7 (36.2)
Net present value per foreign currency item					
CHF	– (–)	– (–)	– (–)	– (–)	1.7 (–)
JPY	– (–)	– (–)	– (–)	– (–)	– 128.3 (–)
USD	– (–)	– (–)	– (–)	– (–)	– 1 719.1 (–)

¹⁾ Static method in accordance with §§ 5, 6 of the Pfandbrief Present Value Regulation (PfandBarwertV)

Disclosures concerning further cover assets for **Öffentliche Pfandbriefe** in accordance with § 28 para. 1 no. 4, no. 5 and no. 6:

(in € million)	Balancing receivables in accordance with § 20 (2) no. 1 PfandBG	Loans and advances to banks in accordance with § 20 (2) no. 2 PfandBG	Loans and advances to banks in accordance with § 20 (2) no. 2 PfandBG of which: covered debt securities ¹⁾	Total
Germany	0.0 (–)	697.2 (–)	70.0 (–)	697.2 (–)

¹⁾ in accordance with Article 129 of the Regulation (EU) no. 575/2013

Key figures for **Öffentliche Pfandbriefe** and their cover assets:

(in € million)	31 Dec. 2014	31 Dec. 2013
Pfandbriefe in circulation	15 785.7	16 519.1
Share of fixed-interest Pfandbriefe in %	89.49	–
Share of derivatives	0.0	0.0
Cover pool	21 043.8	23 128.8
Share of fixed-interest cover assets in %	84.29	–
Share of derivatives	0.0	0.0
Total value of receivables that exceed the limits of § 20 para. 2 no. 2	0.0	–

Maturity structure of Öffentliche Pfandbriefe and fixed-interest periods of cover assets:

(in € million)	31 Dec. 2014 Pfandbriefe in circulation	31 Dec. 2014 Cover pool	31 Dec. 2013 Pfandbriefe in circulation	31 Dec. 2013 Cover pool
Less than 6 months	703.0	1 263.4	–	–
More than 6 but less than 12 months	1 380.1	1 999.6	–	–
Less than 12 months	2 083.1	3 263.0	2 172.4	2 822.9
More than 12 but less than 18 months	1 292.3	1 055.7	–	–
More than 18 months but less than 2 years	1 179.9	1 053.4	–	–
Less than 2 years	2 472.2	2 109.2	1 891.1	2 889.3
More than 2 but less than 3 years	1 326.7	2 677.1	2 155.6	2 259.0
More than 3 but less than 4 years	1 054.2	1 668.1	831.8	2 438.5
More than 4 but less than 5 years	2 177.2	1 674.0	1 068.6	1 702.9
More than 5 but less than 10 years	3 303.1	5 630.9	5 000.6	6 471.8
More than 10 years	3 369.2	4 021.6	3 398.9	4 544.4
Key figures total	15 785.7	21 043.9	16 519.0	23 128.8

Breakdown of cover assets for Öffentliche Pfandbriefe by size category:

(in € million)	31 Dec. 2014	31 Dec. 2013
Less than € 10 million	1 913.8	–
More than € 10 million but less than € 100 million	5 452.7	–
More than € 100 million	12 980.1	–
Size categories total	20 346.6	–

Breakdown of cover assets for Öffentliche Pfandbriefe by country, broken down by type of debtor (including over-collateralisation in accordance with § 4 (1) PfandBG):

	Country	Regional authority	Local authority	Other debtors	Total
Germany	1 385.0 (1 324.1)	6 682.7 (7 943.4)	4 792.8 (4 903.6)	6 308.2 (7 209.6)	19 168.7 (21 380.7)
Belgium	14.5 (3.8)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	14.5 (3.8)
Denmark	28.1 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	28.1 (0.0)
Finland	76.8 (26.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	76.8 (26.0)
France	40.6 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	40.6 (0.0)
Great Britain	53.8 (53.8)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	53.8 (53.8)
Canada	76.6 (77.4)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	76.6 (77.4)
Latvia	0.0 (0.0)	0.0 (0.0)	40.1 (42.6)	0.0 (0.0)	40.1 (42.6)
Luxembourg	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	25.0 (70.0)	25.0 (70.0)
Austria	148.1 (157.5)	0.0 (0.0)	0.0 (0.0)	116.1 (183.7)	264.2 (341.2)
Switzerland	0.0 (4.1)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.0 (4.1)
USA	541.0 (444.6)	0.0 (0.0)	0.0 (0.0)	17.2 (12.1)	558.2 (456.7)
Receivables by country total	2 364.5 (2 091.3)	6 682.7 (7 943.4)	4 832.9 (4 946.2)	6 466.5 (7 475.4)	20 346.6 (22 456.3)

The total value of **Schiffspfandbriefe** in circulation and the cover assets used for this are broken down as follows:

(in € million)	Nominal value	Present value	Risk-adjusted present values ¹⁾ + 250 bp	Risk-adjusted present values ¹⁾ - 250 bp	Risk-adjusted present values ¹⁾ Currency stress
Schiffspfandbriefe					
Total Pfandbriefe in circulation	80.0 (90.0)	81.2 (89.2)	75.3 (81.5)	81.9 (92.7)	81.2 (81.5)
Total cover pool	175.6 (166.8)	191.9 (174.2)	189.2 (165.4)	192.9 (178.9)	163.1 (138.3)
Over-collateralisation	95.6 (76.8)	110.7 (85.0)	113.9 (83.9)	111.0 (86.2)	81.9 (56.8)
Over-collateralisation in %	119.5 (85.3)	136.3 (95.3)	151.3 (103.0)	135.5 (93.0)	100.9 (69.7)
Net present value per foreign currency item					
USD	- (-)	- (-)	- (-)	- (-)	171.8 (-)

¹⁾ Static method in accordance with §§ 5, 6 of the Pfandbrief Present Value Regulation (PfandBarwertV)

Disclosures concerning further cover assets for Schiffspfandbriefe in accordance with § 28 para. 1 no. 4, no. 5 and no. 6:

(in € million)	Balancing receivables in accordance with § 26 (1) no. 2 PfandBG	Loans and advances to banks in accordance with § 26 (1) no. 3 PfandBG	Loans and advances to banks in accordance with § 26 (1) no. 3 PfandBG of which: covered debt securities ¹⁾	Loans and advances to the public sector in accordance with § 26 (1) no. 4 PfandBG	Total
Germany	0.0 (-)	0.0 (-)	0.0 (-)	16.0 (-)	16.0 (-)

¹⁾ in accordance with Article 129 of the Regulation (EU) no. 575/2013

Key figures for Schiffspfandbriefe and their cover assets:

(in € million)	31 Dec. 2014	31 Dec. 2013
Pfandbriefe in circulation	80.0	90.0
Share of fixed-interest Pfandbriefe in %	62.50	-
Share of derivatives	0.0	0.0
Cover pool	175.6	166.8
Share of fixed-interest cover assets in %	9.11	-
Share of derivatives	0.0	0.0
Total value of receivables that exceed the limits of § 26 para. 1 no. 3	0.0	-
Total value of receivables that exceed the limits of § 26 para. 1 no. 4	0.0	-

Maturity structure of Schiffspfandbriefe and fixed-interest periods of cover assets:

(in € million)	31 Dec. 2014 Pfandbriefe in circulation	31 Dec. 2014 Cover pool	31 Dec. 2013 Pfandbriefe in circulation	31 Dec. 2013 Cover pool
Less than 6 months	0.0	36.9	-	-
More than 6 but less than 12 months	0.0	25.2	-	-
Less than 12 months	0.0	62.1	10.0	58.5
More than 12 but less than 18 months	0.0	12.5	-	-
More than 18 months but less than 2 years	0.0	11.4	-	-
Less than 2 years	0.0	23.9	0.0	41.8
More than 2 but less than 3 years	50.0	16.9	0.0	26.3
More than 3 but less than 4 years	30.0	17.8	50.0	15.3
More than 4 but less than 5 years	0.0	17.0	30.0	8.3
More than 5 but less than 10 years	0.0	37.3	0.0	10.6
More than 10 years	0.0	0.6	0.0	6.0
Key figures total	80.0	175.6	90.0	166.8

Breakdown of cover assets for Schiffspfandbriefe by size category:

(in € million)	31 Dec. 2014	31 Dec. 2013
Less than € 500 thousand	0.4	3.3
More than € 500 thousand but less than € 5 million	27.5	79.4
More than € 5 million	131.7	75.1
Size categories total	159.6	157.8

Breakdown of cover assets for Schiffspfandbriefe by country, broken down by ocean-going and inland ships:

(in € million)	Ocean-going ships	Inland ships	Total
Germany	115.4 (119.5)	0.0 (0.0)	115.4 (119.5)
Malta	15.2 (0.0)	0.0 (0.0)	15.2 (0.0)
Marshall Islands	21.5 (0.0)	0.0 (0.0)	21.5 (0.0)
Cyprus	7.5 (38.3)	0.0 (0.0)	7.5 (38.3)
Receivables by country total	159.6 (157.8)	0.0 (0.0)	159.6 (157.8)

Total value of payments for Schiffspfandbriefe outstanding by at least 90 days:

(in € million)	Total value of payments outstanding by at least 90 days ¹⁾	Total value of covering receivables, where the amount outstanding is at least 5% of the covering receivable
Receivables	4.7 (-)	8.6 (-)

¹⁾ The above outstanding payments are not included in the reported cover pool.

There were no cases of forced sale, forced receivership or takeovers of ships or ships under construction to prevent losses. The total arrears on interest to be paid by loan debtors is € 12 thousand (€ 0 thousand) for ocean-going ships and € 0 thousand (€ 0 thousand) for inland ships.

The total value of **Flugzeugpfandbriefe** in circulation and the cover assets used for this are broken down as follows:

(in € million)	Nominal value	Present value	Risk-adjusted present values ¹⁾ + 250 bp	Risk-adjusted present values ¹⁾ – 250 bp	Risk-adjusted present values ¹⁾ Currency stress
Flugzeugpfandbriefe					
Total Pfandbriefe in circulation	1 006.0 (506.0)	1 049.0 (522.4)	968.0 (479.4)	1 059.0 (539.2)	1 049.0 (479.4)
Total cover pool	1 390.4 (1 258.6)	1 529.9 (1 354.6)	1 456.9 (1 242.4)	1 578.9 (1 442.2)	1 304.2 (1 047.6)
Over-collateralisation	384.4 (752.6)	480.9 (832.2)	488.9 (763.0)	519.9 (903.0)	255.2 (568.2)
Over-collateralisation in %	38.2 (148.7)	45.8 (159.3)	50.5 (159.1)	49.1 (167.5)	24.3 (118.5)
Net present value per foreign currency item					
GBP	– (–)	– (–)	– (–)	– (–)	51.2 (–)
USD	– (–)	– (–)	– (–)	– (–)	1 256.6 (–)

¹⁾ Static method in accordance with §§ 5, 6 of the Pfandbrief Present Value Regulation (PfandBarwertV)

Disclosures concerning further cover assets for Flugzeugpfandbriefe in accordance with § 28 para. 1 no. 4, no. 5 and no. 6:

(in € million)	Balancing receivables in accordance with § 26f (1) no. 2 PfandBG	Loans and advances to banks in accordance with § 26f (1) no. 3 PfandBG	Loans and advances to banks in accordance with § 26f (1) no. 3 PfandBG of which: covered debt securities ¹⁾	Loans and advances to the public sector in accordance with § 26f (1) no. 4 PfandBG	Total
Germany	0.0 (–)	0.0 (–)	0.0 (–)	35.0 (–)	35.0 (–)

¹⁾ in accordance with Article 129 of the Regulation (EU) no. 575/2013

Key figures for Flugzeugpfandbriefe and their cover assets:

(in € million)	31 Dec. 2014	31 Dec. 2013
Pfandbriefe in circulation	1 006.0	506.0
Share of fixed-interest Pfandbriefe in %	100.0	–
Share of derivatives	0.0	0.0
Cover pool	1 390.4	1 258.6
Share of fixed-interest cover assets in %	60.91	–
Share of derivatives	0.0	0.0
Total value of receivables that exceed the limits of § 26f para. 1 no. 3	0.0	–
Total value of receivables that exceed the limits of § 26f para. 1 no. 4	0.0	–

Maturity structure of Flugzeugpfandbriefe and fixed-interest periods of cover assets:

(in € million)	31 Dec. 2014 Pfandbriefe in circulation	31 Dec. 2014 Cover pool	31 Dec. 2013 Pfandbriefe in circulation	31 Dec. 2013 Cover pool
Less than 6 months	0.0	93.8	–	–
More than 6 but less than 12 months	0.0	93.7	–	–
Less than 12 months	0.0	187.5	0.0	192.0
More than 12 but less than 18 months	0.0	143.4	–	–
More than 18 months but less than 2 years	0.0	93.1	–	–
Less than 2 years	0.0	236.5	0.0	146.4
More than 2 but less than 3 years	501.0	209.0	0.0	166.3
More than 3 but less than 4 years	0.0	280.3	501.0	147.8
More than 4 but less than 5 years	505.0	116.2	0.0	212.8
More than 5 but less than 10 years	0.0	353.6	5.0	393.3
More than 10 years	0.0	7.3	0.0	0.0
Key figures total	1 006.0	1 390.4	506.0	1 258.6

Breakdown of cover assets for Flugzeugpfandbriefe by size category:

(in € million)	31 Dec. 2014	31 Dec. 2013
Less than € 500 thousand	0.4	0.5
More than € 500 thousand but less than € 5 million	105.1	156.8
More than € 5 million	1 249.9	1 081.4
Size categories total	1 355.4	1 238.7

Breakdown of cover assets for Flugzeugpfandbriefe by country, broken down by type of aircraft:

(in € million)	Business jet	Freighter	Narrow- body	Regional jet	Turboprop	Ultralarge	Widebody	Total
Germany	0.0 (–)	129.6 (–)	139.6 (–)	0.0 (–)	23.2 (–)	0.0 (–)	0.0 (–)	292.4 (244.9)
France	0.0 (–)	0.0 (–)	15.8 (–)	0.0 (–)	0.0 (–)	56.2 (–)	72.8 (–)	144.8 (113.7)
Great Britain	0.0 (–)	0.0 (–)	80.8 (–)	12.7 (–)	54.0 (–)	96.3 (–)	17.9 (–)	261.7 (257.6)
Ireland	0.0 (–)	0.0 (–)	75.6 (–)	0.0 (–)	0.0 (–)	0.0 (–)	47.8 (–)	123.4 (116.2)
Norway	0.0 (–)	0.0 (–)	38.5 (–)	0.0 (–)	0.0 (–)	0.0 (–)	0.0 (–)	38.5 (37.3)
USA	0.0 (–)	0.0 (–)	378.3 (–)	96.8 (–)	0.0 (–)	0.0 (–)	19.5 (–)	494.6 (468.9)
Receivables by country total	0.0 (–)	129.6 (–)	728.6 (–)	109.5 (–)	77.2 (–)	152.5 (–)	158.0 (–)	1 355.4 (1 238.6)

Total value of payments for Flugzeugpfandbriefe outstanding by at least 90 days:

(in € million)	Total value of payments outstanding by at least 90 days ¹⁾	Total value of covering receivables, where the amount outstanding is at least 5% of the covering receivable
Receivables	0.0 (-)	0.0 (-)

There were no cases of forced sale, forced receivership or takeovers of aircraft or aircraft under construction to prevent losses. The total arrears on interest to be paid by loan debtors is € 0 thousand (€ 0 thousand).

10. List of equity holdings

The list below contains the equity holdings in accordance with § 285 no. 11 and 11a HGB and investments in terms of § 340a para. 4 no. 2 HGB. Included are all companies in which there is an

equity holding of 20 per cent or more, unless they are of minor significance for the presentation of the assets, financial and earnings position, and investments in large corporations which exceed 5 per cent of the voting rights.

No.	Name/registered office	Share of capital held (in %)	Equity (in € 000)	Profit/Loss (in € 000)
Affiliated Companies				
1	BGG Bremen GmbH & Co. KG, Bremen ¹⁾⁶⁾	100.00	132	- 8
2	BGG Oldenburg GmbH & Co. KG, Bremen ¹⁾⁶⁾	100.00	8 015	907
3	BLB Grundbesitz KG, Bremen ¹⁾⁶⁾	100.00	47 800	1 942
4	BLB Immobilien GmbH, Bremen ¹⁾⁶⁾	100.00	17 180	0
5	BLB Leasing GmbH, Oldenburg ¹⁾⁶⁾⁸⁾	100.00	511	0
6	BLBI Beteiligungs-GmbH, Bremen ¹⁾⁶⁾	100.00	70	5
7	BLBI Investment GmbH & Co. KG, Bremen ¹⁾⁶⁾	100.00	42 400	4 494
8	Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig ³⁾⁶⁾	100.00	9 061	0
9	Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig ²⁾⁵⁾	66.67	1 052	444
10	Braunschweig Grundstücksentwicklungsgesellschaft mbH, Braunschweig ¹⁾⁵⁾	50.00	34	2
11	Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen ⁶⁾⁸⁾	54.83	1 343 000	3 000
12	Bremische Grundstücks-GmbH, Bremen ¹⁾⁶⁾	100.00	56 278	1 437
13	Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen ¹⁾⁶⁾	100.00	100	901
14	Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn, Bremen ¹⁾⁶⁾	100.00	150	98
15	City Center Magdeburg Hasselbach-Passage Grundstücksgesellschaft mbH, Hanover ⁵⁾	100.00	415	- 1
16	Deutsche Hypo Delaware Blocker Inc., Wilmington, USA ¹⁾⁴⁾	100.00	8 018	- 2 798
17	Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover ³⁾⁶⁾⁸⁾	100.00	913 172	0
18	FL FINANZ-LEASING GmbH, Wiesbaden ²⁾⁵⁾⁹⁾	58.00	- 9	- 114
19	Galimondo S. a. r. l., Luxemburg-Findel, Luxembourg ¹⁾¹¹⁾¹²⁾	100.00	-	-
20	General Partner N666DN GP, LLC, Wilmington, USA ¹²⁾	100.00	-	-
21	KreditServices Nord GmbH, Braunschweig ³⁾⁶⁾	100.00	581	0
22	LBT Holding Corporation Inc., Wilmington, USA ⁵⁾	100.00	7 875	- 146
23	LHI Leasing GmbH & Co. Immobilien KG, Pullach i. Isartal ²⁾⁵⁾	90.00	1 023	17
24	MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Pullach i. Isartal ⁶⁾	77.81	7 302	485
25	NBN Grundstücks- und Verwaltungs-GmbH, Hanover ¹⁾⁵⁾	100.00	724	- 11
26	NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hanover ²⁾⁵⁾	90.00	938	- 8
27	New Owner Participant – N666DN OP, L.P., Wilmington, USA ²⁾¹²⁾	100.00	-	-
28	Nieba GmbH, Hanover ³⁾⁶⁾	100.00	162 700	0
29	NOB Beteiligungs GmbH & Co. KG, Hanover ¹⁾¹¹⁾¹²⁾	100.00	27 454	-
30	NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hanover ⁵⁾	100.00	38	- 1
31	NORD/FM Norddeutsche Facility Management GmbH, Hanover ³⁾⁶⁾	100.00	636	0
32	NORD/LB Asset Management AG, Hanover ¹⁾⁶⁾⁸⁾	100.00	6 422	1 187
33	NORD/LB Asset Management Holding GmbH, Hanover ⁶⁾	100.00	7 929	5 977

No.	Name/registered office	Share of capital held (in %)	Equity (in € 000)	Profit/Loss (in € 000)
34	NORD/LB COVERED FINANCE BANK S. A., Luxembourg-Findel, Luxembourg ^{1) 6) 7) 8)}	100.00	77 000	1 000
35	NORD/LB G-MTN S. A., Luxembourg-Findel, Luxembourg ⁵⁾	100.00	31	0
36	NORD/LB Informationstechnologie GmbH, Hanover ^{3) 6)}	100.00	25	0
37	NORD/LB Project Holding Ltd., London, Great Britain ⁵⁾	100.00	706	225
38	NORD/LB RP Investments LLC, Wilmington, USA ⁵⁾	100.00	10 769	3 590
39	NORD/LB Vermögensmanagement Luxembourg S. A., Luxembourg-Findel, Luxembourg ^{11) 12)}	100.00	–	–
40	Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hanover ⁵⁾	100.00	15 272	4
41	Norddeutsche Landesbank Luxembourg S. A., Luxembourg-Findel, Luxembourg ^{6) 7) 8)}	100.00	723 000	29 000
42	Nord-Ostdeutsche Bankbeteiligungs GmbH, Hanover ^{3) 6)}	100.00	289 520	0
43	NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen ^{1) 6)}	100.00	100	2 760
44	NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen ^{1) 6)}	100.00	1 107	363
45	N666DN LP, LLC, Wilmington, USA ^{1) 12)}	100.00	–	–
46	PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hanover ⁵⁾	100.00	27	– 1
47	Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser ^{1) 3) 5)}	98.00	3 088	0
48	Ricklinger Kreisel Beteiligungs GmbH, Hanover ^{1) 5)}	100.00	23	– 3
49	Schiffsbetriebs-Gesellschaft Bremen mbH i. L., Bremen ^{1) 5)}	100.00	197	90
50	SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main ⁵⁾	100.00	824	49
51	Skandifinanz AG, Zurich, Switzerland ^{1) 6)}	100.00	15 864	– 864
52	TANGENS Grundstücksverwaltung GmbH & Co. Vermietungs-KG, Pullach i. Isartal ⁵⁾	100.00	26	29
53	Terra Grundbesitzgesellschaft am Aegi mbH, Hanover ^{1) 5)}	100.00	1 121	679
54	Themis 1 Inc., Wilmington, USA ⁵⁾	100.00	3 225	441
55	Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen ^{1) 5)}	100.00	31 006	3 212
56	Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hanover ^{5) 9)}	72.70	– 2 623	564
57	Vermögensverwaltungsgesellschaft Thiede GmbH u. Co. Grundschulen-Vermietungs-KG, Hanover ⁵⁾	79.80	25	– 9
58	Vermögensverwaltungsgesellschaft Thiede GmbH u. Co. Tiefgarage Stade Vermietungs KG, Hanover ⁵⁾	90.00	9	2 794
59	Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig ^{1) 3) 4)}	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) 5)}	21.88	5 630	- 958
2	Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede ^{1) 5)}	32.26	28 345	- 456
3	BREBAU GmbH, Bremen ^{1) 5) 8)}	48.84	60 704	7 892
4	Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen ^{1) 5)}	49.00	- 316	- 410
5	Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode ⁵⁾	50.00	4 100	403
6	Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin ^{5) 8)}	20.89	15 794	306
7	Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg ^{5) 8)}	20.44	14 782	2 157
8	caplantic GmbH, Hanover ⁵⁾	50.00	2 209	1 518
9	Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen ^{1) 5) 8)}	27.50	114 078	22 660
10	Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta ^{1) 5)}	20.46	11 090	306
11	GSG Oldenburg Bau- und Wohngesellschaft mit beschränkter Haftung, Oldenburg ^{1) 5)}	22.22	85 778	4 215
12	Grundstücksgemeinschaft Escherweg 5 GbR, Bremen ^{1) 6)}	50.00	- 2 698	- 379
13	Grundstücksgemeinschaft Escherweg 8 GbR, Bremen ^{1) 6)}	50.00	- 1 035	- 279
14	Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. – Objekt Zietenterrassen – KG, Göttingen ^{2) 5)}	52.56	6 825	3 596
15	INI International Neuroscience Institute Hannover GmbH, Hanover ^{1) 5) 9)}	22.70	- 15 172	- 3 655
16	LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover ^{1) 5) 8)}	44.00	297 458	0
17	LHI Leasing GmbH, Pullach i. Isartal ^{2) 6) 8)}	49.00	50 339	4 765
18	LINOVO Productions GmbH & Co. KG, Pöcking ^{5) 9)}	45.17	- 47 119	1 051
19	LUNI Productions GmbH & Co. KG, Pöcking ^{5) 9)}	24.29	- 115 633	- 48
20	Medical Park Hannover GmbH, Hanover ^{1) 5)}	50.00	2 735	250
21	Medicis Nexus GmbH & Co. KG, Icking ⁴⁾	66.01	8 142	- 1 575
22	Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin ⁵⁾	26.00	11 876	835
23	Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hanover ⁵⁾	39.82	10 938	501
24	NBV Beteiligungs-GmbH, Hanover ^{2) 5)}	42.66	14 996	2 218
25	NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hanover ⁵⁾	28.66	1 881	376
26	Öffentliche Lebensversicherung Braunschweig, Braunschweig ⁵⁾	75.00	35 479	668
27	Öffentliche Sachversicherung Braunschweig, Braunschweig ⁵⁾	75.00	266 733	6 001
28	Öffentliche Versicherung Bremen, Bremen ^{1) 5)}	20.00	5 050	- 910
29	SALEG Sachsen-Anhaltinische-Landesentwicklungsgesellschaft mbH, Magdeburg ⁵⁾	56.61	14 032	566
30	Toto-Lotto Niedersachsen GmbH, Hanover ^{5) 8)}	49.85	28 359	18 134
31	Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake ^{1) 5)}	21.72	19 086	419

NORD/LB is a partner with unlimited liability in the following company (§ 285 no. 11a 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, Hannover

¹⁾ Held indirectly.

²⁾ Including shares held indirectly.

³⁾ Letter of comfort exists.

⁴⁾ Data as at 31 Dec. 2012 is available.

⁵⁾ Data as at 31 Dec. 2013 is available.

⁶⁾ Preliminary data as at 31 Dec. 2014.

⁷⁾ Values in the financial statements in accordance with IAS/IFRS

⁸⁾ Disclosure also in accordance with § 340a para. 4 no. 2 of the German Commercial Code (banks are interpreted as large corporate entities).

⁹⁾ The company is not actually overindebted.

¹⁰⁾ No disclosure in accordance with § 286 para. 3 clause 2 of the German Commercial Code.

¹¹⁾ The company is not actually overindebted.

¹²⁾ Equity as defined in §§ 266 and 272 HGB of the German Commercial Code less outstanding contributions.

Other Information

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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 manage-

ment 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, 10 March 2015

Norddeutsche Landesbank Girozentrale

The Managing Board

Dr. Dunkel

Brouzi

Schulz

Forst

Dr. Holm

Bürkle

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 2014. 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 activi-

ties 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."

Hannover, 11 March 2015

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 NORD/LB AöR and the Group. 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 statutes 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 Sustainability and Refinancing Strategy.

The annual financial statements and the consolidated financial statements of NORD/LB for the financial year 2014 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 22 April 2015, 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 on 22 April 2015 the Supervisory Board adopted NORD/LB AöR's annual financial statements for 2014 and approved the consolidated financial statements for 2014. The Supervisory Board also recommended to the Owners' Meeting the appropriation of profit and the ratification of the actions of the Managing Board.

The following have left the Supervisory Board:

On 30 June 2014 Mr. Martin Kind

The following were appointed to the Supervisory Board:

On 1 July 2014 Dr. Elke Eller

The Supervisory Board would like to thank the Managing Board for its cooperation based on mutual trust, and the bank's employees for the work they have carried out in 2014.

Hanover / Braunschweig / Magdeburg
April 2015

Peter-Jürgen Schneider
Minister of Finance
State of Lower Saxony

Report of the Owners' Meeting

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

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

The following left the Owners' Meeting

On 26 October 2014 Harri Reiche

On 31 December 2014 Jürgen Kiehne

The following were appointed to the Owners' Meeting:

On 27 October 2014 Frank Bannert

On 1 January 2015 Norbert Dierkes

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

Hanover / Braunschweig / Magdeburg
April 2015

Thomas Mang
President
Association of Savings Banks in Lower Saxony

NORD/LB

Die norddeutsche Art.

NORD/LB

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