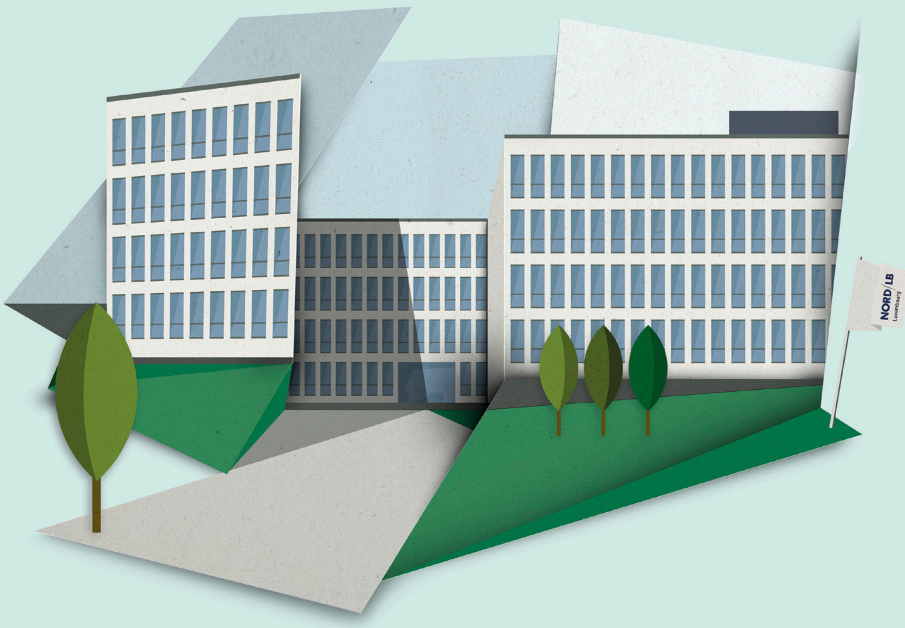
Covered Bond Bank
Luxembourg



Rethink covered banking.
A bank can be so much more.
What we want is what we are

Finanzgruppe

Annual Report 2016

Business performance	31.12.2016 (in € million)	31.12.2015 (in € million)	Change (in € million)	Change (in %)
Loans and advances to banks	1,240.5	1,510.0	-269.5	-18
Loans and advances to customers	8,242.2	6,768.8	1,473.4	22
Risk provisioning	-23.3	-39.9	16.6	-42
Financial assets	5,030.8	5,846.2	-815.4	-14
Other assets	1,446.0	1,746.6	-300.6	-17
Total assets	**15,936.2**	**15,831.8**	**104.4**	**1**
Liabilities to banks	6,612.1	7,626.4	-1,014.3	-13
Liabilities to customers	3,412.8	3,221.4	191.4	6
Securitised liabilities	3,221.8	3,114.2	107.6	3
Other liabilities	1,978.1	1,169.5	808.6	69
Reported equity	711.4	700.3	11.1	2
Total liabilities and equity	**15,936.2**	**15,831.8**	**104.4**	**1**

Earnings performance	2016 (€ thousand)	2015 (€ thousand)	Change (€ thousand)	Change (in %)
Net interest income	90,356	93,316	-2,960	-3
Net commission income	-41,249	-23,406	-17,843	76
Profit/loss from financial investments	4,927	9,845	-4,918	-50
Other earnings	-3,295	-810	-2,485	> 100
Earnings before costs	**50,740**	**78,946**	**-28,206**	**-36**
Administrative expenses	-36,913	-44,090	7,177	-16
Earnings from valuation changes and risk provisions	29,143	7,690	21,453	> 100
Taxes	-11,746	-10,444	-1,301	12
Earnings after taxes	**31,224**	**32,102**	**-878**	**-3**

Key performance indicators	2016	2015	Change (absolute)	Change (in %)
Cost/income ratio in % *	50.5%	50.7%	-0.2%	-0
RoRaC in % **	11.0%	9.2%	1.8%	20

*) The cost/income ratio (CIR) is the ratio of administrative expenses to earnings before taxes excluding administrative expenses and risk components. (Also see Note (15))
**) The RoRAC is the ratio of earnings before taxes to the maximum value of the limit for committed capital or committed capital. (Also see Note (15))

Key regulatory indicators	31.12.2016 (in € million)	31.12.2015 (in € million)	Change (in € million)	Change (in %)
Total risk exposure amount	4,209.7	4,139.6	70.1	2
Tier 1 capital	625.1	629.5	-4.4	-1
Own funds	649.1	674.8	-25.7	-4
Common Equity Tier 1 capital ratio	14.8%	15.2%	-0.4%	-2
Total capital ratio	15.4%	16.3%	-0.9%	-5

Workforce	31.12.2016	31.12.2015	Change (absolute)	Change (in %)
Number of employees	186	177	9	5

Summary of key data

The following tables may contain computational rounding differences.

Contents

Sales

220 European, institutional customers in 27 countries

Long-term funding

2 excellent new ratings

Factoring

over 60 transactions worth EUR 1.81 billion

Programme limit (+19%)

Loan portfolio

+18% Double-digit growth

At a glance

What we want is what we are.

We want sustainable values – for all customers, their employees and for us.

We want transparency in all activities, and openness towards and acceptance of new ideas. We are a trustworthy partner to our customers, we are committed to supporting them and we help them successfully realise their goals and desires.

We want to be in the banking location of Luxembourg with its unique political and social stability. It is a magnet for the international financial community in the heart of Europe thanks to its consistent regulatory and supervisory measures, making it one of the largest financial centres in Europe.

We want authenticity and stability and we stand behind our word. This is why we always take a measured approach and handle our resources and the environment with care. We want to be committed to society in a public-spirited and cultural manner.

NORD/LB Luxembourg S.A. Covered Bond Bank: Unity in diversity.

As a covered bond bank, our focus lies on issuing Pfandbriefe under Luxembourg law, known as "Lettres de Gage", with which we make a valuable contribution to refinancing the core business of the NORD/LB Group.

We sell NORD/LB Group products throughout Europe, offering a variety of solutions for our clientele.

Rethink covered banking

Foreword

Dear customers, business partners and employees of NORD/LB Luxembourg S.A. Covered Bond Bank

We had become accustomed to international politics functioning in a routinely administrative manner. Napoleon is said to have told Goethe that “politics is fate”. The year 2016, with all of its upheaval, showed us that we must expect the unexpected. Continuity and reliability are particularly sought-after values in times of political and economic uncertainty. For this reason, institutional investors continue to focus their planning on the Pfandbrief as a “safe haven”. Covered bond banks, however, are also being faced with an increasing number of new supervisory requirements.

Despite all of the political and economic challenges the Pfandbrief market remains the first choice for investors, particularly in difficult times, and is in good shape overall. To ensure that this remains true, the never-ending torrent of regulatory initiatives must be identified at an early stage, carefully observed and closely monitored. This is a process that did not solely occupy NORD/LB Covered Bond Bank in 2016, but which will continue to occupy it in the years to come.

After our consolidation to create “unity in diversity”, in other words our restructuring in 2015, we actively promoted the concept of “rethink covered banking” in 2016. We worked hard on our values in 2016 and on how we live them. As has been the case in the past, our employees in particular deserve our sincere thanks and gratitude for all of their hard work in this endeavour. Their unwavering commitment and perseverance in numerous projects and a wide variety of issues as well as their courage and intense loyalty form the foundation for our future success.

For us, “rethink covered banking” means that we will address the topics of digitisation, sustainability and innovation even more thoroughly. The “NeoFlux” project (creation of a new Lettres de Gage asset class) and the “Helios” project (uniform Group-wide IT platform) as well as digitisation in the factoring business are just a few noteworthy examples of this.

As a result of our focus on the Pfandbrief business, we at NORD/LB Luxembourg S.A. Covered Bond Bank are now working together with our partners and customers even more closely. We see ourselves as the manufacturing element within our Group. Developments such as the successful expansion of cross-divisional collaboration in the lending business, the expansion of our sales activities in Europe, being given responsibility to build the international IT platform for the Group and our growing contribution to the Group’s value-creation chain are clear evidence that this fact remained true in 2016.

We are confident about 2017, as our Luxembourg Pfandbriefe play a key role for our investors and the Group as a secure form of investment and source of refinancing in the current market environment.

In 2017 we will continue to optimise our workflows and expand our collaboration with the NORD/LB Group. Despite an ever-increasing number of new regulatory requirements, we will continue to focus on rigorous cost management, relying on qualified teams, new methods and modern IT in the process.

With all this in mind, our summary of the past year is as follows: the strategy of transparency in all activities and openness towards and acceptance of new ideas has paid off. The concept of a modern covered bond bank will make us an attractive partner in future.

We would like to take this opportunity to thank Christian Veit for his many years of commitment to NORD/LB Luxembourg S.A. Covered Bond Bank. He served as the Bank’s CEO until 13 November 2016 and left in order to take a position with the Group in Bremen.

Thorsten Schmidt

Managing Board

Thorsten Schmidt
Member of the Managing Board

Born in 1964
Member of the Managing Board since 2010, Deputy CEO of NORD/LB Luxembourg S.A. Covered Bond Bank since 2015. Current term ends 31 December 2020.

After receiving his university-entrance diploma (Abitur), Mr Schmidt began training at Norddeutsche Landesbank Girozentrale in 1983. After completing his training, he transferred from the Braunschweig branch to the Currencies Trading department in Hanover. Thorsten Schmidt has been with Norddeutsche Landesbank Luxembourg S.A. since 1987. In 1996 he took on management of the Financial Markets division. He was appointed to the Managing Board of Norddeutsche Landesbank Luxembourg S.A. in 2010 and to the Managing Board of NORD/LB Covered Finance Bank S.A. in 2012. He has led NORD/LB Luxembourg S.A. Covered Bond Bank since 2015, initially together with Mr Veit.

Management report

NORD/LB Luxembourg S.A. Covered Bond Bank

NORD/LB Luxembourg S.A. Covered Bond Bank (hereinafter "NORD/LB CBB" or "the Bank"), domiciled in Luxembourg, is a wholly owned subsidiary of NORD/LB Norddeutsche Landesbank Girozentrale with registered offices in Hanover, Braunschweig and Magdeburg (hereinafter "NORD/LB"). The Bank is included in the consolidated financial statements of NORD/LB (hereinafter "the NORD/LB Group" or "the Group"). NORD/LB has issued a letter of comfort for NORD/LB CBB. The consolidated financial statements of NORD/LB are available online at www.nordlb.de.

The purpose of NORD/LB CBB is to conduct all transactions which are legally authorised for mortgage-lending institutions under the law of the Grand Duchy of Luxembourg. In addition to this, it also conducts business activity in the areas of Financial Markets & Sales, Loans and Client Services/B2B.

NORD/LB CBB holds 100 per cent of the shares in Galimondo S.à r.l., Luxembourg. Galimondo S.à r.l. was established on 5 September 2014 as a company with limited liability under Luxembourg law. The purpose of this company is to provide and coordinate services that are needed to construct and maintain the functionality of buildings and facilities, including their infrastructures (facility management). Due to its minor importance, Galimondo S.à r.l. is not consolidated in the Bank's financial statements under commercial German law as at 31 December 2016.

This report pertains to the financial statements of NORD/LB CBB in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as implemented by the EU.

International economic developments

Economic Developments

The global economy once again generated only moderate growth in 2016; the trend, however, improved slightly by year-end. Real global economic growth was again moderate and barely exceeded 3.0 per cent for the fourth year in a row. In the US, the economic upswing picked up speed over the course of the year: despite a weak first half-year, the gross domestic product (GDP) for the entire year grew by 1.6 per cent on the previous year. The situation in Japan remained difficult, with the GDP for 2016 expanding by just 1.0 per cent compared to the previous year. In contrast, the upswing in the eurozone forged ahead and proved to be very robust in the face of negative external factors such as the Brexit vote in the middle of 2016 and Donald Trump's win in the US presidential election at the beginning of November 2016. Overall, economic activity in the developed economies was strong enough to largely compensate for persistently weak growth in some key emerging markets. In the context of reorganising its growth model, China's GDP growth once again fell to a mere 6.7 per cent. Russia and Brazil delivered at least tentative signs of a gradual economic stabilisation by year-end. However, the figure for real world trade volume was once again weak and likely grew by less than 2.0 per cent.

Eurozone and Germany

As expected, the economic upswing in the eurozone continued in 2016. The growth rate was at least 0.3 per cent year-on-year in all four quarters. The general economic performance improved by 1.7 per cent in 2016 as a whole. However, the general economic development was quite varied again in 2016. Among the major national economies, Spain once again stood out with very high economic growth of more than 3.0 per cent for the full year. The Netherlands and Germany also generated disproportionately high growth rates. In contrast, the economies of France and Italy posted a more moderate performance, with both countries still suffering from structural problems. As was the case in 2015, economic growth in France (+1.2 per cent) and Italy (+0.9 per cent) fell considerably short of the growth generated by the rest of the currency area. Greece once again brought up the rear in 2016, although the country was at least able to stabilise as the year progressed – albeit at a very low level. The strongest growth is once again expected to be reported by the office of statistics in Ireland. On the heels of a fairy-tale calculative growth rate of more than 26.0 per cent in 2015, the Emerald Isle is on track for GDP growth of more than 4.0 per cent in 2016. Nevertheless, these figures should be taken with caution, as they mainly reflect tax-induced corporate transactions and relocations. Ireland is benefiting from corporate taxes that are very low compared to other countries. While stimulus from abroad remained sluggish for the eurozone as a whole, domestic demand propped up growth. The high rate of growth in real private consumption was also bolstered by the still extremely low inflation rate (+0.2 per cent) and a significant reduction in unemployment to an average for the year of 10 per cent.

The German economy performed very well in 2016. Economic growth once again accelerated slightly despite numerous negative events. Real GDP increased by 1.9 per cent year-over-year. Very rapid growth in the first half-year and a brief break during the summer were followed by a considerable pick-up in growth in the last quarter. As expected, domestic demand provided particularly strong support for overall economic growth in 2016. The key drivers of this growth were public consumption (+4.2 per cent) and private consumption (+2.0 per cent). Construction investment also made a considerable contribution to overall economic growth with a 3.1 per cent increase. In contrast, net exports and equipment investments (+1.7 per cent) delivered disappointing growth for the year as a whole. The strong economy resulted in a further improvement in the jobs situation; at the end of December, the seasonally adjusted labour force consisted of nearly 43.6 million people.

Financial market performance

In 2016 the capital markets were significantly impacted, in particular, by central bank measures as well as the results of the Brexit vote and the US presidential election. Due to the high level of political uncertainty, the US Federal Reserve postponed until December its second key rate hike since the financial crisis. In contrast, the European Central Bank (ECB) accelerated its expansive monetary policy even more. In addition to reducing the deposit rate to -0.40 per cent, it also announced further changes to the ECB Expanded Asset Purchase Programme (EAPP), including a temporary increase in the monthly purchasing volume for one year starting in April 2016. Corporate bonds have also been purchased since mid-2016. Although the inflation rate has climbed above 1.0 per cent for the first time in more than three years as at the end of 2016, this rise is largely due to the base effects of the crude oil price, whereas domestic price pressure is low, which is reflected by a core rate of only 0.9 per cent (December). In view of this, the ECB Council decided at the end of the year to extend the EAPP until at least the end of 2017. This, in principle, served to maintain the low-interest environment, although bond yields increased rather significantly in some cases in the course of 2016. As at the end of December, the yield on ten-year US Treasuries was 2.44 per cent, while German Bunds with the same maturity continued to yield considerably less at 0.21 per cent. The US dollar benefited from the rate increase in the US and increasing monetary policy divergence between the Fed and the ECB. In this environment, the EUR/USD rate in 2016 fluctuated within a range of over 1.16 to temporarily below 1.04 USD per EUR in December. EUR/USD cross currency basis swaps expanded over the course of the year; the short and medium-term segments were at around -45 basis points as at year-end and around -40 basis points for a ten-year period.

Report on expected developments

Geberal economic development

Global economic outlook
The US economy will return to more dynamic growth in 2017. Until recently, key early indicators have pointed clearly towards growth. In light of this, the positive trend on the US labour market will also remain in place. The Chinese economy continues to undergo a transitional phase in terms of its growth model, meaning that economic growth may see another slight decrease. The economic upswing in the eurozone will also continue in the coming quarters.

Economic forecast for Germany and the eurozone
Economic growth has already increased markedly in Germany and the eurozone towards the end of 2016. In view of recent very high figures for economic confidence and consumer sentiment, a solid growth increase is expected as well for the first quarter of 2017. However, it cannot yet be estimated whether and to what extent political risks could dampen sentiment over the course of the year. For now, however, it seems more likely that the upswing will continue this year at a similarly rapid rate as in the previous year. The still-very-expansive monetary policy of the ECB as well as moderate energy prices and the relatively weak external value of the euro are good prerequisites for continued growth. The outlook for private consumption remains fundamentally positive. Although inflation is rising sharply due to base effects, NORD/LB expects the average rate for the year to be below 2.0 per cent. Real wages will therefore continue to rise, although not as rapidly as in previous years. Public consumption is once again likely to increase markedly as well. Exports will benefit from slightly more dynamic global economic growth, but growth will fall short of previous economic upswings. There is also likely to be a high level of construction activity. In principle, the willingness to make investments should grow as capacity utilisation rises. However, the trend for equipment is still likely to be sluggish, in particular in the first half, due to political uncertainty. Economic output should increase by at least 1.5 per cent year-on-year in 2017. NORD/LB also considers it likely that the dynamic upswing will continue in 2018, although political risk factors (in particular Brexit and new US policies) will have to be kept in mind.
The economic outlook is also good for the eurozone. For 2017, NORD/LB projects at least 1.6 per cent growth in GDP compared to the previous year. The domestic economy, in particular private and public consumption, will remain the key growth driver. Nevertheless, significantly higher inflation due to base effects will cause real available income to grow at a slower rate. Further marked improvements can be expected in the reduction of unemployment, while the rate of consolidation of public finances will probably be moderate. As was the case in 2016, cyclical-based progress will probably be the primary contributor here. However, there are still considerable threats to the outlook. In addition to ongoing risk factors from global terrorism and geopolitical conflicts, these include political risks in particular. The first half of 2017 will see the start of official business by the new US President Donald Trump, formal notification to the European Council of Britain’s intent to withdraw from the EU pursuant to Article 50, para. 2 of the Treaty on the European Union (TEU) and key elections in the Netherlands and France (presidential and parliamentary elections). There is a threat in both countries that right-wing populist and anti-EU parties could gain increasing traction. Marine Le Pen of Front National (FN) is a candidate who should be taken seriously, at least for inclusion in the run-off to the presidential election in France.

Financial market performance and interest rate forecasts
Despite the rate hike in December 2015 and a

second increase at the end of 2016, the US Federal Reserve will pursue a cautious path towards normalising monetary policy. The most recent FOMC statement does not foresee a series of quarterly interest rate increases for 2017. However, NORD/LB expects that the strong economy and high inflation will prompt the Fed to raise rates at least twice in 2017.

In line with its announcement in December 2016, the European Central Bank (ECB) will continue its very expansive monetary policy in the eurozone in 2017. Most council members were unimpressed by the most recent increase in inflation. Mario Draghi will continue to emphasise the downside risks of the forecast and, as regards the price trend, place increased focus on the core rate and therefore domestic price pressure. However, the ECB will ease up somewhat on the Expanded Asset Purchase Programme (EAPP) starting from April 2017 and return to the original monthly purchase amount of € 60 billion. A rate hike, though, is considered extremely unlikely in 2017. Nevertheless, NORD/LB expects an intensification of the tapering debate in the second half-year and a gradual withdrawal from the purchasing programme from 2018. In this context, yields on European government bonds – especially in the long-term maturities – have increased significantly. Money market rates will linger in negative territory in connection with a stable deposit rate. Barring any further political shocks, the normalisation of inflation should result in higher yields in the capital market: from today's perspective, it seems possible that Bunds with a ten-year residual maturity could reach a level of just below 1.0 per cent by the end of 2017.

The different alignments in monetary policies on either side of the Atlantic indicate for the time being that the US dollar will remain relatively strong over the short term. However, NORD/LB anticipates that over the medium term the euro will gain some ground, in particular owing to the impending exit discussion in the second half of 2017 outside and, in particular, within the ECB. Over the next twelve months a rate of 1.11 USD per EUR could be back on the horizon. This year, political risks represent the most significant potential uncertainty factor for the markets and volatility will remain high as a result. In light of this projected exchange rate trend, EUR/USD cross-currency basis swaps should stabilise within a range of -35 to -45 basis points over the short to medium-term segment.

Covered bond markets and Lettres de Gage Publiques

The first two months of financial year 2016 indicated that it could be a record year for the covered bond market. However, the volume issued was ultimately only € 122 billion, slightly missing the previous year's level of € 144.5 billion. The months of July and September should be emphasised in this regard, when € 14 billion and € 15 billion less was issued in these months respectively compared to the previous year. The countries with the highest issues were the familiar jurisdictions of Germany, France and Spain, which successfully placed a total of 44.9 per cent of the issues. In addition to the mainstays of the covered bond markets, investors were pleased about three new covered bond countries (Singapore, Turkey and Poland) as well as 12 new issuers in total.

Although the issuing countries are widely diversified, the origin of investors is quite a different matter. As was the case in previous years, the majority of investors in 2016 came from Germany and Austria, followed by the Scandinavian countries. If the distribution is viewed by type of investor, it becomes clear that although banks continue to represent a key investor group, their proportion is continuously declining in favour of central banks. In December 2016, the ECB announced that it would extend its Covered Bond Purchase Programme (CBPP3) until the end of 2017, although the purchasing volume will be reduced by € 20 billion to € 60 billion. The ECB also relaxed its purchasing criteria so that purchases can now also be made below two years and below the deposit rate (-0.4 per cent). This means the ECB will probably continue to play a key role in "buyable" issues in 2017.

Driven by CBPP3, covered bond spreads narrowed over the course of 2016 despite low yields. However, the widening of spreads in almost all jurisdictions in November 2016 caused a majority of secondary market spreads to hover around levels from the beginning of the year. This development also affected the Lettres de Gage Publiques (LdGp) of NORD/LB CBB, which continues to be the only active issuer of Lettres de Gage Publiques in the market. In June 2016, NORD/LB CBB successfully placed a seven-year benchmark issue, which represented the third EUR benchmark issue in two years.

On the regulatory side, covered bond harmonisation was a key topic in 2016. Commissioned by the European Systemic Risk Board (ESRB), the EBA on 20 December 2016 published its report entitled "Recommendations on harmonisation of covered bond frameworks in the EU", in which it presents its recommendation for the European Commission on covered bond harmonisation. The EBA's report analysed regulatory developments in covered bond legislation in the respective member states, including the best practice recommendations published in 2014 on strengthening covered bond regulations in the EU. Previously, these regulations mainly comprised the regulatory risk weighting of covered bonds, while the actual legislation was left to the respective member states. The investigation revealed that there are similarities within the various legislation with regard to dual recourse, the spin-off of collateral assets and certain insolvency regulations, eliminating the need for harmonisation in these areas. However, when it came to data disclosure, liquidity buffers, the composition of the cover pool as well as the scope and options of the supervisory authorities, there was found to be a great need for harmonisation. In order to adapt these differences within European covered bond legislation, the EBA recommendation focuses on three harmonisation steps consisting of

- the development of a uniform covered bond framework to replace the rules for covered bonds in the UCITS Directive (Article 52(4)), and thus create a uniform basis for all provisions and regulations that provide for preferred treatment of covered bonds (e.g. Liquidity Coverage Ratio (LCR), Bank Recovery and Resolution Directive (BRRD), Solvency II);
- the amendment of the Capital Requirement Regulation (CRR) with regard to the risk weighting of covered bonds. In order to benefit from preferred imputation, covered bonds must meet the requirements in steps 1 and 2; and
- a voluntary convergence of the individual frameworks at the national level.

In addition to the EBA's recommendation for harmonisation, the EU Commission ordered a study in autumn 2016 on the impact of harmonisation in order to provide a further basis for decision making. This study surveyed issuers, their national interest groups, investors, rating agencies and national supervisory bodies. In this context, Luxembourg's interests are represented by the Luxembourg Bankers' Association (ABBL) in close cooperation with the Lettres de Gage issuers. The ABBL and the issuers it represents fundamentally support the attempts to achieve harmonisation, for example in respect of transparency, cover pool trustees' rights and the handling of cover pools in the event of issuer insolvency. However, the ABBL is of the opinion that the previously applicable risk profile must be kept unchanged with respect to the assets used in the cover.

Development of the business segments

Financial Markets & Sales

The core activities of Financial Markets & Sales at NORD/LB CBB are sales, funding and bank management. Expanding sales is a special focus and is also the reason why employees from Investor & Public Relations have been moved to this division.

Long Term Funding

Long-Term Funding encompasses the management of the cover pools of NORD/LB CBB, the issuing of Pfandbriefe and the raising of long-term uncovered liquidity on behalf of NORD/LB CBB. NORD/LB CBB's issues in this regard are based on both an EMTN programme and standardised individual documentation such as registered covered bonds or promissory notes.

These issuing activities include both the issue of Pfandbriefe in benchmark volumes and customised private placements.

The focus of the issuing activities, which use various currencies customary on the different markets, lies on trading in Lettres de Gage, especially for the medium and long terms, with uncovered issues in the short and medium-term segment.

The Pfandbrief activities carried out from Luxembourg are a supplemental component of the funding for NORD/LB. They provide a valuable contribution to refinancing the core activities of the NORD/LB Group. In addition to this, the investor base is being expanded.

Long-Term Funding is the point of contact for the ratings agencies regarding methodology discussions and changes. In collaboration with Investor Relations, it was possible to promote positive rating changes, which were implemented in January 2017.

Moreover, Long-Term Funding represents the Bank in key national and international committees and working groups in the area of Luxembourg Pfandbriefe.

ALM/Treasury

ALM/Treasury, which is part of the Financial Markets & Sales Division, is responsible for centralised management of all liquidity, interest and currency risks. It acts within these core competencies as a provider of services and solutions for NORD/LB CBB. Its other duties include controlling the securities portfolios and managing the structure of the balance sheet.

As an integral part of the funding activities of the NORD/LB Group, ALM/Treasury is represented in the relevant Group committees and is involved in Group coordination processes. ALM/Treasury is characterised by its broad diversification of refinancing sources and high degree of flexibility in currencies and terms, thus making an additional contribution to the refinancing of the NORD/LB Group. One example of this is the growth of the network in Switzerland, including access to open market transactions of the Swiss National Bank (SNB).

ALM/Treasury makes a further contribution to income in the management of the bank book by actively managing customer flows within the limits set by the Managing Board for market-price risk. This involves using derivative products (OTC and exchange-traded) in addition to traditional balance sheet products.

In the context of balance sheet management, ALM/Treasury supports the strategy and further development of NORD/LB CBB by evaluating internal limitations and regulatory requirements. ALM/Treasury is responsible in this regard for duties such as sustained compliance and cost-optimised monitoring of regulatory indicators (such as LCR).

Fixed Income/Structured Products Sales

The Fixed Income/Structured Product Sales Europe group is responsible for the Europe-wide marketing of the NORD/LB fixed-income product range, providing services in this respect to institutional customers such as asset managers, central banks, the supra sovereign agency (SSA) sector and banks in non-German-speaking parts of Europe. Standardised and structured financial products are marketed in close cooperation with the Group.

The objective in the standardised product segment ("flow products") is to support primary market activities and increase the turnover rate of the Group's trading book. The main flow products include Pfandbriefe and covered bonds from other jurisdictions, bonds of sovereigns, supranationals and agencies (SSAs) and issues from German states.

Another intention of the Group is to geographically diversify refinancing sources by attracting European investors via NORD/LB CBB.

Structured credit products ("non-flow products") are being developed on the basis of the business activities of the Group's different market units. The goal is to actively use customer relationships in NORD/LB's credit divisions to meet customer demand for alternative investments.

The Group does not take on any own risks.

Performance in Financial Markets & Sales

The stock exchanges in 2016 were impacted by concerns over political stability and abundant liquidity. The Brexit vote, Trump's election and the government crisis in Italy are just a few examples of this. Politics in particular kept investors on edge this year, in addition to concerns over the global economy. The DAX benchmark index in Germany nevertheless managed to post gains for the year as a whole. Global equity prices have been mainly driven by the abundant provision of liquidity by major central banks. Admittedly, the US Federal Reserve further tightened its monetary policy reins in 2016 by raising the key rate slightly by 0.25 percentage points and signalling further measures. In Japan and the eurozone, however, money remains extremely cheap. It was not until early December that the European Central Bank (ECB) extended its multi-billion-euro purchasing programme for government bonds and other securities until the end of 2017. Interest rates are expected to remain low for some time. Due to the glut of money, neither savings accounts nor bonds from countries with good creditworthiness, such as Germany, yield virtually anything, and investors are therefore turning to equities.

Financial Markets & Sales met these challenges through active interest management. Careful and prudent portfolio management made it possible to achieve satisfactory results.

In the Sales area, turnover and net commission income declined slightly compared to 31 December 2015. As in previous years, the average attainable margin continues to languish at a low level (in particular due to the low interest rate environment and the focus on a risk-averse product range of highly liquid bonds with good to very good ratings).

In financial year 2016, the Luxembourg-based Sales team contracted with more than 160 institutional customers from 27 European countries, including central banks, asset managers and bank treasuries.

The 2016 financial year was characterised by three main trends:

1. a consistently high level of business with central banks and supranationals / subsovereigns / agencies in the eurozone, for both the QE purchasing programmes and also for own investing
2. vibrant trade with bank treasuries in the covered bond segment in the context of their liquidity management (LCR management)
3. strengthening of the Sales team to now five employees thanks to the hiring of a person responsible for Nordic sales for the purpose of sustainably increasing sales activities in the northern European region

In 2016, the Financial Markets & Sales team of NORD/LB CBB successfully marketed a € 500 million, euro-denominated, seven-year Lettres de Gage benchmark transaction. In addition to the benchmark issue, NORD/LB CBB also issued private placements at a volume of € 155 million with terms of up to 22 years.

The high-quality, well-diversified cover pool appealed to investors once more. NORD/LB CBB's euro-benchmark bonds also qualify as liquid assets within LCR management (Level 1 classification). The private placements were purchased by insurers and pension funds.

As at 31 December 2016, over-collateralisation amounted to € 875 million (24.0 per cent) in nominal terms, or € 955 million (26.2 per cent) in present value terms. As a result, the statutory (2 per cent) and voluntary (22 per cent self-obligation) requirements were comfortably met. With a share of 43.6 per cent, public companies represent the largest portion of the cover pool, which reflects the successful implementation of the business strategy.

Loans

The lending business is an "allied lending business with other Group units" and therefore represents a strategic business segment; it is one of the strategic anchors of the Bank in Luxembourg and accounts for the main share of the credit portfolio. The Bank also conducts lending business in cooperation with NORD/LB Vermögensmanagement S.A. and savings banks. The last two lines of business are more of a niche product, and the lending business guaranteed by savings banks will also be wound down. In terms of products, the Bank focuses on variable-interest loans and short-term fixed-rate loans in different currencies. In addition to bilateral credit lines, the Bank also enters into more complex consortium financing arrangements, taking on facility agent functions. The personnel and technical infrastructure of NORD/LB CBB is geared towards these loan types. Loans that can be refinanced in Luxembourg through Lettres de Gage Publiques are booked in NORD/LB CBB in particular within the scope of the cooperation.

Factoring and export financing

The Bank also specialises in factoring (mainly single and pool purchases) in order to supplement the traditional lending business. NORD/LB's factoring business should be viewed as a customised customer solution. This business is operated in close collaboration with the Group, and in the NORD/LB Group it is mainly serviced by NORD/LB CBB. This line of business therefore represents an important and strategically significant component of the lending business of NORD/LBB CBB. Besides factoring, the Bank also supports the Group in foreign business with individual transactions.

Performance in Loans

The allied lending business is focused on collaborating with partners from NORD/LB's Corporate Customers and Structured Finance Divisions. New business was once again very buoyant and resulted in further growth of the loan portfolio.

Business with undertakings under public law is very important for the Bank as these loans serve as cover pool for issuing Lettres de Gage. Covered refinancing allows the Bank to offer its market divisions competitive conditions.

The upward trend in allied lending business volume is also reflected in the contribution from interest terms, which increased in 2016 and was therefore slightly ahead of budget. Lending business guaranteed by savings banks is not very significant in the loan portfolio in terms of volume or income. Demand from customers is also currently low. As a result, the business has been actively scaled back for some time and will be eliminated in 2017.

Client Services & B2B

The Client Services & B2B segment uses the Bank's high-quality IT infrastructure and expertise and the existing internal service range to provide services to third parties. The objective is to make optimal use of the Bank's resources and expertise to generate incidental income without RWA linkage, thus further diversifying the income risk.

In accordance with the Bank's business strategy, the activities focus on customers within the Group.

Outlook

Despite the high level of uncertainty stemming from the new US administration and the Brexit vote, the EU Commission slightly increased its growth forecast for the eurozone. The ECB is therefore unabatedly maintaining its ultra-expansive monetary policy, despite improved economic data and the prospect of rising inflation. As a result, interest rates are not likely to increase.

NORD/LB CBB will continue its mission of generating additional covered refinancing for the core activities of the NORD/LB Group by issuing Pfandbriefe under Luxembourg law. In 2017, NORD/LB CBB will also continue to carry out a number of issues in the form of private placements and in benchmark volumes. The sales force will therefore boost its efforts to place products from the new "Corporate Debt Securities" product segment with European investors.

NORD/LB CBB will continue to add value for its customers and the NORD/LB Group by serving as an experienced and efficient partner in the financing of corporate banking and structured transactions.

In 2016 the basis was created for a project on lean management, which has been in implementation since the beginning of 2017. The Bank expects the realisation of this project will result in increased efficiency and cost savings.

Ratings for NORD/LB Luxembourg S.A. Covered Bond Bank

As at 31 December 2016, NORD/LB CBB's ratings were as follows:

	FITCH RATINGS	STANDARD&POOR'S
NORD/LB Luxembourg S.A. Covered Bond Bank		
Long-term/outlook/short-term	A- / stable / F1	BBB / negative / A-2
Lettres de Gage Publiques / Outlook	AAA / stable	AA- / stable

NORD/LB CBB's cover pool has received very good ratings from Fitch Ratings and Standard & Poor's.
On 21 January 2016, the ratings agency Standard & Poor's confirmed the Lettres de Gage Publiques rating with "AA-" and a stable outlook. In early 2015, Standard & Poor's changed its rating criteria for bank ratings to reflect support from the public sector and additional loss-absorbing capacity. As a result, the credit rating of counterparties in derivatives transactions in the cover pool was adjusted. Based on the criteria set out in Standard & Poor's "Counterparty Risk Framework, Methodology and Assumptions", the issuer rating was downgraded by Standard & Poor's on 1 October 2015 from "AA+/outlook negative" to "AA-/outlook stable". The rating downgrade was not due to a changed assessment of the cover pool. The quality of the cover assets in the cover pool remains high.
Standard & Poor's left the long-term senior unsecured rating of NORD/LB CBB at "BBB/outlook negative". The short-term senior unsecured rating remains unchanged at A-2.
On 12 May 2016 Fitch Ratings confirmed both the long-term issuer default rating (IDR) at "A-" with a stable outlook and the short-term issuer default rating at "F1".
On 6 December 2016 Fitch Ratings confirmed the Lettres de Gage Publiques rating at "AAA" with a stable outlook.

Financial performance

The financial statements of NORD/LB CBB dated 31 December 2016 were drawn up in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as implemented by the EU.

The following tables may contain computational rounding differences.

The components of the income statement developed as follows for the 2016 and 2015 financial years:

	2016 (€ thousand)	2015 (€ thousand)	Change * (€ thousand)
Net interest income	90,356	93,316	-2,960
Loan loss provisions	-181	-1,155	974
Commission expenses/ net income	-41,249	-23,406	-17,843
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	29,323	8,845	20,478
Other operating profit/loss	-3,295	-810	-2,485
Administrative expenses	-36,913	-44,090	7,177
Profit/loss from financial assets	4,927	9,845	-4,918
Earnings before income taxes	**42,970**	**42,546**	**424**
Income taxes	-11,746	-10,444	-1,301
Annual result	**31,224**	**32,102**	**-878**

*) The sign in the change column indicates the impact on earnings.

The breakdown of earnings components is as follows:

Net interest income

	2016 (€ thousand)	2015 (€ thousand)	Change * (€ thousand)
Interest income	522,227	588,738	-66,511
Interest expenses	-430,753	-495,479	64,727
Interest rate anomalies	-1,119	57	-1,176
Net interest income	**90,356**	**93,316**	**-2,960**

*) The sign in the change column indicates the impact on earnings.

Net interest income fell by € 2,960 thousand on the previous year, down to € 90,356 thousand.

Net interest income from fixed-interest securities and book-entry securities (€ 138,800 thousand; previous year: € 169,919 thousand) fell considerably in the past financial year. This was mainly due to the decrease in the volume of securities in the Bank's portfolio and persistently low interest rates. In contrast, there were positive trends in net interest income from lending business and money market transactions (€ 79,949 thousand; previous year: € 68,085 thousand), largely owing to increased volumes of loans and advances with non-banks, as well as a positive trend in interest expense for securitised debt, which decreased from € -33,353 thousand to € -31,131 thousand due to the market interest rate situation. In addition, net interest income from derivative transactions declined from € -111,191 thousand to € -95,215 thousand. Furthermore, interest rate anomalies resulted in negative interest totalling € -1,119 thousand (previous year: € 57 thousand) in financial year 2016.

Loan loss provisions

Changes in **loan loss provisions** resulted in expenses of € 181 thousand in the financial year (previous year: expenses of € 1,155 thousand). The charge was mainly due to the net position from additions to receivables written off as well as direct write-offs of bad debts (€ -637 thousand; previous year: net release of € 847 thousand). In contrast, the net position from the reversal of and allocation to a specific valuation allowance was positive (€ 292 thousand; previous year: € -2,152 thousand).

Net commission income

	2016 (€ thousand)	2015 (€ thousand)	Change * (€ thousand)
Commission income	18,045	18,365	-320
Commission expenses	-59,293	-41,771	-17,522
Net commission income	**-41,249**	**-23,406**	**-17,843**

*) The sign in the change column indicates the impact on earnings.

Net commission income fell by € 17,843 thousand from the previous year, down to € -41,249 thousand.

Commission income was generated principally in lending and guarantee business (€ 11,323 thousand; previous year: € 11,293 thousand) and the security transaction and custody service business (€ 5,801 thousand; previous year: € 6,710 thousand). Other commission income (€ 921 thousand; previous year: € 312 thousand) largely stems from account management and services business.

Commission expenses are mainly attributable to profit-sharing (transfer price model) from business conducted in partnership with other affiliates (€ -34,218 thousand; previous year: € -22,972 thousand) and from lending and guarantee business (€ -21,174 thousand; previous year: € -17,414 thousand), also taking into account the costs to cover credit risks. In addition, commission expenses also arise from security transactions and custody service business (€ -961 thousand; previous year: € -1,385 thousand).

Expenses from the brokerage business and the lending and guarantee business are the primary cause for the decrease in net commission income. This is mainly due to a considerable expansion in volumes of arranged loans as well as a provision created in connection with imminent additional charges from the Group's internal charging (margin-splitting model) for previous years.

Profit/loss from financial instruments at fair value through profit or loss and hedge accounting

	2016 (€ thousand)	2015 (€ thousand)	Change * (€ thousand)
Trading profit/loss	2,377	379	1,997
Profit/loss from the initial recognition of financial instruments at fair value through profit or loss	22,935	-2,860	25,795
Profit/loss from hedge accounting	4,011	11,325	-7,314
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	**29,323**	**8,845**	**20,478**

*) The sign in the change column indicates the impact on earnings.

The **profit/loss from financial instruments at fair value through profit or loss** (€ 29,323 thousand; previous year: € 8,845 thousand) includes the trading profit/loss in the proper sense of the term as well as the profit/loss from financial instruments that have been voluntarily designated under the fair value option. The **trading profit/loss** (€ 2,377 thousand; previous year: € 379 thousand) and the **profit/loss from the fair value option** (€ 22,935 thousand; previous year: € -2,860 thousand) both developed positively. Net interest income from dFV securities (shown in net interest income) came to a total of € 9,951 thousand in the 2016 financial year (previous year: € 13,699 thousand). Due to economic hedge relationships, changes consist of AfS securities against hedging derivatives that do not satisfy the restrictive requirements of hedge accounting. The changes in **profit/loss from hedge accounting** (€ 4,011 thousand; previous year: € 11,325 thousand) are the result of further declines in interest rates as well as OIS and CVA/DVA effects.

Other operating profit/loss

	2016 (€ thousand)	2015 (€ thousand)	Change * (€ thousand)
Other operating income	4,306	21,464	-17,158
Other operating expenses	-7,601	-22,274	14,673
Other operating profit/loss	**-3,295**	**-810**	**-2,485**

*) The sign in the change column indicates the impact on earnings.

Other operating profit/loss fell by € 2,485 thousand to € -3,295 thousand.

Other operating income results predominantly from income obtained outside of the period from VAT (€ 1,372 thousand; previous year: € 1,500 thousand), rental income (€ 855 thousand; previous year: € 833 thousand), income for service charging with NORD/LB Vermögensmanagement Luxembourg S.A. (€ 1,101 thousand; previous year: € 959 thousand) and income from service charging for a major Group project (€ 798 thousand; previous year: € 0 thousand). The previous year's high full-year figure was dominated by effects stemming from the merger of the two predecessor institutions, Norddeutsche Landesbank Luxembourg S.A. and NORD/LB Covered Finance Bank S.A. (€ 16,648 thousand).

Other operating expenses include primarily expenses for service charging with the Group (€ 3,021 thousand; previous year: € 4,624 thousand), levies in relation to the bank resolution fund (Fonds de résolution Luxembourg (FRL)) and the new Luxembourg deposit guarantee fund (Fonds de garantie des dépôts Luxembourg (FGDL)) (€ 2,148 thousand; previous year: € 1,294 thousand), and an impairment loss on an intangible asset (€ 2,217 thousand; previous year: € 0 thousand). The previous year's expenses also mainly comprised effects from the merger of the two predecessor institutions (€ 3,742 thousand) and from provisions created for legal proceedings that have since been concluded (€ 11,800 thousand).

Administrative expenses

	2016 (€ thousand)	2015 (€ thousand)	Change * (€ thousand)
Staff expenses	**-21,567**	**-21,882**	**315**
Wages and salaries	-18,415	-18,844	429
Other staff expenses	-3,152	-3,038	-114
Other administrative expenses	**-12,430**	**-18,623**	**6,193**
Amortisation, depreciation and valuation allowances	**-2,915**	**-3,585**	**670**
Administrative expenses	**-36,913**	**-44,090**	**7,177**

*) The sign in the change column indicates the impact on earnings.

Administrative expenses decreased by € 7,177 thousand over the previous year. This was primarily attributable to a considerable decline in other administrative expenses (€ -12,430 thousand; previous year: € -18,623 thousand). Within this position, the Bank was able to significantly reduce expenses for consulting and auditing (€ -2,967 thousand), the costs of operating and office equipment / IT (€ -2,074 thousand) as well as personnel-related material expenses (€ -1,016 thousand).

Profit/loss from financial assets

	2016 (€ thousand)	2015 (€ thousand)	Change * (€ thousand)
Profit/loss from financial assets classified as LaR/OL including portfolio valuation allowances	-906	1,386	-2,292
Profit/loss from financial assets classified as AfS (excluding equity interests)	5,833	8,460	-2,627
Profit/loss from affiliated companies	0	0	0
Profit/loss from financial assets	**4,927**	**9,845**	**-4,918**

*) The sign in the change column indicates the impact on earnings.

The **profit/loss from financial assets** is composed of profit/loss from financial assets in the loans and receivables category (LaR) (€ -906 thousand; previous year: € 1,386 thousand) and the profit/loss from financial assets in the AfS category (€ 5,833 thousand; previous year: € 8,460 thousand).

The loss from financial assets classified as LaR/OL was mainly attributable to the early repurchase of own issues in the Group's portfolio (€ -3,114 thousand). In contrast, the reduction in portfolio valuation allowances on financial assets had a positive effect.

The profit from financial assets classified as AfS came from the sale of securities as part of portfolio management in both periods.

Income taxes

	2016 (€ thousand)	2015 (€ thousand)	Change * (€ thousand)
Current taxes	-12,138	-10,405	-1,733
Deferred taxes	392	-39	432
Income taxes	**-11,746**	**-10,444**	**-1,301**

*) The sign in the change column indicates the impact on earnings.

Current taxes are calculated based on the tax rate projected for the financial year. The adjusted tax rates for the 2017 and 2018 financial years were already taken into consideration when calculating deferred taxes.

Net assets and financial position

	31.12.2016 (in € million)	31.12.2015 (in € million)	Change (in € million)
Loans and advances to banks	1,240.5	1,510.0	-269.5
Loans and advances to customers	8,242.2	6,768.8	1,473.4
Loan loss provisions	-23.3	-39.9	16.6
Financial assets at fair value through profit or loss	973.2	1,287.0	-313.8
Financial assets	5,030.8	5,846.2	-815.4
Other assets	472.9	459.7	13.2
Total assets	**15,936.2**	**15,831.8**	**104.4**
Liabilities to banks	6,612.1	7,626.4	-1,014.3
Liabilities to customers	3,412.8	3,221.4	191.4
Securitised liabilities	3,221.8	3,114.2	107.6
Financial liabilities at fair value through profit or loss	1,149.2	204.6	944.5
Provisions	21.6	22.0	-0.4
Other liabilities	807.4	942.9	-135.5
Reported equity	711.4	700.3	11.1
Total liabilities and equity	**15,936.2**	**15,831.8**	**104.4**

Total assets increased from the previous year's figure of € 15,831.8 million by € 104.4 million to € 15,936.2 million.

Loans and advances to banks includes money market transactions (€ 840.0 million; previous year: € 1,201.3 million), debt securities (€ 230.5 million; previous year: € 257.1 million) and receivables from repo transactions (€ 170.0 million; previous year: € 0 million).

In line with the Bank's strategy, **loans and advances to customers** largely consist of loan receivables in the amount of € 7,710.1 million (previous year: € 6,612.0 million). In addition to this, there are also reverse repo transactions (€ 465.4 million), receivables from debt securities (€ 61.3 million) and loans and advances resulting from money market transactions (€ 3.3 million). The growth in the portfolio over the previous year is mainly the result of increased lending volume to corporate customers (€ 1,100.9 million) and of receivables from repo transactions (€ 465.4 million).

The Bank's **loan loss provisions** were largely created for two exposures. One involves a customer from the manufacturing industry with a loan loss provision of € 17.7 million and the other involves a customer in the service sector with a loan loss provision of € 2.0 million. The decrease in risk provisioning compared to the previous year of € 16.6 million is largely due to utilisation as part of the restructuring of a credit exposure.

Assets stated at fair value through profit and loss primarily stem from securities in category dFV, which are in economic hedging transactions to interest rate swaps and futures (€ 882.1 million). To prevent an accounting mismatch, this category was selected for control.

Financial assets consist of securities categorised as AfS (€ 2,645.6 million) and LaR (€ 2,385.2 million). The decrease compared to the previous year is mainly due to held-to-maturity securities.

The largest position in **other assets** consists of positive fair values from hedge accounting derivatives (€ 327.7 million; previous year: € 290.4 million).

Liabilities to banks include money market transactions (€ 3,422.3 million), repo transactions (€ 1,211.9 million), issued debt securities (€ 424.2 million) and registered covered bonds (€ 148.4 million). The decrease in liabilities is mainly due to a decline in the business with repo transactions (€ 771.7 million) and a reduction in the money market volume of € 221.2 million.

Liabilities to customers in the amount of € 3,412.8 million (previous year: € 3,221.4 million) consist of money market transactions and issued Lettres de Gage. The planned growth compared to the previous year primarily concerns issues of Lettres de Gage that were purchased by institutional investors. The maturity dates for these are between 2017 and 2044.

Securitised liabilities increased by € 107.6 million on the € 3,114.2 million reported on the comparable period's reporting date. European medium-term notes were issued in the reporting period with a nominal volume of € 450 million. Offsetting effects came from the early repurchase of an issue in the amount of € 300 million and held-to-maturity Pfandbriefe in the amount of € 35 million (nominal volume).

Financial liabilities at fair value through profit or loss (€ 1,149.2 million) comprise new own issues recognised in the balance sheet in category dFV due to an accounting mismatch (€ 1,047.4 million) and derivatives primarily involved in hedging transactions (€ 101.7 million).

Other liabilities mainly consist of fair values from hedge accounting derivatives (€ 706.7 million) and subordinated capital (€ 61.7 million).

The Bank's **reported equity** stood at € 711.4 million as at 31 December 2016 (previous year: € 700.3 million).

NORD/LB CBB does not have any branches, nor does it have any treasury shares in its portfolio.

Risk report

The NORD/LB CBB risk report for 31 December 2016 was prepared in accordance with IFRS 7.
The Bank does not accept significant risks from derivatives with complex structures.

Risk management

Principles

The business activity of a bank inevitably involves the conscious undertaking of risks. Efficient risk management in the sense of a risk/return-oriented allocation of equity is therefore a key component of modern bank management and has been a high priority at NORD/LB CBB since the very beginning. Risk management focuses primarily on controlling risks.

From a business point of view, the Bank defines a risk as the possibility of direct or indirect financial loss due to unexpected negative deviations of actual business results from projected business results. Therefore, strictly speaking, expected losses do not constitute a risk under this definition because they have already been explicitly factored into the calculations. In order to hedge against unexpected financial losses, adequate sums of equity must always be available.

The risk management process implemented within NORD/LB CBB consists of the following stages: risk identification, risk assessment, risk reporting, and risk control and monitoring. This is subject to continuous monitoring and further development in close coordination with NORD/LB. Aside from organisational measures, necessary adjustments also include the refinement of existing risk quantification procedures and constant updating of all relevant parameters. To identify risks, the Bank has set up a multi-stage process (risk inventory) to create an overall risk profile according to the German Minimum Requirements for Risk Management (MaRisk), General Part BGB 2.2, which profiles the risk types relevant to NORD/LB CBB and further divides them into material and non-material risks. Material risks in this sense are those that may significantly affect capital resources, financial performance, liquidity, or the achievement of the Bank's strategic goals.

The overall risk profile is checked (risk inventory) and, if necessary, adjusted at least once a year, or more often as needed.

According to the latest risk inventory, the following risks are still material: credit risk (including equity-interest risk), market-price risk, liquidity risk and operational risk. Insourcing risk and personnel risk were added as subtypes of operational risk. The following risks are also relevant: business and strategic risk (including association risk), reputational risk, real estate risk and pension risk. Syndication risk, which was considered relevant in the previous year, was eliminated as a separate risk type, as the risks from syndications are reflected in market-price and credit risk.

Reasonable precautions have been taken for all identified risks.

According to the provisions of regulatory law, institutions must have a proper business organisation that guarantees adherence to the provisions of the law and operational requirements applicable to the institution. A proper business organisation includes the specification of strategies based on procedures for determining and verifying risk-bearing capacity, which include both the risks and the capital available to cover them. These statutory requirements are firmly anchored for the Bank in both European law and in national legislation in Luxembourg and Germany.

During the reporting year, the Bank initiated and implemented various measures to meet its obligations under the supervisory review and evaluation process (SREP), including long-term capital planning. In addition to making substantive changes in order to meet the requirements, the Bank is also carrying out relevant structural and organisational changes. This was reflected in the creation of the central administrative office for managing SREP. Regulatory and internal risk reporting as well as strategy and planning processes were also integrated into one organisational unit to ensure the necessary interlocking of these activities.

Adequate risk data aggregation is another focus of the integrated management approach. To comply with the requirements relating to this area, the Bank is currently redesigning its data warehouse. In addition, a multi-year project is underway in close cooperation with the NORD/LB Group to implement the principles for effective aggregation of risk data and risk reporting in accordance with BCBS 239.

Risk management - strategies

The NORD/LB CBB business policy is explicitly conservative in its approach. Thus, responsible risk control is the top priority. The formulated risk strategy is therefore in accordance with the business model, the business strategy and the requirements of the risk strategy of the NORD/LB Group, and is reviewed at least once a year. It includes the risk policy principles for the Bank, organisation of risk management, goals for risk control, overall risk profile, risk appetite and risk substrategies.

A key aspect of the risk strategies is the risk-bearing capacity (RBC) model, which is used to determine the risk appetite and the allocation of risk capital to the material risk types.

The Group-wide RBC model conservatively indicates that in normal cases based on the going-concern approach as the primary scope of control, a maximum of 80 per cent of the risk capital with risk exposure may be invested. A total of 20 per cent of the risk capital must be set aside as a buffer and serves to hedge against risks from stress situations and/or risks not explicitly quantified. The risk situation is measured using the utilisation of risk capital (ratio of the sum of risk potential to the total risk capital).

The maximum allocation of risk capital to the material risk types is also determined within the framework of the risk strategy based on the RBC model. The Bank's business model means that credit and market-price risks are of particular importance, as evidenced by the corresponding allocation of risk capital.

The risk strategy strives for effective management of all material risk types and their transparent reporting to the Managing Board, the supervisory bodies and other third parties with a legitimate interest in this information. Based on this, NORD/LB CBB has several other operational tools to guarantee adequate transparency regarding the risk situation and to design the required limitations and portfolio diversification in a controllable and monitorable manner. These tools are detailed in the Bank's documentation of internal regulations.

The NORD/LB CBB risk strategy was reviewed and updated during the financial year. After adoption by the Managing Board the risk strategy was discussed and approved by the Supervisory Board.

Risk management - structure and organisation

The responsibility for risk management lies with the Managing Board of NORD/LB CBB, which also sets the risk strategy. After the Managing Board adopts the risk strategy, the Supervisory Board discusses and approves it.

Furthermore, the Managing Board is also responsible for monitoring and implementing the risk strategy. It is supported by the Chief Risk Officer (CRO), who is a representative of the Risk Control function and is responsible for anticipating, identifying, measuring, tracking, monitoring and reporting all of the risks that the Bank is or could be exposed to. The Managing Board is supported in its decision-taking by special committees/working groups set up to bundle and monitor decisions related to risks.

In the case of decisions on business and risk policy, the Managing Board is advised and supported by the Executive Committee (ExCo), which meets weekly. The ExCo consists of the four division managers of Operations, Finance & Risk, Financial Markets & Sales and Loans & Client Services.

The Luxembourg Risk Committee (LRC) supports the Managing Board in the area of risk control by recommending courses of action. The LRC's scope of action is defined by the business and risk strategy of the Bank. The LRC meets at least six times over the course of a year.

The main duty of the Asset Liability Committee (ALCO) is to define framework conditions for the control of market-price and liquidity risk positions and the Bank's loan and investment books. The ALCO develops recommendations for courses of action to support decision-taking by the Managing Board, taking into account the (current) market situation and its impact on the Bank's liquidity and funding. The ALCO also meets at least six times over the course of a year.

The Internal Control System (ICS) of the Bank is based on the banking supervision requirements (ECB in conjunction with the CSSF), primarily defined in updated Circular 12/552. The role of the ICS officer is filled by the manager of the Organisation department.

Risk management is subject to continuous monitoring and further development. The Bank uses the uniform NORD/LB Group method for this. Adjustments may be necessary in areas such as supervisory requirements, organisational measures, improvements in procedures for risk quantification and continuous updating of relevant parameters.

The risk-relevant organisation structure and the roles, tasks, competencies and responsibilities of the departments involved in risk processes have been clearly and unambiguously defined down to the employee level. An organisational separation between front office and risk management roles has been established all the way up to the level of the Managing Board.

The following departments are involved in the risk management process at the Bank:

Front office / Back office	Division
Front office	Financial Markets & Sales
	Loans & Client Services
Back office	Finance & Risk
	Operations
	Compliance
	Human Resources & Governance
	Legal & Tax
	Audit

The Risk Control & Strategy department (Finance & Risk Division) within the Bank is responsible for the implementation of the RBC model applicable within NORD/LB, continuous monitoring of compliance and regular monitoring of the risk strategy.

Internal Auditing is responsible for risk-oriented and process-independent verification of the effectiveness and adequacy of risk management. Its objectives include monitoring the effectiveness, profitability and regulatory compliance of business operations. It also promotes the optimisation of business processes as well as control and monitoring procedures.

The Internal Auditing units of NORD/LB and NORD/LB CBB work in close collaboration to enhance the Group-wide monitoring tools. This cooperation is based on a uniform auditing policy and an evaluation matrix for audit findings. In connection with this, Group-wide competence centres have also been created to explore complex and specialised topics and to conduct audits in the institutions.

The Bank's Compliance department is responsible for identifying and evaluating the compliance risks within the Bank. It is responsible for ensuring that the Bank meets the requirements under the Internal Capital Adequacy Assessment Process (ICAAP) in full, particularly those from CSSF Circular 07/301 and its addenda circulars. The Bank's compliance charter details the defined tasks and responsibilities.

Alongside Compliance and Internal Auditing, the Risk Control function is also an essential component of risk management according to the latest version of CSSF Circular 12/552. With the approval of the CSSF, the role of CRO as defined in CSSF Circular 12/552 has been filled at NORD/LB CBB by the Finance & Risk Division manager. This means the CRO reports directly to the Board member responsible for back office activities. The main duty of the Risk Control function consists of verifying compliance with all internal policies and procedures falling under this role's area of responsibility, regularly evaluating their adequacy in terms of the structural and process organisation, the strategies, business activities, risks of the institution and the applicable statutory and regulatory requirements, and reporting directly to the Managing Board and/or the Supervisory Board on these matters. The findings from this review are summarised in an annual report drafted by the Risk Control function.

The New Product Process (NPP) governs how to deal with new products, new markets, new sales channels, new services and their variants. The main objective of the NPP is to define, analyse and evaluate all potential risks to the Bank prior to starting new operations. This process includes the involvement of all essential review functions, the documentation of the new business activities, decisions on how to manage them in the overall operational process, decisions to start the business and, where applicable, the definition of any associated restrictions.

All procedures and responsibilities relevant to the risk management process are documented in the risk manual of the NORD/LB Group and in the guidelines of NORD/LB CBB.

For further details on the structure and organisation of risk management, please see the subsections below on the structure and organisation by risk type.

Risk management - risk-bearing capacity model

The risk-bearing capacity model is the methodological basis for the monitoring of compliance with the NORD/LB CBB risk strategy. This monitoring is handled by the Risk Control & Strategy department at the Bank.

The risk-bearing capacity model involves the regular quantitative reconciliation of risk potential from material risks with the capital available to cover such risks. This reconciliation involves not only an aggregate risk analysis (primary criterion) but also, in particular, a monitoring of the risk-strategy requirements through the use of limits for the respective material risk types (secondary criterion).

The aim is to provide qualitative and quantitative evidence about the adequacy of capital from both today's perspective and with a forward-looking view. In addition, the model also verifies consistency between the risk strategies and the specific business activities.

This approach, in conjunction with the established subprocesses for risk controlling, risk monitoring and risk reporting within the risk management process, ensures that the responsible committees of NORD/LB CBB are informed of the development of the Bank's risk-bearing capacity in a timely manner.

The RBC model consists of three scenarios (going concern, gone concern and regulatory) that compare the material risks (risk potential) to the defined risk capital.

Of these three scenarios the going-concern case is the authoritative scope of control for the evaluation of risk-bearing capacity and the adequacy of equity resources (ICAAP). The overarching principle for this primary scope of control is the Bank's ability to continue business based on its existing business model while complying with external requirements and with ongoing coverage of all risks to be considered within the scope of risk-bearing capacity. The going-concern approach compares risk potential calculated economically at a standard confidence level of 95 per cent with available capital in due consideration of the additional requirements under the SREP.

A further consideration level is the gone-concern approach, which is a subsidiary condition that takes account of creditor protection. The gone-concern approach applies a higher confidence level for risk potential of 99.9 per cent and compares the risk potential economically calculated in this way with risk capital, which is based on the total regulatory own funds and adjusted in line with economic aspects such as hidden liabilities. If the capital needed to cover the risks is fully consumed, then in principle the Bank could no longer continue operating under the current assumptions.

The third scenario of the RBC model, regulatory, is the official regulatory report on the adequacy of own funds. It accordingly takes into account the risk potential calculated as per regulatory requirements. The regulatory scenario constitutes a strict subsidiary condition within the RBC model.

The structure of the RBC model enables direct controlling measures to be derived from the main consideration level (going concern) in conjunction with external requirements regarding the capital ratios to be maintained, which are strict subsidiary conditions. Strategic limits are therefore derived from the examination of risk-bearing capacity taking into account the risk capital allocations applied in the risk strategy based on the going-concern approach.

The reports on risk-bearing capacity (RBC reports) drafted monthly by Risk Control & Strategy serve as input for the entire Bank's centralised risk reporting tool for the benefit of the Managing Board and the supervisory committees. This process includes regular monitoring of compliance with the requirements of the risk strategy on risk appetite and the allocation of risk capital to the material risk types. The RBC calculations on the quarterly reporting dates are also fixed agenda items for the regular meetings of the Bank's Supervisory Board.

The calculation of risk-bearing capacity also takes into account risk concentrations, both within a risk type and across multiple risk types. Concentrations within a risk type are integrated into the RBC model through the Group's internal risk models.

Concentrations across multiple risk types are primarily analysed during stress tests. The Bank's stress test approach builds on the relevant risks identified in the risk inventory. The Group-wide approach based on a predefined "process line" for selection of scenarios, identification of cause-and-effect chains and their translation into specific parameters and/or shock intensities forms the basis for effective implementation of ad hoc stress tests.

The business and risk focuses of the Bank are explicitly applied as selection guidelines when selecting and designing the stress scenarios. This means the industries, segments, regions, customers, etc. with a significant influence on the Bank's risk situation are selected. Assumptions related to significant influence are based on the absolute exposure, the absolute risk contribution (portion of unexpected loss), the rating distribution, the focuses of the business strategy and past crises. Inter-risk concentrations are therefore an implicit focus of the stress tests.

Once the focal points are identified, clear events are defined that describe negative developments for the selected focal points. The events must always be designed to apply across multiple risk types. Thus, stress test parameterisation must include all risk types which could experience adverse developments in the specifically defined crisis situation and thus increase the potential for loss of the stress scenario. Loss exposures from stress actively use up economic risk capital. Furthermore, aside from the RBC perspective an analysis is performed of the effects of stress scenarios on the income statement, the distance to illiquidity and the regulatory capital ratios.

Both MaRisk requirements (General Part BGB 4.3.3) and the requirements of CSSF Circular 11/506 of 11 March 2011 stipulate that inverse stress tests must be conducted for NORD/ LB CBB. Inverse stress tests examine which events could threaten the survival of the Bank by, for example, making its original business model no longer feasible or viable, or by causing a lack of own funds or liquidity reserves. Inverse stress tests supplement the other stress tests by assuming adverse events or combinations of adverse events that could result in such situations.

In principle, the design of the NORD/LB CBB stress tests enables identification and quantification of breaches of critical thresholds when certain scenarios occur (inverse stress test). Fundamentally, the stress test procedure provides for targeted and appropriate intensification in the event that the effects from the stress scenario prove too weak in terms of their adverse impact.

As a supplement to stress tests across all risk types, an interview procedure covering all units in the Bank is used to address areas which may conceal pronounced concentrations. These are prioritised and, depending on their significance, subjected to a detailed scenario analysis. This scenario analysis is initially decoupled from the assumptions on concentrations and diversification applied in the risk exposure measurement. In this regard, the procedure constitutes another independent approach to evaluating concentrations. The objective is to develop scenarios that encompass all material consequences on the key indicators for NORD/LB CBB.

Risk management -
development of risk-bearing capacity in 2016

There were no significant changes in the Bank's risk-bearing capacity during 2016. The risk capital utilisation rate in the going-concern scenario relevant for management purposes was significantly below the internally prescribed maximum value of 80 per cent at all times. The regulatory requirements regarding capital ratios were clearly met at all times, even taking into account the increased buffer requirements from the SREP.

The table below shows the utilisation of risk capital in the going-concern scenario for NORD/LB CBB as at 31 December 2016 and 31 December 2015:

Risk-bearing capacity				
in € million	**31.12.2016**		**31.12.2015**	
Risk capital	**255**	**100%**	**287**	**100%**
Credit and equity-interest risk	39	15%	40	14%
Market-price risk	39	15%	31	11%
Liquidity risks	9	3%	11	4%
Operational risk	4	2%	3	1%
Total risk potential	**90**		**86**	
Risk capital utilisation		**35%**		**30%**

Based on the low level of risk capital, which is attributable to slightly increased regulatory risk-weighted sums and to a reduction in Tier 2 capital owing to a decrease in the residual duration, the risk capital utilisation rate rose by 5 percentage points over the course of the year despite a slight decline in risk potential. However, the risk capital utilisation of 35 per cent is considerably below the internally prescribed maximum value of 80 per cent, as was the case on the reporting date of the comparable period.
The requirements of the risk strategy regarding the risk capital allocated to the risk types were also met as at 31 December 2016.

Risk management - outlook
The regulatory requirements placed on risk management have been steadily evolving in the recent past and will continue growing stricter in the future. Some examples of this include, in particular, the regulations on compliance with liquidity and funding indicators and the requirements to maintain bail-in claims and the associated further capital indicators.
As it adapts the internal scopes of control to the logic of the supervisory review and evaluation process (SREP), NORD/LB will aim to readjust the previous risk-bearing capacity model. NORD/LB CBB is heavily involved in this process. In this context, the premises with regard to the ICAAP scope of control are being harmonised with the requirements of the SREP assessment. The newly developed concept, which will be introduced as a control tool in the course of the coming year, is based on the established core elements of risk management (risk strategy, risk inventory) and represents the targeted enhancement of the existing scope of control for the development of risk-bearing capacity.

Credit risk
Credit risk is a component of counterparty risk and can be subdivided into traditional credit risk and counterparty risk for trading. Traditional credit risk covers losses due to default or a deterioration in the creditworthiness of a borrower. Counterparty risk for trading covers losses due to default or a deterioration in the creditworthiness of a borrower and/or contractual partner in a business dealing. It is subdivided into default risk in trading, replacement risk, settlement risk and issuer risk:

- Default risk in trading refers to the risk of loss due to default or a deterioration in the creditworthiness of a debtor. This corresponds to traditional credit risk and pertains to money market transactions.
- Replacement risk covers losses from the replacement of a pending transaction with a positive present value after a default by the contractual partner.
- Settlement risk can be subdivided into advance payment risk and clearing risk. Advance payment risk denotes the risk that when performing a transaction consideration is not received from the contracting party for own services rendered, or that the settlement payment is not received when offsetting mutual claims. Clearing risk covers the inability to settle transactions on either side by or after the contractually agreed deadline.
- Issuer risk covers losses due to default or a deterioration in the creditworthiness of an issuer or a reference debtor.

In addition to the distinct credit risk, international transactions are also subject to country risk (transfer risk). This covers losses due to overriding government hindrances, despite the ability and willingness of the other party to meet its payment obligations.
Equity-interest risk is also a component of counterparty risk. This denotes losses due to the provision of equity to third parties. In addition, potential losses from other financial obligations also constitute a component of equity-interest risk, unless already factored into other risks.
Investing in equity interests is not a strategic business activity of NORD/LB CBB. This is a

non-material risk.

Credit risk - strategy

NORD/LB CBB operates as a specialised bank for Pfandbriefe. In accordance with the provisions of the law, covered bond banking consists of lending to certain borrowers and refinancing by issuing Pfandbriefe. Accordingly, the objective of a Luxembourg covered bond bank focuses on lending and portfolio management of public assets eligible for cover pooling in Luxembourg, i.e. in particular assets that are not eligible for cover pooling in Germany under German law. This complementary strategy for the covered bond business of the German Pfandbriefe issuers in the NORD/LB Group was explicitly selected to harness the resulting diversification effects within the Group. In addition, this also makes it possible to book assets which are not eligible for cover pooling.

Lending business, and thus also credit risk management, constitutes a core competency that is subject to continuous improvement. Lending business is largely carried out in cooperation with NORD/LB based on a long-term, successful and mutually beneficial partnership.

The product range encompasses the traditional catalogue of loans in all customary currencies. The service range includes the full catalogue in the areas of lending and loan management, including performance of facility agent services.

New lending business focuses on borrowers with good credit ratings.

NORD/LB CBB also concentrates on business with counterparties of good standing in the capital market business. Credit risks in the Financial Markets & Sales business division are managed within ALM/Treasury.

Credit risk - structure and organisation

Pursuant to the requirements of the Luxembourg banking regulator, the processes in the lending business are characterised by a clear structural and organisational separation of the front office from the back office up to the level of the Managing Board.

The market divisions Loans & Client Services and Financial Markets & Sales conduct their operational financing business for customers, properties and projects, both domestically and internationally, subject to specified limits. They are primarily responsible for the core duties of acquisition (also in collaboration with NORD/LB) and sales. The market divisions are responsible for the first vote in the loan decision-making process and for structuring the corresponding conditions, and they bear the responsibility for profit and loss.

The back office division handles the analysis and risk monitoring tasks, which are performed by Credit Risk Management (in the Finance & Risk Division). This unit is responsible for the second vote in lending decisions.

The Managing Board is responsible for overall credit risk management of the portfolio. The LRC supports this process by establishing connections between individual lending decisions and portfolio control and by providing a prospective across risk types. The LRC recommends various tools to the Managing Board for this, e.g. acquisition stops, limitations on countries, industries or borrower-specific groupings, and the outplacement of exposures or subportfolios.

Credit risk management within the Bank is based on NORD/LB concepts and is continuously enhanced to take account of operational and regulatory criteria and/or adjusted to meet institution-specific needs.

Credit risk - control and monitoring

NORD/LB evaluates credit risks for individual borrowers by determining a credit rating class for each borrower during the initial, annual and/or ad hoc credit assessments. This assessment is then provided to NORD/LB CBB. The ratings modules used in this process were developed either during various cooperation projects conducted by the savings banks and Landesbanks or in-house by NORD/LB.

To control the risks of individual transactions a specific limit is stipulated for each borrower as part of operational limiting; this limit constitutes an upper lending limit. The main parameters applied to calculate this limit are the borrower's creditworthiness, expressed as a rating, and the disposable funds available to the borrower for servicing the debt.
Risk concentrations and correlations at the portfolio level are depicted in a credit risk model when the credit risk exposure is quantified. In addition, risk concentrations are restricted by country and industry limits at the portfolio level and by the Large Exposure Management limit model for groups of related customers. The exposure limits are geared towards the Bank's risk-bearing capacity.
The Finance & Risk Division at NORD/LB CBB is responsible for independent monitoring of portfolios with regard to strategic and operational requirements.
The management of the loan portfolio is based on a risk/reward approach. In order to identify crisis situations early the risk management process uses structured procedures and processes for standardised collection of risk-related information. This information is then converted into corrective measures. Corresponding processes, systems and requirements exist at both the portfolio and the individual borrower level to enable the early identification of credit risks. Taking existing risk limits into account, this standardised infrastructure is used to derive qualitative early warning indicators to identify crisis situations and implement risk mitigation measures.

Securitisation

Securitisation transactions at NORD/LB CBB are subject to a stringent approval and monitoring process in order to identify and control potential risks before and after the conclusion of the contract.
NORD/LB CBB provides a liquidity facility, in partnership with NORD/LB as sponsor, to enhance the credit quality of the asset-backed commercial paper (ABCP) conduit programme of NORD/LB. In addition, the Bank is involved as an investor in a factoring arrangement. This exposure is guaranteed in full by NORD/LB.
The Bank uses the IRB approach to measure both of these securitisations when calculating capital requirements.
The Bank believes the risks associated with both of these securitisation positions are limited.

Equity interests

NORD/LB CBB has only one equity interest. The subsidiary Galimondo S.à r.l., founded on 5 September 2014, is an insignificant equity interest with a carrying amount of € 12,500.
A capital requirement was determined for this equity interest due to counterparty risks and a deduction was applied to the regulatory own funds. To do this the Bank uses the simple risk-weighting approach in accordance with CRR. We have not quantified risk-bearing capacity due to materiality reasons.
The Finance & Risk Division is responsible for risk monitoring. Moreover, the Bank's Internal Auditing department is also involved in the monitoring of the equity interest. The implementation of the Bank's requirements is ensured through mandates in the significant governing bodies of the subsidiary.

Credit risk - assessment

Credit risk is quantified using the risk indicators of expected loss and unexpected loss. The expected loss is calculated based on the one-year probability of default, taking into account recovery rates and the resulting loss rates.
The unexpected loss for credit risk is quantified at NORD/LB CBB using an economic credit risk model for different confidence levels and a time frame of one year. The credit risk model used by all units in the NORD/LB Group includes correlations and concentrations together in the risk assessment and is subject to an annual review and validation.

The credit risk model calculates the unexpected loss at the overall portfolio level. The model used is based on the CreditRisk+ model. Correlated industry variables are used to depict systematic industry influences on loss distribution. The probability of default (PD) is based on internal rating methods. The loss rates (loss given default or LGD) are defined in a transaction-specific manner.
The credit risk model uses a simulation method that also takes account of specific mutual interdependencies of borrowers, e.g. based on group structures. In addition to default losses, losses that might be caused by rating migrations are also considered.
Equity-interest risks were integrated into the existing credit risk model as at the reporting date on 31 December 2016. As a result, risk potential is calculated on a consolidated basis from credit and equity-interest positions. This can also be used to depict a potential deterioration in the quality of the equity interests in the period between the analysis date and the risk horizon (one year). This expansion of the model did not affect NORD/LB CBB because its portfolio of equity interests comprises only Galimondo S.à r.l.
The methods and procedures for risk quantification are harmonised among the NORD/LB Group companies designated as material in order to guarantee uniformity in the NORD/LB Group. Risk management and controlling is currently performed for the Bank by the Risk Control & Strategy and Credit Risk Management departments at NORD/LB CBB, taking into account institution-specific needs.
NORD/LB CBB applies the internal ratings-based approach (IRBA) to calculate the regulatory capital requirement for credit risks. An exception is made for a few portfolios where the credit risk – standardised approach (CRSA) is applied. The Bank is authorised via its parent institution to use its rating system and to apply credit risk reduction techniques.

Credit risk - reporting

As part of the management information system, the Finance & Risk Division drafts a thorough quarterly loan portfolio report at the level of NORD/LB CBB for the Managing Board and for the members of the LRC. This report is used to ensure timely detection of existing risks and/or risk concentrations and implementation of any necessary measures. Credit portfolio reports are also discussed in meetings of the Supervisory Board.
In principle, the credit portfolio report is based on economic calculations of risk indicators (expected and unexpected loss) and therefore bears a direct relation to the risk-bearing capacity scenarios.
In addition to a detailed account of the credit portfolio by segment, rating class, industries and region, the report also includes quantitative and qualitative analyses on selected borrowers and individual exposures. The development of regulatory indicators is also covered by the report, as are credit-risk-specific stress tests.
Moreover, the Credit Risk Management department provides the Managing Board and members of the LRC with additional regular and ad hoc reports on the Bank’s loan portfolio, such as on risk concentrations under borrower units, country and industry concentrations and noteworthy exposures (credit risk watch list).

Credit risk - development in 2016

The maximum default risk exposure for balance-sheet and off-balance-sheet financial instruments came to € 17.9 billion on the reporting date and increased slightly by 3.5 per cent or € 600 million in 2016. This is attributable to the expansion of the lending business, which is also apparent in the increase in loans and advances to customers by € 1.5 billion compared to the previous year.

Risk-bearing financial intruments in € million	Maximum default risk exposure 31.12.2016	31.12.2015
Loans and advances to banks	1,240.5	1,510.0
Loans and advances to customers	8,242.2	6,768.8
Financial assets at fair value through profit or loss	973.2	1,287.0
Positive fair values from hedge accounting	327.7	290.4
Financial assets	5,030.8	5,846.2
Subtotal	**15,814.4**	**15,702.4**
Warranties for third-party accounts	133.3	160.0
Credit commitments not yet disbursed	1,917.2	1,401.9
Total	**17,864.9**	**17,264.3**

In contrast to the following tables on total exposure, which are based on internal data provided to management, the maximum default risk exposure in the table above is reported at carrying amounts. The variations between the total exposure in accordance with internal reporting and the maximum default risk exposure are due to differences in the scope, the definition of total exposure for internal purposes, and differences in accounting policies.

The calculation of credit 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 taking account of netting). As in the previous year, irrevocable and revocable loan commitments are each included at 44.9 per cent in the calculation of credit exposure, whereas collateral is not taken into account.

Analysis of credit exposure

Credit exposure as at 31 December 2016 totalled € 18.0 billion. The marginal increase in exposure by 1.3 per cent was the result of an expansion of the lending business as well as a decline in the securities volume.

NORD/LB CBB uses the standard IFD rating scale to classify the credit exposure according to rating. This scale, which has been agreed by the banks, savings banks and associations that belong to the "Germany as a financial centre" initiative (Initiative Finanzstandort Deutschland – IFD), aims to improve the comparability between rating categories of the individual financial institutions. The rating classes of the 18-level DSGV rating master scale used uniformly throughout NORD/LB CBB are directly aligned to the IFD categories.

The following table shows the rating structure for the total credit exposure – broken down by product type and with the total compared to the structure as at 31 December 2015:

Rating structure [1) 2)] in € million	Loans [3)]	Securities [4)]	Derivatives [5)]	Other [6)]	Total	
	31.12.2016				**31.12.2016**	**31.12.2015**
very good to good	8,524.3	5,451.9	247.2	601.3	**14,824.6**	**14,545.8**
good / satisfactory	1,201.5	442.6	0.1	73.9	**1,718.1**	**1,570.7**
reasonable / statisfactory	377.0	18.6	0.0	2.2	**397.7**	**469.2**
increased risk	590.8	302.0	0.0	0.0	**892.9**	**972.3**
high risk	23.8	0.0	0.0	0.0	**23.8**	**15.2**
very high risk	51.1	9.5	0.0	0.0	**60.6**	**54.4**
default (=NPL)	62.6	0.0	0.0	0.0	**62.6**	**124.1**
Total	**10,831.1**	**6,224.6**	**247.2**	**677.3**	**17,980.3**	**17,751.8**

1) Allocation according to IFD rating class
2) Differences in totals are rounding differences
3) Contains utilised and/or committed loans, securities, guarantees and other non-derivative off-balance-sheet assets, similar to internal reporting. 44.9 per cent of the committed and uncommitted loan commitments are included.
4) Includes the securities holdings of third-party issuers (only banking book)
5) Includes derivative financial instruments such as finance swaps, options, futures, forward rate agreements and currency transactions
6) Includes other products such as pass-through and administrative loans

Most of the total exposure (82.4 per cent) is rated as "very good to good". The ongoing high percentage of the total exposure in this best rating class is due to the significant importance of the business with financial institutions and public authorities.

The total credit exposure by industry breaks down as follows:

Industries [1] [2] in € million	Loans [3]	Securities [4]	Derivatives [5]	Other [6]	Total	
	31.12.2016				31.12.2016	31.12.2015
Financing institutions / insurance companies	3,291.3	3,197.5	242.0	9.3	**6,740.0**	**7,782.5**
Services industries / other	2,246.0	2,712.5	4.1	111.2	**5,073.7**	**5,791.2**
Of which: Land, housing	183.5	0.0	0.0	13.5	**197.0**	**352.1**
Of which: Public administration	88.3	2,707.6	0.0	2.7	**2,798.6**	**3,470.0**
Transportation / communications	850.9	61.1	0.7	68.6	**981.3**	**697.2**
Of which: Shipping	24.6	0.0	0.0	0.0	**24.6**	**2.1**
Of which: Aviation	0.5	0.0	0.0	0.0	**0.5**	**0.5**
Manufacturing industry	1,901.3	0.0	0.1	68.8	**1,970.1**	**1,452.5**
Energy, water and mining	1,604.2	253.5	0.4	367.1	**2,225.1**	**1,279.1**
Trade, maintenance and repairs	773.0	0.0	0.0	49.4	**822.4**	**568.5**
Agriculture, forestry and fishing	10.8	0.0	0.0	0.0	**10.8**	**13.8**
Construction	153.7	0.0	0.0	3.0	**156.7**	**167.3**
Other	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total	**10,831.1**	**6,224.6**	**247.2**	**677.3**	**17,980.3**	**17,751.8**

[1] The figures are reported in line with economic criteria, as in the internal reports
[2] to [6] Please see the preceding rating structure table

The table shows that the business with financial institutions and insurers with good ratings, a fundamentally low-risk business until now, continues to account for a large portion of the total exposure (37.5 per cent). Including the public sector, this portion of the total exposure amounts to 53.1 per cent. Thanks to new lending business, the share of the energy, water and mining industry rose from 8.2 per cent in the previous year to 12.4 percent as at 31 December 2016.

The total credit exposure by region breaks down as follows:

Regions [1) 2)] in € million	Loans [3)]	Securities [4)]	Derivatives [5)]	Other [6)]	Total	
	31.12.2016				31.12.2016	31.12.2015
Eurozone countries	8,075.1	3,287.9	213.1	662.8	**12,238.8**	**12,166.9**
Of which: Germany	7,050.3	6.7	208.7	650.7	**7,916.4**	**8,834.3**
Other Europe	1,700.9	773.5	25.0	14.5	**2,513.9**	**2,265.5**
North America	1,010.6	1,866.4	8.5	0.0	**2,885.5**	**2,939.7**
Middle and South America	40.4	15.0	0.0	0.0	**55.4**	**14.8**
Middle East / Africa	2.3	0.0	0.0	0.0	**2.3**	**10.8**
Asia / Australia	1.9	282.0	0.7	0.0	**284.5**	**354.2**
Other	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total	**10,831.1**	**6,224.6**	**247.2**	**677.3**	**17,980.3**	**17,751.8**

[1)] The figures are reported in line with economic criteria, as in the internal reports
[2)] to [6)] Please see the preceding rating structure table

The Bank invests almost exclusively in regions with strong economies. This means that country ratings are good too, which tends to make country risk less important. The eurozone accounts for a high 68.1 per cent share of lending, making it by far the most important business region.

Non-performing loans („NPL“)

For acute payment default risks, the Bank establishes specific valuation allowances when there are objective indications of impairment in accordance with the impairment policy. The risk provision requirements are based on the present value of the expected interest and principal payments and proceeds from the liquidation of collateral.

The latent default risk for the total balance-sheet and off-balance-sheet operations not covered by specific valuation allowances is taken into account by establishing portfolio valuation allowances for impairments that have already occurred but are not yet known on the reporting date.

The Bank’s risk provisioning (including loan loss provisions) was € 44.1 million as at the reporting date. The balance comprises portfolio valuation allowances totalling € 23.7 million and specific valuation allowances of € 19.9 million. € 17.7 million of this latter amount is attributable to one borrower from the manufacturing industry and € 2.0 million is attributable to two borrowers in the service industry. The remaining € 0.2 million was established for a borrower in the construction sector.

Beyond that, provisions were established for off-balance-sheet risks in the amount of € 0.4 million for one borrower from the manufacturing industry.

Credit risk - outlook

Measures to further optimise the models for quantification and control of credit risks are planned for 2017. In addition to the further development of the economic credit risk model (such as by revising the industry system), the loss data collection for validation of the LGD and credit conversion factor (CCF) components will also be further expanded.

The Bank assumes that the risk potential from credit risks will remain stable in the medium term.

The scope of credit risk monitoring as stipulated by CSSF Circular 12/552 will be broadened pursuant to Article 395 (2) of Regulation (EU) no. 575/2013 (EBA/GL/2015/20) as a result of the adoption of guidelines by the European Banking Authority on the upper limits for risk positions with regard to shadow banks that carry out banking activities outside of a regulatory framework.

Shadow banks mainly consist of companies in the financial sector that operate as credit intermediaries and are subject to neither direct nor indirect regulation.
The Bank's internal processes and procedures will be updated with effect from 1 January 2017 in order to comply with all provisions of the amended requirements from this date.

Market-price risk
Market-price risk denotes potential losses which may arise from changes in market parameters. The Bank divides market-price risk into interest-rate risk, credit-spread risk, currency risk and volatility risk.
Interest-rate risk always occurs when the value of a position or a portfolio reacts to changes in one or several interest rates or to changes in complete yield curves, and these changes may consequently reduce the value of the position (present-value approach) or reduce the interest income (income-oriented approach). In particular, interest-rate risk also includes the risk from changes in interest-basis spreads, changes in yield curves as well as repricing risks and interest-rate risks from optional components. Article 362 CRR additionally stipulates that the interest-rate risks of the trading book must be split into general and specific risks. According to the Bank, credit-spread risk is part of general interest-rate risk, while specific interest-rate risk corresponds to issuer risk.
Credit-spread risks emerge if there is a change in the credit spread that is valid for the given issuer, borrower or reference debtor and which is used as part of a market valuation or a model valuation of the exposure. Credit-spread risks thus stem from securities, credit derivatives and promissory note loans held for trading purposes. Credit products held for placement purposes are also relevant here.
Currency risks exist when the value of a position or portfolio responds sensitively to changes in one or more foreign exchange rates, resulting in a reduction in the value of the position.
Volatility risk describes the risk that the value of an option position might respond to a potential change in value resulting from market movements in the volatilities used for option valuation, and that these changes result in a reduction in the position's value.

Market-price risk - strategy
NORD/LB CBB incurs market-price risks in its general Pfandbrief business, in asset liability management, and to a limited degree in its trading book. In general, it is not permitted to take positions opportunistically. Transactions are therefore carried out in the trading book only if they were concluded:

- for the acceptance, forwarding and execution of purchase and/or sale orders from customers (i.e. trading in financial instruments as a service without taking a proprietary position); or
- for hedging of transactions with customers, for market management in customer products and for interest rate, liquidity (including cover) and currency management; or
- in the context of risk-weighted asset management.

The activities in the Financial Markets & Sales segment associated with market-price risks focus on selected markets, customers and product segments. The positioning in the money, currency and capital markets should correspond to the significance and size of the Bank, and is primarily geared towards customer needs and support for the overall management of the Bank.
The Bank explicitly assumes risk concentrations associated with market-price risks. They occur mainly in the areas of credit-spread risks and interest-rate risks.
The strategic securities investments made by the predecessor institution to NORD/LB CBB have produced significant credit-spread risks in the investment book. These are primarily found in the cover pool and/or in what is known as the wind-up

portfolio. In this regard, the general objective of the Bank is to absorb the credit spreads until the maturity of the exposure. The credit-spread risks in the wind-up portfolio are successively reduced through divestments of the portfolio.

Other credit-spread risks result from securities used for interest rate and liquidity management.

The high percentage of market-price risks in the total risk exposure capital (strategy stipulation: 39 per cent) is explained by the significance of the securities portfolio and the volatility in credit-spread risks observed in the past. To mitigate these risks adequately, Risk Control & Strategy on a daily basis carries out dedicated measurements, monitoring and limitations of credit-spread risks and an analysis of essential drivers.

Interest-rate risks mainly result when ALM/Treasury carries out its responsibilities to manage the balance sheet and interest rates. Here, customer-initiated lending business and securities trading, which occurs within the framework of cover pool management and interest rate and liquidity management, are combined with interest rate products and/or interest rate derivatives.

In line with its business model NORD/LB CBB aims to minimise currency risks as much as possible. Overall, the utilisation of market trends is of lesser importance in this area.

Market-price risk – structure and organisation

All departments that control positions with market-price risks and bear profits and losses arising from market changes are involved in the process of controlling market-price risks.

Operationally, market-price risks are controlled by ALM/Treasury. The ALCO (Asset Liability Committee) sets the framework conditions for strategic market risk positions in the context of the general management of the Bank, including strategic interest rate positioning.

The ALCO develops recommendations for courses of action to support decision-making by the Managing Board, taking into account the market situation and its impact on liquidity and funding.

Risk Control & Strategy, which in accordance with national regulations and MaRisk operates independently of the divisions responsible for managing market-price risk – in terms of both function and organisation – performs tasks related to control and monitoring processes within the framework of the market-price risk management process. Verifying compliance with limits in the context of market-price risk (e.g. risk or loss limits) is a key monitoring process. In addition, Risk Control & Strategy monitors compliance with the Bank's trading strategy. Monitoring in the broader sense also includes regular or ad hoc validation of the methods, models and parameters used and any modifications made to them.

Market-price risk – control and monitoring

A value-at-risk (VaR) standard procedure within the NORD/LB Group is used to control, monitor and limit market-price risks for all portfolios. Risk and loss limits are derived from the going-concern scenario for risk-bearing capacity and/or from the risk capital allocated for market-price risks.

The Managing Board of NORD/LB CBB defines the limits at the overall level of the Bank. The heads of the Financial Markets & Sales and Finance & Risk Divisions are responsible for portfolio distribution. Correlation effects between portfolios, where demonstrable, are taken into account in the delegation of sublimits. Risk Control & Strategy regularly validates the correlation assumptions. Any losses are counted towards separate loss limits and result, in line with the principle of self-absorption and depending on the approach used to manage the portfolio, in a reduction in the VaR limits.

One risk monitoring objective to highlight here is early identification of risks. The daily P&L analyses and monitoring of limit compliance are particularly important early warning indicators for market-price risks.

Market-price risk – assessment

VaR indicators are calculated daily using the historical simulation method. In addition, the Bank also employs a Group-wide uniform unilateral confidence level of 95 per cent and a holding period of one trading day, or 250 days in cases of credit spread value at risk (CSVaR). Risk Control & Strategy also prepares a monthly VaR calculation when it calculates risk-bearing capacity.

The VaR is determined based on historical changes in the risk factors over the last twelve months. The models take into account correlation effects between risk factors and subportfolios.

VaR models are particularly well suited for measuring market-price risks in normal market environments. The historical simulation method is based on past data and is therefore dependent on the reliability of the time series used. The VaR is calculated based on the holdings received by the end of the day, which means it may not reflect changes in positions during the day.

In a manner analogous to the calculation of market-price risks in the risk-bearing capacity model, the VaR indicators are also scaled with a stabilising adjustment factor in the day-to-day management process. This factor is determined based on long-term statistical analyses of market-price risk factors significant to NORD/LB CBB. In very quiet market periods, this factor causes an increase in the calculated VaR value of 50 per cent to 60 per cent. Due to marked fluctuations in market factors, the scaling factor was always higher than 1.0 during the year (1.44 as of 31 December 2016).

The predictive value of the value-at-risk model (VaR and CSVaR) is verified using extensive back-testing analyses. These involve comparing the daily change in value of the respective portfolio with the previous day's VaR. A back-testing outlier is when the observed negative value change exceeds the value at risk. Back-testing is conducted based on the scaled VaR indicator to be consistent with the daily VaR calculation.

With respect to the VaR at the overall level of the Bank, the number of outliers in NORD/LB CBB was in the green zone according to the Basel traffic light system. A total of eight outliers occurred during the reporting year, corresponding to a rate of 3.2 per cent.

When back-testing the CSVaR the outlier rate at NORD/LB CBB was 4.7 per cent for the financial year. This results in a green light under the Basel traffic light system. A total of eleven outliers were recorded in total.

As a supplement to daily VaR management, monthly stress test analyses also examine the impacts of extreme market changes on risk positions.

In addition to this, interest sensitivities are calculated on a daily basis. These are reported in the daily report in aggregated form for each currency at the level of the individual portfolios and maturity bands.

Market-price risk - reporting

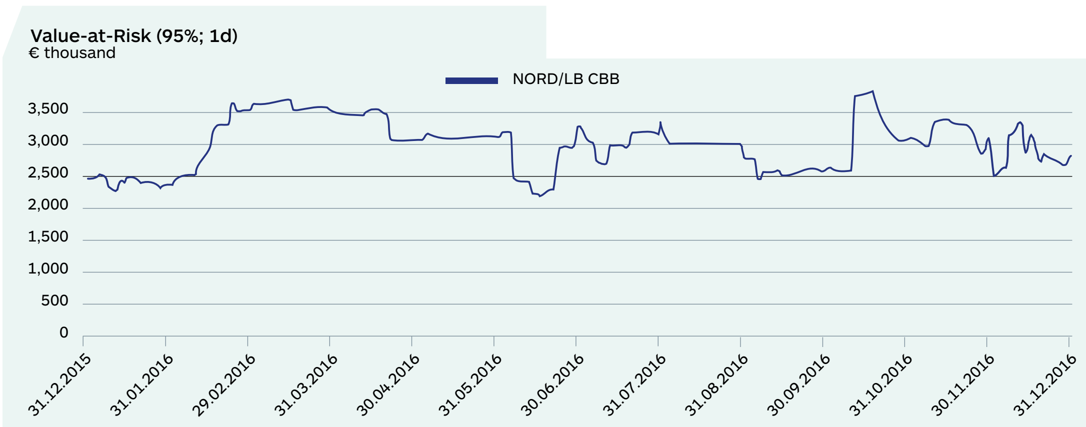
According to MaRisk requirements, the Risk Control & Strategy department, which is independent of the department responsible for the positions, reports daily on market-price risks (VaR and CSVaR) to the head of Financial Markets & Sales and the member of the Managing Board responsible for the front office.

In addition to the value-at-risk analyses, the head of Financial Markets & Sales and the Managing Board receive monthly information on the CSSF stress test, the impact of other stress scenarios and back-testing results.

The Managing Board receives thorough information in daily risk reports on market-price risks and the earnings situation. Information is also provided in the monthly risk report. Market-price risks are also included in the reporting on risk-bearing capacity across all risk types.

Market-price risk – development in 2016

The figure below shows the trend in the Bank's overall value at risk (confidence level 95 per cent, holding period one day) over the course of the year.



The value-at-risk limit for the overall Bank as at 1 January 2016 declined from € 4.3 million to € 3.4 million due to a reduction in the limit capital at the overall Bank level compared with the previous year. The limit was increased as of 1 June 2016 to € 3.6 million after the Bank's planning was adjusted in the second quarter.

As at 31 December 2016 the utilisation amounted to € 2.5 million, i.e. 68.9 per cent of the limit (previous year: € 2.0 million). The securities held for interest rate and liquidity management purposes create a focus on credit-spread risks. Interest-rate risks are primarily due to transactions in EUR and GBP.

The average annual utilisation of the VaR limit was 71.4 per cent (previous year: 56.2 per cent), with a maximum utilisation of 93.6 per cent (previous year: 77.3 per cent) and a minimum utilisation of 47.4 per cent (previous year: 38.3 per cent).

As at 31 December 2016, measurements showed interest-rate risks of € 1.0 million, currency risks of € 0.7 million, volatility risks of € 0.05 million and credit-spread risks from HfT and AfS positions of € 1.1 million.

The effects of a standardised interest-rate shock on the interest-rate risks in the investment book are additionally analysed monthly in accordance with the requirements set out in CSSF Circular 08/338 (until 30 November 2016) or 16/642 (since 31 December 2016). The result remains well below the regulatory threshold, which prescribes a maximum 20 per cent share of liable equity.

The Bank uses the standard procedure pursuant to the CRR to calculate the regulatory capital requirement for interest-rate, currency and share-price risk. Taking into account the requirements for a credit valuation adjustment (CVA), an equity requirement of € 1.0 million (previous year: € 1.4 million) was calculated for market-price risk as at 31 December 2016.

In contrast to the credit-spread risks of the IFRS categories HfT, AfS and dFV, the credit-spread risk of the LaR holdings is not included in the value-at-risk for market-price risk because it is based on the going-concern perspective of the risk-bearing capacity model. This risk is therefore measured and limited separately via the credit spread value-at-risk with a confidence level of 95 per cent and a holding period of 250 days. The limit is derived from the gone-concern perspective of the risk-bearing capacity model.

The credit spread value-at-risk limit of the LaR holdings as at 1 January 2016 was reduced from € 147 million to € 137 million. The Managing Board

of NORD/LB CBB resolved to decrease the limit even further by € 30 million to € 107 million effective as of 1 June 2016.
The average risk capital utilisation in the financial year came to 60.7 per cent, with a maximum of 78.0 per cent and a minimum of 46.5 per cent.
As at 31 December 2016, the credit spread value-at-risk of the LaR holdings stood at € 58.0 million (previous year: € 66.9 million).

Market-price risk – outlook
NORD/LB CBB does not expect any significant increase in market-price risk in 2017. The Bank expects its credit-spread risk will drift sideways going forward. Based on the monetary policy decisions of central banks as well as the geopolitical environment, phases of increased volatility may nevertheless arise in the markets. This may, in turn, impact the risk situation. However, the Bank is well prepared even for turbulent market phases thanks to its risk policy, the gradual development of the risk models and risk management process as well as its focused trading strategy.

Liquidity risk
Liquidity risk encompasses risks which may arise from disruptions in the liquidity of individual market segments, unexpected events in the lending, deposits or issues business, or deterioration in own refinancing conditions. In NORD/LB's view, placement risk is also part of liquidity risk. This describes the risk that own issues on the market cannot be placed at all, or only under worse conditions.

When managing its liquidity the Bank differentiates between the following forms of liquidity risk:

<u>Traditional liquidity risk</u>
Traditional liquidity risk covers the inability to meet payment obligations in a timely manner. Potential causes may be a general disruption in liquidity on the money markets that affect individual institutions or the entire financial market. In particular, market disruptions can mean that significant asset classes may no longer be employed as collateral. Alternatively, unexpected events in own lending, deposit or issue business may also result in liquidity shortages. The focus for the NORD/LB Group lies on the next 12 months.

<u>Liquidity-spread risk</u>
Liquidity-spread risk denotes potential losses that might be incurred by the Bank due to changes in its own refinancing conditions on the money or capital markets. This can result from a change in the assessment of the Bank's credit rating by other market participants, or from general market developments. In addition to refinancing risk, which is explicitly relevant for an institution's long-term liquidity situation and is crucial in case of liquidity gaps, there can also be a so-called reinvestment risk if future liquidity surpluses are present. However, this does not lead to a traditional liquidity risk; instead, it can under certain circumstances merely have a negative impact on future income if it subsequently becomes impossible to realise sufficient income on assets that will cover the costs of liabilities. Risk drivers for reinvestment risk can also include the liquidity spread, if it is assumed that this is passed over to assets.
By considering individual currencies in the liquidity risk, spread risks from cross-currency swaps are also tacitly taken into account in the liquidity-spread risk.

<u>Market-liquidity risk</u>
Market-liquidity risk denotes the potential losses to be borne if transactions need to be concluded at conditions which are not in line with fair market value due to a lack of liquidity in individual market segments. Market-liquidity risk is implicitly accounted for by modelling securities in accordance with their liquidity class.

Liquidity risk – strategy
The liquidity risk strategy of the Bank is geared

towards the recommendations published by the EBA on effective liquidity risk management, the requirements derived from these by the Luxembourg supervisory authority and the central bank, and MaRisk requirements. To that end NORD/LB CBB has implemented a liquidity substrategy within the risk strategy, a liquidity policy and a contingency function plan, which take these requirements into account.

Guaranteeing adequate liquidity to meet existing payment obligations at all times constitutes a strategic necessity for NORD/LB CBB and is implemented by means of an internal process that ensures the adequacy of liquidity resources at all times (Internal Liquidity Adequacy Assessment Process – ILAAP). This applies both in normal situations and in stress situations.

While traditional liquidity risk is principally limited by maintaining a sufficient supply of liquid assets (in particular, securities eligible for central banks), it is permitted to assume liquidity-spread risks with a structural transformation of liquidity terms within defined limits.

The limit for traditional liquidity risk is designed to secure the ability to make payment, even in a conservative stress scenario, while the limit for liquidity-spread risk is derived from the Bank's risk strategy and its risk-bearing capacity and allows the possibility to realise term transformation commonly used by banks to generate income. Reinvestment risks are of lesser importance, so the limiting of liquidity-spread risks in the NORD/LB Group is currently restricted to refinancing risks.

In order to minimise market-liquidity risk the Bank mainly trades on markets that have proven adequately liquid, even in the stressful market phases of recent years. This applies in particular to all transactions in the trading book.

In addition to hedging traditional liquidity risk, securities are also held, in particular, in connection with refinancing via collateralised capital market transactions. Transparency and monitoring of the liquidity risks associated with collateral management, including cover pool management, are provided based on quarterly reporting and analysis of asset encumbrance.

The business policies for liquidity risk management in the NORD/LB Group are stated in the Global Group Liquidity Policy (GGLP). The Group Funds Transfer Pricing Policy (Group FTP Policy) is a key tool for controlling liquidity risks. The measures for liquidity management in emergency and crisis situations are specified in contingency plans.

Risk concentrations under liabilities are prevented using a diversified investor base and a broad product range. The focus is on institutional and public investors, in line with the Bank's risk-adjusted orientation.

Liquidity risk – structure and organisation

The management of liquidity risks involves all organisational units that actively manage positions subject to liquidity risk and whose profit/loss are related to changes in the liquidity situation.

Operationally, liquidity risks within NORD/LB CBB are managed by the Financial Markets & Sales Division. It also manages the regulatory liquidity indicators, particularly the liquidity coverage ratio (LCR). The ALCO supports strategic management of liquidity risks.

In accordance with MaRisk requirements, the Risk Control & Strategy department is functionally and organisationally independent of the units managing liquidity risks. It performs duties related to risk assessment, control and monitoring processes and reporting within the framework of the liquidity risk management process. Verification of compliance with the limits placed on liquidity risk is a key monitoring process.

Within NORD/LB CBB, Risk Control & Strategy is responsible for the validation and further development of the methodology for liquidity risk measurement. In principle, the methodology provided by the NORD/LB Group should be used. Any deviations due to institution-specific circumstances must be reported to and coordinated with Finance and Risk Controlling within NORD/LB.

In the event of a liquidity crisis, the Contingency Funding Plan (CFP) crisis management team is ready to take over liquidity management in close consultation with the Managing Board.

Liquidity risk – control and monitoring

The refinancing risk for NORD/LB CBB is controlled using present value limits and term-dependent volume structure limits which are derived from the risk-bearing capacity. Liquidity maturities are also examined separately by currency.

Market-liquidity risk is factored in implicitly by dividing the securities in the liquidity maturity balance sheet according to their market liquidity. Using a detailed securities liquidity class system, they are categorised into main classes and sub-classes based on the liquidity grades of the individual securities (e.g. according to eligibility for refinancing with central banks and ratings). They are represented in the liquidity maturity balance sheet according to the liquidity class and within the maturity range between daily maturity and final maturity.

Aside from tradability, the key factor in dividing securities into liquidity classes is eligibility as collateral, i.e. the suitability of the securities for use as collateral in repo transactions, at central banks or in Pfandbriefe cover.

The traditional liquidity risk is primarily controlled by analysing a dynamic stress scenario. The scenario describes the most probable crisis situation and therefore fundamentally applies control within the guidelines arising from the statistical scenarios. The evaluation is conducted based on liquidity/cash flow and encompasses the next twelve months on a daily basis. For products without fixed liquidity maturities and for optional components (e.g. from irrevocable loan commitments), the models are applied in line with the market situation, and are subject to regular validation.

The limit system is used to guarantee that excess liquidity will be available for at least three months even in stress situations. Guaranteeing the ability to make payment at all times is therefore given preference in this maturity range over possible opportunities to generate profit. Taking profitability into consideration, the objective is to guarantee excess liquidity for at least six months in dynamic stress scenarios.

In addition to this, the dynamic stress scenario is also supplemented with other statistical stress tests. These include a NORD/LB-specific scenario, the alternative scenario of an all-encompassing liquidity crisis and a short-term scenario for a market-wide liquidity disruption.

The LCR is selected from the range of regulatory liquidity indicators to undergo more detailed daily monitoring. Until 31 August 2016 a “parallel phase” of control was carried out during which both reporting-relevant (ITS) and control-relevant (delegated act) processing scopes prevailed. Limits were monitored (traffic light system) during this time based on the lower of these two rates, which vary slightly. The traffic light thresholds are associated with specific reporting and escalation processes. Limit monitoring, similar to the reporting obligation, has been carried out since 1 September 2016 exclusively in accordance with the delegated-act approach.

Active LCR management, which includes a forecast of the LCR rate for the next period (next day), is subject to regular back-testing and includes a validation of the forecast quality / “management quality”. According to the requirement for conservative risk management with regard to LCR compliance, a limit increase appropriate to the forecast spread is taken into account.

Risk Control & Strategy supplements the required regulatory asset encumbrance reporting with an accompanying evaluation of the encumbered assets and a performance analysis. Reporting and transparency requirements following from the business model of a covered bond bank particularly serve to demonstrate and verify appropriate, risk-controlled and adequately differentiated securities holdings and their use within the collateral pool.

One risk monitoring objective to highlight here is early identification of risks. For liquidity risks, the early warning indicators are represented, in particular, by the liquidity stress tests conducted every working day, the potential trigger events and the warning indicators as per the Global Group Liquidity Policy.

Funds transfer pricing (FTP) is also part of the management and control of liquidity and liquidity risks. The Group Funds Transfer Pricing Policy (Group FTP Policy) sets out the business policy principles for the FTP system, the liquidity transfer pricing system of the NORD/LB Group. The FTP system supplements the market interest rate method by including methods, procedures and processes for determining and settling market-oriented internal transfer prices for utilisation and provision of liquidity, and for the transfer of liquidity risks between the front office and Treasury units.

Liquidity risk – assessment

The Bank calculates the utilisation of volume structure limits for the different maturity bands based on a liquidity maturity balance sheet for the total exposure. Liquidity risk is quantified within the framework of the risk-bearing capacity concept by determining the present value of the Bank's refinancing risk. Operating limits for the present value of the refinancing risk as well as term and currency-dependent volume structure limits are derived from this.

The calculation of dynamic and static stress scenarios for modelling traditional liquidity risk is based on current liquidity maturities. These are stressed to simulate a crisis situation. For instance, some premises applied include reduced liquidity of positions and increased utilisation of loan commitments. Stress scenarios can be used to simulate the impact of unexpected events on the liquidity situation at NORD/LB CBB. This facilitates foresighted planning and preparations for emergencies.

The aforementioned analyses allow for the critical nature of market liquidity for all securities in the portfolio. In addition, credit-spread risks are also taken into account for all securities when calculating market-price risks. Because the spreads observed on the market reflect not only the creditworthiness of the issuer but also the market liquidity of securities, the latter is also indirectly incorporated into the risk reporting. A separate risk measure is not used for market-liquidity risks.

Risk Control & Strategy uses the ABACUS/DaVinci reporting software to calculate the required regulatory liquidity indicators under the CRR (LCR, net stable funding ratio (NSFR), asset encumbrance) for NORD/LB CBB according to the currently applicable regulatory requirements.

Liquidity risk – reporting

Risk Control & Strategy calculates the liquidity risk indicators on a daily basis and submits them to the Trading department for liquidity risk management.

The head of Financial Markets & Sales and the member of the Managing Board responsible for the front office receive daily information on traditional liquidity risk and the refinancing risk of NORD/LB CBB. In addition to this, these indicators are also included in the daily and monthly risk reports that are provided to the Managing Board.

The ALCO monitors the liquidity situation at NORD/LB CBB (based on the liquidity maturity balance sheet, which takes account of all liquidity-relevant cash flows [aside from future interest and margin payments] from banking products).

A concentration report, including the analysis of funding, is prepared for the Bank in order to monitor the refinancing structure. Aside from the liabilities side, concentrations of off-balance-sheet liabilities are also regularly reported to the front office and the Managing Board.

A daily liquidity buffer report is prepared according to MaRisk requirements as an additional tool to manage traditional liquidity risk management. Every day, the report informs the Financial Markets & Sales Division of the amount of free assets (highly liquid, unencumbered assets) which are available to serve as over-collateralisation / liquidity buffer over a period of 7 and 30 days, respectively.

Risk Control & Strategy prepares the external reporting to the supervisory authorities (LCR, NSFR, asset encumbrance) according to the external requirements and provides it to the CSSF on a monthly and/or quarterly basis. The CSSF, in turn, forwards the reporting to the ECB. The LCR is also reported to the ALM/Treasury unit on a daily basis. Reporting to the Extended Managing Board is carried out within the framework of the daily/monthly risk reports. Internal reporting on asset encumbrance (including stress tests) takes place at least once a year, or as needed, in the meeting of the Extended Managing Board.

The daily LCR reporting includes daily reporting on collateral usage in the execution of collateralised capital market transactions and in the Bank's participation in the central bank's open market transactions. It also demonstrates the available collateral holdings. Long-Term Funding monitors the collateral values within the framework of cover pool management in connection with Cover Pool Advisory.

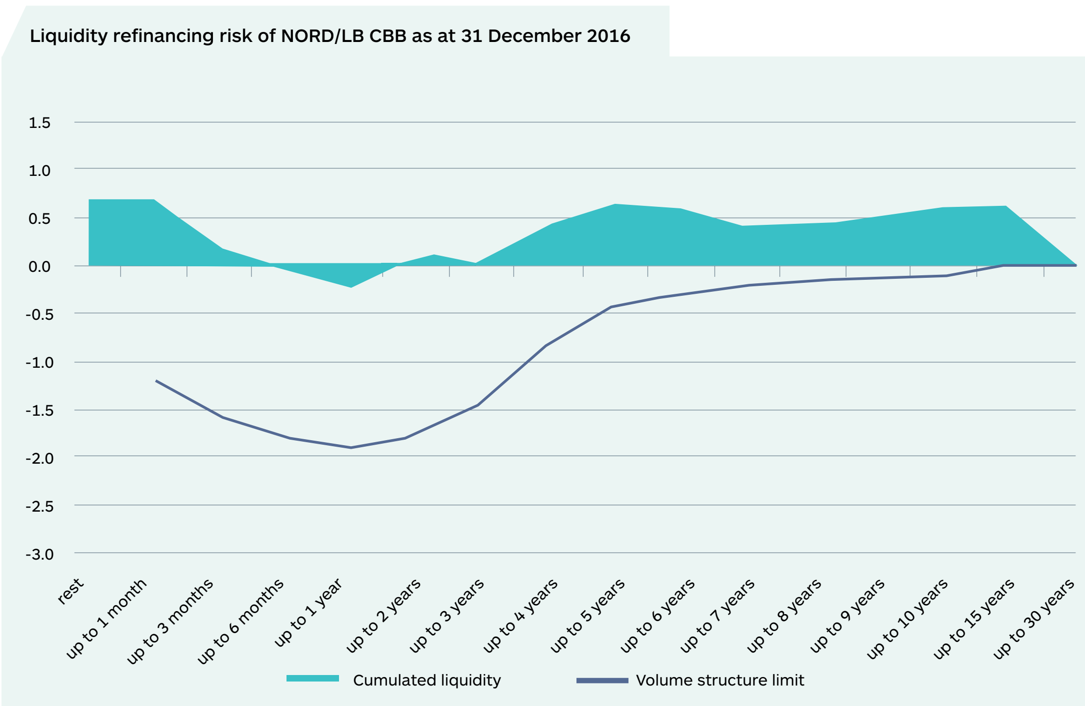
Liquidity risk – development in 2016

Liquidity, particularly short-term liquidity, was available at all times during the year under review due to the persistent, extremely low level of interest rates and the adequate supply of liquidity on the market. In the second quarter NORD/LB CBB obtained higher volumes of long-term liquidity in the form of Lettres de Gage. Despite a challenging overall market environment, additional investors were gained from other European countries, making the investor group both geographically and structurally diverse.

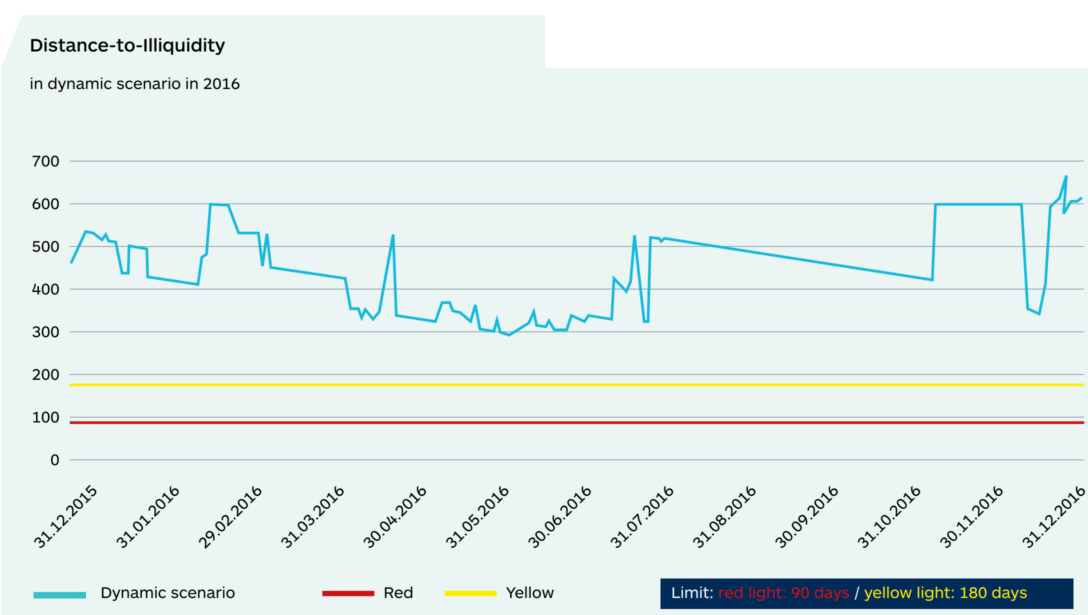
New lending business was covered by long-term funding from the NORD/LB Group as well as via the Bank's EMTN programme.

The Bank continues to have a relatively balanced funding mix. The Bank's business strategy and the local banking circumstances in Luxembourg result in refinancing concentrations via financial institutions. Another significant component of the Bank's refinancing is term deposit transactions with corporate customers. In addition, the refinancing need in the "over two years" range is largely covered via NORD/LB (uncovered funding).

As at the reporting date, the aggregated liquidity maturity balance sheet used to manage the internal refinancing risk at NORD/LB CBB was as follows:



The distance-to-illiquidity (DTI) trend over one year in the dynamic management-relevant scenario for NORD/LB CBB is as follows:

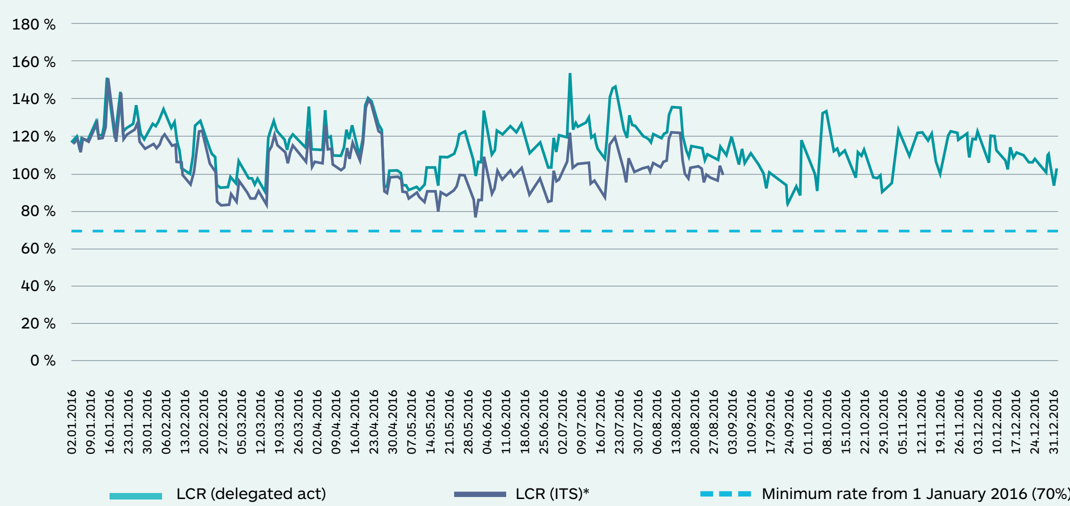


The DTI in the dynamic scenario was always greater than 290 days during the financial year. This means there were no yellow phases.

The liquidity coverage ratio (LCR) for NORD/LB CBB over the course of the year in accordance with the ITS and delegated-act methodology was as follows:

Liquidity coverage ratio

Development in 2016



*relevant until 31 August 2016

Regulatory requirements were adhered to at all times during the reporting period.

The asset encumbrance ratio, which expresses encumbered assets in terms of total assets, depends on the business model of the institution and, taken on its own, is suitable as a management metric only under certain conditions. As at 31 December 2016, the asset encumbrance ratio for NORD/LB CBB stood at 41.9 per cent. Consistent with the business model of a covered bond institution, NORD/LB CBB will continue to expand its funding via Lettres de Gage and will accordingly have a higher asset encumbrance ratio in the future.

Liquidity risk – outlook

The management of liquidity risk beyond minimum regulatory requirements ensures that the Bank is always able to meet its payment obligations on time and raise funding on the market at reasonable conditions.

The Bank is primarily active in liquid markets and maintains a portfolio of high-quality securities.

We expect to see a moderate increase in liquidity risks in 2017 due to active liquidity management and planned lending transactions. In addition to a revision of the mapping of the cover pool for refinancing risk, risk measurement methods and reporting processes are continuously being enhanced. The primary focus in 2017 will continue to be on the development and expansion of methods for validating and managing regulatory requirements, such as the NSFR.

To address SREP requirements in this regard (in this case: the Internal Liquidity Adequacy Assessment Process (ILAAP)), the Bank is planning additional measures to implement an integrated approach to liquidity management.

Operational Risk

Operational risks are potential events, unintended from the Bank's perspective, arising due to the inadequacy or failure of internal processes, employees or technology, or due to external causes, resulting in damage or clearly negative consequences for the Bank (e.g. violations of the law). This does not include strategic risks or business risks.

According to this definition, operational risks include legal risks, legal amendment risks, compliance risks, outsourcing risks, insourcing risks, model risks, conduct risks, fraud risks, personnel risks, IT risks and vulnerabilities related to emergency and crisis management.

- Legal risk denotes the risk of damages due to failure to comply or completely comply with the legal framework prescribed by legislation and case law. Legal risk exists only outside of the Bank.
- Legal amendment risk denotes the risk of losses due to new laws or regulations, unfavourable amendments to existing laws or regulations, and/or their interpretation or application by the courts.
- Compliance risk covers disciplinary penalties or penalties imposed by the courts or supervisory authorities due to non-compliance in conduct, processes, etc. (violation of the law, regulations, codes of conduct or standards) within the Bank.
- Outsourcing risk relates to the risks resulting from the outsourcing of activities and processes.
- Insourcing risk covers the risk of providing services for third parties.
- Model risk denotes the "... potential losses which might be incurred by an institution due to decisions based fundamentally on results from internal models if these models have errors in their design, execution or use."[1)]
- Fraud risk refers to the risks that result for the Bank from other criminal acts, resulting in avoidable financial loss or reputational damage.
- Conduct risk is the current or future risk of losses caused by the inappropriate provision of financial services, including cases of intentional or negligent misconduct. The following aspects in particular suggest conduct risk: products sold under false pretences, forced cross-selling of products, conflicts of interest in the sales process or when carrying out transactions, manipulating reference interest rates or foreign currency rates, making it difficult to switch financial products or providers, automatic extension of products or payments of exit penalties and the unfair treatment of customer complaints.

[1)] EU Directive 2013/36/EU of 27/06/2013, Article 3(1)(11)

- Personnel risk results from the following elements:
  - Bottleneck risk: risk potential arising from bottlenecks caused by gaps in demand and potential, or by recruitment risks
  - Adjustment risk: risk potential arising from insufficient adaptation in terms of competences, preparedness or flexibility
  - Departure risk: risk potential arising from the departure of employees and key personnel, insufficient retention management or inadequate employer services
  - Performance risk: performance risk potential resulting from a lack of commitment, internal terminations or low performance.
- IT risks are all risks to the net assets and financial performance of the institution arising due to deficiencies with regard to IT management and IT control, the availability, reliability, integrity and authenticity of data, the internal control system of the IT organisation, the IT strategy, the IT guidelines or the use of information technology.

Operational risk – strategy

NORD/LB CBB strives for effective and sustainable management of operational risks, i.e. prevention or transfer, where economically prudent. Countermeasures are taken as needed if the costs for protection do not exceed the relevant immediate risk costs incurred or if the Bank's reputation could be significantly impacted. Compliance with applicable statutory requirements must be guaranteed at all times.

Operational risks are taken into account in all company decisions. Fixed rules and the internal control system, along with a sound risk culture, serve to avert future damages. Employee awareness is maintained and promoted with targeted measures.

Business continuity and emergency plans as well as the Emergency Backup and Recovery Centre (EBRC) help to limit damage in the event of extreme unexpected events. A crisis management organisation handles extreme, unforeseeable events. Insurance policies have been taken out to actively secure against any residual risks.

Overall, explicit acceptance of operational risks does not play a role in the strategy of NORD/LB CBB. This is evidenced by the small capital allocation to operational risks in the going-concern scenario (strategy stipulation: 4 per cent).

Operational risk – structure and organisation

Risk management for operational risks is based on the concept of "three lines of defence". The responsibility for controlling operational risks within the stipulated framework conditions is decentralised to the departments (first line of defence). The Risk Management and Compliance functions roles have implemented downstream monitoring and control processes as a second line of defence. These are supplemented by a centralised methodological framework for risk identification and assessment as well as by higher-level control and reporting processes. Internal Auditing performs a process-independent review (third line of defence).

The NORD/LB Group applies an integrated approach to controlling operational risks, which it is continuously expanding. The goal is to achieve optimal interlinkage of the processes in the second line of defence.

All levels of the organisation and all divisions are involved in the management of operational risks. The Managing Board defines the basic method of dealing with operational risks, taking into account the general risk situation for the Bank. The individual divisions are responsible for controlling operational risks on a decentralised basis within the stipulated framework conditions.

NORD/LB CBB has a security strategy and uniform standards to protect the Bank from damages in an effective and lasting manner. This also satisfies statutory and regulatory requirements. The

Bank has developed an integrated business continuity and resumption plan, which focuses on time-critical activities and processes. This plan sets out the emergency management measures which guarantee adequate emergency operations and resumption of normal operations as soon as possible. The higher-level contingency and crisis organisation also guarantees communications and decision-taking capacity during escalating emergency situations and crises. The strategic and conceptual tasks for security, emergency and crisis management are bundled into the roles of the Emergency Manager and the Information Security Officer (RSSI).

The Risk Control & Strategy department, where the Bank's OpRisk Manager also works, is responsible for the centralised monitoring of operational risks and independent reporting. The Finance and Risk Controlling Division at NORD/LB is responsible for defining methods for further development of Group-wide tools for controlling operational risks. Risk Control & Strategy is involved in the further development of the methods through method board meetings held regularly at NORD/LB Group level and ongoing informal exchanges with the experts at NORD/LB. Risk Control & Strategy is responsible for proper implementation of centralised methods and playing a coordinating role in the implementation of decentralised methods at NORD/LB CBB.

Compliance is organised as a unit that is independent of the business divisions. It ensures in a process-integrated manner that the Bank has adequate principles and procedures in place to ensure compliance with the requirements of the German Securities Trading Act (Wertpapierhandelsgesetz) and to prevent money laundering, the financing of terrorism and other criminal activities. Internal Auditing is tasked with independent verification of proper implementation and carrying out of the methods and procedures.

Operational risk – control and monitoring

The Bank has suitable framework conditions in the form of technical and organisational measures, contractual provisions and work instructions to minimise operational risks in its workflows. This includes contingency planning and adequate insurance cover. The sensitivity of all employees to risks in general plays a key role in controlling operational risks in day-to-day business. The Bank uses control and monitoring measures to ensure adherence to applicable rules and standards and compliance by the Bank.

The management of operational risks is largely decentralised and supported by a centralised methodological framework for risk identification and assessment. For real-time estimates of the risk situation, continuous analysis is conducted on a wide range of data, such as claims, risk indicators and scenarios. Where necessary, the responsible units will take appropriate countermeasures.

Within the framework of integrated OpRisk management, the Bank has set up what is known as the Lux Risk Committee (LRC), a centralised committee at management level that provides a platform to discuss significant OpRisk matters and methodological issues. This focuses on operational risks, including process, IT, personnel, legal, in-/outsourcing and compliance risks, as well as security and emergency management. The LRC is intended to provide transparency beyond the limits of individual divisions in the second line of defence and enable overarching management initiatives.

Structural and process organisation risks are controlled with appropriate structural and process organisations. If weaknesses are identified in the organisation, suitable countermeasures are implemented immediately. The structures of the Internal Control System (ICS) are intended to support this and permanently guarantee regulated interaction of all control processes for departments involved in operational risks. Regular checks are performed on the adequacy and effectiveness of the internal control system.

The ICS framework implemented for this, which is uniform for all risk-relevant companies in the NORD/LB Group, is geared towards the framework of the Committee of Sponsoring Organizations of the Treadway Commission (the COSO) for internal controlling and includes special structural and process organisations. Application of standardised methods and procedures is intended to guarantee an ICS that is adequate and effective throughout the Bank, with the aim of continuous optimisation.

Security and contingency plans are in place for the protection of personnel and property, governing areas such as building usage, procurement of replacement fixtures and furnishings and energy consumption. Protection of employee health takes top priority. For instance, extensive preventive measures have been taken to prepare for a pandemic.

Permanently adequate staffing in terms of both quality and quantity minimises personnel risk. In this process, the Bank dedicates special attention to employee qualifications: the qualification status is verified using a system of requirement profiles and employee evaluations. This way, personnel development measures can be triggered in a targeted manner.

The NORD/LB Group has established extensive protection and prevention measures to safeguard against criminal activities, money laundering, financing of terrorism and other compliance risks. These are subject to continuous verification during control and monitoring activities and further development based on institution-specific risk analyses. If any significant deficiencies are detected, corrective measures are initiated and their implementation is monitored.

If there are indications of serious fraud, an ad hoc committee at the management level will decide how to proceed. Employees are provided with in-person and online training to sensitise them to current risks, and with regular newsletters and ad hoc notifications to inform them of such risks. A whistle-blower system is in place to allow employees and customers to disclose information confidentially.

In the area of IT, procedural instructions, replacement capacities and backups ensure adequate stability in the IT infrastructure. Security and contingency plans supplement the preventive measures to minimise damages from failure of or tampering with applications and information. The plans are tested and updated regularly. To mitigate against the risk of failure of the internal data centre at the Bank's headquarters, a second, off-site data centre exists.

To protect against legal risks, the Legal department of the Bank is called in, for example, when implementing statutory measures and concluding agreements not based on approved templates. To ensure proper implementation of new bank supervision requirements, Compliance provides company-wide documentation about the new standards and informs the affected units of the required actions derived from the new rules.

The quality of external suppliers and service providers is guaranteed by concluding service level agreements or detailed specifications and by subsequent verification of associated indicators. A process has been put in place to assess service providers for risk materiality. This is part of the Bank's implementation of MaRisk requirements on outsourcing. For each instance of material outsourcing, a responsible party has been appointed to handle service and risk management for the business relationship. The Bank has adequate insurance cover. To protect against legal risks, the Legal department of the Bank is called in, for example, when implementing statutory measures and concluding agreements. Natural disasters and terror attacks are defined as acts of force majeure. These risks are controlled using contingency plans and a disaster recovery centre.

The Bank is subject to risks from services for third parties (DfD). The Bank defines DfD as all its activities and processes carried out for third parties, regardless of whether they are relevant to the performance of bank operations, financial services or other typical services in the institution. The tasks and responsibilities related to initiation, continuous monitoring and termination of services for third parties are set down in documentation of internal regulations (guidelines, processes, forms) and integrated into the internal control system of the Bank (key controls). The implemented DfD process is intended to guarantee that business policy, economic, legal and risk aspects are adequately considered when rendering services, and that an appropriate monitoring and risk management takes place regarding the provision of services. The operational control and monitoring of services provided is handled in the business units by decentralised, operational sourcing managers. The central sourcing manager applies higher-level key controls in the process, drafts semi-annual management reports and gives regular reports at LRC meetings. Those responsible for internal controlling approve the materiality assessment of the individual services and collaborate in the specification of control and monitoring measures.

Operational risk – assessment

The NORD/LB Group records damages from operational risks in a claim database. A minimum claim limit of € 5,000 applies. NORD/LB CBB is included in these claim records. The data from the claim database provide the starting point for analyses to support risk management and constitute a key building block in the statistical/mathematical risk model developed by NORD/LB.

The claims recorded are exchanged in anonymised form with other institutions in the OpRisk data consortium (DakOR). The consortium data supplement the basic data used for the internal model. In addition, information is also available from the OpRisk public claims database (ÖffSchOR), which records, structures and prepares press releases on major losses from operational risks. Both data sources are used in scenario analyses and for regular benchmarking.

By means of the risk assessment method used in the Bank and Group-wide, past claims records are supplemented with future components. Expert estimates of the impacts of specific scenarios are used to extract detailed insights into risk situations in individual business units and derive targeted measures. Scenarios and scope are selected based on the analysis of different data sources (e.g. claims, audit reports) in a risk-oriented manner. The results serve as input for the internal model, thus increasing measurement accuracy.

In order to identify potential risks early on and control them with countermeasures, the NORD/LB Group uses risk indicators. The choice of indicators is risk-oriented and checked regularly to ensure that it is up to date. Moreover, the causes of risks must be identified and risk concentrations must be prevented by means of continuous and comparative analysis of claims, risk indicators and scenarios. Methods have also been implemented for risk indicators in NORD/LB CBB. The design of the indicator system is geared towards the NORD/LB Group, taking into account the institution-specific circumstances.

The NORD/LB Group has an internal model to measure operational risk. The structure of the model is based on the regulatory requirements of an Advanced Measurement Approach (AMA) according to Article 322 CRR. Due to the prospective removal of the AMA and the current lack of a regulatory framework for internal risk assessment under Pillar 2, a simplified OpRisk model for the NORD/LB Group was developed in 2016 and introduced as of 31 December 2016. The data basis and modelling are still based on the AMA, but certain elements, which are considered too conservative and no longer technically necessary, have been removed. In addition to internal data and scenario analyses from the risk assessment, external data from the DakOR consortium are also included in this model. The model is used in the context of overall bank management as well as to determine risk-bearing capacity. To distribute the model results to the individual institutions, an allocation procedure is used that combines size indicators with risk-sensitive elements. The model parameters are regularly subject to extensive validation and stress testing.

The methods and procedures in place at NORD/LB

CBB meet the regulatory requirements for use of the standardised approach for operational risks. This approach was used to calculate the capital requirement for operational risk in the financial year.

Operational risk – reporting

The reporting described below is particularly important for the control and monitoring of operational risks at NORD/LB CBB.

The continuous risk management process analyses the results from claims records and risk indicators and submits them to the Managing Board during LRC meetings (at least six times a year). This enables the Managing Board to decide whether to take measures to eliminate the causes or to control the risks, and if so, which ones. All risks are assessed based on a risk matrix applicable for the Bank as a whole and are incorporated into the risk reporting for the Bank. Results are submitted to the Managing Board in LRC meetings and/or reported as needed in the case of matters that are significant in terms of risk.

The reporting across all risk types for risk-bearing capacity draws information from the claims database, the risk assessment and the model for operational risks.

The Managing Board and the Supervisory Board receive information at least annually on significant results related to the adequacy and effectiveness of the internal control system as well as analyses from the Compliance department.

Operational risk – development in 2016

With the introduction of the integrated self-assessment (risk survey for OpRisk, ICS and Compliance), 2015 saw a major step forward towards integrated management of operational risks at NORD/LB CBB. The objective was to achieve optimal integration and management of the operational risks in the second line of defence within the internal control system by means of close collaboration between the Compliance, Security, ICS, Emergency Management and OpRisk Management functions. This cooperation was continued in 2016, and expanded via analyst conferences in which the results of self-assessments were discussed with the bodies referred to above.

As at 31 December 2016, the risk exposure for operational risk came to € 3.9 million according to the internal model (confidence level 95 per cent, holding period one year).

For NORD/LB CBB, a total of five (previous year: twelve) claims greater than € 1 thousand were reported in the financial year, with all claims totalling € 12.1 million (previous year: € 1.2 million).

Operational risk – outlook

In 2017 we will continue down the path towards integrated OpRisk management with support from the Risk Control function. The existing cooperation with the second line of defence is to be expanded and integrated.

Other risks

No other risks have been identified as material aside from the credit, market-price, liquidity and operational risks mentioned above. The risks identified as immaterial that are relevant to the Bank include business and strategy risk (including association risk), reputation risk, real estate risk and pension risk.

Business and strategy risk covers unexpected negative business developments, particularly those resulting from changes in customer behaviour and/or competitive position, from business strategy decisions on the orientation of the Bank, including introduction of new products and entry into new markets, or from changes in the macroeconomic environment in which the institution operates. This does not take into account risks already included under other risk types.

Association risk (as part of business and strategy risk) denotes the risk that the services required due to participation in the guarantee systems for the finance sector may have an adverse impact on the Bank's business.

Reputation risk refers to serious or permanent damage incurred by the Bank due to a loss of trust among customers, business partners, employees, owners or the public. Step-in risk is part of reputational risk. Step-in risk describes the risk that a bank provides financial support to a company in financial difficulties without being contractually obliged to do so, or this support exceeds an existing contractual obligation.

Real estate risk refers to the possibility of negative changes in the value of the Bank's real estate. Potential causes of negative changes in value may come from the property itself (e.g. wear and tear), a decline in the attractiveness of the real estate's location or external causes (e.g. fire, explosion, flooding).

Pension risks may arise in terms of both assets and liabilities (pension liabilities). Market price changes, particularly changes in the general level of interest rates, are a key factor influencing pension risks. In addition, risks may arise on the liabilities side from negative deviations between economic assumptions and actual trends, such as with regard to life expectancy, wage and benefit trends.

The other risks are addressed in the regular LRC meetings. These meetings include reporting and discussions with the relevant experts on the different types of risk and the current status of these risks. A qualitative assessment is made here of other risks. When needed, measures are decided to mitigate them.

The calculation of risk-bearing capacity includes a quantitative consideration of other risks, as these are largely taken into account indirectly via the material risks. In addition, some of the overall risk coverage assets are explicitly set aside as a buffer, which also serves to hedge against risk contributions from non-material risks.

The relevant business units within the Bank are directly responsible for preventing these risks or minimising them as much as possible. The Bank's compliance charter details the defined tasks and responsibilities.

Summary and outlook

The Bank has taken adequate precautionary measures to address all known risks. Appropriate tools have been implemented for early detection of risks.

The utilisation calculated in the risk-bearing capacity model shows that risks were covered at all times throughout the reporting period. The Bank believes there are currently no risks that jeopardise its status as a going concern.

NORD/LB CBB was in compliance with the applicable regulatory requirements for equity and liquidity at all times during 2016.

The methods and processes currently in use to manage material risks are constantly monitored and enhanced when necessary. The specific enhancements planned for the risk types in 2017 were discussed in the relevant sections above.

Personnel report

Headcount

NORD/LB CBB's headcount compared with the previous financial year changed as follows:

Reporting date	31.12.2016	31.12.2015	Change (absolute)	Change (in %)
	186	177	9	5
Total employees	**186**	**177**	**9**	**5**

The Managing Board and Supervisory Board particularly wish to recognise the efforts made by all employees towards achieving the satisfactory business performance in 2016. The success of the Bank is highly dependent on the professionalism and expertise of its employees. The Managing Board and Supervisory Board therefore extend their thanks for the outstanding commitment and motivation shown by all employees, and not least for their trustworthy cooperation.

The development and qualification of the staff is very important for the Bank. Flat organisational structures enable quick response times, which are absolutely necessary for ongoing success in a dynamic environment. The Bank offers performance-linked remuneration, supplemented with corresponding employee benefits, and promotes an innovative and dynamic team culture. This approach to staff management has created a motivational and constructive work environment in which the personal potential of the Bank's employees can be fully realised.

Corporate governance - declaration

Internal controls and risk management when compiling financial data and organisation

Definition and objective

The objective of the internal control and risk management system with regard to the preparation of financial reports is that the financial statements should provide a true and fair value of the net assets, financial position and financial performance of NORD/LB CBB in accordance with the accounting provisions of the International Financial Reporting Standards as they are to be applied within the European Union. The term Internal Control System (ICS) is used hereafter.

The objective of preparing proper financial reports is jeopardised by the existence of risks that have an effect on financial reporting. Risks in this context include the possibility that the objective stated above is not achieved, and that material information in the financial reporting might be erroneous. The Bank classifies information as material if the absence or misstatement of such information could influence the financial decisions of the addressees. It does not distinguish between individually or cumulatively material facts.

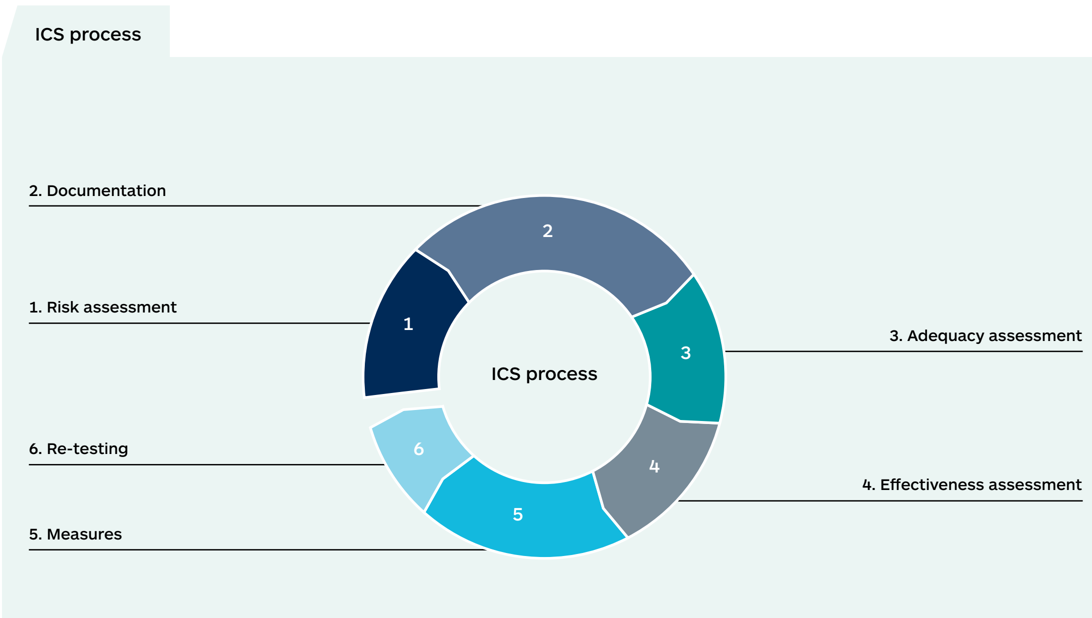
Risks for financial reporting may arise from errors in business processes. Fraudulent behaviour can also lead to misstatements. The Bank must therefore ensure that risks are minimised regarding misstatements, erroneous measurement or incorrect presentation of information in financial reporting.

The Bank's ICS aims to provide reasonable assurance regarding compliance with applicable legal requirements, the propriety and efficiency of business activities, and the completeness and accuracy of financial reporting.

When doing so it takes into account that despite all of the measures taken by the Bank, the implemented methods and processes of the ICS can never provide absolute assurance, only reasonable assurance. There were no significant changes to the ICS governing financial reporting after the reporting date.

Overview of the internal control system (ICS)

The ICS in NORD/LB CBB is based on a standard Group ICS control loop. It ensures that a uniform approach is taken to assess the ICS based on process risks and key controls.



The processes implemented are documented, and the inherent risks are determined and evaluated. The necessary controls are identified based on these risks. Every key control is evaluated regarding its control objective (appropriateness) and tested for effectiveness. If there are any control weaknesses, measures are taken to rectify them; the Bank's ICS Officer, Frank Pfeiffer (Head of Organisation unit), monitors the implementation of these measures. Optimised controls are then tested for their appropriateness and effectiveness. The Bank's ICS is based on the standards of the banking authorities (the ECB in conjunction with the CSSF). These standards are largely defined in the updated Circular 12/552, which stipulates the following four control levels:

- daily controls by personnel carrying out the tasks
- ongoing critical controls by the staff responsible for the administrative processing of transactions
- controls performed by the appointed members of the Managing Board for the business areas and functions under their direct responsibility
- controls by the internal control function

The organisational structure of the Bank is set out in an organisational chart that was created based on the principle of segregation of duties. To ensure this segregation of duties, line management is represented operationally by the responsible manager within the respective division based on an individual delegation of authority. The members of the Managing Board represent each other mutually regarding board support functions. Following the departure of Christian Veit on 13 November 2016 the Supervisor Board transferred the board responsibilities for the board support functions to Thorsten Schmidt. He will carry out these responsibilities until a new member of the Managing Board is appointed and approved. Furthermore, the Managing Board's responsibilities for back office activities were assigned to the Chief Operations Officer (COO), Juan Alberto Puentes Puertas, and to the Chief Risk Officer (CRO), Peter Heumüller.

The process organisation is governed in the Bank's documentation of internal regulations. This is continuously monitored and adjusted with regards to changes in the markets, changes to work processes and changes to external regulations. Core components of this documentation include organisational charts, guidelines, process descriptions, forms and written informational material. These obligatory documents are summarised in the Bank's organisational handbook.

Material transactions are processed according to the principle of dual control. The required segregation of duties in the business processes is also ensured from a technical data processing perspective. The personnel and technical resources allocated to a process are adjusted to suit the corresponding scope and nature of the business activity.

Risk Control function

The Risk Control function is responsible for anticipating, identifying, measuring, tracking, monitoring and reporting on all of the risks which the Bank is or could be exposed to. The results of this activity are summarised in an annual report compiled by the Risk Control function for the Bank's Managing Board and Supervisory Board.

Compliance-Funktion

The Compliance function performs its activities pursuant to a control plan approved by the Managing Board. The Compliance Officer updates the Managing Board regularly on the checks performed and their results.

Internal Auditing

The Bank has an Internal Auditing function whose objectives, responsibilities, tasks and position within the organisation of the Bank are defined by the Managing Board in an audit charter. The Internal Auditing function reports to the Managing Board on an ongoing basis on every audit it performs and its findings. Internal Auditing also monitors the implementation of measures required to rectify deficiencies.

Sustainability report

Sustainability report

Sustainability as a strategic factor

NORD/LB Luxembourg decided to set up a Sustainability Management function in 2013. It was in that year that the Sustainability Management Officer also began his work. The work here is oriented to the requirements of the Group. NORD/LB CBB aims to be economically successfully and internationally competitive with a view to creating added value for the NORD/LB Group, customers, staff and the general public. For this purpose it follows high ecological and social standards. The Bank's sustainability strategy defines the basic orientation of our actions. It sets out the focal points in individual areas of activity and documents the specific objectives we aim to achieve by 2020.

Our beliefs

The commercial success of NORD/LB CBB over the long term is possible only amid a stable natural environment and in a society that balances economic and social considerations. This understanding shapes the strategic direction of NORD/LB CBB and the nature of our business model. At the same time, it is an important contribution to our goal of harmonising our daily activities with the demands of our stakeholders. Placing great demands on our behaviour therefore contributes to our sustainability – in the interests of both the commercial success of the Bank and the responsibility we have towards our customers, our employees, the environment and society.

Governance

We believe acting with integrity is an essential part of responsible corporate management. It also helps to consistently strengthen the trust all interest groups have in NORD/LB CBB. Our working guidelines include voluntary commitments to expand our corporate activities to take account of environmental, social and ethical aspects.

Customers

We want to actively help our customers prepare for the future. In this context, we help them to utilise opportunities and minimise possible risks that result from sustainable development and global change. This increases customer satisfaction and builds long-lasting partnerships that will ensure customer loyalty to NORD/LB CBB.

Employees

We create conditions that enable our employees to develop their potential – benefiting not only themselves but also the Bank and the customers of the Bank. These conditions include offers for professional and personal development, programmes to reconcile work and family life as well as a healthy and non-discriminatory working environment in which people enjoy their work.

Environment

Taking an active approach to environmental protection is an important part of our business and the way we realise our corporate responsibility. We have undertaken several initiatives to reduce the environmental impact of our business and lower energy and resource costs. Not only does this help protect the environment, it benefits our bottom line, too. We use the latest technology to do this, including a photovoltaic system, for example.

Society

We are committed to improving the living conditions of the people in our sphere of influence and thereby simultaneously boosting the sustainability of the social environment. The training of young banking professionals is just as important as our support of social institutions and initiatives. The Bank makes both monetary and non-monetary donations to social organisations and self-help institutions as well as to cultural clubs and associations.

Supplementary report

At its meeting on 15 December 2016 the Supervisory Board of NORD/LB CBB decided to appoint Manfred Borchardt to the Bank's Managing Board as of 1 January 2017. Mr Borchardt moved to Luxembourg as of 1 January 2017 and will be an equal member of the Managing Board together with Thorsten Schmidt.

Mr Borchardt has been employed by the NORD/LB Group since 1990 and has had management positions in various market and back office divisions. Mr Borchardt had been a member of the Managing Board at the Braunschweigische Landessparkasse in Braunschweig since 2014.

Mr Borchardt was appointed to the Managing Board at NORD/LB CBB subject to the approval by the Luxembourg financial market regulator, the CSSF. This consent is still pending. Until it is obtained, Mr Borchardt will initially work as an authorised representative.

Forward-looking statements

This report contains forward-looking statements. They can be recognised in terms such as “expect”, “intend”, “plan”, “endeavour” and “estimate” and are based on our current plans and estimations. These statements include uncertainties since there are numerous factors which influence the business and are beyond the control of NORD/LB Luxembourg S.A. Covered Bond Bank. These include, in particular, the development of financial markets and changes in interest rates and market prices. Actual results and developments may therefore differ considerably from the assumptions made in the report. NORD/LB Luxembourg S.A. Covered Bond Bank accepts no responsibility for the forward-looking statements and also does not intend to update or correct them if developments materialise that are different than those expected.

Luxembourg, 6 March 2017

Thorsten Schmidt

Member of the Managing Board
NORD/LB Luxembourg S.A. Covered Bond Bank

Financial statements

Financial statements

The following tables may contain computational rounding differences.
The notes below are an integral component of the financial statements.

Income statement

of NORD/LB CBB for the reporting period from 1 January to 31 December 2016 compared with the financial year from 1 January to 31 December 2015:

	Notes	2016 (€ thousand)	2015 (€ thousand)
Net interest income and current income	**(17)**	**90,356**	**93,316**
Interest income and current income*		522,227	588,738
Interest expenses*		-430,753	-495,479
Interest rate anomalies		-1,119	57
Loan loss provisions	**(18)**	**-181**	**-1,155**
Net commission income	**(19)**	**-41,249**	**-23,406**
Commission income		18,045	18,365
Commission expenses		-59,293	-41,771
Profit/loss from financial instruments at fair value through profit or loss	**(20)**	**25,312**	**-2,480**
Trading profit/loss		2,377	379
Profit/loss from the fair value option		22,935	-2,860
Profit/loss from hedge accounting	**(21)**	**4,011**	**11,325**
Profit/loss from financial assets	**(22)**	**4,927**	**9,845**
Administrative expenses	**(23)**	**-36,913**	**-44,090**
Staff expenses		-21,567	-21,882
Other administrative expenses		-12,430	-18,623
Depreciation on property and equipment		-1,536	-1,846
Amortisation on intangible assets		-1,380	-1,739
Other operating profit/loss	**(24)**	**-3,295**	**-810**
Earnings before taxes		**42,970**	**42,546**
Income taxes	**(25)**	**-11,746**	**-10,444**
Net profit		**31,224**	**32,102**

*) Some of the previous year's figures are restated amounts. Refer to note (48) Notes to the cash flow statement.
The following notes are an integral part of the financial statements.

Statement of comprehensive income

NORD/LB CBB's total income for 2016 is composed of the income and expenses recorded in the income statement and those recognised directly in equity.

The statement of comprehensive income for the reporting period from 1 January to 31 December 2016 compared with the financial year from 1 January to 31 December 2015 is as follows:

	2016 (€ thousand)	2015 (€ thousand)
Net profit	**31,224**	**32,102**
Other comprehensive income	**9,848**	**-2,106**
Other comprehensive income that will not be reclassified to the income statement in subsequent periods	**122**	**116**
Revaluation of net indebtedness from defined benefit plans	266	164
Deferred taxes	-144	-48
Other comprehensive income that will be reclassified to the income statement in subsequent periods	**9,725**	**-2,222**
Changes from financial instruments classified as AfS	12,722	-3,139
Unrealised gains/losses	13,343	6,653
Transfer due to realisation of gains/losses	-620	-9,792
Deferred taxes	-2,997	917
Total comprehensive income for the year	**41,072**	**29,996**

The following notes are an integral part of the financial statements.

Balance sheet

of NORD/LB CBB as of 31 December 2016 compared to 31 December 2015:

Assets	Notes	31.12.2016 (in € million)	31.12.2015 (in € million)
Cash reserve	(26)	56.5	84.1
Loans and advances to banks	(27)	1,240.5	1,510.0
Loans and advances to customers	(28)	8,242.2	6,768.8
Loan loss provisions	(29)	-23.3	-39.9
Financial assets at fair value through profit or loss	(30)	973.2	1,287.0
Derivatives – fair values from hedge accounting	(31)	327.7	290.4
Financial assets	(32)	5,030.8	5,846.2
Property and equipment	(33)	66.4	67.3
Intangible assets	(34)	19.6	14.1
Current income tax assets	(35)	0.0	0.1
Deferred income tax assets	(35)	0.8	1.0
Other assets	(36)	1.8	2.7
Total assets		**15,936.2**	**15,831.8**

Liabilities	Notes	31.12.2016 (in € million)	31.12.2015 (in € million)
Liabilities to banks	(37)	6,612.1	7,626.4
Liabilities to customers	(38)	3,412.8	3,221.4
Securitised liabilities	(39)	3,221.8	3,114.2
Financial liabilities at fair value through profit or loss	(40)	1,149.2	204.6
Derivatives – fair values from hedge accounting	(41)	706.7	791.8
Provisions	(42)	21.6	22.0
Current income tax liabilities	(43)	9.7	3.9
Deferred income tax liabilities	(43)	14.1	11.5
Other liabilities	(44)	15.2	20.9
Subordinated capital	(45)	61.7	114.9
Equity	(47)	**711.4**	**700.3**
Issued capital		205.0	205.0
Retained earnings		481.8	480.5
Revaluation reserves		24.6	14.8
Total equity		**711.4**	**700.3**
Equity attributable to shareholders		711.4	700.3
Equity attributable to non-controlling interests		0.0	0.0
Total liabilities and equity		**15,936.2**	**15,831.8**

The following notes are an integral part of the financial statements.

Cash flow statement

of NORD/LB CBB for the reporting period from 1 January to 31 December 2016 compared with the financial year from 1 January to 31 December 2015:

	2016 (in € million)	2015* (in € million)
Earnings before taxes	**43.0**	**42.5**
Adjustment for non-cash items		
Depreciation, impairment and write-ups of property and equipment and financial assets	-1.6	5.3
Increase/decrease in provisions	-0.2	12.8
Gains/losses from the disposal of property and equipment and financial assets	2.0	-9.1
Increase/decrease in other non-cash items	-29.1	-31.7
Net interest income	-90.4	-93.3
Other adjustments (net)	-0.2	-0.2
Subtotal	**-76.6**	**-73.7**
Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks and customers	-1,226.0	-640.4
Trading assets, trading liabilities and hedge accounting derivatives	1,313.4	28.6
Other assets and liabilities from operating activities	-57.4	5.8
Liabilities to banks and customers	-852.4	-1,212.2
Securitised liabilities	92.1	464.5
Interest received		
Interest income	652.9	637.0
Positive interest income from borrowings	5.5	0.8
Dividends received	0.0	0.0
Interest paid		
Interest expenses	-567.8	-591.8
Negative interest paid on financial investments	-6.6	-0.7
Income tax payments	-6.2	-4.3
Cash flow from operating activities	**-729.1**	**-1,386.6**

	2016 (in € million)	2015* (in € million)
Cash receipts from the disposal and maturity of		
Financial assets	1,325.0	1,776.6
Property and equipment, and intangible assets	0.0	8.1
Payments for acquisition of		
Financial assets	-530.2	-273.1
Property and equipment, and intangible assets	-9.8	-12.9
Increase/decrease in funds from other capital (net)	0.0	0.0
Cash flow from investing activities	**785.1**	**1,498.6**
Cash receipts from equity contributions	0.0	0.0
Increase/decrease in funds from other capital	-52.7	0.0
Interest expenses on subordinated capital	-0.9	-0.4
Dividends paid / distributions	-30.0	-30.0
Cash flow from financing activities	**-83.6**	**-30.4**
Cash and cash equivalents as at end of previous year	**84.1**	**2.5**
Cash flow from operating activities	-729.1	-1,386.6
Cash flow from investing activities	785.1	1,498.6
Cash flow from financing activities	-83.6	-30.4
Total cash flow	**-27.7**	**81.7**
Effects of changes in exchange rates and in the basis of consolidation	0.0	0.0
Cash and cash equivalents as at end of reporting year	**56.5**	**84.1**

*) Some of the previous year's figures are restated amounts. Refer to note (48) Notes to the cash flow statement.
The following notes are an integral part of the financial statements.

Statement of changes in equity

NORD/LB CBB for the reporting period from 1 January to 31 December 2016:

in € million	Issued capital	Capital reserve	Retained earnings	Revaluation reserve	Currency translation reserve	Equity before non-controlling interests	Non-controlling interests	Equity
Equity as at 01.01.2015	**205.0**	**0.0**	**478.3**	**17.0**	**0.0**	**700.3**	**0.0**	**700.3**
Net profit	0.0	0.0	32.1	0.0	0.0	32.1	0.0	32.1
Changes from AfS financial instruments	0.0	0.0	0.0	-3.1	0.0	-3.1	0.0	-3.1
Revaluation of net indebtedness from defined benefit plans	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.1
Deferred taxes	0.0	0.0	0.0	0.9	0.0	0.9	0.0	0.9
Comprehensive income for the period under review	**0.0**	**0.0**	**32.2**	**-2.2**	**0.0**	**30.0**	**0.0**	**30.0**
Distribution	0.0	0.0	-30.0	0.0	0.0	-30.0	0.0	-30.0
Change from capital contributions and distributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 31.12.2015	**205.0**	**0.0**	**480.5**	**14.8**	**0.0**	**700.3**	**0.0**	**700.3**
Equity as at 01.01.2016	**205.0**	**0.0**	**480.5**	**14.8**	**0.0**	**700.3**	**0.0**	**700.3**
Net profit	0.0	0.0	31.2	0.0	0.0	31.2	0.0	31.2
Changes from AfS financial instruments	0.0	0.0	0.0	12.7	0.0	12.7	0.0	12.7
Revaluation of net indebtedness from defined benefit plans	0.0	0.0	0.3	0.0	0.0	0.3	0.0	0.3
Deferred taxes	0.0	0.0	-0.1	-3.0	0.0	-3.1	0.0	-3.1
Comprehensive income for the period under review	**0.0**	**0.0**	**31.3**	**9.7**	**0.0**	**41.1**	**0.0**	**41.1**
Distribution	0.0	0.0	-30.0	0.0	0.0	-30.0	0.0	-30.0
Change from capital contributions and distributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity as at 31.12.2016	**205.0**	**0.0**	**481.8**	**24.6**	**0.0**	**711.4**	**0.0**	**711.4**

The following notes are an integral part of the financial statements.

Notes

Notes

Accounting policies

(1) Principles for the preparation of the financial statements

The financial statements of NORD/LB CBB as at 31 December 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB). The standards applied were those which had been published when the financial statements were prepared and that have been accepted by the European Union (Note (3) Applied and new IFRSs).

The financial statements as at 31 December 2016 take into consideration the national stipulations of the law of 17 June 1992 regarding the annual report and the consolidated financial statements of financial institutions under Luxembourg law in its most recent version. The financial statements as at 31 December 2016 include the income statement, the statement of comprehensive income, the balance sheet, the cash flow statement, the statement on changes in equity, and the notes. Segment reporting is contained in the notes. Risk reporting pursuant to IFRS 7 is primarily performed using a separate report on the chances and risks of future developments (risk report) as a component of the management report.

Assets are fundamentally measured at amortised cost. Those financial instruments which are measured at fair value pursuant to IAS 39 are excluded. The accounting and measurement were based on the going-concern principle. Income and expenses are accrued or deferred on a pro rata basis. These are recognised and reported in the period to which they are economically attributable. The main accounting policies are set out below.

The reporting and functional currency of the financial statements is the euro. All amounts are stated as rounded figures in millions of EUR according to standard commercial practice, unless otherwise indicated. Percentile deviations relate to unrounded amounts.

(2) Discretionary decisions, estimations and assumptions

The estimations and judgements required from the management for accounting under IFRS are made in accordance with the respective standard. These are regularly reviewed and are based on experience and additional factors, including expectations regarding future events, which appear reasonable under the given circumstances. Where more extensive estimates were required, the assumptions made are presented. The estimates and assessments themselves as well as the underlying assessment factors and estimation methods are regularly compared to events that have actually occurred. The parameters used are appropriate and supportable. Changes to estimates relating to one period only are recognised in that period alone and, if the change relates to the current or subsequent reporting periods, they are noted correspondingly in that period and subsequent periods.

The significant methods are displayed below:

a) Fair value of financial instruments

If no active market quotations are available for financial assets or liabilities, the fair value is determined using valuation techniques. The parameters required for this are based as far as possible on observable market data. If such input data are not available, valuation techniques are applied which are based, among other elements, on volatility and market liquidity. Changes to the assumptions regarding these parameters could have an effect on the reported fair value of the financial instruments measured with these methods.

Further information is provided in notes (6), (7), (53) and (54) Fair value of financial instruments.

b) Pension benefits

The expenses from defined benefit plans, as well

as the present value of pension obligations, are determined based on actuarial calculations. These are performed on the basis of various assumptions regarding salary, wage and pension developments, the mortality risk rate, and discount rates. Due to the long-term nature of the assumptions used as a basis and the complex valuation techniques, changes in the assumptions may lead to not-insignificant effects.
Further information is provided in Note (11) Provisions for pensions and similar obligations and Note (42) Provisions.

c) Taxes
Deferred tax assets are recognised for unused tax losses carried forward to the extent to which it is likely that the income taxable in this respect will be available, i.e. the extent to which the loss amounts can actually be used. A significant judgement is made about the date of realisation and the amount of the taxable income.
Further information on taxes can be found in Note (13) Income taxes.

(3) Applied and new IFRSs
All IFRS interpretations and the respective amendments thereto have been applied in these financial statements, provided they have been recognised by the EU through the endorsement process and are relevant for NORD/LB CBB in the reporting period 2016.
The following standards and amendments to the standards requiring mandatory application as at 1 January 2016 were applied by NORD/LB CBB for the first time during the reporting period:

IFRIC 21 – Levies
In May 2013 the IASB issued IFRIC 21 as an interpretation of IAS 37 on the topic of levies. Accordingly, a debt liability is to be recognised for levies when the event triggering the levy obligation arises. The occurrence of this event must be taken from the wording of the respective legal principle. Based on the law of 18 December 2015 on the "Resolution of Financial Institutions and Certain Securities Companies", the event triggering the obligation to pay the annual contribution is based on the performance of the activity for which the law establishes the levy. The Bank has paid and expensed the corresponding annual contribution for 2016 in full. A factual and present obligation to pay future annual contributions cannot be inferred from the financial compulsion to conduct business activity in future, nor from the premise of the going concern as an underlying accounting principle. For further information on this subject, refer to Note (69) Deposit protection and resolution/guarantee funds.

Amendments to IFRS 11 – Accounting for the Acquisition of an Interest in a Joint Operation
IFRS 11 sets out how to account for the acquisition of an interest in a joint operation that is a business in the sense of IFRS 3. All requirements defined in IFRS 3 or other standards for the accounting of business combinations are to be applied to the acquired interest, and the corresponding disclosure requirements must also be met.
There are currently no circumstances at the Bank to which the amendments to IFRS 11 apply.

*Amendments to IAS 1 – Presentation of Financial Statement*s
The amended standard published on 18 December 2014 provided the foundation to implement the first recommendations that could be adopted over the short term from the amendments to IAS 1 – Presentation of Financial Statements. The amendments emphasise the concept of materiality to facilitate the communication of relevant information in IFRS-based financial statements. This will be achieved by waiving the requirement to disclose immaterial information, by allowing for the possibility of supplementary subtotals and by enabling greater flexibility in the structure of the notes. Furthermore, the subclassification of other comprehensive income (OCI) in the statement of comprehensive income has been clarified.

The amendments to IAS 1 do not have a material effect on the financial statements of the Bank.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

On 12 May 2014, the IASB published amendments to IAS 16 – Property, Plant and Equipment, and IAS 38 – Intangible Assets, regarding the permissible methods allowing an appropriate presentation of the use of a future economic benefit. It was made clear that depreciating property, plant and equipment on the basis of the revenue realised from the goods manufactured using these assets is not appropriate, and that it is permitted in the case of intangible assets with a finite useful life only in explicitly named exceptions.

As this depreciation method is not used in NORD/LB CBB, the amendments to IAS 16 and IAS 38 are not expected to have any effects.

Amendments to IAS 19 – Defined Benefit Plans: Employer Contributions

The amendment to IAS 19 Employee Benefits that was published in November 2013 specifies the requirements associated with the allocation of employee contributions or third-party contributions to the periods of service if the contributions are linked to the period of service. Additionally, relief is granted if the contributions are independent of the number of years of service.

The amendments to IAS 19 do not have an impact on the financial statements of the Bank.

Improvements from the IFRS 2010 – 2012 Cycle and 2012 – 2014 Cycle under the IASB's Annual Improvements Process

The IASB's annual improvements process involves changes to the wording in individual IFRSs to clarify or improve existing regulations. The 2010 – 2012 cycle included amendments to the standards IFRS 2, IFRS 3, IFRS 8 and IFRS 13 as well as to IAS 16, IAS 24 and IAS 38. The 2012 – 2014 cycle included amendments to the standards IFRS 5 and IFRS 7 as well as to IAS 19 and IAS 34.

These annual improvements to IFRSs do not have a material effect on the financial statements of NORD/LB CBB.

As permitted, the Bank has waived early application of the following standards and amendments to standards, which have been accepted into European law and are to be implemented for the NORD/LB CBB financial statements only after 31 December 2016.

IFRS 9 – Financial Instruments

In July 2014, the International Accounting Standards Board published the final version of IFRS 9 Financial Instruments.

IFRS 9 is to be applied for the first time in the first reporting period of a financial year beginning on or after 1 January 2018, with early application permitted. NORD/LB CBB currently intends to apply IFRS 9 for the first time as of 1 January 2018. The actual effects of applying IFRS 9 for the financial statements in 2018 are not known and cannot be reliably estimated, as they depend on the financial instruments held by the Bank and on the economic conditions prevailing at that time, as well as on the choice of accounting policies and on the discretionary decisions which the Bank will make in the future. The new standard requires NORD/LB CBB to adjust its accounting procedures and internal controls related to the presentation of financial instruments; these adjustments have not yet been completed. The Bank has, however, carried out a preliminary assessment of the possible effects of applying IFRS 9 based on the positions as at 31 December 2016.

a) Classifications – Financial assets

IFRS 9 includes a new classification and measurement approach for financial assets that reflects the business model under which the assets are held as well as the characteristics of their cash flows.

IFRS 9 includes three important categories of financial assets: measured at amortised cost, measured at fair value through profit or loss (FVTPL) and measured at fair value through other comprehensive income (FVOCI). The standard does away with the existing categories from IAS 39: held to maturity, loans and receivables, and available for sale.

IFRS 9 stipulates that derivatives embedded in contracts where the basis is a financial asset subject to the scope of the standard are never recognised separately. Instead, the hybrid financial instrument is assessed as a whole with regard to classification.

Based on a preliminary assessment, NORD/LB CBB does not believe that the new classification requirements – if they had been applied as at 31 December 2016 – would have had a material impact on the accounting of its debt securities held as financial assets, which are managed on the basis of fair values. As at 31 December 2016, the Bank had assets classified as "available for sale"; these are intended to be held long-term (however, with the possibility of sale for the purposes of fine-tuning liquidity). If these debt instruments are still held for the same reason when applying IFRS 9 for the first time, the Bank may recognise them at FVOCI or at FVTPL. NORD/LB CBB has not yet made any decision on this issue.

In addition, the Bank holds debt instruments that are voluntarily recognised at fair value to avoid potential accounting mismatches. These are also intended to be held long-term. Similar to the "available for sale" assets, the Bank can continue to report these at FVOCI or FVTPL (provided the reasoning remains the same).

In the former case, all changes in fair value are shown under other comprehensive income (to be transferred, upon realisation, to the income statement in subsequent periods) and impairment losses are recorded in the income statement. In the latter case, all changes in fair value are recognised in the income statement as incurred, thereby increasing the volatility of the banking result.

First-time application effects arise only where current LaR-classed transactions would have to be recognised at FVOCI or FVTPL in future depending on the business model, the SPPI (Solely Payments of Principal and Interest) criterion or the voluntary accounting at fair value.

b) Impairment – Financial Assets and Contractual Assets

IFRS 9 replaces the "accrued losses" model of IAS 39 with a forward-looking "expected credit defaults" model. This requires significant discretionary decisions as to the extent to which the expected credit defaults are influenced by changes in economic factors. This assessment is determined on the basis of weighted probabilities. The new impairment model is to be applied to financial assets valued at amortised cost or at FVOCI – with the exception of equity instruments held as financial assets.

According to IFRS 9, impairments are assessed on one of the following foundations:

- 12-month credit defaults: these are expected credit defaults due to possible default events within a period of twelve months from the end of the reporting period
- lifetime credit defaults: these are expected credit defaults due to all possible default events during the expected term of a financial instrument

Measurement according to the lifetime credit default concept should be applied if the credit risk of a financial asset at the end of the reporting period has increased significantly since its initial recognition; otherwise, the measurement should be based on the 12-month credit default concept. An entity may determine that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk as of the end of the reporting period. Measurement according to the lifetime credit default concept should, however, always be applied to trade receivables.

The Bank believes that the impairment costs for assets within the scope of the IFRS 9 impairment model are likely to increase and become more volatile. NORD/LB CBB has not yet definitively established the impairment methods that it will apply under IFRS 9, however.

c) Classification – Financial Liabilities

IFRS 9 largely maintains the existing requirements of IAS 39 for the classification of financial liabilities.

According to IAS 39, however, all changes in the fair value of liabilities designated at fair value through profit and loss are recorded in the income statement, whereas according to IFRS 9 these changes in fair value are generally presented as follows:

- The changes in fair value which are attributable to changes in the credit risk of the borrower are to be reported under other comprehensive income.
- The remaining changes in fair value (e.g. interest-induced) are presented in the income statement.

As at 31 December 2016, the Bank's portfolio included financial liabilities designated at fair value in the amount of € 1,047.4 million. These resulted in the financial year in a valuation result from interest effects in the amount of € 0.7 million and from credit spread effects of € -3.0 million.

d) Hedge accounting

When applying IFRS 9 for the first time, NORD/LB CBB has the option to continue to apply the accounting rules of IAS 39 for hedging transactions instead of the requirements of IFRS 9. At present, the Bank intends to exercise this option and continue to apply the accounting rules of IAS 39.

e) Disclosures

IFRS 9 requires extensive new disclosures, particularly regarding credit risk and expected credit defaults. The Bank's preliminary assessment included an analysis to identify whether there are data gaps compared with the current procedure; the Bank intends to introduce the system and control changes required for the necessary data collection.

f) Transition

Changes in accounting policies as a result of applying IFRS 9 are generally applied retrospectively, except in the following cases:

- The Bank intends to make use of the exception not to adjust comparative information for previous periods with regard to the changes in classification and measurement (including impairment). Differences between the carrying amounts of the financial assets and financial liabilities resulting from the application of IFRS 9 are to be recognised under retained earnings and other reserves as of 1 January 2018.
- The following assessments are to be made based on the facts and circumstances prevailing on the date of adoption:
    - determination of the business model under which a financial asset is held
    - determination and revocation of earlier provisions with regard to certain financial assets and financial liabilities valued at FVTPL

IFRS 15 – Revenue from Contracts with Customers

The previously valid standards IAS 18 and IAS 11 on revenue recognition (as well as the related interpretations IFRIC 13, IFRIC 15, IFRS 18 and SIC-31) will be replaced by IFRS 15 with effect from 2018. IFRS 15 provides for a new principle-based five-step model for the accounting and recognition of revenue. In particular, the application affects the amount of income and the timing of its realisation, as well as the allocation of income in the statement of comprehensive income. The EU endorsement came in the third quarter of 2016, i.e. the full or modified retrospective application of the standard is mandatory for reporting periods beginning on or after 1 January 2018. The introduction of the standard is not expected to have a material impact on the presentation of the net assets, financial position and financial performance of

NORD/LB CBB. The effects are currently under review as part of a project to implement IFRS 15, which also considers the clarifications regarding IFRS 15; these have yet to be adopted into European law. A reliable quantification of the effects, however, is not possible until this project is completed, so the following is merely an outline: The standard is fundamentally applicable for all contracts with customers of NORD/LB CBB, but in many cases it is not relevant for the Bank because large parts of the income in the statement of comprehensive income are subject to the provisions of other standards. For example, many income items recognised by NORD/LB CBB fall within the scope of IFRS 9. IFRS 15 is mainly applicable to the accounting of commission income, i.e. to the Bank's service business.

The focus here is on the following issues (among others): identification of subsequent contract modifications; (more accurate) estimation of variable remuneration; periodic review of the transaction price and of variable remuneration; identification of the performance obligations for each contract; classification of performance obligations (recognition based on a period of time versus a point in time); identification of contract-related costs which are not distributed in accordance with IFRS 9 under the effective interest method and which may be capitalised as an asset; identification of services with a reimbursement clause and recognition of a reimbursement obligation instead of a provision; identification and presentation of contract assets and contract liabilities; and supplementing the existing disclosures in the notes.

The following standards, amendments to standards and interpretations are still awaiting adoption into European law by the EU Commission as at the date when these financial statements were compiled:

IFRS 16 – Leasing

On 13 January 2016, the IASB issued the new standard IFRS 16 on leases, which replaces the previous standard IAS 17 in conjunction with the interpretations IFRIC 4, SIC-15 and SIC-27. In principle, the scope of application covers all contracts for which the right to use or control an asset is transferred for an agreed period against remuneration.

Subject to the pending endorsement by the EU, the first mandatory application of IFRS 16 will be for financial years starting on or after 1 January 2019. There are currently no plans for early adoption together with the full adoption of IFRS 15 Revenue from Contracts with Customers.

The effects of the new standard relate, in particular, to NORD/LB CBB's accounting as a lessee due to the elimination of the previous distinction between finance leases and operating leases. IFRS 16 will ensure a uniform accounting model for lessees in the future, under which right-of-use assets and leasing liabilities for leases will be recorded – with certain exceptions for short-term and low-value leases. Effects on the net assets, financial position and financial performance of NORD/LB CBB are caused in particular by an increase in total assets recognised in the balance sheet as a result of the recognition requirement for usage rights and liabilities for leases that are currently recorded under IAS 17 as operating leases. Moreover, breaking down expenses into a depreciation component and an interest component using the effective interest method results in the degressive development of expense and the earlier recognition of expenses in the earlier periods of the term of a lease agreement.

A detailed analysis and quantification of the effects is currently being carried out within the scope of a Group project on the implementation of IFRS 16. The potential to exercise the options granted pursuant to IFRS 16 is seen primarily for lease agreements relating to operating and business equipment. In addition, NORD/LB CBB will exercise the option not to record leasing arrangements for other intangible assets in accordance with IFRS 16 and to disclose the cumulative effect in equity on a modified retrospective basis.

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

The objective of the amendment to IAS 7, which is subject to endorsement and is to be applied from 1 January 2017, is to improve the information relating to changes in the entity's indebtedness. Pursuant to the amendments, an entity must provide disclosures on changes in those financial liabilities whose cash inflows and outflows are shown in the cash flow statement under cash flow from financing activities.

Based on what we know today, IAS 7 will require NORD/LB CBB to make additional disclosures.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments to IAS 12 aim to clarify how certain regulations should be applied in connection with the recognition of deferred tax assets arising from acquired debt instruments measured at fair value. In addition, it was clarified that as a rule, all deductible temporary differences should be taken together and assessed as a whole in order to determine whether sufficient taxable profit will be available for their use in the future.

At present, NORD/LB CBB does not expect the amendments to IAS 12 applicable as of 1 January 2017 – subject to endorsement – will have an impact.

Amendments to IAS 40 – Transfers of Investment Property

On 8 December 2016, the IASB published amendments to IAS 40 in order to clarify the guidelines for transfers to or from the portfolio of investment property. It was clarified that such a transfer can take place only in the case of usage changes for which there are corresponding supporting documents; this principle also applies to real estate under construction or development. The list of documents in IAS 40.57 has been converted into a non-exhaustive list. Subject to endorsement the amendments to IAS 40 enter into effect for financial years beginning on or after 1 January 2018.

There are currently no circumstances in NORD/LB CBB to which the amendments to IAS 40 apply.

Improvements to IFRS (Cycle 2014 – 2016) under the IASB's Annual Improvement Process

Amendments to three standards (IFRS 1, IFRS 12 and IAS 28) were implemented as part of the annual improvement process. The adjustment of the individual IFRSs eliminates short-term exemptions for first-time users and clarifies the existing rules relating to the scope of disclosure requirements and the exercise of options. The amendments affecting NORD/LB CBB are to be applied to financial years beginning on or after 1 January 2017 or 1 January 2018, subject to endorsement.

The clarifications of the annual improvements to IFRSs (cycle 2014 – 2016) are not expected to have an impact on NORD/LB CBB.

Furthermore, the following amendments to and interpretations of standards have not yet been adopted into European law:

- Amendments to IFRS 10 and IAS 28 – Disposal or Transfer of Assets between an Investor and an Associate or Joint Venture
- Clarifications to IFRS 15 – Revenue from Contracts with Customers
- IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration

At present, these amendments are expected to have no or no material impact on the financial statements of NORD/LB CBB.

The initial implementation of the described amended standards is stipulated for the respective time of first application.

(4) Currency translation

The Bank prepares its financial statements in its functional currency (balance sheet currency). The methods applied for currency translation are described below.

Translation to functional currency

Monetary assets and liabilities denominated in a foreign currency and non-monetary items recognised at fair value are translated at the reference exchange rates of the European Central Bank (ECB reference rates) as at 31 December 2016. Non-monetary items recognised at cost are measured at historic rates. Expenses and income in foreign currency are translated using fair market rates per currency. Foreign exchange differences on monetary items are generally reflected in the income statement; the gains or losses on non-monetary items are recognised either through profit and loss or directly in equity.

(5) Interest and commission

Income is recognised if it is sufficiently likely that the economic benefit from the business will flow to NORD/LB CBB and the amount of income and the related expenses can be reliably determined. They are measured at the fair value of the consideration received or to be claimed.

Interest from interest-bearing assets and liabilities is recognised on a pro rata temporis basis using the effective interest rate method, and is reported under interest income or interest expense.

In the case of impairments on interest-bearing assets, the interest income is calculated based on the interest rate used to determine the impairment (unwinding).

Dividend income is recognised under interest income when a legal right to the dividend arises.

Commission income is recognised in the income statement when the service is rendered. Where services are provided over several periods, income from service transactions is recognised based on the degree of completion of the transaction as at the balance sheet date.

(6) Financial instruments

A financial instrument is defined as a contract which leads to a financial asset for one company and either a financial commitment or an equity instrument for another company. The financial instruments of NORD/LB CBB are recognised accordingly on the balance sheet. They are allocated to the holding categories pursuant to the requirements of IAS 39, and are measured based on this allocation.

a) Addition and disposal of financial instruments

A financial asset or liability is recognised in the balance sheet when the Bank becomes a contracting party to the contractual arrangements for the financial instrument. In general, the trading date and the settlement date differ for regular cash purchases or sales of financial assets. For these regular cash purchases or sales there is an option to make the recognition either on the trading date (trade date accounting) or on the settlement date (settlement date accounting). The balance sheet value for all financial assets is measured in the financial statements based on the settlement date accounting.

The disposal requirements under IAS 39 are geared to the risks and rewards concept and the power of disposition. When evaluating derecognition events the measurement of risks and rewards arising from ownership takes precedence over the measurement of the transfer of control.

If risks and rewards are only transferred on a partial basis and control is retained, the continuing involvement approach is applied. When doing so the financial asset is recognised with due consideration of specific accounting policies to the extent that it corresponds to “continuing involvement”. The extent of the continuing involvement is determined by the extent to which the Bank continues to bear the risk of changes in the value of the transferred asset.

A financial commitment (or a part of one) is derecognised if it has lapsed, i.e. when the commitments stated in the contract have been met, cancelled or expired. The reacquisition of own debt instruments is also covered by the derecognition of financial commitments. Differences in the case of a repurchase between the carrying amount of the liability (including premiums and discounts) and the repurchase price are recognised through profit and loss; if a resale takes place at a later date, a new financial liability is recognised at a cost of acquisition that equals the disposal proceeds. Differences between this new cost of acquisition and the redemption amount are distributed over the residual term of the debt instrument according to the effective interest method.

b) Categorisation and measurement

Financial assets and financial commitments are initially recognised at fair value. For financial instruments in the categories of Loans and Receivables (LaR), Held to Maturity (HtM), Available for Sale (AfS) and Other Liabilities (OL), transaction costs are included in the cost of acquisition insofar as they are directly attributable. They are recognised at the nominal value or at the redemption amount taking into account the allocation of premiums and discounts at a constant effective interest rate. For financial instruments in the Financial Assets or Financial Liabilities at Fair Value through Profit or Loss (AFV) category, transaction costs are recognised immediately through profit or loss.

The subsequent measurement of financial assets and liabilities is based on the category under IAS 39 to which they were assigned on acquisition:

// *Loans and Receivables (LaR)*

Non-derivative financial assets with fixed or determinable payments, which are not quoted on an active market, are allocated to this category if they are not classified as Financial Assets at Fair Value through Profit or Loss (AFV) or Available for Sale (AfS). The subsequent measurement is at amortised cost. At each reporting date, and when there are indications of potential impairment, loans and receivables (LaR) are tested for recoverability and their value is impaired when necessary (see (7) Risk provisioning). Reversals of impairment losses are recognised through profit or loss. The cap on reversals is the amount of amortised costs that would have been reported when measurement takes place if no impairment in value had been recognised.

// *Held to Maturity (HtM)*

Non-derivative financial assets with fixed or determinable payments, as well as those with a fixed maturity for which there exists the intention and ability to maintain these until their final maturity, can be allocated to this category. An allocation may be made to this category if the financial instruments are not classified as Financial Assets at Fair Value through Profit or Loss (AFV), Available for Sale (AfS) or Loans and Receivables (LaR). The subsequent measurement is at amortised cost. NORD/LB CBB currently does not use the category Held to Maturity in its financial statements.

// *Financial Assets or Financial Liabilities at Fair Value through Profit or Loss (aFV).*

This category is divided into two subcategories:

a) Held for Trading (HfT)

This subcategory covers financial instruments (trading assets and liabilities) which were acquired with the intention of achieving profits from short-term sales and purchases, and which include all derivatives, provided these do not represent hedging instruments within the context of hedge accounting. In essence, trading assets are composed of money market instruments, bonds and debt securities, and derivatives with positive fair value. Trading liabilities include primarily derivatives with negative fair value and delivery obligations from short-sales. Trading assets and liabilities are recorded at fair value through profit and loss in subsequent measurement. Upfront payments are amortised using a constant effective interest rate. The Bank differentiates between trading book derivatives, for which upfront payments are not amortised, and non-trading portfolio derivatives, for which amortisation is performed using a constant effective interest rate and recorded in net interest income.

b) Designated at Fair Value through Profit or Loss (dFV)

If certain requirements are met, all financial instruments can be assigned to this subcategory, known as the fair value option. Exercising the fair value option avoids or significantly reduces recognition and measurement inconsistencies arising from the differing valuation techniques for financial assets and liabilities (e.g. by depicting economic hedging transactions without having to fulfil the restrictive requirements of hedge accounting). Further explanations on the type and scope of applying the fair value option are presented in Note (30) Financial assets at fair value through profit or loss and Note (40) Financial liabilities at fair value through profit or loss. Financial instruments to which the fair value option is applied are indicated in the corresponding balance sheet item and in subsequent measurement are valued at fair value through profit or loss. Premiums and discounts are amortised using a constant effective interest rate.

// *Available for Sale (AfS)*

All non-derivative financial assets not assigned to any of the above categories are assigned to this category. These may include, in particular, loans and debt securities, as well as shares and equity interests, which are not measured pursuant to IAS 27, IAS 28 or IAS 31. The subsequent measurement is made at fair value; if the fair value for financial investments in equity instruments, such as certain shares or equity interests for which no price quoted on an active market is available (and derivatives on those which cannot be settled by delivery alone), measurement is at the cost of acquisition. The result of the fair value measurement is recognised directly in equity in a separate equity item (revaluation reserve). On disposal of the financial asset, the accumulated valuation result recognised in the revaluation reserve is reversed and recognised in the income statement.

Impairment occurs only in the event of a permanent loss in value due to credit ratings. The presence of an impairment in value due to credit ratings is tested at least once per year on the basis of specified objective factors. Objective factors in this regard are the trigger events listed in IAS 39, such as significant financial difficulties on the part of the issuer or debtor, or breach of contract, such as a default or delayed interest or principal payments. In the case of equity securities, a substantial decline in fair value to less than the cost of acquisition is an objective indication of an impairment in value. Other supplemental criteria provide an indication as well.

When an impairment loss due to credit ratings is recognised, the revaluation reserve is adjusted by the amount of the impairment loss, and the amount is included in the income statement if the impairment is in accordance with IAS 39. Appreciations in value relating to debt instruments are recognised through profit and loss in the income statement for that part of the appreciation corresponding to an impaired amount; any excess is recognised directly in equity in the revaluation reserve. Appreciations in the value of equity instruments – unless measured at the cost of acquisition – are recognised directly in equity. Differences between the cost of acquisition and the redemption amount for debt instruments are amortised through profit and loss using the effective interest method.

// *Other Liabilities (OL)*

This category includes, in particular, liabilities to banks and customers, securitised liabilities and subordinated capital, provided these liabilities were not assigned to the fair value option. The subsequent measurement is at amortised cost applying the effective interest method.

The carrying amounts and net gains or losses per measurement category are described in Note (50) Carrying amounts by measurement category.

c) Reclassification

Under IAS 39 reclassifications of financial instruments are permitted under certain conditions from the category HfT (trading assets) to the categories LaR, HtM and AfS, and from the category AfS to the categories LaR and HtM. Please refer to Note (32) Financial assets for the reclassification options used at NORD/LB CBB.

d) Determination of fair value

As a general rule, the unit on which the appraisal of financial instruments is based (the unit of account) is determined by IAS 39. In NORD/LB CBB, the individual financial instrument represents the measurement unit, unless IFRS 13 specifies an exception.

The fair value of financial instruments as per IAS 39 in conjunction with IFRS 13 reflects the price at which an asset can be sold or a liability can be settled on the basis of an orderly transaction between market participants on the measurement date, i.e. the fair value is a market-related value and is not entity-specific. According to IFRS 13, the fair value is either the price that can be observed directly or a price determined with a valuation technique, which would be obtained on the basis of an orderly transaction, i.e. a disposal or settlement, on the principal market or the most advantageous market on the measurement date. The measurement on the measurement date is always based on a fictitious, possible market transaction. If there is a principal market, the price on that market represents the fair value regardless of whether the price can be observed directly or is determined on the basis of a valuation technique. This also applies if the price on another market is potentially more advantageous.

// *Financial instruments recognised at fair value on the balance sheet*

NORD/LB CBB applies the three-level fair value hierarchy using the Level 1 (mark-to-market), Level 2 (mark-to-matrix) and Level 3 (mark-to-model) terminology set out in IFRS 13.

The respective level is determined by the input data used in the measurement and reflects the market proximity of the variables included in the determination of fair value. If input data from multiple levels of the fair value hierarchy are used in the determination of fair value, the resulting fair value of the respective financial instrument is assigned to the lowest level at which the input data has a significant influence on the fair value measurement.

The fair value hierarchy sets out that a financial instrument is categorised in Level 1 if it is traded on an active market and if publicly listed market prices or prices actually traded on the over-the-counter market (OTC market) are used to determine the instrument's fair value. Quotes from other banks or market makers are applied whenever observable sources of prices other than exchanges are used. The Level 1 prices are used without any adjustment. Level 1 financial instruments include trading assets and trading liabilities, financial instruments designated at fair value, financial assets recognised at fair value and other assets.

If no price quotes on an active market are available, the fair value is calculated using recognised valuation methods or models as well as by means of external pricing services if the measurement in this case is carried out either fully or in part by means of spread curves (Level 2). To measure financial instruments in these situations, measurement methods are used that are widely recognised on the market under normal market conditions (e.g. discounted cash flow methods and the Hull & White model for options) and the calculations of which are fundamentally based on inputs available on the market. A requirement here is that variables which market participants would have taken into account in the pricing are included in the measurement process. Wherever possible, the respective inputs are taken from the markets on which the instruments are issued or acquired.

Measurement models are used primarily for OTC derivatives and securities listed on inactive markets. The models include a range of inputs such as market prices and other market quotations, risk-free interest rate curves, risk premiums, foreign exchange rates and volatilities. A standard method is always used when estimates are required in individual cases, for instance when using option pricing models.

The market data used as the basis for risk controlling are employed for the Level 2 measurements. All payments are discounted using the interest rate curve adjusted for the counterparty's credit spread. Spreads are determined based on comparable financial instruments or credit curves (for example, taking account of the respective market segment and the issuer's credit rating).

In the case of financial instruments for which there is no active market on 31 December 2016 and for which market prices cannot be used, fair value is determined in accordance with the Mark-to-Matrix method for measurement purposes using discounted cash flows.

The financial instruments in the Bank to be measured in this manner are identified on the basis of individual securities and a subsequent separation into active and inactive markets. Changes in market assessments are consistently included in the measurement. Several divisions in the Bank identify, analyse and value financial instruments in inactive markets. This approach makes it possible to assess inactivity in the most objective manner possible. The measurement model for financial instruments in inactive markets is based on term-specific interest rates, the credit rating of the respective issuer and a reasonable interest rate on the committed capital.

The ratings of the counterparties are among the parameters used in the procedures. Insofar as these are obtained from publicly available sources, the financial instruments measured in this way are allocated to Level 2. Level 2 financial instruments include trading assets and trading liabilities, hedge accounting derivatives, financial instruments designated at fair value and financial assets recognised at fair value.

Financial instruments for which there is no active market and which cannot be measured completely based on observable market parameters are allocated to Level 3. In comparison and in differentiation to Level 2 measurement, the Level 3 measurement fundamentally uses both institution-specific models as well as data which are not observable on the market. These instruments are measured either by comparing them with transactions observed on the market with similar financial instruments or by using industry-standard models. The inputs used in these methods include assumptions about cash flows, loss estimates and the discount rate, and are determined as far as possible on a near-market basis.

Financial instruments are accordingly allocated to Level 3 if the internal ratings of the internal ratings-based approach (pursuant to CRR) applied by NORD/LB CBB are used in the process. This applies irrespective of whether the internal data for the regulatory approval test have been calibrated with data from publicly available ratings, which are the basis of market participants' pricing decisions.

All measurement models applied in the Bank are reviewed periodically. The fair values are subject to internal controls and processes in NORD/LB CBB. These controls and procedures are carried out and coordinated in the Finance and Risk Control Division. The models, the input data and the resulting fair values are regularly reviewed.

All relevant factors are taken into account appropriately when determining fair value. These factors include the bid-ask spread, counterparty risk and business-typical discounting factors. The mid-market price in the bid-ask spread is always used for the measurement. The financial instruments particularly impacted by this include securities or liabilities whose fair values are based on prices listed on active markets as well as financial instruments, such as OTC derivatives, whose fair values are determined using a measurement method and for which the mid-market price is an observable input in the measurement method.

At NORD/LB CBB, the prices of Level 1 and 2 securities are calculated using a selection process based on the fuzzy theory, which, using mathematical logic, mimics human decision-making behaviour in determining the pricing process in the calculation of the valid price. In liquid markets, the most valid price from a variety of suppliers is selected using the implemented logic. In illiquid markets, the most valid price is selected on the basis of a combination of a few specialist providers specialised in pricing and also methods based on comparable securities and spread-engineering procedures. All of the procedures used are integrated into the relevant fuzzy engine. The selection process is integrated in the system and is verifiable at all times.

In the Level 3 measurement, which is currently not used at NORD/LB CBB, prices are determined in a standard Group procedure on the basis of ratings-based default probabilities using a discounted cash flow method.

In addition, the Bank exercises its option to calculate the counterparty risk (credit value adjustment (CVA)/debit value adjustment (DVA)) based on the net risk position in accordance with IFRS 13.48. The CVA/DVA is allocated to individual transactions in the balance sheet using the relative credit adjustment approach. As far as the counterparty default risk is concerned, quoted prices are not available on active markets for some types of derivatives, which means that the fair value is determined by using other valuation techniques. Measurements not taking into account the credit default risk, which is only considered subsequently, are initially conducted on a regular basis. Both the credit default risk of the counterparty (CVA) and our own credit default risk (DVA) are taken into account in the fair value valuation. This is performed by means of an add-on process.

The Bank measures secured OTC derivatives primarily in accordance with the current market standard of overnight index swap discounting (OIS discounting). Unsecured derivatives continue to be discounted in accordance with LIBOR discounting to establish their fair value.

// *Financial instruments reported at fair value for disclosure purposes*

In principle, the same requirements for the determination of fair value apply for financial instruments for which fair value is calculated purely for disclosure purposes as for those for which the fair value is reported in the balance sheet. These financial instruments include, for example, cash reserves, assets and liabilities to and from banks and customers, certain bonds and company shares as well as securitised liabilities and subordinated capital.

For the cash reserve and short-term assets and liabilities to and from banks and customers (demand deposits), the nominal value is viewed as fair value due to their short-term nature.

In practice, several valuation techniques are used for securities and liabilities (e.g. market or comparative prices, or measurement models), similar to the recognition of financial instruments in the balance sheet at fair value.

In general, however, a discounted cashflow model is used. A risk-free yield curve is often used for appraisals in this valuation model. Where applicable, this rate is adjusted for risk premiums and other components. For liabilities, NORD/LB's own credit default risk is taken as the risk premium. A corresponding level allocation within the existing fair value hierarchy is performed depending on the significance of the input data.

No observable market prices are available for long-term loans/advances and liabilities to and from banks and customers, nor for deposits, since no observable primary or secondary markets exist. The fair value for these financial instruments is determined with the help of recognised valuation techniques (discounted cash flow model). The input data for this model is the risk-free interest rate and a risk premium.

Further information on the fair value hierarchy and the fair values of financial instruments can be found in notes (53) Fair value hierarchy and (54) Fair value of financial instruments.

e) Structured products

Structured products are composed of two components – one or more embedded derivative (e.g. swaps, futures, caps) and a host contract (e.g. financial instruments, lease agreements). Both components are the subject of only one contract regarding the structured product, which means these products form a legal unit and cannot be treated separately from one another, due to the contractual unit.

According to IAS 39, an embedded derivative must be separated from the host contract and recognised in the balance sheet as an independent derivative if the following criteria are cumulatively met:

- The economic characteristics and risks of the embedded derivative are not closely associated with the economic characteristics and risks of the host contract.
- An independent derivative with the same conditions as the embedded derivative would satisfy the definition of a derivative financial instrument.
- The structured product is not recognised at fair value through profit and loss (aFV category).

No structured financial instruments with derivatives requiring separation are currently in our portfolio.

f) Hedge accounting
(recognising hedging transactions)

Hedge accounting is understood as the accounting depiction of hedging transactions. Within this framework, hedging relationships are formed between the underlying transaction and the hedge. The aim is to avoid or reduce fluctuations in the annual profit/loss and equity which result from the differing measurement of the underlying and hedging transactions.

IAS 39 differentiates between three basic forms of hedges, each requiring different treatment within hedge accounting. Fair value hedge accounting involves hedging (parts of) assets or liabilities against changes in fair value. The Bank's issue and lending business as well as the securities portfolios of liquidity management, if these securities are interest-bearing, are particularly exposed to such market risk. Individual transactions are hedged by means of a fair value hedge, which is primarily either an interest rate swap or a cross-currency interest rate swap.

Neither of the other basic forms – cash flow hedge accounting and hedges of a net investment in a foreign operation – are currently in use.

Hedging transactions may be recognised in the balance sheet according to the rules of hedge accounting only if the restrictive conditions of IAS 39 are satisfied. The requirements of hedge accounting, in particular proof of hedge effectiveness, must be satisfied as at all reporting dates and for all hedging transactions. The critical term-matching method is used for the prospective performance of effectiveness tests. A modified dollar-offset method is used for retrospective effectiveness tests. This method takes account of the problem of small numbers in the case of minor changes in the value of underlying transactions and hedge transactions by means of additional tolerance limits.

Pursuant to the regulations of fair value hedge accounting, the derivative financial instruments used for hedging are recognised in the balance sheet at fair value as positive or negative fair values from hedge accounting (Note (31) Fair values from hedge accounting or Note (41) Fair values from hedge accounting). Changes to measurements are recognised in profit and loss (Note (21) Profit/loss from hedge accounting). The changes in fair value resulting from the hedged risk for the hedged asset or liability are also recognised through profit and loss in the line item profit/loss from hedge accounting.

If financial instruments from the category AfS are part of a hedging transaction, the change in fair value is broken down into a hedged and unhedged component. When applying hedge accounting, the portion of the change in value attributable to the hedged risk is recognised through profit and loss in the line item Profit/loss from hedge accounting, while the portion not attributable to the hedged risk is recognised in the revaluation reserve.

Under micro hedge accounting, the value of the financial instruments measured at amortised cost are corrected in the balance sheet under both assets and liabilities by the change in the fair value which can be traced back to the hedged risk (hedge adjustment).

A hedging transaction ends when the underlying or hedging transaction expires, is disposed of or exercised, or when the requirements for hedge accounting are no longer satisfied.

g) Securities repurchase and lending

In the case of genuine securities repurchase agreements (repo transactions), a transfer of the security sold for repurchase does not result in derecognition since the transferring company essentially retains all the risks and rewards associated with ownership of the repo security. The transferred asset must therefore continue to be recognised in the borrower's accounting and measured according to the respective category. The payment received must be recognised as a financial liability (depending on the counterparty under liabilities to banks or customers). Agreed interest payments are recognised as interest expense according to their maturity.

Reverse repos are thus accounted for as loans and advances to banks or customers and included in the loans and receivables (LaR) category. The securities bought under repurchase agreements on which the financial transaction is based are not reported in the balance sheet. Interest arising from such transactions is recognised as interest income according to maturity.

There were non-genuine securities repurchase agreements outstanding as at 31 December 2016.

The accounting principles governing the recognition of genuine repurchase transactions apply similarly to securities lending. Securities lent are reported as security portfolios and measured in accordance with IAS 39, while borrowed securities are not recognised in the balance sheet. Cash collateral furnished for securities lending transactions is shown as a receivable, while cash collateral received is shown as a liability.

Please refer to Note (60) Offsetting of financial assets and financial liabilities regarding the scope and volume of security repurchase transactions.

(7) Risk provisioning

The risks from on-balance-sheet lending business are accounted for through the creation of specific valuation allowances and portfolio valuation allowances.

Impairment testing of all significant loans and advances takes place at the individual transaction level. The loan loss provisions cover all recognisable creditworthiness risks by creating specific valuation allowances. A valuation allowance is needed if it is likely, based on observable criteria, that not all interest and principle repayment obligations, or other obligations, can be satisfied as scheduled. Such criteria include, among others, the default or delay in making interest or principle payments totalling at least 90 days, and significant financial difficulties on the part of the debtor. The amount of the valuation allowances is measured using the difference between the carrying amount and the present value of expected future cash flows.

The precursor to risk provisioning is forborne exposures (Note (57) Forbearance exposure), which are loans and advances to borrowers which, due to financial difficulties, are no longer able to fulfil the contractual conditions or which run the risk of not being able to observe these conditions in the future. In order to avoid a default or impairment, the Bank has decided to modify the conditions of these engagements in favour of the borrower by carrying out one of the following measures (forbearance measures):

- modification to the contractual terms and conditions
- refinancing or restructuring
- approval of a contractually granted option
- waiver by the credit-lending institution to exercise contractually assured rights

Valuation allowances are established at the portfolio level for groups of financial assets with comparable credit risks in order to account for risks which have arisen but are not identified by the Bank. This portfolio valuation allowance, which is related to creditworthiness, is performed based on historical likelihoods of default and regulatory loss quotas. Furthermore, the portfolio-specific LIP factor (loss identification period) is applied to ensure that only losses which have occurred are taken into account. The parameters used are derived from the CRR system. Moreover, the Bank adjusts the valuation parameters for problematic portfolios to match the parameters observable on the market, and underpins these scenarios with a likelihood of occurrence. In the financial year the Bank adjusted the parameters according to market conditions.

Provisions for risks in lending business have been recognised for the risks from off-balance-sheet business (guarantees, endorsement liabilities, loan commitments).

Uncollectible loans and advances for which no specific valuation allowance has been recognised are written off directly. Additions to receivables written off are recognised through profit or loss.

No risk provisioning is created for losses which have not occurred.

(8) Property and equipment

Property and equipment are recognised at cost when they are initially recorded. Depreciable property and equipment are subsequently recognised in the balance sheet minus depreciation calculated on a straight-line basis over the asset's economic life. Impairments are recognised for the amount by which the carrying amount exceeds the higher value from fair value less disposal costs and the value in use of the asset. Depreciations and impairments are recorded under administrative expenses.

Property and equipment are depreciated using the following time periods:

	Useful life in years
Buildings	50
Operating and office equipment	3 - 15
Other property and equipment	3 - 15

The cost of acquisition of low-value assets is expensed as incurred for reasons of materiality.

(9) Leases

IAS 17 stipulates that leases are to be classified as either a finance lease or an operating lease at the start of the lease agreement. If significant risks and rewards associated with ownership are transferred to the lessee, the lease is to be classified as a finance lease; the leased asset is to be recognised in the balance sheet of the lessee. If significant risks and opportunities associated with ownership are not transferred to the lessee, the lease is to be classified as an operating lease; the leased asset is to be recognised in the balance sheet of the lessor.

Finance lease

Two contracts concluded by the Bank (data processing hardware) are classified as finance leases. With regards to the scope of the leased assets, the Bank has refrained from recognising these items in the balance sheet in accordance with IAS 8.8 for reasons of materiality.

Operating lease

Under an operating lease the lessee recognises the leasing instalments as expenses under other administrative expenses. The initial direct costs (such as appraisal costs) are expensed immediately. Contracts concluded as an operating lessee are in line with customary industry practice.

(10) Intangible assets

Intangible assets acquired by NORD/LB CBB are recognised in the balance sheet at the cost of acquisition, while internally developed intangible assets are recognised in the balance sheet at their origination cost, provided the recognition criteria of IAS 38 are satisfied.

For intangible assets with finite useful lives, amortisation is recognised using the straight-line method over the economic life of the asset. Impairments are recognised on intangible assets with a finite useful life in the amount by which the carrying amount exceeds the higher value from fair value less disposal costs and the value in use of the asset. Impairment losses are reversed if the reasons for the impairment lapses, though not beyond the amount of amortised costs. Amortisation is recorded under administrative expenses.

Intangible assets with a finite useful life are amortised over a period of three to fifteen years.

Intangible assets with an indefinite useful life are not present at NORD/LB CBB.

(11) Provisions for pensions and similar obligations

The occupational pension scheme is based on different retirement-benefit systems. In one case, employees acquire an entitlement to a benefit through a contribution payment by the respective institutions to an external pension provider (defined contribution plan). In this case, the contributions to the pension provision are recognised as current expenses in accordance with IAS 19 for defined contribution plans. This means that no provisions for pensions are established.

In the other case, the operational pension provision at NORD/LB CBB is based on a pension system where employees receive an entitlement to pension benefits wherein the pension benefit is concretely set out and dependent on factors such as expected wage and salary increases, age, seniority and a predicted pension trend (defined benefit plan). The accounting principles of IAS 19 for defined benefit plans are applied for this pension scheme.

Those components of the pension provision recognised through profit or loss consist of the service cost and the interest cost on the present value of the liability. In this case the expected net return on the plan assets reduces pension expenses. Moreover, past service costs, where applicable, must be recognised through profit and loss. Interest expenses and the expected return on plan assets are shown under net interest income.

The Bank recognises the full amount of actuarial gains and losses directly in equity. As a result, the settlement of actuarial gains and losses that are not yet recognised through profit and loss does not result in a decrease or an increase in pension cost.

The value of pension liabilities from defined benefit plans are determined as at the reporting date by independent actuaries according to the projected unit credit method. High-quality corporate bonds as well as future expected salary and pension increases are taken into account for the calculation, in addition to the biometric assumptions of the actuarial interest rate (discount rate).

The pension system is outsourced to a Luxembourg insurance company.

(12) Other provisions

Other provisions are established pursuant to IAS 37 for uncertain liabilities to third parties and imminent losses from pending transactions if utilisation is likely and the amount can be reliably estimated. The valuation of provisions is measured according to the best estimate. This estimate is based on management's assessment taking into account experience and, where applicable, appraisals or opinions from experts. Risks and uncertainties are considered as well. Future events which could influence the amount required to settle an obligation are taken into account if there are objective indications that they could occur. Provisions are discounted if the effect is material.

If utilisation is not likely or if the amount of the obligation cannot be reliably estimated, a contingent liability is reported in the notes.

<u>Provisions for reorganisation measures</u>

As a rule, provisions for reorganisation measures are recognised when a formal reorganisation plan exists that defines measures and activities for the business divisions or subsegments affected, the number of employees impacted, an estimate of the expected future cash outflow (particularly in the form of severance payments to employees and other expenses) and an adequate timetable. In addition, this plan must have been adopted by the responsible decision-making level of management, and cornerstones of the plan must have been communicated to the employees affected or the employee representatives.

(13) Income taxes

Current income tax assets and liabilities were calculated using the applicable tax rates at which the payment to or the reimbursement from the taxation authority is expected.

Deferred tax assets and liabilities are calculated

based on the difference between the carrying amount of an asset or liability on the balance sheet and the corresponding tax base. The deferred tax assets and liabilities resulting from temporary differences are likely to result in an increase or decrease in income tax expense in future periods. These items were measured based on the tax rates applicable for the period when an asset will be realised or a liability will be settled.
Current income tax assets and liabilities, and deferred tax assets and liabilities, are netted if the prerequisites for netting are met. No discounting is applied. Deferred tax assets or liabilities are recognised either through profit and loss or directly in equity depending on the tax treatment of the underlying circumstances.
Income tax expense or income is reported in the income statement under income taxes. The categorisation into current and deferred income tax assets and liabilities for the reporting period can be found in the notes. The current and deferred income tax assets and liabilities are recognised in the balance sheet as assets or liabilities. The carrying amount of any deferred tax assets is tested for recoverability as at every reporting date.
A draft Grand Duchy ordinance regarding the taxation of IFRS financial statements has been published. This draft, which affects NORD/LB CBB, stipulates that valuation differences from financial instruments which are included in the income statement must be incorporated into the basis of taxation. Moreover, this stipulation grants the taxpayer the option to tax any income resulting from the first-time adoption of IFRS either fully in the year when IFRS is initially adopted, or to distribute these items rateably over a period between two and five years.
NORD/LB CBB has obtained a binding declaration from the Luxembourg tax authority regarding tax questions relating to IFRS-based accounting and the first-time adoption, and has applied the tax measures described above. In this context, the income from the first-time adoption of IFRS was not distributed over time, but rather fully included in the tax assessment base for the reporting year 2008.
Regarding the wealth tax reserves we refer to the statements made under Note (47) Notes to the statement of changes in equity.

(14) Subordinated capital

The subordinated capital item is composed of non-securitised, subordinated liabilities.
Subordinated capital is recognised at amortised cost. Premiums and discounts are distributed across their maturity according to the effective interest method, and are recognised in profit and loss under net interest income. Accrued interest not yet due is allocated directly to the corresponding item within subordinated capital.
A detailed listing of the subordinate liabilities can be found under Note (45) Subordinated capital.

Segment reporting

Segmentation by business segments

Segment reporting is performed pursuant to IFRS 8 to provide information on the business segments in accordance with the Bank's business model on the basis of internal management reporting. These segments are defined as the customer or product groups that match the organisational structure of the Bank.

Net interest income generated by the individual segments was calculated based on the market interest rate method. The segment expenses include original expenses as well as expenses allocated on the basis of cost and service charging. The risk provisioning has been allocated to the segments on the basis of actual costs.

Financial Markets & Sales

This segment includes primarily the divisions commissioned with managing the Bank (liquidity provisioning, interest and currency management). Sales activities in which the European marketing capacities of the NORD/LB Group are bundled are allocated here, too.

Loans

The lending business transferred by the Group with the resulting profit contributions is primarily depicted in this segment.

Client Services & B2B

The Bank spun off the Private Banking business segment at the end of 2014. Account and deposit management as well as lending business with private banking customers remain with the Bank, as does the resulting income. These activities and the corresponding financial results are allocated to the Client Services & B2B business segment. Parts of the expenses incurred from the former Private Banking business segment are shown under administrative expenses. Furthermore, income from service charging with NORD/LB Vermögensmanagement Luxembourg S.A. is reported under other operating profit/loss.

Bank Management & Other

This segment covers other positions and reconciling items. The profit contributions realised from equity interests are reported here, too.

Segmentation by region

Geographic segmentation is based on the headquarters of the counterparty. Expenses and income are calculated in relation to the segment asset or liability.

(15) Segmentation of NORD/LB CBB by business segment

	Segments				
in € thousand	Financial Markets & Sales	Loans	Client Services & B2B	Bank Management & other	Total
Net interest income	**5,023**	**83,122**	**1,455**	**756**	**90,356**
Ditto previous year	30,100	77,437	2,156	-16,377	**93,316**
Loan loss provisions	**-164**	**-144**	**127**	**0**	**-181**
Ditto previous year	213	-1,470	103	0	**-1,155**
Net interest income after risk provisioning	**4,859**	**82,978**	**1,582**	**756**	**90,176**
Ditto previous year	30,312	75,967	2,259	-16,377	**92,161**
Net commission income	**2,163**	**-42,993**	**-416**	**-3**	**-41,249**
Ditto previous year	2,717	-25,520	-328	-276	**-23,406**
Profit/loss from financial instruments at fair value through profit or loss	**25,312**	**0**	**0**	**0**	**25,312**
Ditto previous year	-2,480	0	0	0	**-2,480**
Profit/loss from hedge accounting	**0**	**0**	**0**	**4,011**	**4,011**
Ditto previous year	0	0	0	11,325	**11,325**
Profit/loss from financial assets	**4,927**	**0**	**0**	**0**	**4,927**
Ditto previous year	9,846	0	0	0	**9,845**
Administrative expenses	**-12,104**	**-12,032**	**-4,130**	**-8,646**	**-36,913**
Ditto previous year	-12,138	-11,925	-3,110	-16,917	**-44,090**
Other income/expenses	**-2,589**	**-233**	**2,823**	**-3,296**	**-3,295**
Ditto previous year	-3,474	-921	1,862	1,723	**-810**
Earnings before taxes	**22,586**	**27,737**	**-188**	**-7,165**	**42,970**
Ditto previous year	24,783	37,601	684	-20,522	**42,546**
in € million					
Segment assets	**8,125.5**	**7,680.6**	**41.4**	**88.7**	**15,936.2**
Ditto previous year	9,083.6	6,541.3	120.9	86.0	**15,831.8**
Segment liabilities (including equity)	**13,090.6**	**1,928.1**	**148.6**	**769.0**	**15,936.2**
Ditto previous year	13,488.2	1,439.5	147.9	756.1	**15,831.8**
Risk-weighted assets	**1,447.4**	**2,632.5**	**61.3**	**102.3**	**4,243.4**
Ditto previous year	1,591.6	2,395.0	63.1	89.9	**4,139.6**

Segments					
in € million	Financial Markets & Sales	Loans	Client Services & B2B	Bank Management & other	Total
Capital commitment	**115.8**	**210.6**	**4.9**	**8.2**	**339.5**
Ditto previous year (based on average annual values)	143.2	215.6	5.7	8.1	**372.6**
CIR *	**43.4%**	**30.2%**	**106.9%**	**588.9%**	**50.5%**
Ditto previous year	33.7%	23.4%	84.3%	-469.33%	**50.7%**
RoRaC **	**13.7%**	**13.2%**	**-3.6%**	**-66.0%**	**11.0%**
Ditto previous year	11.3%	17.4%	4.3%	-106.0%	**9.2%**

*) CIR = The ratio of administrative expenses to earnings before taxes excluding administrative expenses and risk components. (Further information on this pursuant to the requirements set out in CSSF Circular 16/636 is provided on the following page)
**) RoRaC = Earnings before taxes/maximum (of the limit for committed capital or committed capital). (Further information on this pursuant to the requirements set out in CSSF Circular 16/636 is provided on the following page)

Supplementary information pursuant to CSSF Circular 16/636:

The “cost/income ratio” is a metric used for measuring efficiency. Until 31 December 2015, this ratio was calculated by dividing administrative expenses by earnings before taxes and costs (administrative expenses). Since 30 June 2016, the cost/income ratio is calculated by dividing administrative expenses by earnings before taxes, costs (administrative expenses) and risk components. This new calculation method was chosen because it frees the efficiency ratio from risk components that cannot be influenced.

Until 31.12.2015

	31.12.2015
Cost/income ratio (in € million)	50.9%
Administrative expenses	44.1
Earnings after taxes	32.1
Taxes	10.4
Costs (administrative expenses)	44.1

Since 30.06.2016

	31.12.2015	**31.12.2016**
Cost/income ratio (in € million)	50.7%	50.5%
Administrative expenses	44.1	36.9
Earnings after taxes	32.1	31.2
Taxes	10.4	11.7
Costs (administrative expenses)	44.1	36.9
Risk components	-0.4	6.7

RoRaC (return on risk-adjusted capital) is a performance indicator adjusted for risk. It shows the ratio between a period’s earnings before tax and the higher value of the limit for committed capital or committed capital.

	31.12.2015	**31.12.2016**
RoRaC (in € million)	9.2%	11.0%
Earnings before taxes	42.5	43.0
Limit for committed capital	464.8	391.1
Committed capital	372.6	339.5

Additional segment information					
in € million	Financial Markets & Sales	Loans	Client Services & B2B	Bank Management & other	Total
Property and equipment, net	**0.0**	**0.0**	**0.0**	**66.4**	**66.4**
Ditto previous year	18.3	17.9	6.9	24.2	**67.3**
Depreciation on property and equipment, current year	**0.0**	**0.0**	**0.0**	**-1.5**	**-1.5**
Ditto previous year	-0.5	-0.5	-0.2	-0.7	**-1.8**
Intangible assets, net	**0.0**	**0.0**	**0.0**	**19.6**	**19.6**
Ditto previous year	3.8	3.8	1.4	5.1	**14.1**
Amortisation on intangible assets, current year	**0.0**	**0.0**	**0.0**	**-1.4**	**-1.4**
Ditto previous year	-0.5	-0.5	-0.2	-0.6	**-1.7**
Change to allowances on financial assets, current year	**6.9**	**0.0**	**0.0**	**0.0**	**6.9**
Ditto previous year	0.8	0.0	0.0	0.0	**0.8**

(16) Geographic segmentation of NORD/LB CBB

Segments								
in € million	Germany	Luxembourg	Switzerland	Rest of Europe	USA	Rest of America	Rest of World	Total
Earnings before taxes	**20.5**	**1.5**	**1.5**	**10.7**	**5.7**	**2.2**	**0.8**	**43.0**
Ditto previous year	19.7	1.9	0.4	11.6	5.8	2.1	1.0	**42.5**
Segment assets	**7,600.7**	**566.7**	**563.3**	**3,979.5**	**2,121.9**	**803.4**	**300.7**	**15,936.2**
Ditto previous year	7,343.5	696.0	152.7	4,317.9	2,168.0	776.9	376.7	**15,831.8**
Segment liabilities (including equity)	**8,043.3**	**6,090.2**	**738.5**	**957.1**	**24.4**	**31.3**	**51.4**	**15,936.2**
Ditto previous year	7,100.3	5,676.0	903.8	2,046.1	26.8	19.9	58.9	**15,831.8**
Risk-weighted assets	**2,023.9**	**150.9**	**150.0**	**1,059.7**	**565.0**	**213.9**	**80.1**	**4,243.4**
Ditto previous year	1,920.1	182.0	39.9	1,129.0	566.9	203.1	98.5	**4,139.6**
Capital commitment	**161.9**	**12.1**	**12.0**	**84.8**	**45.2**	**17.1**	**6.4**	**339.5**
Ditto previous year (based on average annual values)	172.8	16.4	3.6	101.6	51.0	18.3	8.9	**372.6**

Notes to the income statement

(17) Net interest income and current income

The items interest income and expenses contain the received and paid interest income and expenses, amortisation of premiums and discounts on financial instruments using the effective interest rate method, and dividend income.

	2016 (€ thousand)	2015* (€ thousand)	Change in %
Interest income	**522,227**	**588,738**	**-11**
Interest income from lending and money market transactions	212,078	197,202	8
Interest income from fixed-interest securities and debt securities	138,800	169,919	-18
Interest income from derivatives	171,266	221,280	-23
Expected return on plan assets	70	94	-26
Other interest income and similar income	14	242	-94
Interest expenses	**-430,753**	**-495,479**	**-13**
Interest expenses from lending business and money market transactions	-132,129	-129,117	2
Interest expenses from securitised liabilities	-31,131	-33,353	-7
Interest expenses from derivatives	-266,481	-332,471	-20
Interest expenses from provisions and liabilities	-166	-140	19
Other interest expenses and similar expenses	-4	-6	-31
Interest rate anomalies	**-1,119**	**57**	**< -100**
Interest expenses from asset-side lending and money market	-6,103	-301	> 100
Interest expenses from derivatives, receiver leg	-533	-395	35
Interest income from liabilities-side lending and money market	2,578	702	> 100
Interest income from derivatives, payer leg	2,939	51	> 100
Total	**90,356**	**93,316**	**-3**

*) Some of the previous year's figures are restated amounts. Refer to Note (48) Notes to the cash flow statement.

Other interest income and expenses result primarily from unwinding and from interest effects on defined benefit pension plans.

(18) Loan loss provisions

	2016 (€ thousand)	2015 (€ thousand)	Change (in %)
Income from provisions for lending business	**620**	**2,011**	**-69**
Reversal of specific valuation allowances on loans and advances	421	172	> 100
Reversal of portfolio valuation allowances on loans and advances	84	0	> 100
Reversal of provisions for lending business	115	542	-79
Additions to receivables written off	0	1,297	-100
Expenses from provisions for lending business	**-800**	**-3,165**	**-75**
Allocations to specific valuation allowances on loans and advances	-129	-2,324	-94
Allocations to portfolio valuation allowances on loans and advances	0	-391	-100
Allocation to provisions for lending business	-34	0	> 100
Direct write-offs of bad debts	-637	-450	42
Total	**-181**	**-1,155**	**-84**

(19) Net commission income

NORD/LB CBB reports commission expenses and income in its result.

The Bank differentiates in net commission income between transaction-dependent commissions, which are due and realised when the transaction occurs, and commissions linked to a specific period of time, which are realised rateably over this time period. A distribution of commissions linked to a period of time using the effective interest method is not performed due to their low materiality.

The primary portion of commission income is attributable to both credit and guarantee commissions realised on a pro rata basis and one-time commissions in lending business with non-banking activity. The smaller portion is due to transaction-dependent commissions in the brokerage business for customers and portfolio commissions in the fund business.

The commission expenses incurred rateably result predominantly from the brokerage business with NORD/LB, Hanover. The transaction-dependent commissions result primarily from own payment transactions and securities commission transactions of the Bank.

	2016 (€ thousand)	2015 (€ thousand)	Change (in %)
Commission income	**18,045**	**18,365**	**-2**
From security transactions and custody service business	5,801	6,710	-14
From brokerage business	0	50	-100
From lending and guarantee business	11,323	11,293	0
Other commission income	921	312	> 100
Commission expenses	**-59,293**	**-41,771**	**42**
From brokerage business	-34,218	-22,972	49
From lending and guarantee business	-21,174	-17,414	22
Other commission expenses	-3,902	-1,385	> 100
Total	**-41,249**	**-23,406**	**76**

Expenses from the brokerage business and the lending and guarantee business are the primary cause for the decrease in net commission income. This is mainly due to a considerable expansion in volumes of arranged loans as well as a provision created in connection with imminent additional charges from the Group's internal charging (margin-splitting model) for previous years.

(20) Profit/loss from financial instruments at fair value through profit or loss

Trading profit/loss includes not only realised profit and loss (defined as the difference between disposal proceeds and the carrying amount as at the most recent reference date) but also the valuation result from trading activities (defined as unrealised expenses and income from the fair value valuation).

	2016 (€ thousand)	2015 (€ thousand)	Change (in %)
Trading profit/loss	**2,377**	**379**	**> 100**
Realised profit/loss	-8,172	-28,172	-71
From debt securities and other fixed-interest securities	-230	5,323	< -100
From shares and other non-fixed-interest securities	0	0	< -100
From derivatives	-7,942	-33,494	-76
From loans and advances held for trading purposes	0	0	-
Valuation result	10,866	26,556	-59
From debt securities and other fixed-interest securities	180	-4,551	< -100
From shares and other non-fixed-interest securities	0	0	-
From derivatives	10,681	31,108	-66
From loans and advances held for trading purposes	4	0	> 100
Foreign exchange result	-317	1,995	< -100
Other profit/loss	0	0	-
Profit/loss from the fair value option	**22,935**	**-2,860**	**< -100**
Realised profit/loss from	9,085	4,376	> 100
Debt securities and other fixed-interest securities	9,085	4,376	> 100
From shares and other non-fixed-interest securities	0	0	-
Other business	0	0	-
Valuation result from	13,850	-7,236	< -100
Debt securities and other fixed-interest securities	11,529	-7,236	< -100
Securitised liabilities	2,321	0	> 100
From shares and other non-fixed-interest securities	0	0	-
Other business	0	0	-
Other profit/loss	0	0	-
Total	**25,312**	**-2,480**	**< -100**

The net interest income from the fair value option in the amount of € 9,951 thousand (previous year: € 13,699 thousand) is reported under net interest income and current income (Note (17) Net interest income and current income).

(21) Profit/loss from hedge accounting

The profit/loss from hedge accounting includes the changes in fair value relating to the hedged risk on the underlying transactions and changes in the fair value of hedging instruments in effective micro fair value hedges. The Bank performs micro fair value hedge accounting to hedge interest-rate risk and currency risk. Hedged underlying transactions include loans and advances or liabilities to banks and customers, financial assets and own issues.

	2016 (€ thousand)	2015 (€ thousand)	Change (in %)
Profit/loss from micro fair value hedges	**4,011**	**11,325**	**-65**
From hedged underlying transactions	-117,434	65,930	< -100
From derivatives used as hedging instruments	121,445	-54,604	< -100
Total	**4,011**	**11,325**	**-65**

(22) Profit/loss from financial assets

The profit/loss from financial assets includes disposal gains/losses and valuation results at fair value through profit or loss from securities and equity interests reported as financial assets.

	2016 (€ thousand)	2015 (€ thousand)	Change (in %)
Profit/loss from financial assets classified as LaR/OL including portfolio valuation allowances	**-906**	**1,386**	**< -100**
Profit/loss from financial assets classified as AfS (excluding equity interests)	**5,833**	**8,460**	**-31**
Profit/loss from the disposal	1,814	8,860	-80
of debt securities and other fixed-interest securities	1,814	8,860	-80
of repurchased own bonds	0	0	0
Profit/loss from allowances on	4,019	-400	< -100
debt securities and other fixed-interest securities	4,019	-400	< -100
Profit/loss from affiliated companies	**0**	**0**	**0**
Total	**4,927**	**9,845**	**-50**

The profit/loss from allowances stems from write-ups on a security from HETA Asset Resolution AG. The HETA bonds in the portfolio were exchanged for a zero-coupon bond from Kärntner Ausgleichsfonds. The difference between the present value of this consideration and the market value on the preceding reporting date was recognised through profit and loss.

(23) Administrative expenses

Administrative expenses comprise staff expenses, other administrative expenses, depreciation of property and equipment, and amortisation of intangible assets.

	2016 (€ thousand)	2015 (€ thousand)	Change (in %)
Staff expenses	**-21,567**	**-21,882**	**-1**
Wages and salaries	-18,415	-18,844	-2
Social insurance contributions	-1,626	-1,346	21
Expenses for pensions and other benefits	-912	-1,188	-23
Other staff expenses	-614	-504	22
Other administrative expenses	**-12,430**	**-18,623**	**-33**
Expenses for operating and office equipment, and data processing	-8,408	-10,482	-20
Costs for legal, auditing, appraisal and consulting services	-2,139	-5,106	-58
Other administrative expenses	-1,883	-3,034	-38
Amortisation, depreciation and valuation allowances	**-2,915**	**-3,585**	**-19**
Amortisation and depreciation	-2,915	-3,585	-19
Property and equipment	-1,536	-1,846	-17
Intangible assets	-1,380	-1,739	-21
Total	**-36,913**	**-44,090**	**-16**

(24) Other operating profit/loss

	2016 (€ thousand)	2015 (€ thousand)	Change (in %)
Other operating income	**4,306**	**21,464**	**-80**
From the reversal of provisions	0	0	-
Other income	4,306	21,464	-80
Other operating expenses	**-7,601**	**-22,274**	**-66**
From allocations to provisions	0	-11,800	-
Other expenses	-7,601	-10,474	-27
Total	**-3,295**	**-810**	**> 100**

Other operating income results mainly from income obtained outside of the period from VAT (€ 1,372 thousand; previous year: € 1,500 thousand), rental income (€ 855 thousand; previous year: € 833 thousand), income for service charging with NORD/LB Vermögensmanagement Luxembourg S.A. (€ 1,101 thousand; previous year: € 959 thousand), as well as income from service charging for a major Group project (€ 798 thousand; € 0 thousand). The previous year's excellent annual result was dominated by effects stemming from the merger of the two predecessor institutions, Norddeutsche Landesbank Luxembourg S.A. and NORD/LB Covered Bond Bank S.A. (€ 16,648 thousand).

Other operating expenses include primarily expenses for service charging with the Group (€ 3,021 thousand; previous year: € 4,624 thousand), levies in relation to the bank resolution fund (Fonds de résolution Luxembourg (FRL)) and the new Luxembourg deposit guarantee fund (Fonds de garantie des dépôts Luxembourg (FGDL)) (€ 2,148 thousand; previous year: € 1,294 thousand), and an impairment loss on an intangible asset (€ 2,217 thousand; previous year: € 0 thousand). The previous year's expenses also comprised effects from the merger of the two predecessor institutions (€ 3,742 thousand) and from provisions created for legal proceedings that have since been concluded (€ 11,800 thousand).

(25) Income taxes

	2016 (€ thousand)	2015 (€ thousand)	Change (in %)
Current taxes on income	-12,138	-10,405	17
Deferred taxes	392	-39	< -100
Total	**-11,746**	**-10,444**	**12**

The following tax reconciliation statement shows an analysis of the difference between the income tax expense which would arise by applying the Luxembourg income tax rate to the IFRS earnings before taxes, and the income tax expense actually reported:

	2016 (€ thousand)	2015 (€ thousand)
IFRS earnings before taxes	**42,970**	**42,546**
Anticipated income tax expenditure	-12,556	-12,432
Effects of reconciliation:		
Effects of differing tax rates	0	0
Taxes from previous years reported in the reporting period	36	0
Effects of changes in tax rates	392	0
Non-creditable income taxes	0	0
Non-deductible operational expenditure	-26	-3,413
Effects of tax-free earnings	7	4,870
Other effects	401	531
Reported income tax expenses	**-11,746**	**-10,444**

The anticipated income tax expenditure in the tax reconciliation statement is calculated based on the corporation and commercial tax rate in the amount of 29.22 per cent (previous year: 29.22 per cent) applicable in Luxembourg in 2016.
The adjusted tax rates for the 2017 and 2018 financial years were already taken into consideration when calculating deferred taxes.

Notes to the balance sheet

(26) Cash reserve

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Cash on hand	0.0	1.0	-100
Balances with the central banks	56.5	83.1	-32
Total	**56.5**	**84.1**	**-33**

€ 49.1 million (previous year: € 74.7 million) of the balances with central banks are attributable to balances with the Luxembourg Central Bank. € 49.1 million of this amount (previous year: € 19.7 million) relates to the minimum reserve requirement. The remaining € 7.4 million (previous year: € 8.4 million) is attributable to the Swiss National Bank.

(27) Loans and advances to banks

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Loans and advances resulting from money market transactions	**963.0**	**1,108.7**	**-13**
Domestic banks	270.0	181.9	48
Foreign banks	693.0	926.8	-25
Other loans and advances	**277.5**	**401.3**	**-31**
Domestic banks	11.6	60.9	-81
Due on demand	11.6	60.9	-81
With a fixed term or period of notice	0.0	0.0	-
Foreign banks	265.9	340.4	-22
Due on demand	10.5	48.6	-78
With a fixed term or period of notice	255.4	291.8	-12
Total	**1,240.5**	**1,510.0**	**-18**

€ 958.9 million (previous year: € 1,267.2 million) of the overall portfolio is attributable to loans and advances to foreign banks. A partial amount of € 129.4 million (previous year: € 236.8 million) of the loans and advances to banks is due only after more than twelve months have passed.

(28) Loans and advances to customers

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Loans and advances resulting from money market transactions	**465.4**	**0.0**	**> 100**
Domestic customers	0.0	0.0	-
Customers abroad	465.4	0.0	> 100
Other loans and advances	**7,776.8**	**6,768.8**	**15**
Domestic customers	151.4	243.3	-38
Due on demand	3.0	70.4	-96
With a fixed term or period of notice	148.5	172.8	-14
Customers abroad	7,625.3	6,525.5	17
Due on demand	31.7	30.4	4
With a fixed term or period of notice	7,593.6	6,495.2	17
Total	**8,242.2**	**6,768.8**	**22**

€ 8,090.7 million (previous year: € 6,525.3 million) of the overall portfolio is attributable to loans and advances to foreign customers. € 6,097.0 million (previous year: € 4,907.6 million) of customer loans and advances is due only after more than 12 months have passed.

(29) Risk provisioning

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Specific valuation allowances on loans and advances	**-19.9**	**-36.4**	**-45**
Foreign banks	0.0	0.0	-
Domestic customers	0.0	0.0	-
Customers abroad	-19.9	-36.4	-45
Portfolio valuation allowances on loans and advances	**-3.4**	**-3.5**	**-2**
Total	**-23.3**	**-39.9**	**-42**

The loan loss provisions reported under assets and provisions in lending business changed as follows:

in € million	Specific valuation allowances	Portfolio valuation allowances	Provisions in lending business	Total
01.01.2015	**34.2**	**2.9**	**1.0**	**38.2**
Allocations	2.3	0.4	0.0	**2.7**
Reversals	-0.2	0.0	-0.5	**-0.7**
Utilisation	0.0	0.0	0.0	**0.0**
Changes from foreign exchange rates, unwinding and other changes	0.0	0.2	0.5	**0.8**
Transfers	0.1	0.0	-0.1	**0.0**
31.12.2015	**36.4**	**3.5**	**0.9**	**40.8**
Allocations	0.1	0.0	0.0	**0.2**
Reversals	-0.4	-0.1	-0.1	**-0.6**
Utilisation	-16.7	0.0	0.0	**-16.7**
Changes from foreign exchange rates, unwinding and other changes	0.6	0.0	0.0	**0.6**
Transfers	0.0	0.0	0.0	**0.0**
31.12.2016	**19.9**	**3.4**	**0.9**	**24.2**

Please refer to Note (7) Risk provisioning and Note (42) Provisions for further details.

The volume of loans deemed to be in default amounts to € 21.5 million (previous year: € 20.4 million) on the reporting date. € 21.4 million is attributable to loan repayments and € 0.1 million to overdue interest payments. There are 12 exposures in total, whereby specific valuation allowances have been recognised for four. The longest default period is attributable to an exposure that matured in 2012.

(30) Financial assets at fair value through profit or loss

This item includes trading assets (HfT) and financial assets designated at fair value through profit or loss (dFV). The Bank's trading activities comprise trading in debt securities and other fixed-interest securities, shares and other non-fixed-interest securities, and derivative financial instruments not used for hedging purposes.

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Trading assets	**91.0**	**92.8**	**-2**
Debt securities and other fixed-interest securities	0.0	9.6	-100
Money market instruments	0.0	0.0	-
from public issuers	0.0	0.0	-
from other issuers	0.0	0.0	-
Bonds and debt securities	0.0	9.6	-100
from public issuers	0.0	0.0	-
from other issuers	0.0	9.6	-100
Shares and other non fixed-interest securities	0.0	0.0	-
Shares	0.0	0.0	-
Investment fund units	0.0	0.0	-
Positive fair values from derivatives in conjunction with:	89.7	83.2	8
Interest-rate risks	55.5	45.9	21
Currency risks	34.2	37.3	-8
Share-price and other price risks	0.0	0.0	-
Trading portfolio claims	1.4	0.0	> 100
Financial assets designated at fair value	**882.1**	**1,194.2**	**-26**
Loans and advances to banks and customers	0.0	0.0	-
Debt securities and other fixed-interest securities	882.1	1,194.2	-26
Shares and other non fixed-interest securities	0.0	0.0	-
Total	**973.2**	**1,287.0**	**-24**

The Bank does not hold any credit derivatives or similar financial instruments in its portfolio.

€ 905.2 million (previous year: € 1,238.9 million) of the overall portfolio is due only after more than twelve months have passed.

(31) Fair values from hedge accounting

This item comprises positive fair values of hedging instruments in effective micro hedges. The Bank performs micro fair value hedge accounting to hedge interest-rate risk and currency risk.

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Positive fair values from allocated micro fair value hedge derivatives	327.7	290.4	13
Total	**327.7**	**290.4**	**13**

Hedge derivatives with a fair value of € 326.1 million are due at the earliest after twelve months (previous year: € 281.7 million).

(32) Financial assets

Financial assets include primarily all exposures that are not held for trading purposes and are classified as available for sale (AfS) relating to both debt securities and other fixed-interest securities as well as shares and other non fixed-interest securities.

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Financial assets classified as LaR	**2,385.3**	**2,706.5**	**-12**
Bonds and debt securities	2,405.1	2,727.8	-12
from public issuers	1,622.2	1,685.3	-4
from other issuers	783.0	1,042.6	-25
Portfolio valuation allowances on LaR financial assets	-19.9	-21.3	-7
Financial assets classified as AfS	**2,645.6**	**3,139.7**	**-16**
Debt securities and other fixed-interest securities	2,645.6	3,139.6	-16
Money market instruments	0.0	0.0	-
from public issuers	0.0	0.0	-
from other issuers	0.0	0.0	-
Bonds and debt securities	2,645.6	3,139.6	-16
from public issuers	1,039.1	1,161.7	-11
from other issuers	1,606.4	1,977.9	-19
Shares and other non fixed-interest securities	0.0	0.0	0
Participation certificates	0.0	0.0	0
Shares in companies	0.0	0.0	0
Total	**5,030.8**	**5,846.2**	**-14**

The volume of financial assets which were issued by central governments of specific euro countries (Portugal, Italy, Ireland, Greece, Spain and Hungary) comes to a nominal amount of € 115.1 million (previous year: € 114.8 million). There are three debt securities from the Republic of Italy with terms up to 2018 or 2033 and a debtor warrant from the Republic of Greece with a term up to 2042. The carrying amount of this financial investment amounts to € 20 thousand (previous year: € 32 thousand) on the reporting date.

€ 4,496.2 million (previous year: € 4,813.5 million) of financial investments is due only after more than twelve months have passed.

No reclassifications were made during the reporting period.

The predecessor institution NORD/LB Covered Finance Bank S.A. took full advantage of the opportunities of IAS 39.50E and reclassified 19 AfS-designated securities (bonds and debt securities) into LaR in 2008. This involved reclassifying bonds and debt securities for which on the reclassification date there was clearly no further intention to sell or trade the assets; the intention was instead to hold them in the portfolio for the foreseeable future. The bonds and debt securities were reclassified in accordance with the amended IAS 39 with effect from either 1 July 2008 or the purchase date in the third quarter of 2008 at the fair value calculated on the relevant reference date. The carrying amount on the date of the transfers was reduced on a pro rata basis through corresponding maturities. The carrying amount also fluctuated as a result of changes to the hedge fair value. There were no further reclassifications between 2009 and 2016.

The reporting in the balance sheet was also restated to reflect the reclassifications (shown in reclassification). The following table shows the carrying amounts and fair value of the reclassified assets:

			31.12.2016			31.12.2015			31.12.2014
in € million	Carrying amount on transfer date	Carrying amount	Fair value	Carrying amount on transfer date	Carrying amount	Fair value	Carrying amount on transfer date	Carrying amount	Fair value
Reclassified financial assets	359.3	492.5	477.9	367.0	514.5	497.2	407.2	629.7	595.8

			31.12.2013			31.12.2012			31.12.2011
in € million	Carrying amount on transfer date	Carrying amount	Fair value	Carrying amount on transfer date	Carrying amount	Fair value	Carrying amount on transfer date	Carrying amount	Fair value
Reclassified financial assets	407.2	580.6	508.9	446.2	644.5	510.3	529.3	698.4	569.7

			31.12.2010			31.12.2009			31.12.2008
in € million	Carrying amount on transfer date	Carrying amount	Fair value	Carrying amount on transfer date	Carrying amount	Fair value	Carrying amount on transfer date	Carrying amount	Fair value
Reclassified financial assets	544.4	660.3	627.9	645.6	731.4	712.1	645.6	746.7	719.5

in € million	01.07.2008 Carrying amount on transfer date	Carrying amount	Fair value
Reclassified financial assets	645.6	645.6	645.6

The assets were reclassified at their carrying amounts with the expected realisable future cash flows of € 1,038.5 million. The profit/loss recognised directly in equity from the reclassified securities amounted to € -13.2 million at the time of the reclassification. The pro rata reversal of this item is recognised in accordance with IAS 39.54 in net interest income. The effective interest rate was determined for each security. These rates range between 2.53 per cent and 5.92 per cent.

in € thousand	31.12.2016	31.12.2015	2008 - 2014
Unrealised profit/loss before taxes on date of reclassification	-	-	-13,194
Pro rata reversal in accordance with IAS 39.54	395	272	3,453

The pro-rata reversal amounted to € 395 thousand (previous year: € 272 thousand) during the 2016 reporting period at the expense of net interest income. The following additional effects on equity would have occurred without the reclassification (each accumulated as at the reporting date):

in € million	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2011	31.12.2010	31.12.2009
Unrealised profit/loss before taxes	-23.3	-26.3	-36.1	-71.9	-135.2	-128.7	-32.4	-19.3
Deferred taxes	6.3	7.7	10.5	21.0	39.5	37.1	9.3	5.5
Net effect on equity from reclassified, available-for-sale financial assets	**-17.0**	**-18.6**	**-25.6**	**-50.9**	**-95.7**	**-91.6**	**-23.1**	**-13.8**

in € million	31.12.2008	01.07.2008
Unrealised profit/loss before taxes	-27.1	-13.2
Deferred taxes	8.0	3.9
Net effect on equity from reclassified, available-for-sale financial assets	**-19.1**	**-9.3**

The investments in affiliated companies as at the reporting date include the carrying amount of the equity interest in Galimondo S.à r.l. The following table shows the equity net of the revaluation reserve and the profit/loss for the reporting period from the equity interest accounted for at amortised cost:

Name/registered office	Share of capital	Carrying amount of equity interest (€ thousand)	Equity before the revaluation reserve (€ thousand)	Profit/loss 31.12.2016 (€ thousand)
Galimondo S.à r.l., Luxembourg	100%	13	56	21
Total		**13**	**56**	**21**

Investment in structured units:

The Bank classifies investments in shares of companies that are structured and not controlled by voting rights as investments in structured units.
As at 31 December 2016, NORD/LB CBB holds issues by securitisation vehicles worth € 51.1 million (previous year: € 53.4 million) in its portfolio. These issues relate to three securitisation vehicles with a total issue volume of € 1,586.2 million (previous year: € 1,586.2 million), which is guaranteed by regions in Italy. The business objective of these vehicles is to securitise receivables from the Italian healthcare sector. NORD/LB CBB holds these securities for the purpose of earning fixed interest income.

(33) Property and equipment

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Land and buildings	62.6	63.3	-1
Operating and office equipment	3.8	4.0	-5
Total	**66.4**	**67.3**	**-1**

The cost and accumulated depreciation for property and equipment changed as follows:

in € million	Land and buildings	Operating and office equipment	Construction in progress	Other property and equipment	Total
Cost of acquisition as at 01.01.2015	**66.6**	**10.6**	**0.0**	**0.0**	**77.2**
Additions	0.0	0.2	0.0	0.0	**0.2**
Disposals	0.0	-0.3	0.0	0.0	**-0.3**
Total 31.12.2015	**66.6**	**10.6**	**0.0**	**0.0**	**77.1**
Accumulated depreciation as at 01.01.2015	**-2.7**	**-5.6**	**0.0**	**0.0**	**-8.3**
Depreciation	-0.6	-1.2	0.0	0.0	**-1.8**
Impairments (non-scheduled)	0.0	0.0	0.0	0.0	**0.0**
Transfers	0.0	0.0	0.0	0.0	**0.0**
Disposals	0.0	0.2	0.0	0.0	**0.2**
Total 31.12.2015	**-3.3**	**-6.6**	**0.0**	**0.0**	**-9.9**
Closing balance as at 31.12.2015	**63.3**	**4.0**	**0.0**	**0.0**	**67.3**
Cost of acquisition as at 01.01.2016	**66.6**	**10.6**	**0.0**	**0.0**	**77.1**
Additions	0.0	0.7	0.0	0.0	**0.7**
Disposals	0.0	-1.0	0.0	0.0	**-1.0**
Total 31.12.2016	**66.6**	**10.3**	**0.0**	**0.0**	**76.8**
Accumulated depreciation as at 01.01.2016	**-3.3**	**-6.6**	**0.0**	**0.0**	**-9.9**
Depreciation	-0.6	-0.9	0.0	0.0	**-1.5**
Impairments (non-scheduled)	0.0	0.0	0.0	0.0	**0.0**
Transfers	0.0	0.0	0.0	0.0	**0.0**
Disposals	0.0	1.0	0.0	0.0	**1.0**
Total 31.12.2016	**-3.9**	**-6.5**	**0.0**	**0.0**	**-10.4**
Closing balance as at 31.12.2016	**62.6**	**3.8**	**0.0**	**0.0**	**66.4**

(34) Intangible assets

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Software	**9.1**	**12.0**	**-24**
Purchased	9.1	12.0	**-24**
Internally developed	0.0	0.0	**-**
Intangible assets under development	**10.5**	**2.1**	**> 100**
Other	**0.0**	**0.0**	**-**
Total	**19.6**	**14.1**	**39**

NORD/LB CBB continues to use software that has been fully amortised.
The intangible assets currently under development are the result of a Group project in which NORD/LB CBB serves as the future system provider for other Group units. The asset underwent impairment testing pursuant to IAS 36 and was found to be recoverable.

The development of intangible assets is as follows:

in € million	Software		Intangible assets under development	Other	Total
	Purchased	Internally developed			
Cost of acquisition as at 01.01.2015	**29.8**	**0.0**	**0.0**	**0.0**	**29.8**
Additions	10.6	0.0	2.1	0.0	**12.8**
Disposals	-12.6	0.0	0.0	0.0	**-12.6**
Total 31.12.2015	**27.8**	**0.0**	**2.1**	**0.0**	**30.0**
Accumulated amortisation as at 01.01.2015	**-18.6**	**0.0**	**0.0**	**0.0**	**-18.6**
Amortisation	-1.7	0.0	0.0	0.0	**-1.7**
Impairments (non-scheduled)	0.0	0.0	0.0	0.0	**0.0**
Disposals	4.5	0.0	0.0	0.0	**4.5**
Total 31.12.2015	**-15.8**	**0.0**	**0.0**	**0.0**	**-15.8**
Closing balance as at 31.12.2015	**12.0**	**0.0**	**2.1**	**0.0**	**14.1**
Cost of acquisition as at 01.01.2016	**27.8**	**0.0**	**2.1**	**0.0**	**30.0**
Additions	0.4	0.0	8.6	0.0	**9.1**
Disposals	-5.1	0.0	0.0	0.0	**-5.1**
Transfers	0.3	0.0	-0.3	0.0	**0.0**
Total 31.12.2016	**23.5**	**0.0**	**10.5**	**0.0**	**33.9**

Accumulated amortisation as at 01.01.2016	**-15.8**	**0.0**	**0.0**	**0.0**	**-15.8**
Amortisation	-1.4	0.0	0.0	0.0	**-1.4**
Impairments (non-scheduled)	-2.2	0.0	0.0	0.0	**-2.2**
Disposals	5.1	0.0	0.0	0.0	**5.1**
Total 31.12.2016	**-14.3**	**0.0**	**0.0**	**0.0**	**-14.3**
Closing balance as at 31.12.2016	**9.1**	**0.0**	**10.5**	**0.0**	**19.6**

(35) Income tax assets

The income tax assets are broken down as follows:

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Current income tax assets	0.0	0.1	-100
Deferred tax assets	0.8	1.0	-15
Total	**0.8**	**1.0**	**-20**

Deferred tax assets depict the potential income tax relief from temporary differences between assets and liabilities in the IFRS balance sheet and the balance sheet in accordance with the provisions of tax law.

The provisions of tax law have been applied to the IFRS financial statements since 2008. This means that many temporary differences do not apply. The deferred tax assets relate to AfS-categorised financial assets. Please refer to Note (25) Income taxes for further information.

Deferred income tax assets were established in respect of the following balance sheet items:

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Assets	**0.0**	**0.0**	**-**
Liabilities	**0.8**	**1.0**	**-15**
Provisions	0.8	1.0	-15
Total	**0.8**	**1.0**	**-15**

(36) Other assets

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Tax assets from other taxes	0.1	1.4	-96
Other assets	0.0	0.0	-
Other assets including prepaid expenses	1.8	1.3	40
Total	**1.8**	**2.7**	**-33**

Other assets mainly consist of receivables in the amount of € 0.9 million from intragroup service charging (previous year: € 0.2 million) and from deferred income (€ 0.6 million; previous year: € 0.7 million).

(37) Liabilities to banks

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Deposits from other banks	**2,869.6**	**2,576.0**	**11**
Domestic banks	57.5	25.5	>100
Foreign banks	2,812.1	2,550.5	10
Liabilities resulting from money market transactions	**3,422.3**	**4,550.7**	**-25**
Domestic banks	243.6	838.6	-71
Foreign banks	3,178.7	3,712.1	-14
Other liabilities	**320.1**	**499.7**	**-36**
Domestic banks	115.9	298.0	-61
Due on demand	115.2	298.0	-61
With a fixed term or period of notice	0.7	0.0	> 100
Foreign banks	204.2	201.7	1
Due on demand	204.2	201.7	1
With a fixed term or period of notice	0.0	0.0	-
Total	**6,612.1**	**7,626.4**	**-13**

€ 2,172.5 million (previous year: € 2,190.5 million) of the overall balance is attributable to liabilities which are due only after more than 12 months have passed.

The Bank issued a registered promissory note during the 2012 financial year with a volume of € 400.0 million and sold it to NORD/LB. This promissory note, which extends until 2017, includes a conversion right under which it may be replaced with a subordinate promissory note of the same nominal volume if a stipulated Tier 1 capital ratio is not attained. € 200.0 million was redeemed in advance during the 2014 financial year with the approval of the CSSF. This amount was then replaced by issuing to NORD/LB another refinancing instrument without special rights of the same amount. The remaining € 200.0 million is still held by NORD/LB CBB.

(38) Liabilities to customers

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Savings deposits	**0.0**	**0.0**	**-**
Liabilities resulting from money market transactions	**1,989.5**	**1,839.5**	**8**
Domestic customers	663.6	463.5	43
Customers abroad	1,325.9	1,376.1	-4
Other liabilities	**1,423.3**	**1,381.9**	**3**
Domestic customers	28.4	178.0	-84
Due on demand	28.4	178.0	-84
With a fixed term or period of notice	0.0	0.0	-
Customers abroad	1,394.9	1,203.9	16
Due on demand	120.2	110.0	9
With a fixed term or period of notice	1,274.7	1,093.9	17
Total	**3,412.8**	**3,221.4**	**6**

€ 1,278.6 million of the total customer liabilities held are due only after the next twelve months have passed (previous year: € 1,056.8 million).

(39) Securitised liabilities

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Issued debt securities	3,221.8	3,114.2	3
Total	**3,221.8**	**3,114.2**	**3**

€ 2,873.9 million (previous year: € 3,078.9 million) of the overall portfolio is attributable to liabilities which are due only after more than twelve months have passed.

Some (€ 1,760.8 million; previous year: € 1,809.8 million) of the issued debt securities are Pfandbriefe under Luxembourg law (Lettres de Gage). € 1,692.5 million of this amount is listed on the Luxembourg stock exchange (previous year: € 1,742.5 million). Lettres de Gage are listed on the Swiss stock exchange at an equivalent of € 68.3 million (previous year: € 67.3 million).

(40) Financial liabilities at fair value through profit or loss

This item includes trading liabilities (HfT) and financial obligations designated at fair value through profit or loss (dFV). The trading liabilities include negative fair values from derivative financial instruments which are not employed as part of hedge accounting, and delivery obligations from short sales of securities.

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Trading liabilities	**101.7**	**204.6**	**-50**
Negative fair values from derivatives in connection with:	101.7	204.6	-50
Interest-rate risks	71.4	167.9	-57
Currency risks	30.3	36.7	-17
Delivery obligations from short-sales	0.0	0.0	-
Financial liabilities designated at fair value	**1,047.4**	**0.0**	**> 100**
Liabilities to banks and customers	0.0	0.0	-
Securitised liabilities	1,047.4	0.0	> 100
Total	**1,149.2**	**204.6**	**> 100**

Trading liabilities amounting to € 1,115.5 million are due after twelve months at the earliest (previous year: € 175.2 million).

The considerable increase in financial liabilities designated at fair value was due to the categorisation of own issues from the reporting period to prevent an accounting mismatch.

(41) Fair values from hedge accounting

This item comprises negative fair values of hedging instruments from effective micro fair value hedges. The Bank conducts micro fair value hedge accounting for hedging interest-rate and currency risks.

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Fair values from allocated micro fair value hedge derivatives	706.7	791.8	-11
Fair values as part of portfolio fair value hedge accounting	0.0	0.0	-
Total	**706.7**	**791.8**	**-11**

Hedge derivatives with a negative fair value of € 694.1 million are due after twelve months at the earliest (previous year: € 771.2 million).

(42) Provisions

Provisions are broken down as follows:

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Provisions for reorganisation measures	**3.9**	**0.0**	**> 100**
Provisions for pensions and similar obligations	**3.8**	**3.8**	**0**
Other provisions	**13.9**	**18.1**	**-24**
Provisions in lending business	0.9	0.9	-4
Provisions for uncertain liabilities	13.0	17.3	-25
Total	**21.6**	**22.0**	**-2**

Provisions for reorganisation measures mainly relate to obligations toward employees in connection with reorganisation projects undertaken for the purpose of boosting efficiency.

The provisions for uncertain liabilities are essentially a provision connected to imminent additional charges from the Group's internal service charging (margin-splitting model) for previous years (€ 10.0 million; previous year: € 0.0 million), and personnel provisions (€ 1.9 million; previous year: € 4.2 million).

In the previous year, these provisions also included a provision for legal disputes and litigation risks (€ 11.8 million), for which the corresponding proceedings were concluded in 2016.

Provisions for pensions and similar obligations

The calculation is based on the following actuarial assumptions:

Actuarial assumptions	31.12.2016 (in %)	31.12.2015 (in %)	Change (in %)
Annual salary development	1.00	1.00	0
Annual inflation rate	2.50	2.50	-
Annual increase in the BBG (cost-of-living index included)	3.32	3.46	-4
Discount rate	1.95	2.65	-26
Mortality table: statistical values published in the Grand Duchy regulation dated 15 January 2001, which governs the minimal funding of company retirement benefit plans.			
Expected return on plan assets	1.95	2.65	-26
Turnover rate	2.00	2.00	0

The provisions for pensions and similar liabilities are derived as follows:

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Present value of the defined benefit obligation	6.1	6.3	-3
Less fair value of plan assets	-2.9	-3.1	-7
Excess of plan assets not recognised as an asset	0.0	0.0	-
Other amounts recognised in the balance sheet (flat-rate tax)	0.7	0.6	10
Total	**3.8**	**3.8**	**-**

The present value of the defined benefit obligation can be reconciled from the opening to the closing balance of the period taking into account the effects of the following items:

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Opening balance	**6.3**	**6.3**	**0**
Current service cost	0.4	0.4	-8
Interest expense	0.2	0.1	19
Contributions by plan participants	0.0	0.0	-
Actuarial gains/losses from the liability	-0.1	-0.2	-40
Changes from foreign exchange rates	0.0	0.0	-
Retirement benefits paid	-0.6	-0.3	74
Additional accounting current service costs	0.0	0.0	-
Effects from curtailments	0.0	0.0	-
Effects from severance payments/assignments (compensation payments)	0.0	0.0	-
Closing balance	**6.1**	**6.3**	**-3**

The defined benefit obligation as at the balance sheet date must also be divided into amounts from defined benefit plans which are not financed by a fund and amounts from defined benefit plans which are financed in whole or in part from a fund. The latter applies to the defined benefit obligation of NORD/LB CBB. According to information from the insurance company, adjustments made on the basis of experience to the development of plan liabilities and plan assets amount to € -863 thousand (previous year: € 96 thousand). The defined benefit plans include actuarial risks such as, for example, longevity risk, currency risk and market risk.

The defined benefit obligation is subject to change due to actuarial assumptions. The following sensitivity analysis shows the impact of the changes indicated for each individual assumption on the amount of the defined benefit obligation, provided that no correlations exist and all other assumptions remain unchanged.

The assumed change in the parameters were +/- 0.5 per cent for the actuarial interest rate and +/- 0.25 per cent for wages:

	Increase (delta present value in € million)	Decrease (delta present value in € million)
Actuarial interest rate	-0.4	0.5
Wages	0.3	-0.3

The fair value of plan assets developed as follows:

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Opening balance	**3.1**	**3.1**	**0**
Expected return on plan assets	0.1	0.1	-26
Actuarial gains/losses on plan assets	0.1	0.0	> 100
Changes from foreign exchange rates	0.0	0.0	-
Employer contributions	0.2	0.3	-23
Contributions by plan participants	0.0	0.0	-
Retirement benefits paid	-0.6	-0.3	74
Effects from severance payments/assignments (compensation payments)	0.0	0.0	-
Closing balance	**2.9**	**3.1**	**-7**

The fair value of plan assets is composed as follows::

	31.12.2016 (in %)	31.12.2015 (in %)	Change (in %)
Equity instruments	3	4	-25
Debt instruments	90	92	-2
Properties	2	2	-
Other assets	5	2	> 100

The fair value of plan assets includes equity instruments amounting to € 100 thousand (previous year: € 124 thousand), debt instruments amounting to € 2,617 thousand (previous year: € 2,851 thousand) and properties and other assets amounting to € 203 thousand (previous year: € 121 thousand). The total anticipated return of 1.95 per cent results from the weighted average of the anticipated income from investment categories held by the plan assets. The total payments to the plan assets of the defined benefit obligations during the next reporting period are expected to amount to € 65 thousand (previous year: € 101 thousand). The pension expense is composed as follows:

	31.12.2016 (€ thousand)	31.12.2015 (€ thousand)	Change (in %)
Current service cost	361	391	-8
Interest expense	166	140	19
Expected return on plan assets	-70	-94	-26
Additional accounting current service costs	0	0	-
Employer contributions to plan assets	-204	-264	-23
Effects from plan amendments	0	0	-
Expected income from reimbursement claims	0	0	-
Actuarial effects not recognised in profit or loss	-266	-164	62
Total	**-13**	**8**	**> 100**

In the interest of improving clarity with regard to the change in the pension provision, information concerning employer contributions to the plan assets as well as actuarial effects not recognised in profit or loss have been added to the summary above since the previous year.

Overview of amounts from the current reporting period and the preceding reporting periods:

	31.12.2016 (€ million)	31.12.2015 (€ million)	31.12.2014 (€ million)	31.12.2013 (€ million)	31.12.2012 (€ million)	31.12.2011 (€ million)	31.12.2010 (€ million)
Defined benefit obligation (DBO)	6.1	6.3	6.3	6.1	5.4	3.3	3.8
Plan assets	-2.9	-3.1	-3.1	-3.9	-3.8	-2.6	-2.6
Deficit	3.1	3.1	3.1	2.2	1.6	0.7	1.2
Actuarial gains/losses	-0.3	-0.2	1.3	0.5	1.5	0.4	0.1
Adjustments made on the basis of experience to the defined benefit obligation (DBO) and plan assets	-0.9	0.1	-0.2	-0.7	0.9	0.1	0.3

The other provisions developed as follows during the reporting period:

in € million	Provisions in lending business	Provisions for uncertain liabilities		Total
		Regarding staff	Other	
Opening balance	**0.9**	**4.2**	**13.1**	**18.1**
Changes from foreign exchange rates	0.0	0.0	0.0	**0.0**
Utilisation	0.0	-2.4	-12.9	**-15.3**
Reversals	-0.1	0.0	0.0	**-0.1**
Transfers	0.0	0.0	0.0	**0.0**
Allocations	0.0	0.1	11.0	**11.1**
Closing balance	**0.9**	**1.9**	**11.2**	**13.9**

(43) Income tax liabilities

The income tax liabilities are broken down as follows:

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Current income tax liabilities	9.7	3.9	> 100
Deferred tax liabilities	14.1	11.5	23
Total	**23.8**	**15.3**	**56**

Deferred tax liabilities depict the potential income tax expense from temporary differences between the values of the assets and liabilities in the IFRS balance sheet and the tax values in accordance with the provisions of tax law.

The provisions of tax law have been applied to the IFRS financial statements since the 2008 reporting period. This means that a number of the temporary differences do not apply (see table below). Please refer to Note (25) Income taxes for further information.

The deferred tax liabilities relate to the following items in the balance sheet:

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Assets	**9.1**	**6.1**	**49**
Financial assets	9.1	6.1	49
Liabilities	**5.4**	**5.4**	**-**
Equity	5.4	5.4	-
Total	**14.5**	**11.5**	**26**

(44) Other liabilities

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Liabilities resulting from outstanding invoices	3.7	8.9	-59
Liabilities from short-term employee remuneration	3.5	5.7	-38
Deferred income	3.0	2.0	49
Liabilities from payable taxes and social insurance contributions	3.1	3.0	4
Other liabilities	1.8	1.3	37
Total	**15.2**	**20.9**	**-27**

The liabilities from short-term employee remuneration consist of outstanding leave entitlement, compensation payments and emoluments.

(45) Subordinated capital

Subordinated liabilities are repaid only after the claims of all senior creditors have been settled. They meet the requirements of the CRR to be classified as regulatory Tier 2 capital. This eligibility depends on the residual term.

The expenses for subordinate liabilities amounted to € 841 thousand in the reporting period (previous year: € 393 thousand).

The changes shown in the table result from accrued interest and exchange rate volatility as well as the maturity of a subordinated bond.

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Subordinated liabilities	61.7	114.9	-46
Participatory capital	0.0	0.0	-
Silent participations	0.0	0.0	-
Total	**61.7**	**114.9**	**-46**

Business type	Nominal amount (in USD million)	Accrued interest (in USD million)	Rate as at 31.12.2016	Balance sheet value (€ million)	Term in years	Interest rates (in %)	Maturity date
Subordinate loan	65.0	0.0	1.0541	61.7	15	1.43817	31.12.2017
Total	**65.0**	**0.0**		**61.7**			

The subordinated capital has a variable interest rate.

Other disclosures

(46) Notes to the statement of comprehensive income

The income tax effects attributable to the individual components of profit and loss recognised directly in equity are as follows:

in € thousand	Amount before taxes 2016	Income tax effect 2016	Amount after taxes 2016	Amount before taxes 2015	Income tax effect 2015	Amount after taxes 2015
Increase/decrease from available for sale (AfS) financial instruments	12,722	-2,997	9,725	-3,139	917	-2,222
Actuarial gains/losses from defined benefit pension provisions	266	-144	122	164	-48	116
Translation differences of foreign business units	0	0	0	0	0	0
Profit/loss recognised directly in equity	**12,988**	**-3,141**	**9,848**	**-2,975**	**869**	**-2,106**
Of which attributable to shareholders	12,988	-3,141	9,848	-2,975	869	-2,106
Of which attributable to non-controlling interests	0	0	0	0	0	0

(47) Notes to the statement of changes in equity

The issued capital of NORD/LB CBB amounts to € 205.0 million (previous year: € 205.0 million) as at 31 December 2016. It is divided into 820,000 registered shares with no par value (previous year: 820,000 registered shares). The issued capital is fully paid up. No changes occurred during the reporting period.

Information on the individual components of equity and their development in 2015 and 2016 can be found in the statement of changes in equity.

Retained earnings include the amounts established in previous reporting periods, the allocations to reserves and profit carried forward from the annual net profits. The negative differences (bad will) calculated as part of the initial consolidation are also deducted from retained earnings.

The effects from the valuation of available for sale financial instruments (AfS) are reported under the item Revaluation reserve.

The Bank may credit wealth tax up to the amount of the corporation tax owed for the financial year in question. To do so, it must first establish a corresponding wealth tax reserve which is five times the amount of the wealth tax due without crediting. This reserve must be maintained for a period of five years. Depending on the unit's value, the wealth tax owed without crediting is calculated as follows:

- Unit value of up to € 500 million: wealth tax rate of 0.5 per cent
- For the portion of the unit's value in excess of € 500 million: wealth tax rate of 0.05 per cent

Correspondingly, the Bank's wealth tax expense without crediting amounted to € 2.6 million for 2016. The reserves earmarked for this purpose therefore amount to € -12.9 million.

The following overview shows the formation of reserves through the wealth tax:

Year	Wealth tax	Formation of reserves (= five times the credited wealth tax)	Committed until
2012	2.6	13.0	31.12.2017
2013	2.8	14.2	31.12.2018
2014	3.1	15.3	31.12.2019
2015	3.3	16.3	31.12.2020
2016	2.6	12.9	31.12.2021
Total	**14.4**	**71.7**	

For the previous years including 2014, the amounts for the wealth tax relate to the two predecessor institutions Norddeutsche Landesbank Luxembourg S.A. and NORD/LB Covered Finance Bank S.A.

With regard to the wealth tax that would apply based on the unit's value as at 1 January 2017, the Bank intends to propose to the Annual General Meeting that the free reserves of € 13.0 million be reclassified to committed reserves.

(48) Notes to the cash flow statement

The cash flow statement shows the change in cash and cash equivalents in the reporting period through the cash flows from operating activities, investment activities and financing activities.

Cash and cash equivalents are defined as the cash reserve (cash on hand, balances with central banks, public-sector debt instruments and bills of exchange which are approved for refinancing at central banks).

The cash flow statement is prepared based on the indirect method. Cash flow from operating activities is calculated based on earnings before taxes. This figure is then adjusted by adding back expenses and deducting income which did not impact cash during the reporting period. All expenses and income which affected cash but cannot be allocated to the operating business divisions are also eliminated. These payments are taken into account in the cash flows from investment or financing activities.

Payments from loans and advances to banks and customers, securities of the trading portfolio, liabilities to banks and customers and securitised liabilities are reported as part of the cash flow from operating activities based on the recommendations of the IASB.

Cash flow from investment activities comprises cash flows for the equity interests and securities included in the portfolio of financial assets, and incoming and outgoing payments for property and equipment.

Cash flow from financing activities includes cash flows from capital adjustments, interest payments on subordinated capital and dividend payments to the shareholders of the Bank.

As far as the liquidity risk management of NORD/LB CBB is concerned, reference is made to the statements of the risk report in the management report.

A restatement of the previous year's figures has been made in the cash flow statement. Due to an increase in the carrying amount of trading and hedge transactions, particularly as a result of securitised liabilities designated at fair value, trading and hedge transactions were reported in a separate line item. Consequently, the valuation effects resulting from trading and hedge transactions are reported in the item "Increase/decrease in other non-cash items" and the underlying hedge transactions were adjusted similarly for valuation ef-

fects. The ongoing low interest rate policy made it necessary to report negative interest separately, which is also shown retrospectively for 2015 in the cash flow statement.
Other restatements of figures from previous years relate to the effects of interest rate anomalies; to this end, positive interest from investments and negative interest from borrowings were shown separately as subitems in order to enable a separate presentation pursuant to IAS 7.31 and a corresponding reconciliation with the income statement.

Notes to financial instruments

(49) Remaining terms of financial liabilities and contingent liabilities

As at 31 December 2016:

in € million	< 1 month	1 month < 3 months	3 months < 1 year	1 year < 5 years	> 5 years	Total
Liabilities to banks	2,265.5	1,678.2	495.9	739.5	1,433.0	**6,612.1**
Liabilities to customers	1,469.2	315.9	349.1	165.3	1,113.3	**3,412.8**
Securitised liabilities	0.0	25.1	322.8	2,373.9	500.0	**3,221.8**
Financial obligations measured at fair value through profit and loss (without derivatives)	0.0	0.0	0.0	249.1	798.3	**1,047.4**
Subordinated capital	0.0	0.0	61.7	0.0	0.0	**61.7**
Irrevocable loan commitments	73.3	5.7	329.0	1,415.1	94.0	**1,917.2**
Financial guarantees	0.0	38.4	42.0	6.3	46.7	**133.3**
Total	**3,808.1**	**2,063.2**	**1,600.5**	**4,949.3**	**3,985.4**	**16,406.3**

As at 31 December 2015:

in € million	< 1 month	1 month < 3 months	3 months < 1 year	1 year < 5 years	> 5 years	Total
Liabilities to banks	2,513.5	1,269.5	1,652.8	860.8	1,329.7	**7,626.4**
Liabilities to customers	1,421.7	389.1	353.7	139.0	917.8	**3,221.4**
Securitised liabilities	0.0	0.0	35.3	2,373.8	705.1	**3,114.2**
Financial obligations measured at fair value through profit and loss (without derivatives)	0.0	0.0	0.0	0.0	0.0	**0.0**
Subordinated capital	0.0	0.0	55.2	59.7	0.0	**114.9**
Irrevocable loan commitments	137.9	24.0	209.5	980.8	49.7	**1,401.9**
Financial guarantees	0.0	37.2	2.3	65.8	54.7	**160.0**
Total	**4,073.2**	**1,719.8**	**2,308.9**	**4,480.0**	**3,057.0**	**15,638.7**

The residual maturity is defined as the remaining time from the end of the reporting period to the contractual maturity date, taking account of any termination options.

Further information on liquidity risk can be found within the management report in the liquidity risk section of the risk report. This report provides details on liquidity management, the management and measurement of liquidity risks, the reporting, the trends in 2016 and the outlook.

(50) Carrying amounts by measurement category

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Assets			
Financial assets at fair value through profit or loss	**1,300.9**	**1,577.4**	**-18**
Financial assets held for trading	418.8	383.2	9
Financial assets designated at fair value through profit or loss	882.1	1,194.2	-26
Assets available for sale	**2,645.6**	**3,139.7**	**-16**
Loans and receivables	**11,901.0**	**11,029.5**	**8**
Total	**15,847.5**	**15,746.6**	**1**
Liabilities			
Financial liabilities at fair value through profit or loss	**1,855.9**	**996.4**	**86**
Financial liabilities held for trading	808.4	996.4	-19
Financial liabilities designated at fair value through profit or loss	1,047.4	0.0	> 100
Other liabilities	**13,308.4**	**14,076.8**	**-5**
Total	**15,164.2**	**15,073.2**	**1**

The carrying amounts of underlying transactions from hedge accounting under IAS 39 are allocated to the relevant category, while the fair values of hedging investments are reflected in the HfT items. Only financial instruments were considered here.

(51) Net gains or losses by measurement category

	2016 (€ thousand)	2015 (€ thousand)	Change (in %)
Financial instruments at fair value through profit or loss	**-57,497**	**-99,723**	**-42**
Financial instruments held for trading	-90,383	-110,563	-18
Financial instruments designated at fair value through profit or loss	32,886	10,840	> 100
Assets available for sale	**46,983**	**67,763**	**-31**
Loans and receivables	**293,775**	**291,550**	**1**
Other liabilities	**-162,926**	**-160,605**	**1**
Total	**120,335**	**98,985**	**22**

The profit/loss from hedge accounting is not included in the net gains or losses because it is not allocated to any of the categories. The loan loss provisions are explained in the following note as they are also not part of these categories.

(52) Impairments/reversals of impairment by measurement category

	2016 (€ thousand)	2015 (€ thousand)	Change (in %)
Assets available for sale			
Reversal of specific valuation allowances on AfS financial assets	4,019	-401	< -100
Total	**4,019**	**-401**	**< -100**
Loans and receivables			
Reversal of specific valuation allowances on LaR financial assets	1,280	-2,190	< -100
Reversal of portfolio valuation allowances on LaR financial assets	2,005	817	> 100
Reversal of the formation/reversal of provisions in the lending business	80	542	-85
Impairment from direct write-offs of bad debts/ additions to receivables written off	-637	847	< -100
Total	**2,728**	**16**	**> 100**

(53) Fair value hierarchy

The following tables show the application of the fair value hierarchy for financial assets and liabilities recognised at fair value through profit or less or directly in equity:

31.12.2016 in € million	Level 1 (mark-to-market)	Level 2 (mark-to-matrix)	Level 3 (mark-to-model)	Total
Trading assets	**0.0**	**91.0**	**0.0**	**91.0**
Debt securities and other fixed-interest securities	0.0	0.0	0.0	**0.0**
Positive fair values from derivatives	0.0	89.7	0.0	**89.7**
Interest-rate risks	0.0	55.5	0.0	**55.5**
Currency risks	0.0	34.2	0.0	**34.2**
Trading portfolio claims	0.0	1.4	0.0	**1.4**
Financial assets designated at fair value	**854.4**	**27.7**	**0.0**	**882.1**
Positive fair values from hedge accounting derivatives	**0.0**	**327.7**	**0.0**	**327.7**
Interest-rate risks	0.0	233.0	0.0	**233.0**
Currency risks	0.0	94.7	0.0	**94.7**
Financial assets (on a fair value basis)	**1,841.8**	**803.8**	**0.0**	**2,645.6**
Debt securities and other fixed-interest securities	1,841.8	803.8	0.0	**2,645.6**
Assets	**2,696.2**	**1,250.2**	**0.0**	**3,946.5**
Trading liabilities	**0.0**	**101.7**	**0.0**	**101.7**
Negative fair values from derivatives	0.0	101.7	0.0	**101.7**
Interest-rate risks	0.0	71.4	0.0	**71.4**
Currency risks	0.0	30.3	0.0	**30.3**
Financial liabilities designated at fair value	**0.0**	**1,047.4**	**0.0**	**1,047.4**
Negative fair values from hedge accounting derivatives	**0.0**	**706.7**	**0.0**	**706.7**
Interest-rate risks	0.0	594.5	0.0	**594.5**
Currency risks	0.0	112.2	0.0	**112.2**
Liabilities	**0.0**	**1,855.9**	**0.0**	**1,855.9**

31.12.2015 in € million	Level 1 (mark-to-market)	Level 2 (mark-to-matrix)	Level 3 (mark-to-model)	Total
Trading assets	**0.0**	**92.8**	**0.0**	**92.8**
Debt securities and other fixed-interest securities	0.0	9.6	0.0	**9.6**
Positive fair values from derivatives	0.0	83.2	0.0	**83.2**
Interest-rate risks	0.0	45.9	0.0	**45.9**
Currency risks	0.0	37.3	0.0	**37.3**
Financial assets designated at fair value	**946.3**	**247.9**	**0.0**	**1,194.2**
Positive fair values from hedge accounting derivatives	**0.0**	**290.4**	**0.0**	**290.4**
Interest-rate risks	0.0	231.6	0.0	**231.6**
Currency risks	0.0	58.8	0.0	**58.8**
Financial assets (on a fair value basis)	**2,161.2**	**978.4**	**0.0**	**3,139.7**
Debt securities and other fixed-interest securities	2,161.2	978.4	0.0	**3,139.7**
Assets	**3,107.5**	**1,609.5**	**0.0**	**4,717.1**
Trading liabilities	**0.0**	**204.6**	**0.0**	**204.6**
Negative fair values from derivatives	0.0	204.6	0.0	**204.6**
Interest-rate risks	0.0	167.9	0.0	**167.9**
Currency risks	0.0	36.7	0.0	**36.7**
Financial liabilities designated at fair value	**0.0**	**0.0**	**0.0**	**0.0**
Negative fair values from hedge accounting derivatives	**0.0**	**791.8**	**0.0**	**791.8**
Interest-rate risks	0.0	688.1	0.0	**688.1**
Currency risks	0.0	103.7	0.0	**103.7**
Liabilities	**0.0**	**996.4**	**0.0**	**996.4**

There were no Level 3 securities in the Bank’s portfolio on the measurement date.

The transfers within the fair value hierarchy are summarised as follows:

01.01. – 31.12.2016 in € million	From Level 1 to Level 2	From Level 1 to Level 3	From Level 2 to Level 1	From Level 2 to Level 3	From Level 3 to Level 1	From Level 3 to Level 2
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets designated at fair value	0.0	0.0	25.2	0.0	0.0	0.0
Financial assets (on a fair value basis)	21.5	0.0	350.3	0.0	0.0	0.0
Assets	**21.5**	**0.0**	**375.5**	**0.0**	**0.0**	**0.0**
Liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

One security in the “Financial assets designated at fair value” category switched from matrix valuation (Level 2) to market valuation (Level 1). Likewise, 13 securities from the AfS category changed from the matrix valuation (Level 2) to the market valuation (Level 1). One security also switched from Level 1 to Level 2. Transfers between levels were made for approximately 6 per cent of NORD/LB CBB’s total portfolio of securities.

The following level transfers took place in the previous year:

01.01. - 31.12.2015 in € million	From Level 1 to Level 2	From Level 1 to Level 3	From Level 2 to Level 1	From Level 2 to Level 3	From Level 3 to Level 1	From Level 3 to Level 2
Trading assets	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets designated at fair value	188.4	0.0	22.8	0.0	0.0	0.0
Financial assets (on a fair value basis)	269.3	0.0	174.0	0.0	0.0	0.0
Assets	**457.7**	**0.0**	**196.8**	**0.0**	**0.0**	**0.0**
Liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

A total of 35 securities changed from the matrix valuation (Level 2) to the market valuation (Level 1). Transfers between levels were made for approximately 15 per cent of NORD/LB CBB’s total portfolio of securities.

Financial assets and liabilities are added on the acquisition date at market prices. There was no initial valuation at Level 3 in either reporting period and a day-one profit or loss therefore did not occur.

The following table shows the allocation of the fair values of assets and liabilities which are not measured at fair value in the balance sheet, but for which the fair value is indicated in the notes based on the fair value hierarchy:

31.12.2016 in € million	Level 1 (mark-to-market)	Level 2 (mark-to-matrix)	Level 3 (mark-to-model)	Total
Cash reserve	56.5	0.0	0.0	**56.5**
Loans and advances to banks	544.5	231.1	465.4	**1,241.0**
Loans and advances to customers	3.3	62.5	8,431.5	**8,497.4**
Financial assets not recognised at fair value	11.5	2,147.4	0.0	**2,158.9**
Assets	**615.8**	**2,441.0**	**8,897.0**	**11,953.8**
Liabilities to banks	342.4	579.7	5,911.8	**6,833.9**
Liabilities to customers	680.8	1,311.2	1,476.3	**3,468.3**
Securitised liabilities	1,314.0	1,923.3	0.0	**3,237.3**
Subordinated capital	0.0	0.0	61.7	**61.7**
Liabilities	**2,337.2**	**3,814.2**	**7,449.7**	**13,601.1**

31.12.2015 in € million	Level 1 (mark-to-market)	Level 2 (mark-to-matrix)	Level 3 (mark-to-model)	Total
Cash reserve	29.1	0.0	55.0	**84.1**
Loans and advances to banks	813.5	257.5	439.4	**1,510.4**
Loans and advances to customers	77.5	82.6	6,870.5	**7,030.6**
Financial assets not recognised at fair value	0.0	2,435.1	0.0	**2,435.1**
Assets	**920.1**	**2,775.1**	**7,364.9**	**11,060.2**
Liabilities to banks	907.9	0.0	6,951.6	**7,859.5**
Liabilities to customers	287.9	0.0	2,954.9	**3,242.8**
Securitised liabilities	0.0	0.0	3,108.8	**3,108.8**
Subordinated capital	0.0	0.0	114.9	**114.9**
Liabilities	**1,195.8**	**0.0**	**13,130.2**	**14,326.0**

(54) Fair value of financial instruments

The fair values of financial instruments recognised in the balance sheet at amortised cost (LaR) or with the hedge fair value (LaR) are compared with their carrying amounts in the following table.

in € million	Fair value on 31.12.2016	Carrying amount on 31.12.2016	Difference on 31.12.2016	Fair value on 31.12.2015	Carrying amount on 31.12.2015	Difference on 31.12.2015
Assets	**11,950.3**	**11,901.0**	**49.2**	**11,020.3**	**11,029.6**	**-9.3**
Cash reserve	56.5	56.5	0.0	84.1	84.1	0.0
Loans and advances to banks	1,241.0	1,240.5	0.5	1,510.4	1,510.0	0.4
Loans and advances to customers	8,497.4	8,242.2	255.2	7,030.6	6,768.8	261.8
Risk provisioning	-23.3	-23.3	0.0	-39.9	-39.9	0.0
Loans and advances after risk provisioning	9,715.1	9,459.3	255.7	8,501.0	8,238.9	262.2
Financial assets	2,158.9	2,385.3	-226.4	2,435.1	2,706.5	-271.5
Liabilities	**13,601.1**	**13,308.4**	**292.7**	**14,325.9**	**14,076.8**	**249.1**
Liabilities to banks	6,833.9	6,612.1	221.8	7,859.5	7,626.4	233.1
Liabilities to customers	3,468.3	3,412.8	55.4	3,242.8	3,221.4	21.4
Securitised liabilities	3,237.3	3,221.8	15.5	3,108.8	3,114.2	-5.5
Subordinated capital	61.7	61.7	0.0	114.8	114.9	0.0

For details on how fair value is calculated, see Note ((6) Financial instruments), paragraph d) Calculating fair value.

The amounts shown in the "carrying amount" column comprise the assets and liabilities recognised in the balance sheet at amortised cost or at hedge fair value or full fair value. Where a hedge fair value or full fair value is recognised as the carrying amount, it is also shown in the "fair value" column.

The hidden liabilities on financial assets decreased by € 45.1 million to € 226.4 million (previous year: € 271.5 million).

There were no Level 3 assets as at 31 December 2016.

(55) Derivative financial instruments

The Bank uses derivative financial instruments for hedging purposes as part of its asset/liability management.

Derivative financial instruments in foreign currencies are primarily concluded in the form of forward currency transactions, currency swaps, and interest rate (cross-)currency swaps. Interest rate derivatives consist primarily of interest rate swaps.

The nominal values represent the gross volume of all purchases and sales. This value is a reference value for determining reciprocally-agreed settlement payments; these do not, however, represent claims or liabilities that may be recognised in the balance sheet.

The composition of the portfolio of derivative financial instruments is as follows:

in € million	Nominal values 31.12.2016	Nominal values 31.12.2015	Positive fair values 31.12.2016	Positive fair values 31.12.2015	Negative fair values 31.12.2016	Negative fair values 31.12.2015
Interest-rate risks	**7,207.4**	**8,617.1**	**288.5**	**277.5**	**666.0**	**856.0**
Interest rate swaps	7,087.4	7,999.7	288.5	277.5	665.6	856.0
Interest rate options	100.0	0.0	0.0	0.0	0.4	0.0
Caps, floors	20.0	20.0	0.0	0.0	0.0	0.0
Stock exchange contracts	0.0	597.4	0.0	0.0	0.0	0.0
Other interest rate futures	0.0	0.0	0.0	0.0	0.0	0.0
Currency risks	**7,523.9**	**5,647.4**	**128.9**	**96.1**	**142.5**	**140.4**
Forward exchange transactions	5,867.5	4,122.9	34.2	26.5	11.8	6.3
Currency swaps / interest rate (cross-)currency swaps	1,656.4	1,524.5	94.7	69.5	130.6	134.1
Total	**14,731.3**	**14,264.4**	**417.4**	**373.6**	**808.4**	**996.4**

The following table shows the residual terms of the derivative financial instruments:

Nominal values in € million	Interest-rate risks		Currency risks		Share-price and other price risks		Credit derivatives	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Remaining terms to maturity								
Up to 3 months	218.5	931.8	5,768.9	4,003.2	0.0	0.0	0.0	0.0
More than 3 months to 1 year	759.6	839.6	197.7	401.9	0.0	0.0	0.0	0.0
More than 1 year to 5 years	2,652.6	3,584.6	237.8	237.7	0.0	0.0	0.0	0.0
More than 5 years	3,576.7	3,261.1	1,319.5	1,004.7	0.0	0.0	0.0	0.0
Total	**7,207.4**	**8,617.1**	**7,523.9**	**5,647.4**	**0.0**	**0.0**	**0.0**	**0.0**

The residual term is defined as the period between the reporting date and the contractual maturity. The following table shows the positive and negative market values of derivative transactions broken down by their respective counterparties:

in € million	Nominal values 31.12.2016	Nominal values 31.12.2015	Positive fair values 31.12.2016	Positive fair values 31.12.2015	Negative fair values 31.12.2016	Negative fair values 31.12.2015
Banks in the OECD	14,533.9	13,607.1	412.9	356.7	807.6	987.6
Banks outside the OECD	109.0	461.2	0.1	1.8	0.2	0.6
Public-sector entities in the OECD	0.0	35.0	0.0	0.0	0.0	8.2
Other counterparties (including exchange contracts)	88.4	161.2	4.4	15.1	0.6	0.0
Total	**14,731.3**	**14,264.4**	**417.4**	**373.6**	**808.4**	**996.4**

(56) Disclosures concerning selected countries

The following table shows the values recognised in the balance sheet of the transactions relating to selected countries. The disclosures by country include regional governments, municipalities and state-related companies. The Bank engages in no business with the selected countries shown in the Hft and dFV categories.

in € million	Assets available for sale		Loans and receivables	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Portugal				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	0.0	0.0	0.0	0.0
Corporates/others	0.0	0.0	20.9	25.2
Total	**0.0**	**0.0**	**20.9**	**25.2**
Ireland				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	0.0	0.0	0.0	84.7
Corporates/others	0.0	0.0	0.5	0.5
Total	**0.0**	**0.0**	**0.5**	**85.2**
Italy				
Sovereign exposure	103.9	106.5	38.9	39.4
Financial institutions/insurance companies	28.5	63.1	48.7	52.7
Corporates/others	0.0	0.0	2.7	0.2
Total	**132.4**	**169.6**	**90.4**	**92.3**
Hungary				
Sovereign exposure	0.0	0.0	83.1	86.6
Financial institutions/insurance companies	0.0	0.0	0.0	0.0
Corporates/others	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**83.1**	**86.6**
Spain				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	31.3	136.9	242.1	255.6
Corporates/others	0.0	0.0	2.2	2.4
Total	**31.3**	**136.9**	**244.3**	**258.0**
TOTAL	**163.7**	**306.5**	**439.2**	**547.3**

An exposure of € 20 thousand also exists with respect to Greece, however this was not included in the table due to reasons of immateriality. The above figures do not include any credit derivatives.

For the financial instruments categorised as available for sale with the cost of acquisition totalling € 163.7 million (previous year: € 306.5 million), the cumulative valuation result reported in equity for the selected countries totals € -12.6 million (previous year: € -11.3 million). No impairment losses were recognised in the income statement for the period (previous year: € 0.0 million).

Portfolio valuation allowances amounting to € 5.6 million (previous year: € 5.4 million) are in place for the receivables from the selected countries in the loans and receivables category. The fair value of these receivables in the loans and receivables category is € 412.6 million (previous year: € 517.4 million).

The interest rates for the transactions recorded above fluctuate between 0.00 per cent and 6.022 per cent. The individual maturities of the transactions range from 2017 to 2042, with 10 per cent of the loans and advances due in the next 12 months and 31 per cent in the next 36 months.

The following tables show the application of the fair value hierarchy for the financial assets and liabilities stated at fair value through profit or loss or recognised directly in equity for the selected countries in 2015 and 2016:

31.12.2016 in € million	Level 1	Level 2	Level 3	Total
Portugal				
Sovereign exposure	0.0	0.0	0.0	**0.0**
Financial institutions/insurance companies	0.0	0.0	0.0	**0.0**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**0.0**	**0.0**	**0.0**	**0.0**
Ireland				
Sovereign exposure	0.0	0.0	0.0	**0.0**
Financial institutions/insurance companies	0.0	0.0	0.0	**0.0**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**0.0**	**0.0**	**0.0**	**0.0**
Italy				
Sovereign exposure	0.0	103.9	0.0	**103.9**
Financial institutions/insurance companies	19.0	9.5	0.0	**28.5**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**19.0**	**113.4**	**0.0**	**132.4**
Hungary				
Sovereign exposure	0.0	0.0	0.0	**0.0**
Financial institutions/insurance companies	0.0	0.0	0.0	**0.0**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**0.0**	**0.0**	**0.0**	**0.0**
Spain				
Sovereign exposure	0.0	0.0	0.0	**0.0**
Financial institutions/insurance companies	31.3	0.0	0.0	**31.3**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**31.3**	**0.0**	**0.0**	**31.3**
TOTAL	**50.3**	**113.4**	**0.0**	**163.7**

31.12.2015 in € million	Level 1	Level 2	Level 3	Total
Portugal				
Sovereign exposure	0.0	0.0	0.0	**0.0**
Financial institutions/insurance companies	0.0	0.0	0.0	**0.0**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**0.0**	**0.0**	**0.0**	**0.0**
Ireland				
Sovereign exposure	0.0	0.0	0.0	**0.0**
Financial institutions/insurance companies	0.0	0.0	0.0	**0.0**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**0.0**	**0.0**	**0.0**	**0.0**
Italy				
Sovereign exposure	0.0	106.5	0.0	**106.5**
Financial institutions/insurance companies	53.9	9.2	0.0	**63.1**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**53.9**	**115.7**	**0.0**	**169.6**
Hungary				
Sovereign exposure	0.0	0.0	0.0	**0.0**
Financial institutions/insurance companies	0.0	0.0	0.0	**0.0**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**0.0**	**0.0**	**0.0**	**0.0**
Spain				
Sovereign exposure	0.0	0.0	0.0	**0.0**
Financial institutions/insurance companies	69.4	67.4	0.0	**136.9**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**69.4**	**67.4**	**0.0**	**136.9**
TOTAL	**123.3**	**183.1**	**0.0**	**306.5**

(57) Forbearance exposure

Forborne exposures include all loans and advances for which the Bank in the past has tried to maintain the business operations and debt service of the customer by deferment of payment, restructuring or waiver of the margin in order to prevent a default or an impairment. The following values relate to the values recognised in the balance sheet on the reporting date:

31.12.2016 in € million	Balance sheet value before specific valuation allowance	Specific valuation allowance	Balance sheet value after specific valuation allowance
Construction	3.4	0.0	3.4
Services and other	53.5	-2.0	51.5
Financial institutions and insurance companies	0.0	0.0	0.0
Trading	16.3	0.0	16.3
Manufacturing	3.4	0.0	3.4
Total	**76.6**	**-2.0**	**74.6**

Despite the measures defined under forborne exposures which were geared toward enabling the debtor from the service sector to service the existing debt in compliance with the contract, its development fell short of expectations, even after restructuring measures were implemented. As a result, a specific valuation allowance of € 2 million was established for this loan.

31.12.2015 in € million	Balance sheet value before specific valuation allowance	Specific valuation allowance	Balance sheet value after specific valuation allowance
Construction	0.2	-0.2	0.0
Services and other	149.7	-18.0	131.7
Financial institutions and insurance companies	5.4	0.0	5.4
Trading	1.0	0.0	1.0
Manufacturing	5.4	0.0	5.4
Total	**161.7**	**-18.2**	**143.5**

There are also no loan provisions for the exposures disclosed here.

Portion of the forbearance exposure for which timely repayment is unlikely or which is already in default:

31.12.2016 in € million	Timely repayment unlikely or in default <90 days	Payment in default >90 days <= 180 days	Payment in default > 180 days <= 1 year	Payment in default > 1 year
	64.3	0.0	0.2	1.7
Total	**64.3**	**0.0**	**0.2**	**1.7**

31.12.2015 in € million	Timely repayment unlikely or in default <90 days	Payment in default >90 days <= 180 days	Payment in default > 180 days <= 1 year	Payment in default > 1 year
	118.3	0.0	0.0	1.6
Total	**118.3**	**0.0**	**0.0**	**1.6**

(58) Underlying transactions in effective hedges

Financial assets and liabilities which are the underlying transaction in a hedging transaction in accordance with IAS 39 are also reported together with the unhedged transactions in the relevant items in the balance sheet because the hedging does not change the type and function of the underlying transaction.

The balance sheet value of the financial instruments otherwise measured at amortised cost (LaR and OL categories) is, however, corrected to include the change in fair value attributable to the hedged risk.

The financial instruments in the AfS category continue to be recognised in the balance sheet at full fair value. The financial assets and liabilities which, as secured underlying transactions, are part of an effective micro fair value hedge are also reported below for information purposes:

	31.12.2016 (€ million)	31.12.2015 (€ million)	Change (in %)
Assets			
Loans and advances to banks	189.7	212.1	-11
Loans and advances to customers	975.4	665.1	47
Financial assets	3,427.7	4,248.4	-19
Total	**4,592.8**	**5,125.5**	**-10**
Liabilities			
Liabilities to banks	109.4	105.7	3
Liabilities to customers	1,082.4	929.9	16
Securitised liabilities	662.6	788.4	-16
Subordinated capital	0.0	0.0	-
Total	**1,854.4**	**1,824.0**	**2**

(59) NORD/LB CBB as a collateral provider and collateral taker

The following assets were assigned by the Bank as collateral for liabilities:

	31.12.2016 (€ million)	31.12.2015 (€ million)
Loans and advances to banks	513.3	720.9
Loans and advances to customers	0.0	0.0
Financial instruments measured at fair value through profit and loss	308.1	0.0
Financial assets	994.6	1,989.7
Total	**1,816.0**	**2,710.6**

Financial assets were provided as collateral for borrowings under genuine repos with a maximum remaining term of six months. The Bank is still entitled to the expenses and income from pledged securities.

Collateral was provided in the form of deposits at financial institutions at standard market interest rates. This collateral is used primarily to secure against changes in the value of derivative transactions. The remaining terms thereof are specified in Note (55) Derivative financial instruments.

The financial instruments measured at fair value through profit and loss relate to securities transferred under repurchase agreements and other additional securities given as collateral.

The following collateral was transferred to the Bank for loans and advances in the values indicated:

	31.12.2016 (€ million)	31.12.2015 (€ million)
Financial investments transferred to the Bank as collateral	435.9	0.0
Liabilities to banks	23.0	408.2
Total	**458,9**	**408.2**

Collateral was provided in the form of transferred financial assets for counterparties' investments as part of genuine securities repurchase transactions (repos) with a maximum remaining term of six months. The counterparties remain entitled to the expenses and income from pledged securities.

Collateral was provided in the form of deposits from financial institutions at standard market interest rates. This collateral is used to hedge changes in the value of derivative transactions.

Collateral which may also be sold or passed on without the collateral provider defaulting on payment was not held during the 2016 reporting period or in the previous year.

(60) Offsetting of financial assets and financial liabilities

The effects or potential effects of claims for netting relating to the Bank's financial assets and liabilities at the end of the 2016 reporting period and at 31 December 2015 are shown in the following tables:

				Master netting arrangements and similar arrangements without offsetting			
					Collateral		
31.12.2016 (€ million)	**Gross amount before offset-ting**	**Amount of offsetting**	**Net amount after offset-ting**	**Of which: financial instruments**	**Securities as collateral**	**Cash as collateral**	**Net amount**
Assets	**1.048,1**	**0,0**	**1.048,1**	**-459,2**	**-435,9**	**-19,5**	**133,5**
Derivatives	412,7	0,0	412,7	-289,2	0,0	-19,5	104,0
Securities lending and repurchase transactions	635,4	0,0	635,4	-170,0	-435,9	0,0	29,5
Liabilities	**2.015,2**	**0,0**	**2.015,2**	**-459,2**	**-1.035,8**	**-493,2**	**27,0**
Derivatives	803,3	0,0	803,3	-289,2	0,0	-493,2	20,9
Securities lending and repurchase transactions	1.211,9	0,0	1.211,9	-170,0	-1.035,8	0,0	6,1

				Master netting arrangements and similar arrangements without offsetting			
					Collateral		
31.12.2015 (€ million)	**Gross amount before offsetting**	**Amount of offsetting**	**Net amount after offsetting**	**Of which: financial instruments**	**Securities as collateral**	**Cash as collateral**	**Net amount**
Assets	**355.7**	**0.0**	**355.7**	**-324.9**	**0.0**	**-12.4**	**18.4**
Derivatives	355.7	0.0	355.7	-324.9	0.0	-12.4	18.4
Securities lending and repurchase transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	**2,966.7**	**0.0**	**2,966.7**	**-324.9**	**-1,975.6**	**-446.8**	**219.3**
Derivatives	983.1	0.0	983.1	-324.9	0.0	-446.8	211.4
Securities lending and repurchase transactions	1.983,5	0,0	1.983,5	0,0	-1.975,6	0,0	7,9

Dealings in derivative financial instruments as well as securities lending and repo transactions are generally conducted based on bilateral framework agreements reached with the counterparty. These agreements provide solely for contingent rights for offsetting loans, advances, liabilities and the collateral received and made available, e.g. in the event of a contractual infringement or insolvency. There is accordingly no current right to offset in accordance with IAS 32.42.

	31.12.2016 (€ million)	31.12.2015 (€ million)
Genuine repurchase agreements as lender (reverse repos)	**635.4**	**0.0**
Loans and advances to banks	170.0	0.0
Loans and advances to customers	465.4	0.0
Genuine repurchase agreements as borrower (repos)	**1,211.9**	**1,983.5**
Liabilities to banks	1,211.9	1,983.5
Liabilities to customers	0.0	0.0

	31.12.2016 (€ million)	31.12.2015 (€ million)
Loaned securities	**0.0**	**0.0**
Loaned securities at fair value through profit or loss	0.0	0.0
Loaned securities from financial assets	0.0	0.0
Borrowed securities	**0.0**	**0.0**

	31.12.2016 (€ million)	31.12.2015 (€ million)
Securities sold under repurchase agreements	**1,194.8**	**1,989.7**
Securities sold under repurchase agreements at fair value through profit or loss	276.1	0.0
Securities sold under repurchase agreements from financial assets	918.6	1,989.7
Securities bought under repurchase agreements	**435.9**	**0.0**

(61) Transfer and derecognition of financial assets

The risks and rewards remaining at NORD/ LB CBB from transferred financial assets and the associated liabilities are shown below. There are no transferred financial assets which are only partly recognised in the Bank's balance sheet. There are also no transferred assets with rights of recourse.

	31.12.2016		31.12.2015	
	Complete recognition of financial assets despite transfer			
in € million	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Loans and advances to banks	0.0	0.0	0.0	0.0
Loans and advances to customers	0.0	0.0	0.0	0.0
Assets measured at fair value through profit and loss	276.1	276.6	0.0	0.0
Financial assets not recognised at fair value	390.6	403.8	0.0	0.0
Financial assets recognised at fair value	528.0	531.5	1,989.7	1,983.5
Assets held for sale that are not recognised at fair value	0.0	0.0	0.0	0.0
Assets held for sale that are recognised at fair value	0.0	0.0	0.0	0.0
Other assets not recognised at fair value	0.0	0.0	0.0	0.0
Other assets recognised at fair value	0.0	0.0	0.0	0.0
Total	**1,194.8**	**1,211.9**	**1,989.7**	**1,983.5**

The transferred financial assets are genuine securities repurchase transactions.

Additional explanatory material

(62) Regulatory information

Regulatory own funds and capital requirements have been based on IFRS since the 2008 reporting year. They have been calculated in accordance with the provisions of the CRR since 2014. A separate report is produced each year for the information to be disclosed pursuant to Article 13 CRR, which will be published on the NORD/LB CBB website once it has been completed.

Capital requirements

The Bank mainly employs standard regulatory approaches to calculate risk. The internal ratings-based (IRB) approach is applied for most of the loans and advances only when calculating the capital requirements for credit risk.

	31.12.2016 (€ million)	31.12.2015 (€ million)
Total risk exposure amount	**4,209.7**	**4,139.6**
Capital requirements for credit risk	321.7	312.6
Capital requirements for operational risks	14.0	17.1
Capital requirements for market risks	0.1	0.3
Capital requirements for loan amount adjustments	0.9	1.1
Capital requirements	**336.8**	**331.2**

Regulatory own funds

	31.12.2016 (€ million)	31.12.2015 (€ million)
Paid-in capital	205.0	205.0
Other reserves	445.5	445.4
Deductible items	-25.5	-20.9
Common Equity Tier 1 capital	**625.1**	**629.5**
Components of Additional Tier 1 capital	0.0	0.0
Tier 1 capital	**625.1**	**629.5**
Subordinate debt securities (imputable part)	12.2	28.7
Eligible provisions in excess of expected losses under the IRB approach	11.8	16.6
Tier 2 capital	**24.0**	**45.3**
Own funds	**649.1**	**674.8**

The aim of equity management is to secure adequate own funds in terms of both quantity and quality, to generate an appropriate return on equity and to permanently comply with minimum capital ratios prescribed by the regulatory authorities. Target capital ratios, for which the numerator forms the relevant capital variable and the denominator is formed from the total risk exposure amount in accordance with the CRR regulations, are stipulated for the regulatory capital variables. The current development of the listed capital variables and associated capital ratios is determined on a regular basis and reported to the Bank's management and supervisory bodies. When needed, plans and forecasts for these capital variables and capital ratios are submitted as well. If there is a risk to the stipulated target capital ratios, alternative or cumulative measures will be taken to adjust the risk-weighted assets, or procurement measures will be taken in conjunction with NORD/LB with the focus on individual capital variables.

Minimum capital ratios

The Bank complied with the minimum regulatory capital ratios at all times in 2015 and 2016. The Bank had the following ratios at the end of the respective year:

	31.12.2016	**31.12.2015**
Common Equity Tier 1 capital ratio	14.8%	15.2%
Tier 1 capital ratio	15.4%	16.3%
Total capital ratio	15.4%	16.3%

The Bank requested and received from the regulatory authority CSSF an exemption from the requirement to comply with the major risk limit in its dealings with companies from the NORD/LB Group. This exemption is based on Article 20 Intragroup Exceptions from Regulation 14/01 (CSSF Regulation No. 14-01 dated 11 February 2014 on the implementation of a certain degree of discretion as stipulated in EU Regulation No. 575/2013).

(63) Foreign currency volume

The following assets and liabilities were denominated in foreign currency as at 31 December 2016:

in € million	USD	JPY	CHF	Other	Total
Assets					
Cash reserve	0.0	0.0	7.4	0.0	**7.4**
Loans and advances to banks	23.4	2.3	0.0	1.8	**27.6**
Loans and advances to customers	1,049.6	15.9	528.3	604.0	**2,197.8**
Risk provisioning	-0.1	0.0	-0.6	0.0	**-0.7**
Financial assets at fair value through profit or loss	49.3	0.0	0.5	1.9	**51.7**
Positive fair values from hedge accounting	3.9	0.0	30.0	33.0	**67.0**
Financial assets	1,521.9	138.7	204.3	160.6	**2,025.5**
Other assets	0.0	0.0	0.0	0.0	**0.0**
Total	**2,648.1**	**157.0**	**769.8**	**801.3**	**4,376.2**
Liabilities					
Liabilities to banks	2,746.5	1.6	14.0	291.4	**3,053.5**
Liabilities to customers	277.4	0.3	188.4	207.7	**673.8**
Securitised liabilities	307.8	0.0	68.4	272.6	**648.8**
Financial liabilities at fair value through profit or loss	14.2	0.1	1.8	1.4	**17.5**
Negative fair values from hedge accounting	378.5	35.4	16.4	46.4	**476.7**
Other liabilities	0.7	0.0	0.0	0.3	**1.0**
Subordinated capital	61.7	0.0	0.0	0.0	**61.7**
Total	**3,786.7**	**37.4**	**289.0**	**819.7**	**4,932.9**

(64) Contingent liabilities and other obligations

	31.12.2016 (€ million)	31.12.2015 (€ million)
Contingent liabilities	**133.3**	**160.0**
Liabilities arising from guarantees and indemnity agreements	133.3	160.0
Irrevocable loan commitments	**1,917.2**	**1,401.9**
Total	**2,050.5**	**1,561.9**

The liabilities from guarantees and indemnity agreements include credit guarantees, trading-related guarantees and contingent liabilities from other guarantees and indemnities.
Information on the estimated financial effects, the uncertainty in relation to the amount or timing of asset outflows and information on the possibility of compensation payments are not provided for feasibility reasons.

The liabilities from guarantees and indemnity agreements (financial guarantees) are recognised in accordance with IAS 39. The obligations from existing rental, lease, guarantee and similar agreements are within the scope of normal business.

(65) Subordinated assets

	31.12.2016 (€ million)	31.12.2015 (€ million)
Financial assets	45.0	45.0
Total	**45.0**	**45.0**

Assets are considered subordinate if they may be realised as loans and advances in the event of the liquidation or the insolvency of the debtor only after the loans and advances of other creditors.

The Bank has two subordinated issues from Austrian financial institutions in its portfolio which have a guarantor liability from Austrian federal states under the previous law.

(66) Trust activities

No trust activities existed during the financial year or the previous year.

(67) Subsequent events

At its meeting on 15 December 2016 the Supervisory Board of NORD/LB CBB decided to appoint Manfred Borchardt to the Bank's Managing Board as of 1 January 2017. Mr Borchardt moved to Luxembourg as of 1 January 2017 and will be an equal member of the Managing Board together with Thorsten Schmidt.

Mr Borchardt has been employed by the NORD/LB Group since 1990 and has had management positions in various market and back office divisions. Mr Borchardt had been a member of the Managing Board at the Braunschweigische Landessparkasse in Braunschweig since 2014.

Mr Borchardt was appointed to the Managing Board at NORD/LB CBB subject to the approval by the Luxembourg financial market regulator, the CSSF. This consent is still pending. Until this is obtained, Mr Borchardt will work as an authorised representative.

(68) Auditor fee

	2016 (in € thousand)	2015 (in € thousand)
Auditor fee for:		
Auditing	329	302
Other certification services	184	215
Tax consulting	48	91
Other services	120	445

No fees other than those listed in the table were paid to the auditor. The amounts quoted do not include statutory value-added tax.

(69) Deposit protection and resolution/ guarantee funds

The law on the measures for the wind-up, restructuring and resolution of financial institutions and securities companies and in relation to the deposit protection and investor compensation systems (“the Law”) was adopted on 18 December 2015. It was used to transpose into Luxembourg law the EU Directive 2014/59/EU for stipulating a framework for the restructuring and resolution of financial institutions and securities companies as well as the EU Directive 2014/49/EU in relation to deposit protection systems and investor compensation systems.

The previous deposit protection and investor compensation system in Luxembourg in the form of the AGDL, in which the Bank was already involved, was replaced with a new contribution-based system of deposit protection and investor compensation. The new system protects deposits from the same depositor up to an amount of € 100,000 and investment transactions up to an amount of € 20,000. The Law also stipulates that deposits which result from specific transactions or which serve specific social or other purposes will be covered for a period of 12 months above the amount of € 100,000.

Article 1 Number 36 of the Law stipulates that the target amount of financial funds to be held in the new Luxembourg bank resolution fund (Fonds de résolution Luxembourg (FRL)) must reach at least 1 per cent of the guaranteed deposits of all financial institutions in all participating member states by the beginning of 2024. This amount is levied from the financial institutions through annual contributions in the financial years from 2015 to 2024.

The target amount of financial funds to be held in the new Luxembourg deposit protection fund (Fonds de garantie des dépôts Luxembourg (FGDL)) is stipulated at 0.8 per cent of the guaranteed deposits, as defined in Article 163 Number 8 of the Law, of the relevant financial institutions. This target amount must be achieved by the end of 2018. The contributions are to be paid annually between 2016 and 2018. After reaching the 0.8 per cent threshold the Luxembourg financial institutions will then make additional contributions over the next eight years to form an additional safety buffer amounting to 0.8 per cent of the guaranteed deposits as defined in Article 163 Number 8 of the Law.

(70) Geographical distribution in the cover pool

As a rule, the Luxembourg covered bond legislation allows the coverage of loans and advances from countries which belong to the OECD, the European Union or the EEA, or countries with a (very) good rating from approved rating agencies.

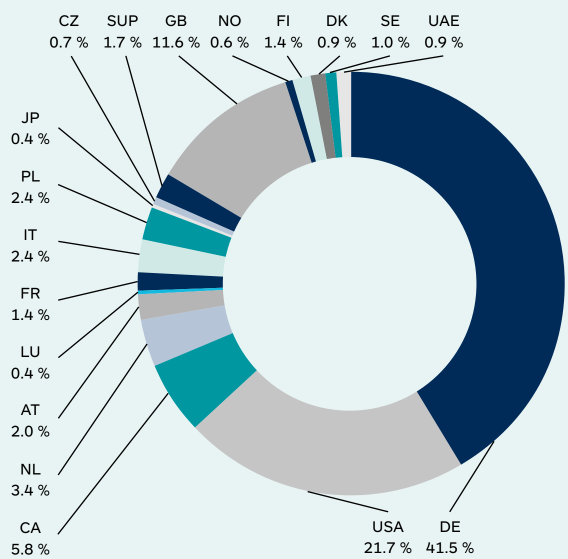
The Bank has no risk positions in its cover pool in Estonia, Latvia, Lithuania, Iceland, Mexico or Turkey. Due to the persistently difficult economic situation, the Bank is not planning any new commitments in these countries either.

The Bank will also not conduct any (new) business in Eastern Europe, Ireland or the USA for the time being. The continuation of investments in these countries will be dependent on the further development of the economic situation of the individual national economies.

The cover pool of NORD/LB CBB is diversified geographically over 17 (previous year: 17) different OECD countries and two international organisations:

As of the reporting date 31 December 2016:

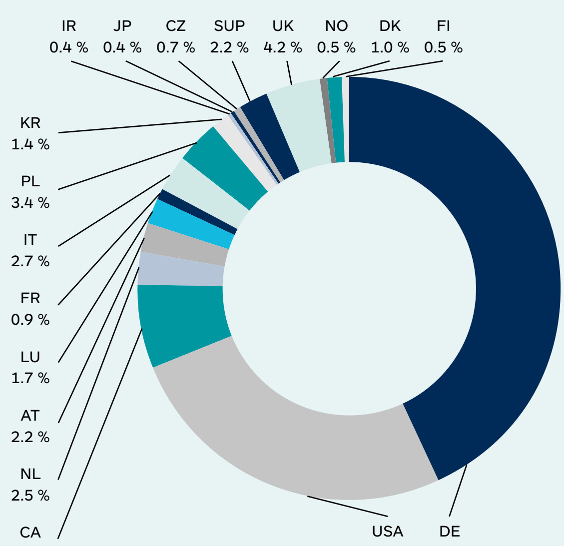
Geographical distribution



Region	in %
Europe	71.3
North	27.5
Asia	1.2
Others	0.0

As of the reporting date 31 December 2015:

Geographical distribution



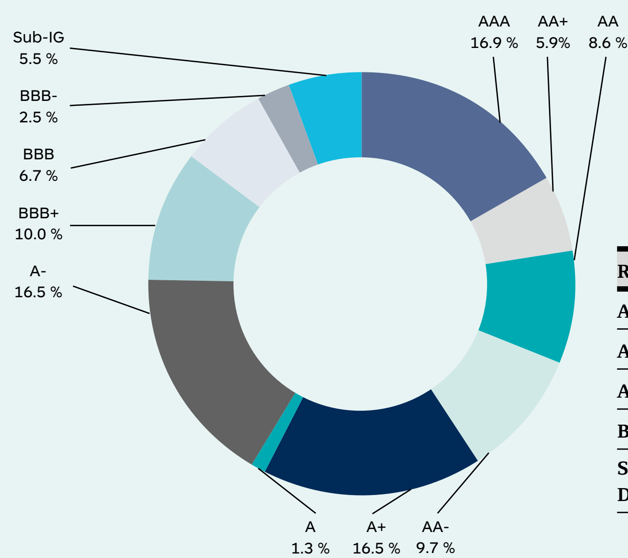
Region	in %
Europe	66.1
North	32.2
Asia	1.8
Others	0.0

(71) Credit rating structure of the cover pool

The credit rating structure of the cover pool is as follows:

As of the reporting date 31 December 2016:

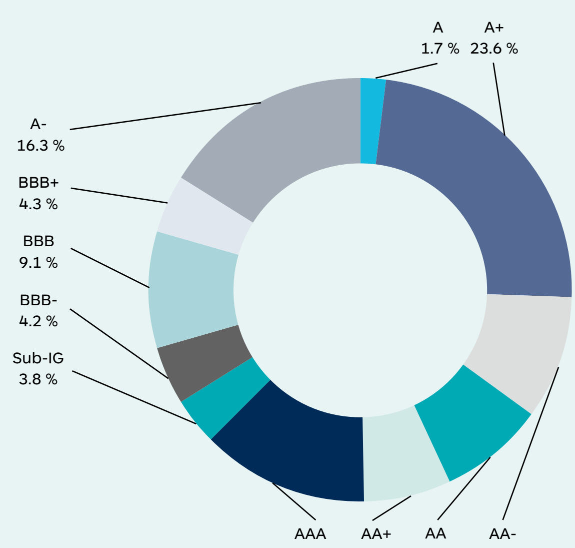
Credit rating structure



Rating	in %	in %	in %
AAA	16.9	75.3	41.1
AA	24.2		
A	34.2		
BBB	19.2		
Sub-IG Division	5.5		

As of the reporting date 31 December 2015:

Credit rating structure



Rating	in %	in %	in %
AAA	12.7	78.6	37.0
AA	24.3		
A	41.7		
BBB	17.6		
Sub-IG Division	3.8		

(72) Cover ratio

The cover ratio is presented in the cover calculation as follows:

Cover calculation	Cover holdings (€ million)		Issues * (€ million)		Shortfall (-) / over-collaterali-sation (+) (€ million)	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total	4,523.7	4,017.1	3,649.0	3,197.2	874.7	819.9

*) Nominal amount of the covered issues in circulation including own holdings.

(73) Number of employees

The average number of employees in NORD/LB CBB during the reporting period is as follows:

	Male 2016	Male 2015	Female 2016	Female 2015	Total 2016	Total 2015
	126,2	122,4	60,5	59,7	186,7	182,1

The employees and Managing Board of NORD/LB CBB are allocated to the following functions:

Group	2016	2015
Managing Board	1.8	2.0
Management employees	8.0	9.0
Employees	176.9	172.1
Total	**186.7**	**182.1**

Related companies and persons

(74) Relationships to related companies and persons (related parties)

NORD/LB (parent company of NORD/LB CBB) and companies in accordance with IAS 24.9 (b) are classified as related legal entities.

Natural persons who are considered to be related parties in accordance with IAS 24 are members of the Managing Board and Supervisory Board of NORD/LB CBB, the members of the NORD/LB Managing Board as the Group parent company, and close family members.

Transactions and collateral agreements are completed with related companies and persons at normal market terms and conditions in the ordinary course of business. These transactions are subject to monitoring by the Bank in line with market conditions.

Information on the volume of transactions with related companies and persons in 2015 and 2016 can be found in the following schedules. Changes in the group of related companies and persons lead, when necessary, to restatements of the previous year's figures:

As at 31 December 2016:

in € thousand	Shareholders	Persons in key functions	Other related parties
Outstanding loans and advances	31,655	0	0
to banks	31,655	0	0
to customers	0	0	0
Trading derivative assets	354,591	0	0
Other assets	7,619	0	50
Total assets	**393,864**	**0**	**50**
Outstanding liabilities	2,187,127	0	4,384
to banks	2,187,127	0	0
to customers	0	0	4,384
Securitised liabilities	1,465,893	0	46,948
Trading derivative liabilities	816,477	0	2,307
Subordinated capital	61,666	0	0
Other liabilities	10,335	1,840	122
Total liabilities	**4,541,498**	**1,840**	**53,761**
Granted warranties/guarantees	**0**	**7**	**0**
Interest expenses	-157,397	0	-1,512
Interest income	87,683	0	230
Commission expenses	-52,787	0	-2,766
Commission income	4,207	0	463
Profit/loss from derivatives incl. foreign exchange result	99,059	0	1,277
Other income and expenses	-1,776	2,596	1,677
Total earnings contributions	**-21,010**	**2,596**	**-631**

The Bank issued a registered promissory note during the 2012 financial year with a volume of € 400.0 million and sold it to NORD/LB. This promissory note, which extends until 2017, includes a redemption right under which it may be replaced with a subordinate promissory note of the same nominal volume if a stipulated Tier 1 capital ratio is not attained. € 200.0 million was redeemed in advance during the 2014 financial year with the approval of the CSSF. This amount was then replaced by issuing to NORD/LB another refinancing instrument without special rights of the same amount. The remaining € 200.0 million is still held by NORD/LB CBB.

The issue and the pro rata repayment were made at conditions in line with the market.

During financial year 2016, the Bank made an early repurchase of own issues that were in the NORD/LB portfolio. This resulted in an expense of € 3,114 thousand.

Prior to the spin-off of NORD/LB Vermögensmanagement S.A. from the NORD/LB Group at the start of 2017, the company terminated the existing service level agreements with NORD/LB CBB in full with effect on 31 December 2016 and 31 March 2017.

As at 31 December 2015:

in € thousand	Shareholders	Persons in key functions	Other related parties
Outstanding loans and advances	191,130	0	0
to banks	191,130	0	0
to customers	0	0	0
Trading derivative assets	268,863	0	0
Other assets	6,886	0	13
Total assets	**466,880**	**0**	**13**
Outstanding liabilities	2,741,183	0	105,969
to banks	2,741,183	0	100,105
to customers	0	0	5,864
Securitised liabilities	1,304,653	0	46,915
Trading derivative liabilities	310,590	0	3,561
Subordinated capital	114,857	0	0
Other liabilities	1,251	2,723	0
Total liabilities	**4,472,533**	**2,723**	**156,445**
Granted warranties/guarantees	**0**	**7**	**0**
Interest expenses	-164,712	0	-1,521
Interest income	75,884	0	551
Commission expenses	-35,823	0	-2,753
Commission income	4,641	0	37
Profit/loss from derivatives incl. foreign exchange result	-56,520	0	3,102
Other income and expenses	-3,969	2,271	-1,282
Total earnings contributions	**-180,499**	**2,271**	**-1,866**

(75) Members of executive bodies and list of mandates

Members of the Managing Board

Christian Veit, Luxembourg
Chairman of the Managing Board
(until 13 November 2016)

Thorsten Schmidt, Irrel
Member of the Managing Board

Supervisory Board

Thomas S. Bürkle
Member of the Managing Board of Norddeutsche Landesbank Girozentrale (since 1 January 2017 Chairman of the Managing Board), Hanover (Deputy Chairman of the Supervisory Board, from 1 January 2017 Chairman of the Supervisory Board)

Ulrike Brouzi
Member of the Managing Board of Norddeutsche Landesbank Girozentrale, Hanover (from 1 January 2017 Deputy Chair of the Supervisory Board)

Dr. Gunter Dunkel
Chairman of the Managing Board of Norddeutsche Landesbank Girozentrale (until 31 December 2016), Hanover (until 31 December 2016 Member and Chairman of the Supervisory Board)

Walter Kleine
Member of the Managing Board of Seghorn AG, Bremen

Christoph Schulz
Member of the Managing Board of Norddeutsche Landesbank Girozentrale, Hanover (until 31 December 2016 Member of the Supervisory Board)

Mandates

The following mandates were held by the members of the Managing Board of NORD/LB Luxembourg S.A. Covered Bond Bank during the financial year:

Christian Veit
Skandifinanz AG, Zurich,
Member of the Board of Directors
(until 11 March 2016)

Thorsten Schmidt
NORD/LB G-MTN S.A., Luxembourg,
Board of Resolution

(76) Remuneration of and loans to executive bodies

	2016 (in € thousand)	2015 (in € thousand)
Salaries of active board members	**2,596**	**2,458**
Extended Managing Board *	2,521	2,365
Supervisory Board	76	94

*) Relates to the Managing Board and management employees

As at the reporting date on 31 December 2016, the Bank did not have any obligations from pensions to former members of governing bodies or their surviving dependants. Advances, loans and contingent liabilities with respect to the Extended Managing Board amounted to € 7 thousand (previous year: € 7 thousand) as at the reporting date on 31 December 2016 and were unchanged at € 0 thousand with respect to the Supervisory Board.

Responsibility Statement

Responsibility Statement

We confirm to the best of our knowledge and in accordance with the applicable reporting principles that the financial statements provide a true and fair view of the net assets, financial position and financial performance of NORD/LB Luxembourg S.A. Covered Bond Bank, and that the business development and performance, including the business profit, situation and the essential risks and uncertainties of NORD/LB Luxembourg S.A. Covered Bond Bank, are presented in the management report in a way that reflects an accurate picture of the actual circumstances and describes the essential opportunities and risks of the expected development of the Bank.

Luxembourg, 6 March 2017
NORD/LB Luxembourg S.A. Covered Bond Bank

Thorsten Schmidt
Member of the Managing Board
NORD/LB Luxembourg S.A. Covered Bond Bank

Report of the Réviseur d'Entreprise agréé

To the shareholders of

NORD/LB Luxembourg S.A. Covered Bond Bank
7, rue Lou Hemmer
L-1748 Luxembourg-Findel

Report on the financial statements

In accordance with the mandate received from the Managing Board dated 25 April 2016, we have audited the attached financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank, which consist of the balance sheet as at 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the financial year ending on that date, and of the notes, which contain a summary of significant accounting methods and other explanatory information.

Responsibility of the Managing Board for the financial statements

The Managing Board is responsible for the preparation and appropriate overall presentation of the financial statements in accordance with the International Financial Reporting Standards as they are to be applied in the European Union, and for the internal controls that it considers necessary for preparing financial statements that are free from material misstatements irrespective of whether they result from inaccuracies or infringements.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. These standards require that we comply with the applicable professional standards of conduct, and plan and perform the audit in such a way that it is possible to detect with reasonable assurance whether the financial statements are free from material misstatement.

An audit involves conducting audit procedures to obtain evidence about the valuations and information contained in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé and the assessment of the risk that the financial statements contain material misstatements as a result of inaccuracies or infringements. As part of this risk assessment, the Réviseur d'Entreprises agréé takes into account the internal control system established for the preparation and appropriate overall presentation of the financial statements in order to determine the appropriate audit procedures under these conditions, but not to issue an assessment of the efficiency of the internal control system.

An audit also involves evaluating the appropriateness of the accounting policies and methods employed and the justifiability of the estimated accounting values determined by the Managing Board, and making an assessment of the overall presentation of the financial statements.

We are of the opinion that the evidence obtained by us from the audit is sufficient and suitable as the basis for our audit opinion.

Audit opinion

In our opinion, the financial statements provide a true and fair view of the net assets and financial position of NORD/LB Luxembourg S.A. Covered Bond Bank as at 31 December 2016, as well as of the financial performance and cash flows for the financial year ended on that date, in accordance with the International Financial Reporting Standards as they are applied in the European Union.

Other information

The Managing Board is responsible for the other information. The other information includes information contained within the management report and the corporate governance declaration yet does not include the financial statements nor the report from the Réviseur d'Entreprises agréé regarding these financial statements.

Our audit opinion regarding the financial statements does not cover the other information and we do not offer any warranty of any kind with regard to this information.

In connection with our audit of the financial statements, we are also responsible for reading the other information and judging whether any material discrepancies exist between such information and these financial statements or with the insights gained during the audit, or whether the other information seems materially incorrect in its presentation in any other way. If we conclude, based on the work we performed, that the other information contains materially incorrect presentations, we are obligated to report this matter. We do not have anything to report in this regard.

Other

The corporate governance declaration contains all of the information required pursuant to Art. 70bis paragraph (1) of the amended law dated 17 June 1992 governing the annual report and consolidated financial statements of Luxembourg credit institutions.

Report on further statutory and regulatory obligations

The management report is consistent with the financial statements and was prepared in compliance with applicable legal requirements.

The information contained in the corporate governance declaration, which is required pursuant to Article 70bis paragraph (1) letters (c) and (d) of the amended law dated 17 June 1992 governing the annual report and consolidated accounts of Luxembourg credit institutions, is consistent with the financial statements and was prepared in compliance with applicable legal requirements.

Luxembourg, 6 March 2017
KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Harald Thönes

Report of the Supervisory Board

The Managing Board of the Bank informed the Supervisory Board on a regular basis about the business development and the situation of the Bank during the reporting period. The Supervisory Board met four times during the 2016 reporting year.

KPMG Luxembourg, Société coopérative, Luxembourg, audited the financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank and issued an unqualified auditors' opinion. The auditor also attended the meeting of the Supervisory Board on 16 March 2017 to discuss the financial statements and reported on the results of the audit of the financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank.

The Supervisory Board and the presidential committee adopted resolutions on business transactions presented to them and other matters which require a decision by these bodies in accordance with the Articles of Association and the regulations pertaining to these articles. The Supervisory Board also discussed the business and risk strategy of the Bank in detail. The fundamental issues of operating policy and the business divisions were discussed in-depth at numerous meetings. As part of the Bank's white money strategy negotiations were conducted with the Public Prosecutor's Office in Cologne regarding tax payments in relation to discontinued private banking activities. The Supervisory Board monitored these negotiations and approved their outcome. As part of the Bank's white money strategy negotiations were conducted with the Public Prosecutor's Office in Cologne regarding tax payments in relation to discontinued private banking activities. The Supervisory Board monitored these negotiations and approved their outcome.

The Supervisory Board approved the result of the auditor's audit and did not raise any objections following the final outcome of its own review.

The Supervisory Board approved the management report and the financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank as at 31 December 2016 at its meeting on 16 March 2017.

The Supervisory Board would like to thank the Managing Board of the Bank for the trusting cooperation and expresses its appreciation to the Managing Board and all employees of the Bank for the work performed during 2016.

Luxembourg, March 2017

Thomas S. Bürkle
Chairman of the Managing Board
NORD/LB Norddeutsche Landesbank Girozentrale