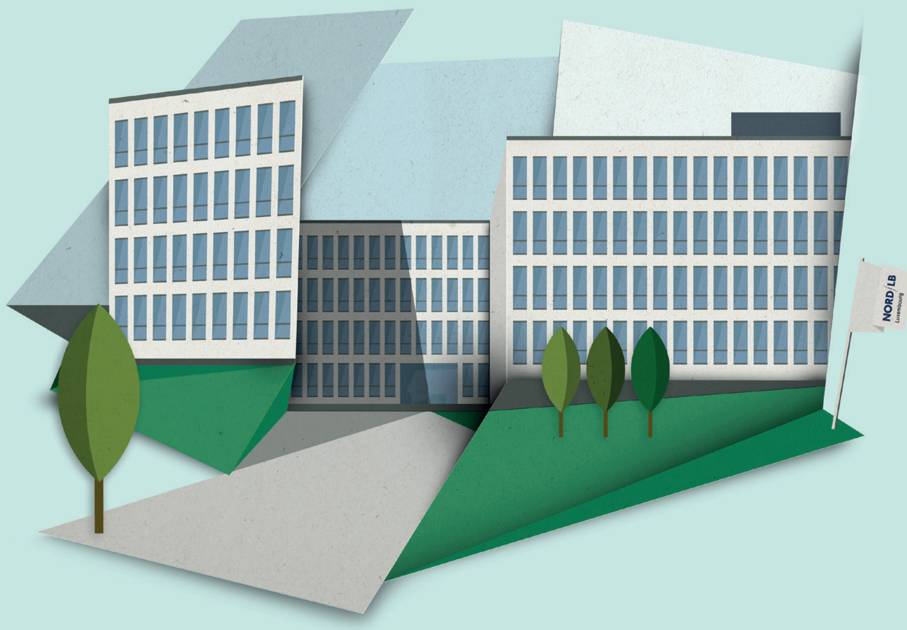
NORD/LB
Covered Bond Bank
Luxembourg



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

Finanzgruppe

Annual Report 2017

The following tables may contain computational rounding differences.

Business performance	31.12.2017 (in € million)	31.12.2016 (in € million)	Change (in € million)	Change (in %)
Loans and advances to banks	796.4	1,240.5	-444.1	-36
Loans and advances to customers	8,632.2	8,242.2	390.0	5
Risk provisioning	-7.6	-23.3	15.8	-68
Financial assets	4,178.2	5,030.8	-852.6	-17
Other assets	1,761.4	1,446.0	315.3	22
Total assets	**15,360.6**	**15,936.2**	**-575.6**	**-4**
Liabilities to banks	6,011.1	6,612.1	-601.0	-9
Liabilities to customers	3,210.7	3,412.8	-202.2	-6
Securitised liabilities	3,750.0	3,221.8	528.2	16
Other liabilities	1,686.0	1,978.1	-292.1	-15
Reported equity	702.8	711.4	-8.6	-1
Total liabilities and equity	**15,360.6**	**15,936.2**	**-575.6**	**-4**

Earnings performance	2017 (€ thousand)	2016 (€ thousand)	Change (€ thousand)	Change (in %)
Net interest income	108,908	90,356	18,551	21
Net commission income	-38,450	-41,249	2,799	-7
Profit/loss from financial assets	18,713	4,927	13,785	> 100
Other profit/loss	-8,440	-3,295	-5,145	> 100
Earnings before costs	**80,730**	**50,740**	**29,990**	**59**
Administrative expenses	-42,756	-36,913	-5,843	16
Profit/loss from valuation changes and risk provisions	2,363	29,143	-26,780	-92
Taxes	-11,013	-11,746	733	-6
Earnings after taxes	**29,324**	**31,224**	**-1,900**	**-6**

Key performance indicators	31.12.2017	31.12.2016	Change (absolute)	Change (in %)
Cost/income ratio in % *	64.8	49.1	15.7	32
RoRaC in % **	11.1	11.0	0.1	1

*) The cost/income ratio (CIR) is the ratio of administrative expenses to the total of net interest income, net commission income, trading profit/loss, valuation result (excluding profit/loss from financial assets) and other operating profit/loss. (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	31.12.2017 (in € million)	31.12.2016 (in € million)	Change (€ million/ %)	Change (in %)
Total risk exposure amount	4,244.4	4,209.7	34.7	1
Tier 1 capital	624.8	625.1	-0.3	0
Own funds	627.3	649.1	-21.8	-3
Common equity tier 1 capital ratio	14.7 %	14.8 %	-0.1 %	-1
Total capital ratio	14.8 %	15.4 %	-0.6 %	-4

Workforce	31.12.2017	31.12.2016	Change (absolute)	Change (in %)
Number of employees	189	186	3	2

Summary of key data

Contents

Loan portfolio

+23 per cent in the cover pool of Lettres de Gages Publiques

Long-term funding

Issues worth € 500 millon with a € 1.5 billion order book

Sales

250 European, institutional customers in 29 countries

Factoring

More than 60 transactions worth about € 2 billion
Programme limit (+9 per cent)

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

The global economy was impacted in 2017 by the inauguration of Donald Trump as the 45th President of the United States of America and the new direction taken in US foreign policy. Terrorist attacks in a number of different cities and countries also led to persistent uncertainties around the globe. International stock markets remained unaffected, however, and instead soared to new record highs. In Europe, preparations for the United Kingdom's exit from the European Union led to tedious negotiations.

The banking environment continues to be characterised by regulatory changes and highly competitive markets. The Pfandbrief market is still the first choice for investors and is in good shape.

NORD/LB Luxembourg S.A. Covered Bond Bank will continue to focus on the Pfandbrief as a "safe haven" for institutional investors. With that in mind, we systematically aligned our activities over the past year to prioritise green bonds and sustainability.

In 2017, we thoroughly examined the further development of our business model, the issue of sustainability and the challenges posed by digitisation. We also actively contribute to the change processes in place within the NORD/LB Group. This holds particularly true with regard to the "NeoFlux" project (innovation and strengthening of Lettres de Gage), the "Helios" project (core bank IT platform for NORD/LB branches) as well as a project aimed at digitising the factoring business.

Despite margin pressure and low interest rates, NORD/LB Luxembourg S.A. Covered Bond Bank continues to be profitable. We consider ourselves to be a manufacturer and provider of high-quality services within the Group, and in 2017 we were once again able to realise many successful and innovative financings for our customers. This success is largely due not only to the knowledge and commitment of our employees, but also the trust placed in us by our customers, investors and colleagues of NORD/LB GZ.

Despite the fact that 2018 will present many challenges for NORD/LB Luxembourg S.A. Covered Bond Bank, including activities to harmonise covered bond legislation at the European level, it holds many opportunities in store for us as well. For instance, Luxembourg will be the first country in the world to set legal standards for green bonds, one of which will include a new class of Pfandbriefe, the Lettre de Gage Renouvable. The global economy will probably grow at a decent rate and Europe's recovery is expected to intensify and spread markedly.

In 2018, our Luxembourg Pfandbriefe will again play a key role for our investors and the Group as a secure form of investment and source of refinancing. The corporate culture and innovative spirit of NORD/LB Luxembourg S.A. Covered Bond Bank as well as our employees' enormous motivation lay a solid foundation for this. Building on that, NORD/LB Luxembourg S.A. Covered Bond Bank will continue to play a formative role in the Pfandbrief business and a supportive role in the Group's transformation. We will emerge from this fundamental transformation stronger than ever before.

Thorsten Schmidt

Manfred Borchardt

Vorstand

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 NORD/LB 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, both of which are predecessor institutions of NORD/LB Luxembourg S.A. Covered Bond Bank, which he has been leading since 2015 as a member of the Managing Board. He has led the Bank together with Mr Borchardt since 2017.

Manfred Borchardt
Member of the Managing Board

Born in 1961
Member of the Managing Board of NORD/LB Luxembourg S.A. Covered Bond Bank since 2017. Current term ends 31 December 2019.

After receiving his university-entrance diploma (Abitur) in 1980, Mr Borchardt began training at the Bank für Gemeinwirtschaft AG in Lübeck. He has worked for NORD/LB Norddeutsche Landesbank Girozentrale since 1990.

In 2003, he was made Head of the Restructuring Department at Braunschweigische Landessparkasse (BLSK). From there, he took up the position of Managing Director of Kredit-Services Nord GmbH in 2007 and in 2009 became head of the newly created BLSK Process Management Division at BLSK. In 2015, Mr Borchardt became a Member of the Managing Board of BLSK and Head of the BLSK Corporate Customers and Process Management Division.

In 2017, he was appointed to the Managing Board of NORD/LB Luxembourg S.A. Covered Bond Bank, where he spearheads the business of the Bank together with Mr Schmidt.

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, Bremen, 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. (in liquidation), 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 produce and maintain the functionality of buildings and facilities, including their infrastructures (facility management). Galimondo S.à r.l. has been in liquidation since 30 November 2017. Due to its minor importance, Galimondo S.à r.l. (in liquidation) is not included in the consolidated financial statements of the Bank, and the Bank can refrain from preparing such financial statements as a result.

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 environment

Global economic momentum accelerated in 2017. At 2.3 per cent, economic growth in the USA was much higher than in the previous year. After adjustments for inflation and seasonal factors, gross domestic product (GDP) expanded again substantially in the fourth quarter, rising by 2.6 per cent on an annualised basis.

In the eurozone, the economic upswing strengthened and broadened over the course of the year. Real gross domestic product expanded by 2.5 per cent in the single-currency area in 2017, the strongest figure in ten years. As a result of the good economic development, unemployment fell to 8.7 per cent by year-end. Despite normalising to an annual average of 1.5 per cent, inflation remained below the ECB's target of just under 2.0 per cent p.a. for the fifth year in a row.

Germany turned in a similarly strong economic performance as the eurozone. Real gross domestic product increased by 2.2 per cent for the year as a whole, with a growth rate of 2.5 per cent on a calendar-adjusted basis. Economic growth was thus well above its potential last year. However, this has not yet resulted in excessive inflationary pressure, with inflation rising over the last year to 1.8 per cent as expected. The most important driver of growth remained domestic demand. In addition, exports benefited from the quickening pace of global growth. Employment growth accelerated again, with the number of people in the labour market rising by 1.5 per cent to a seasonally adjusted 44.6 million people at the end of 2017.

The rising pace of the global upturn was also seen on the capital markets. Germany's DAX equity index briefly climbed over the 13,500 mark at the beginning of November, and then again a good two months later, reaching an all-time high. This performance was bolstered by the very accommodative monetary policy of major central banks. However, the Federal Reserve raised interest rates another 25 basis points three times in 2017, and it also began to gradually reduce its balance sheet. In the eurozone, the European Central Bank (ECB) maintained its very expansive monetary policy. At the start of the year, however, the ECB also took its foot off the gas and reduced its net bond purchases by half, to € 30 billion/month, under its expanded asset purchase programme (EAPP). Net purchases will continue through at least September 2018. In addition, maturing bonds in the programme will be reinvested well beyond this date. Key rates remained at historic lows, and the forward guidance was also adjusted only marginally in the past year. The decisions by the ECB continue to be characterised by a very cautious approach aimed at avoiding excessive market reactions. European bond yields trended slightly upward in 2017. The yield on 10-year German Bunds reached a yearly high of 0.60 per cent in July. It rose again sharply at the start of 2018, as did interest rates in the USA. In addition to expectations of higher interest rates in the medium term, the markets appear to have priced in the changed inflation outlook. By contrast, EUR money market rates have remained almost unchanged in negative territory. The US dollar no longer benefited due to the increased tightening of US monetary policy. In fact, the very good economic situation in the eurozone boosted the EUR-USD exchange rate to around USD 1.20 per EUR during the summer and at the end of the year. This upward trend continued after the start of the new year. After contracting towards the end of the first quarter of 2017, EUR/USD basis swap spreads remained more or less unchanged until the end of the year, within a range of -35 basis points across all maturities.

Report on expected developments

General economic development

Global economic outlook

The global economic upswing is expected to accelerate slightly again this year. Economic growth in the USA is up slightly over the previous year, in part due to the tax reform. The real gross domestic product is expected to rise by 2.5 per cent for the year as a whole. The strong economic upswing in the eurozone is set to continue in the next few quarters. Unemployment will continue to drop accordingly, while the inflation rate in the single-currency area will probably linger around 1.5 per cent p.a., both this year and next, and thus lower than the European Central Bank's (ECB) target.

Economic forecast for Germany and the eurozone

Germany's strong economic upswing has continued into the current year. Following high GDP growth in the first half of 2017 and similarly high growth in the second half of the year, 2018 seems to have started well, with growth rates above their potential trajectory. The trend in industrial output is likely to remain clearly upward in view of strong growth in incoming orders. Sentiment among German companies has also remained euphoric until now. The ifo business climate index recently climbed to a record high of 117.6. With capacity utilisation high throughout all areas of the economy, investments will continue to enjoy strong growth. The wage agreement in the metal and electrical industries promises hefty pay rises both this year and in the year to come. That, together with the sustained high level of consumer confidence and the highly positive trend on the labour market, will continue to be a major cornerstone of growth in private consumption. According to its economic forecast, NORD/LB expects growth of 2.6 per cent this year.

The overall economic outlook for the eurozone remains excellent. The results of survey-based sentiment indicators have been quite positive so far and hint that the vigorous upswing will continue, particularly since the economic situation in France and Italy as well as other economic prospects have stabilised. Unemployment will continue to decline in 2018. For the year as a whole, NORD/LB anticipates real economic growth of 2.5 per cent year on year, followed by around 2 per cent next year. Monetary policy will remain highly accommodative for the time being, making for a favourable monetary environment. Downside risks for the forecast mainly comprise geopolitical conflicts, the negotiations on the United Kingdom's exit from the European Union (Brexit) and the Italian elections due in spring 2018. Ongoing financial market turbulence and an overly sharp increase in the value of the euro could also put a damper on the upswing.

Financial market performance and interest rate forecasts

The US Federal Reserve will continue to moderately increase its key rates this year and gradually scale back its balance sheet. By contrast, the ECB will continue its highly expansionary monetary policy and is expected to cease net bond purchases under the EAPP only at the end of 2018. If economic figures remain encouraging, an initial key rate hike will likely be made by mid-2019, although initially it will apply only to the deposit rate. Bond yields will probably rise in this environment. The yield on ten-year German Bunds should rise to 1.2 per cent p.a. by early 2019. As regards the USD exchange rate, NORD/LB forecasts a rate of USD 1.18 per EUR based on a twelve-month horizon. In the short to medium term, NORD/LB expects the EUR/USD basis swap spreads to linger at a level of around -35 basis points (bp). Econometric forecasting models indicate that the yield curve should remain flat.

Covered bond markets and Lettres de Gage Publiques

The year 2017 was characterised by more maturing bonds than new issues, with € 105 billion in covered bonds issued compared to maturities of € 122 billion. The reduced bond issue volume was attributable to both participation in the ECB's TLTRO-II programme (Targeted Longer-Term Refinancing Operations) in late March 2017 and a focus by issuers on senior, senior-preferred and subordinated bonds. Low yields were surely another factor contributing to the low issue volume since positive yields could be earned only with maturities at the longer end of the range. Around 40 per cent of the issues, for instance, had maturities of between seven and ten years. The trend that began in 2015 toward long issues (> 10 years) also continued in 2017. Accounting for 33 per cent (2015: 18 per cent) of the entire issue volume, the maturity band > ten years was the second most popular maturity segment used by issuers to secure cheap, long-term funding.

Covered bonds are still extremely important refinancing instruments for France and Germany. Broken down by country, those jurisdictions accounted for 38 per cent of the issue volume in 2017, while Scandinavian issuers came in third at 21.7 per cent. The trend hinted at during the first six months continued in the second half of the year. Issuers from Spain and Italy contributed just 8 per cent of the issue volume, whereby in Spain this was mainly attributable to the TLTRO-II programme and new refinancing instruments (Tier-3 bonds).

Both the contracting covered bonds market and the ECB's bond buying programme led to a narrowing of the secondary market spreads. In the seven to ten-year maturity band, for example, the asset swap spreads of German issuers have narrowed by up to 15 bp. While the 4.5-year benchmark issue by Nord/LB CBB was not entirely able to follow the German issuers' trend, a narrowing of nearly 11 bp still represented extremely good performance on a secondary market, particularly in light of the fact that NORD/LB CBB is still Luxembourg's only active issuer.

Development of the business segments

Financial Markets & Sales

The core activities of Financial Markets & Sales at NORD/LB CBB are funding, bank management and sales, with a particular focus on expanding sales.

Long Term Funding

Long-Term Funding encompasses the management of the cover pool of NORD/LB CBB, the issuing of Pfandbriefe and the long-term uncovered raising of liquidity on behalf of NORD/LB CBB. For its issues in this area, NORD/LB CBB uses both an EMTN programme and standardised individual documentation such as registered Pfandbriefe 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 covered bond 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, they expand the investor base.

Long-Term Funding is the point of contact for the ratings agencies in the context of methodology discussions and changes.

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

ALM/Treasury

ALM/Treasury, a 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 securities portfolio administration, funds transfer pricing and balance sheet structure management.

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-wide coordination processes. ALM/Treasury can tap broadly diversified refinancing sources and has a high degree of flexibility in currencies and maturities, thus making a complementary contribution to the refinancing of the NORD/LB Group, such as through the growth of the network in Switzerland, including access to open market transactions of the Swiss National Bank (the SNB).

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

In the context of balance sheet management, ALM/Treasury supports the strategic approach and further development of NORD/LB CBB, in consideration of internal limitations and regulatory requirements. In this regard, ALM/Treasury is responsible for duties such as long-term compliance and cost-optimised monitoring of regulatory indicators (such as the liquidity coverage ratio).

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 sold 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 areas to meet customer demand for alternative investments.

When doing so, the Group does not take on proprietary risks.

Performance in Financial Markets & Sales

General economic conditions continued to recover in the first half of 2017. The Fed is continuing its approach of slowly but surely tightening monetary policy. With the ECB still pursuing its zero interest rate policy, yield curves languished at an extremely flat level, weighing on earnings once again. Nevertheless, the transformation result is a dominant component in the profit margin of the business segment.

Financial Markets & Sales met the challenges through active interest management. This also produced good results in respect of the securities portfolios used for liquidity management.

Fixed Income/Structured Products Sales Europe again significantly boosted its business activities, both in the primary and secondary markets.

NORD/LB CBB successfully issued a benchmark bond in 2017 as well. This is the fourth issue since the Bank's realignment in 2015. An order book of approximately € 1.5 billion was generated for the issue in February without having to rely on the ECB's repurchase programme. This demand highlights investors' enormous interest in Lettres de Gage, particularly in light of the pick-up compared to other European jurisdictions. In addition to the benchmark issue, NORD/LB CBB placed another approximately € 240 million with investors using both registered securities and bearer securities.

As at 31 December 2017, the nominal over-collateralisation was 24.1 per cent and the present value was 27.7 per cent. As a result, the statutory (2 per cent) and voluntary (22 per cent self-obligation) requirements were comfortably met. The origin of cover assets reflects the successful implementation of the business strategy, with 76.6 per cent coming from Europe (40 per cent from Germany).

Loans

The allied lending business with other Group units is the core business of NORD/LB CBB. NORD/LB CBB offers the NORD/LB Group unique added value, particularly with respect to its financing of credit transactions that qualify for the Lettre de Gage Publique.

In terms of products, the Bank focuses in its allied lending business on variable-interest loans and fixed-rate loans in different currencies. In addition to financing bilateral credit lines, the Bank also acts as a facility agent in more complex consortium financing arrangements. The personnel and technical infrastructure of NORD/LB CBB is systematically geared towards these loan types and services.

Factoring and export financing

Alongside traditional lending business, the Bank specialises in factoring (individual and pool acquisitions). The factoring business of

NORD/LB is a tailored solution for the respective customers involved. Within the NORD/LB Group, this business is mainly handled by NORD/LB CBB. This line of business represents an important and strategically significant growth area of NORD/LB AöR and NORD/LBB CBB, and is operated in close cooperation with the Group.

Performance in Loans

The allied lending business is focused on collaborating with partners from NORD/LB's Corporate Customers, Structured Finance and Aircraft Finance departments. New business trends were encouraging again, leading to an increase in the lending portfolio with these areas.

The Bank's core activities are comprised of the PPP business (public private partnership) and the lending business with publicly owned companies. These loans serve as a cover pool for issuing Lettres de Gage Publiques. Covered refinancing enabled the Bank to expand its market share despite high competitive pressure.

The upward trend in allied lending business volume is also reflected in a stable contribution to interest terms, despite sustained pressure on margins in the loan segment.

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 additional income without RWA linkage, thus further diversifying the earnings risk. In accordance with the Bank's business strategy, the activities focus on customers within the Group.

Outlook

The new financial year began with positive, regionally broad-based economic data. Last year's upward trend is therefore continuing. The global economy is likely to continue its strong growth trajectory in 2018 since both industrial and emerging markets are benefiting from a synchronous upswing. Corporate investments will probably have a larger impact on growth than in the past. While a pick-up in inflation is unlikely, the central banks will reduce liquidity and raise interest rates in response to stronger growth.

NORD/LB launched the Group-wide One Bank transformation programme in the first quarter of 2017. This programme involves a seamless business model which will focus more closely than before on the Group's core business segments. In this context, the aim is to qualitatively expand the Corporate and Private Customers, Markets and Project Financing business segments. By stabilising and strengthening its earnings level, the Bank lays a foundation for a solid capital base. Boosting cost efficiency by simplifying the Group's structures and streamlining the operating model is another area of focus.

As a wholly owned subsidiary of NORD/LB, NORD/LB CBB is also part of this transformation programme and contributes to transformation efforts with its RefiCo project (Refinancing Competence Center). Based on the requirements set forth by the Supervisory Board on 15 June 2017, NORD/LB CBB examined its business model for further optimisation potential and developed packages of measures which, when taken together, will sustainably reduce administrative expenses to around € 32 million by 2019. This will also involve an approximately 25 per cent reduction in staff based on the 31 December 2017 headcount. 2018 will be characterised by expenses incurred to implement these measures; increased efficiency is expected to have an impact on the income statement from financial year 2019 onward.

The streamlined business model of NORD/LB CBB will continue to focus on refinancing credit transactions that qualify for the Lettre de Gage. Factoring, as a product of excellence in the Corporate Customer segment of NORD/LB, will also continue to be serviced by NORD/LB CBB. Support for this segment's further expansion will come through initiatives to digitalise administrative processes related to receivables portfolios and customer interaction. The processes used to present transactions outside the previously mentioned portfolio which are not eligible for the cover pool are being examined in terms of their potential for centralisation in NORD/LB.

Financial Markets continues to provide refinancing services by offering covered refinancing through the issue of both private placements and asset portfolios in benchmark size with a strong focus on active cover pool management. The sales mandate for European institutional customers of the NORD/LB Group will also be maintained. Process simplifications and, as appropriate, closer cooperation with the Group on individual matters related to the activities of Financial Markets, will also have an impact on the capacity of the trading area and near-market areas.

In future, the Client Services & B2B Division will prioritise the servicing of Group-internal customers and will grow into its role as a Group-internal service provider that systematically focuses on the interests of the Group.

Further, the measures being implemented within the scope of the RefiCo project will impact the back-office and staff functions. Here, strict streamlining of the structural and process organisation will lead to a reduction in headcount. Additionally, cooperation with the Group will be examined for synergy potential.

The Managing Board drafted a restructuring plan in 2017 as a foundation for implementing and realising the cost-cutting and optimisation measures described; the staff were also notified of the decisions and scope of the measures, and appropriate discussions were conducted with employee representatives. This also included the conclusion of a works agreement intended to balance the interests of the employees affected. A reorganisation provision was established in financial year 2017 to cover the financial expense associated with planned restructuring measures or measures that have already been initiated.

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

As at 31 December 2017, NORD/LB CBB's ratings were as follows:

	FITCH RATINGS	MOODY'S
NORD/LB Luxembourg Covered Bond Bank		
Long-term / Outlook / Short-term	A- / negative / F1	Baa3 / negative / P-2
Lettres de Gage Publiques / Outlook	Aa3 / stable	Aa1

In addition to the existing FitchRatings (Fitch), NORD/LB Luxembourg S.A. Covered Bond Bank also received an issuer and covered bond rating from Moody's Investors Service (Moody's) at the beginning of 2017. Moreover, the Bank has decided to return the ratings from Standard & Poor's.

In January 2017, NORD/LB CBB received ratings from Moody's for the first time: on 2 January 2017 an issuer rating (long-term / outlook / short-term: "Baa1 / negative / P-2"), and on 3 January 2017 a covered bond rating ("Aa1") for its Lettres de Gage Publiques. On 18 April 2017, the long-term issuer rating was downgraded from "Baa1" to "Baa2" with the outlook set at "review for downgrade". As a result of the downgrade, the Lettres de Gage Publiques rating was put on review for a downgrade on 19 April 2017. On 30 June 2017, the long-term issuer rating was downgraded from "Baa2" to "Baa3" with a negative outlook. This development, which impacted the Pfandbrief rating, prompted Moody's on 11 August 2017 to cut the rating awarded to Luxembourg's Lettres de Gage Publiques under its Pfandbrief methodology from "Aa1" to "Aa3". The short-term issuer rating remains unchanged at "P-2".

On 8 February 2017, FitchRatings confirmed the rating for the Lettres de Gage Publiques at "AAA" with a stable outlook. On 28 March 2017, FitchRatings confirmed the long-term issuer default rating (IDR) at "A-". The outlook was changed from "stable" to "negative". The short-term issuer default rating was confirmed at "F1".

The quality of the loan portfolio and the cover assets contained in the cover pool remains high and is reflected in the extremely good ratings from FitchRatings (Fitch) and Moody's Investors Service (Moody's).

Earnings

The financial statements of NORD/LB CBB dated 31 December 2017 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 reporting years 2017 and 2016:

	2017 (€ thousand)	2016 (€ thousand)	Change * (€ thousand)
Net interest income	108,908	90,356	18,551
Loan loss provisions	-1,566	-181	-1,385
Net commission income	-38,450	-41,249	2,799
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	3,928	29,323	-25,395
Other operating profit/loss	-8,440	-3,295	-5,145
Administrative expenses	-42,756	-36,913	-5,843
Profit/loss from financial assets	18,713	4,927	13,785
Earnings before income taxes	**40,337**	**42,970**	**-2,633**
Income taxes	-11,013	-11,746	733
Net profit or loss	**29,324**	**31,224**	**-1,900**

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

The breakdown of earnings components is as follows:

Net interest income

	2017 (in € thousand)	2016 (in € thousand)	Change * (in € thousand)
Interest income	460,021	522,227	-62,206
Interest expenses	-357,026	-430,753	73,727
Interest rate anomalies	5,912	-1,119	7,031
Net interest income	**108,908**	**90,356**	**18,551**

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

Net interest income rose by € 18,551 thousand on the previous year to € 108,908 thousand.

Net interest income from fixed-interest securities and book-entry securities fell in the reporting period (€ 109,968 thousand; previous year: € 138,800 thousand). This was mainly due to the decrease in the volume of securities in the Bank's portfolio and persistently low interest rates. Net interest income from lending business and money market transactions – before taking interest anomalies into consideration – also declined (€ 68,424 thousand; previous year: € 79,949 thousand), however the volumes of loans and advances to non-banks remained largely constant.

The increase in net interest income was primarily a result of the decline in interest expenses from derivatives, from € -266,481 thousand to € -196,411 thousand, which was offset by a € 20,174 thousand decrease in interest income from derivatives.

Furthermore, interest rate anomalies resulted in negative interest totalling € 5,912 thousand (previous year: € -1,119 thousand) in financial year 2017.

Loan loss provisions

Changes in **loan loss provisions** resulted in expenses of € 1,566 thousand in the financial year (previous year: expenses of € 181 thousand). The adverse effect was mainly due to the net position from the reversal of and allocation to specific valuation allowances (€ -2,270 thousand; previous year: € 292 thousand). This was primarily a result of the allocation to a specific valuation allowance for a counterparty from the service sector (€ 2,611 thousand).

Net commission income

	2017 (in € thousand)	2016 (in € thousand)	Change * (in € thousand))
Commission income	15,544	18,045	-2,500
Commission expenses	-53,994	-59,293	5,299
Net commission income	**-38,450**	**-41,249**	**2,799**

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

Net commission income rose year on year by € 2,799 thousand to € -38,450 thousand.

Commission income was generated principally in lending and guarantee business (€ 8,497 thousand; previous year: € 11,323 thousand) and the securities transactions and custody service business (€ 6,496 thousand; previous year: € 5,801 thousand). Other commission income (€ 551 thousand; previous year: € 921 thousand) arose mainly from account management and services.

Commission expenses are mainly attributable to profit-sharing (settlement price model) from business in partnership with other Group units (€ -37,965 thousand; previous year: € -34,218 thousand) and from lending and guarantee business (€ -12,625 thousand; previous year: € -21,174 thousand), also taking into account the costs to cover loan risks. In addition, commission expenses also arise primarily from security transactions and custody service business (€ -1,044 thousand; previous year: € -961 thousand).

The reason for the increase in net commission income is an overall improvement in the result from the lending and guarantee business (€ -4,127 thousand; previous year: € -9,851 thousand).

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

	2017 (€ thousand)	2016 (€ thousand)	Change * (€ thousand)
Trading profit/loss	5,262	2,377	2,886
Profit/loss from the initial recognition of financial instruments at fair value through profit or loss	212	22,935	-22,723
Profit/loss from hedge accounting	-1,546	4,011	-5,557
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	**3,928**	**29,323**	**-25,395**

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

Profit/loss from financial instruments at fair value through profit or loss (€ 3,928 thousand; previous year: € 29,323 thousand) shows the trading profit/loss proper and the profit/loss from financial instruments voluntarily designated under the fair value option. While the change in the **trading profit/loss** (€ 5,262 thousand; previous year: € 2,377 thousand) was positive, **profit/loss from the use of the fair value option** declined considerably (€ 212 thousand; previous year: € 22,935 thousand). The changes in the **profit/loss from hedge accounting** (€ -1,546 thousand; previous year: € 4,011 thousand) are the result of market interest changes as well as OIS and CVA/DVA effects.

Other operating profit/loss

	2017 (€ thousand)	2016 (€ thousand)	Change * (€ thousand)
Other operating income	2,453	4,306	-1,853
Other operating expenses	-10,893	-7,601	-3,292
Other operating profit/loss	**-8,440**	**-3,295**	**-5,145**

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

Other operating profit/loss fell by € -5,145 thousand to € -8,440 thousand.

Other operating income results predominantly from the reversal of a provision created in the previous year (€ 1,000 thousand; previous year: € 0 thousand), rental income (€ 880 thousand; previous year: € 855 thousand), income from service charging for a major Group project (€ 500 thousand; previous year: € 798 thousand) and income for service charging with Nordlux Vermögensmanagement S.A. (€ 30 thousand; previous year: € 1,101 thousand).

Other operating expenses include primarily levies in relation to the bank resolution fund (Fonds de résolution Luxembourg (FRL)) and the Luxembourg deposit guarantee fund (Fonds de garantie des dépôts Luxembourg (FGDL)) (€ 4,103 thousand; previous year: € 2,148 thousand), impairment losses on internally-used software (€ 3,463 thousand; previous year € 2,217 thousand), expenses for service charging with the Group (€ 3,172 thousand; previous year: € 3,021 thousand) and expenses from the utilisation of a guarantee (€ 91 thousand; previous year: € 0).

Administrative expenses

	2017 (€ thousand)	2016 (€ thousand)	Change * (€ thousand)
Staff expenses	**-22,948**	**-21,567**	**-1,381**
Wages and salaries	-19,453	-18,415	-1,038
Other staff expenses	-3,495	-3,152	-343
Other administrative expenses	**-16,044**	**-12,430**	**-3,614**
Depreciation and valuation allowances	**-3,764**	**-2,915**	**-848**
Administrative expenses	**-42,756**	**-36,913**	**-5,843**

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

Administrative expenses were € 5,843 thousand higher than in the previous year. This is attributable to a significant increase in depreciation and valuation allowances (€ -3,764 thousand; previous year: € -2,915 thousand) and an increase in other administrative expenses (€ -16,044 thousand; previous year: € -12,430 thousand), which were driven not only by higher costs for legal, auditing, appraisal and consulting services (€ -3,822 thousand; previous year: € -2,139 thousand) but especially by expenses for operating and office equipment including IT (€ -10,385 thousand; previous year: € -8,408 thousand).

Profit/loss from financial assets

	2017 (€ thousand)	2016 (€ thousand)	Change * (€ thousand)
Profit/loss from financial assets classified as LaR/OL including portfolio valuation allowances	18,973	-906	19,879
Profit/loss from financial assets classified as AfS (without investments)	-260	5,833	-6,094
Profit/loss from affiliated companies	0	0	0
Profit/loss from financial assets	**18,713**	**4,927**	**13,785**

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

Profit/loss from financial assets is composed of profit/loss from financial assets classified as loans and receivables (LaR) and other liabilities (OL) (€ 18,973 thousand; previous year: € -906 thousand) and profit/loss from financial assets classified as AfS (€ -260 thousand; previous year: € 5,833 thousand).

The increase in profit/loss from financial assets was mainly attributable to the change in estimation methods applied in connection with the foreign currency component of the hedge fair value of underlying transactions hedged against foreign currency risks (€ +16.5 million). This change was made when preparing for IFRS 9.

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

Income taxes

	2017 (€ thousand)	2016 (€ thousand)	Change * (€ thousand)
Current taxes	-15,976	-12,138	-3,838
Deferred taxes	4,963	392	4,571
Income taxes	**-11,013**	**-11,746**	**733**

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

Current taxes are calculated based on the tax rate applicable for the financial year.

Net assets and financial position

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (€ million)
Loans and advances to banks	796.4	1,240.5	-444.1
Loans and advances to customers	8,632.2	8,242.2	390.0
Risk provisioning	-7.6	-23.3	15.8
Financial assets at fair value through profit or loss	1,001.3	973.2	28.2
Financial assets	4,178.2	5,030.8	-852.6
Other assets	760.0	472.9	287.2
Total assets	**15,360.6**	**15,936.2**	**-575.6**
Liabilities to banks	6,011.1	6,612.1	-601.0
Liabilities to customers	3,210.7	3,412.8	-202.2
Securitised liabilities	3,750.0	3,221.8	528.2
Financial liabilities at fair value through profit or loss	1,118.2	1,149.2	-30.9
Provisions	13.9	21.6	-7.7
Other liabilities	553.9	807.4	-253.4
Reported equity	702.8	711.4	-8.6
Total liabilities and equity	**15,360.6**	**15,936.2**	**-575.6**

Total assets decreased from the previous year's figure of € 15,936.2 million by € 575.6 million, down to € 15,360.6 million.

Loans and advances to banks mainly includes money market transactions (€ 444.7 million; previous year: € 840.0 million), receivables from repo transactions (€ 228.2 million; previous year: € 170.0 million) and promissory notes (€ 123.5 million; previous year: € 230.5 million).

In line with the Bank's strategy, **loans and advances to customers** largely consist of loan receivables in the amount of € 8,369.4 million (previous year: € 7,710.1 million). In addition to this, there are also receivables from reverse repo transactions (€ 222.2 million; previous year: € 465.4 million), receivables from promissory notes (€ 30.4 million; previous year: € 61.3 million), and loans and advances resulting from money market transactions (€ 3.9 million; previous year: € 3.3 million). The growth in loans and advances to customers over the previous year is primarily the result of increased lending to corporate customers (€ 659.3 million), which more than offset the redemption of repo transactions (€ -243.2 million).

The Bank's **risk provisioning** consists primarily of an exposure in the services sector amounting to € 4.6 million and a portfolio valuation allowance of € 2.7 million. The decrease in risk provisioning compared to the previous year of € 15.7 million is largely due to the utilisation of a previously created valuation allowance 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 (€ 873.0 million). To prevent an accounting mismatch, this category was selected for accounting purposes.

Financial assets consist of securities categorised as AfS (€ 2,232.2 million) and LaR

(€ 1,946.0 million). The decrease compared to the previous year is mainly due to held-to-maturity securities.

Apart from property and equipment (€ 65.3 million; previous year: € 66.4 million), the largest positions in **other assets** are cash reserves (€ 448.3 million; previous year: € 56.5 million) and positive fair values from hedge accounting derivatives (€ 219.8 million; previous year: € 327.7 million).

Liabilities to banks include money market transactions (€ 3,313.1 million; previous year: € 3,422.3 million), repo transactions (€ 1,079.9 million; previous year: € 1,211.9 million), registered covered bonds (€ 55.4 million; previous year: € 148.4 million) and debt securities (€ 28.4 million; previous year: € 424.2 million). The decrease in liabilities is mainly due to held-to-maturity, issued debt securities (€ 403.0 million) and a decline in the business with repo transactions (€ 132.0 million).

Liabilities to customers in the amount of € 3,210.7 million (previous year: € 3,412.8 million) consist of money market transactions and issued Lettres de Gage. The planned growth in Lettres de Gage that were purchased by institutional investors was sustained in the financial year (€ 1,412.0 million; previous year: € 1,256.3 million). The maturity dates for these are between 2018 and 2044. The decrease in liabilities is mainly due to a decline in money market transactions (€ 1,646.8 million; previous year: € 1,989.5 million).

Securitised liabilities increased by € 528.2 million on the comparable period's reporting date. During the financial year, Lettres de Gage were issued with a nominal volume of € 535.9 million, and European medium-term notes were issued with a nominal volume of € 375.0 million. Offsetting effects resulted primarily from held-to-maturity Pfandbriefe in the amount of € 332.9 million.

Financial liabilities at fair value through profit or loss (€ 1,118.2 million) comprise own issues recognised in the balance sheet as designated at fair value due to an accounting mismatch (€ 1,043.3 million) and derivatives primarily involved in hedging transactions (€ 74.9 million).

Other liabilities mainly consist of fair values from hedge accounting derivatives (€ 517.7 million).

The Bank's **reported equity** stood at € 702.8 million as at 31 December 2017 (previous year: € 711.4 million).

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

Risk report

The NORD/LB CBB risk report for 31 December 2017 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.
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 investment risk), market-price risk, liquidity risk and operational risk. The following risks are also relevant: business and strategic risk (including association risk), reputational risk, real estate risk and pension 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.
When it adapted the internal scopes of control to the logic of the Supervisory Review and Evaluation Process (SREP), NORD/LB CBB introduced during the reporting year an enhanced risk-bearing capacity model (Risk Appetite Control Engine – RACE) in accordance with the mandatory Group-wide requirements of NORD/LB. In this context, the premises with regard to the ICAAP scope of control were harmonised with the requirements of the SREP assessment. The RACE model approach still draws on the established core risk management elements (risk strategy, risk inventory) and represents an enhancement of the existing scope of control for risk-bearing capacity.

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 currently 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 risk appetite manifests itself in the anchoring in risk strategy, which capital level is maintained at maximum permitted risk potential. The Bank's risk strategy states that the minimum regulatory requirements (including the capital requirements of the SREP assessment) and the capital conservation buffer must be met at all times.

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 reporting 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 every 14 days. The ExCo consists of the four division managers of IT, Finance & Risk, Financial Markets & Sales and Loans & Business Support.

The Luxembourg Risk Committee (LRC), whose permanent members are comprised of back-office representatives, 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 four times over the course of a year.
The main duty of the Asset Liability Committee (ALCO), whose permanent members are comprised of front-office representatives, 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 four 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 CSSF 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 methods 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
Back office	Loans & Business Support
	Finance & Risk
	IT
	Compliance
	Human Resources & Governance
	Legal & Tax
	Audit

Since the reorganisation carried out during the reporting year, all market activities or activities related to the market (including the lending business) are concentrated in the Financial Markets & Sales Division. The Loans & Business Support Division now comprises all back-office service activities.

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 member of the Managing Board 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, assessing 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 uniform Group risk-bearing capacity model (RBC model) of the NORD/LB Group is an overall bank management instrument that represents the operational procedure for managing and limiting material risks. In conjunction with the specified escalation processes, it provides continuous assurance of capital adequacy, taking account of internal and external (regulatory) requirements.

Consistent compliance with SREP requirements required an enhanced version of the previous risk-bearing capacity model, which is described in greater detail below.

The enhanced model in use at NORD/LB CBB since 30 June 2017 is called RACE (Risk Appetite Control Engine).

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 continuous ICAAP is geared towards safeguarding the permanent survival of the Bank and the NORD/LB Group. The aim is the qualitative and quantitative assessment and securing of capital adequacy using comprehensive short and medium-term assessments based on different consideration levels.

Crucial for providing evidence of the internal process for assessing and ensuring appropriate capital adequacy is the examination of the risk-bearing capacity results under the premise of business continuation (business case) at an underlying confidence level of 99.9 per cent (previous year: 95 per cent). The overarching principle for this control committee is the ability to continue business based on the 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. Regulatory equity provides the starting point for determining the risk capital. Available risk capital is calculated on the condition that, in the event the risk limit is fully utilised, regulatory capital requirements and internal regulations will be met. As the strategic risk objectives focus on the regulatory minimum capital requirements, including the buffer provisions of CRD IV (Capital Requirements Directive) and capital recommendations, the normative perspective demanded by the supervisory authorities is covered in full through the business case.

As a hypothetical wind-up scenario, the resolution case provides another economic perspective with the character of an additional strict auxiliary condition, taking account of creditor protection within a wind-up scenario. Risks are quantified both in the business and resolution case with a confidence level of 99.9 per cent under the premise of the maximum type of capital requirements for risk under pillar I and pillar II. Unlike the business case, credit-spread risks are added in the resolution case to the IFRS LaR category. The risk capital in the resolution case is based on regulatory own funds, which can also be supplemented by bail-in capital in the purely economic approach. Hidden liabilities from securities in the IFRS LaR category must be recognised as a deductible item.

Direct management impetus stems both from the normative and economic perspective of the risk-bearing capacity model. Strategic and operational limits are derived from the examination of risk-bearing capacity taking into account the risk capital allocations applied in the risk strategy as described in the business case. The limit for credit-spread risks from LaR positions, which is derived from the resolution case, is an exception to this.

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.

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 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 2017

Since 30 June 2017, risk-bearing capacity has been calculated based on the Group's enhanced model approach (RACE). The comparable reporting date of 31 December 2016 was adjusted retrospectively. The table below shows the utilisation of risk capital in the business case for NORD/LB CBB as at 31 December 2017 and as at 31 December 2016:

Risk-bearing capacity				
in € million	31.12.2017		31.12.2016	
Risk capital	**462**	**100%**	**633**	**100%**
Credit risk	134	29%	142	22%
Market-price risk	45	10%	84	13%
Liquidity risk	42	9%	22	3%
Operational risk	16	3%	13	2%
Total risk potential	**237**		**260**	
Risk capital utilisation		**51%**		**41%**

The higher capital requirements called for under the risk strategy introduced on 30 September 2017 and the slightly lower regulatory capital ratios caused the risk capital available in the business case to drop markedly to € 462 million as at the end of the reporting year. By contrast, the risk capital utilisation rate rose to only 51 per cent, primarily as a result of reduced risk potential due to lower market-price risks.

The requirements of the risk strategy with respect to maximum permissible limit utilisation at the level of material risk types were also met as at 31 December 2017.

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.

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 denotes the risk of loss when borrowers or contract partners in trading transactions default or when their credit rating deteriorates. This is broken down 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 performance risk and clearing risk. Advance performance risk defines the risk during a transaction when no consideration is received from the contracting partner after the other party has provided their service, or if services are offset, then the equalisation

payment is not made. Clearing risk defines the risk of transactions not being able to be cleared by either party upon or after the expiry of the contractually agreed performance date.

- Issuer risk 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.

Investment 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 investment 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 front-office division Financial Markets & Sales conducts its operational financing business for customers, properties and projects, both domestically and internationally, subject to specified limits. It is primarily responsible for the core duties of acquisition (also in collaboration with NORD/LB) and sales. The front-office division is responsible for the first vote in the loan decision-making process and for structuring the corresponding conditions, and it bears the responsibility for profit and loss.

The back-office division comprises analytical 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.

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 risk. 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.

Shadow banking entities

Processes to monitor exposures to shadow banking entities as set out in CSSF Circular 16/647 were put into place in January 2017 in the Finance & Risk Division. Shadow banking entities are identified by means of a standardised Group-wide, checklist-based screening method. The Bank's own systematic customer identification key is used as part of an identification process to pinpoint potential shadow banks, with the first step being to classify these either as shadow banking entities or non-shadow banking entities. If a customer is a shadow banking entity, the next step of this review process is to assign it to one of the control options proposed by regulators. There are two approaches used to set and manage exposure limits for shadow banking entities, the "fallback" and the "principal" approaches.

All shadow banking entities for which there is no comprehensive insight into the borrower's financial situation "fall" under pillar 1 (reporting system) and are subject to the upper limit for large exposures (fallback approach). All other shadow banking entities are assigned to the "principal approach" (pillar 2, risk management) and, as such, are subject to individual and aggregate exposure limits.

Risk tolerance and risk appetite definitions as required under EBA/GL/2015/20 are not specifically defined, rather these are based on the general risk appetite of NORD/LB CBB. Since the risk exposures to shadow banking entities are already covered under credit risk, no additional risk capital must be provided. As a result, the

Bank's risk appetite for exposures to shadow banking entities is nearly congruent with its risk appetite for exposures to other borrowers. The defined limits set for risk exposures to shadow banking entities are merely somewhat narrower. Since shadow banking entities do not constitute an additional type of risk, the mitigation of such risks is comparable to sector risk limits aimed at reducing risk concentrations.

The Bank's Managing Board defines the limits for shadow banking entities. For 2017, an exposure limit of € 117.9 million was defined for shadow banking entities using the principal approach. Additionally, individual limits were assigned in the amount of € 7.2 million. According to EBA, the limit for exposures to shadow banking entities under the fallback approach should be subject to the limits on large exposures and corresponds to 25 per cent of eligible own funds.

The utilisation of limits for shadow banking entities is monitored and reported by the Risk Control & Strategy department in the monthly Risk-Bearing Capacity Report. As at 31 December 2017, the Bank complied with all limits for shadow banking entities.

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.

The Bank uses the IRB approach to measure this securitisation when calculating capital requirements.

The Bank believes the risks associated with this securitisation exposure are limited.

A factoring-related securitisation transaction from the previous year was restructured in November 2017 and now no longer exhibits the characteristics of a securitisation.

Investments

NORD/LB CBB has only one investment. The subsidiary Galimondo S.à r.l. (in liquidation), which was founded on 5 September 2014, is an insignificant investment with a carrying amount of € 12,500.

A capital requirement was determined for this investment 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 the Capital Requirements Regulation (CRR). We have not quantified risk-bearing capacity due to materiality reasons.

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, based (for example) on Group structures. In addition to default losses, losses that might be caused by rating migrations are also considered.

Investment risks are integrated into the existing credit risk model. As a result, risk potential is calculated on a consolidated basis from credit and investment exposures.
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 NORD/LB 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. The subjects of these reports include risk concentrations under borrower units, country and sector concentrations and noteworthy exposures (the "credit risk watch list").

Credit risk – development in 2017

The maximum default risk exposure for on-balance-sheet and off-balance-sheet financial instruments came to € 16.7 billion on the reporting date and decreased slightly by 6.5 per cent or € 1.2 billion in 2017. This is mostly attributable to maturities and sales of securities, which resulted in a € 0.8 billion year-on-year decline in financial assets.

Risk-bearing financial instruments in € million	Maximum default risk exposure 31.12.2017	31.12.2016
Loans and advances to banks	796.4	1,240.5
Loans and advances to customers	8,632.2	8,242.2
Financial assets at fair value through profit or loss	1,001.3	973.2
Positive fair values from hedge accounting	219.8	327.7
Financial assets	4,178.2	5,030.8
Sub-total	**14,827.9**	**15,814.4**
Guarantees for third-party accounts	127.1	133.3
Credit commitments not yet disbursed	1,741.6	1,917.2
Total	**16,696.6**	**17,864.9**

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 amount of default risk exposure are due to differences in areas of application, 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 notional 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 2017 totalled € 17.2 billion. The marginal 4.1 per cent decrease in exposure was the result of lower securities volume.

NORD/LB CBB uses the standard IFD rating scale to classify 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 2016:

Rating structure [1) 2)] in € million	**Loans**[3)]	**Securities** [4)]	**Derivatives** [5)]	**Other** [6)]	**Total**	
	31.12.2017				**31.12.2017**	**31.12.2016**
very good to good	8,890.6	4,728.4	281.5	594.9	**14,495.5**	**14,824.6**
good / satisfactory	1,387.4	354.8	0.0	113.2	**1,855.4**	**1,718.1**
reasonable / satisfactory	244.0	31.3	0.0	40.2	**315.5**	**397.7**
increased risk	391.7	105.3	0.0	0.0	**497.0**	**892.9**
high risk	38.5	0.0	0.0	0.0	**38.5**	**23.8**
very high risk	23.2	0.0	0.0	0.0	**23.2**	**60.6**
default (=NPL)	24.6	0.0	0.0	0.0	**24.6**	**62.6**
Total	**10,999.9**	**5,219.8**	**281.5**	**748.3**	**17,249.6**	**17,980.3**

1) Allocation according to IFD rating class
2) Differences in totals are rounding differences
3) Contains utilised and/or committed loans, sureties, 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 investment 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 (84.0 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 sector breaks down as follows:

Industries [1] [2] in € million	Loans[3] 31.12.2017	Securities [4] 31.12.2017	Derivatives [5] 31.12.2017	Other [6] 31.12.2017	Total 31.12.2017	Total 31.12.2016
Financing institutions / insurance companies	3,050.5	2,582.5	278.4	29.2	**5,940.4**	**6,740.0**
Service industries / other	3,129.6	2,378.7	2.4	168.3	**5,679.0**	**5,073.7**
Of which: Land, housing	141.4	0.0	0.0	20.4	**161.7**	**197.0**
Of which: Public administration	72.4	2,364.4	0.0	2.6	**2,439.4**	**2,798.6**
Transportation / communications	683.6	24.8	0.5	60.1	**769.0**	**981.3**
Of which: Shipping	0.0	0.0	0.0	0.0	**0.0**	**24.6**
Of which: Aviation	48.9	0.0	0.0	0.0	**48.9**	**0.5**
Manufacturing industry	1,799.0	0.0	0.0	80.5	**1,879.5**	**1,970.1**
Energy, water and mining	1,368.7	233.9	0.2	362.8	**1,965.7**	**2,225.1**
Trade, maintenance and repairs	740.6	0.0	0.0	44.4	**785.0**	**822.4**
Agriculture, forestry and fishing	10.7	0.0	0.0	0.0	**10.7**	**10.8**
Construction	217.3	0.0	0.0	3.0	**220.3**	**156.7**
Other	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total	**10,999.9**	**5,219.8**	**281.5**	**748.3**	**17,249.6**	**17,980.3**

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

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 (34.4 per cent). Including the public sector, this portion of the total exposure amounts to 48.6 per cent. The allied lending business with NORD/LB mainly impacted the energy, water and mining industries (10.9 per cent) and service industries / other (18.8 per cent, excluding the public sector).

The total credit exposure by region breaks down as follows:

Regions [1) 2)] in € million	Loans[3)]	Securities [4)]	Derivatives [5)]	Other [6)]	Total	
	31.12.2017				**31.12.2017**	**31.12.2016**
Euro countries	7,750.3	2,653.8	262.6	733.8	**11,400.5**	**12,238.8**
Of which: Germany	6,904.8	1,322.6	258.5	721.7	**9,207.6**	**7,916.4**
Other Europe	2,303.4	734.8	18.1	14.5	**3,070.8**	**2,513.9**
North America	841.5	1,530.1	0.9	0.0	**2,372.5**	**2,885.5**
Middle and South America	94.6	0.0	0.0	0.0	**94.6**	**55.4**
Middle East / Africa	2.0	0.0	0.0	0.0	**2.0**	**2.3**
Asia / Australia	8.2	301.1	0.0	0.0	**309.2**	**284.5**
Other	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total	**10,999.9**	**5,219.8**	**281.5**	**748.3**	**17,249.6**	**17,980.3**

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

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 66.1 per cent share of lending, making it by far the most important business region.

Non-Performing Loans („NPL“)

The Bank establishes specific valuation allowances for acute payment default risks 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 on-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 € 23.0 million as at the reporting date. The balance comprises portfolio valuation allowances totalling € 17.4 million and specific valuation allowances of € 4.9 million. € 4.6 million of this latter amount is attributable to one borrower from the service industry. The remaining € 0.3 million is split between three borrowers from the trade, maintenance and repairs industries, the service industry and the manufacturing industry.

Beyond that, provisions were established for off-balance-sheet risks totalling € 0.4 million for a borrower from the trade, maintenance and repairs industry. There are also portfolio valuation allowances for off-balance-sheet risks totalling € 0.4 million.

Credit risk – outlook

Measures to further optimise the models for quantification and control of credit risks are planned for 2018. In addition to the further development of the economic credit risk model (such as by analysing the domino effects), 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.

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 can be found mainly in the cover pool or run-off 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: 41 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 actively 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 the ALM/Treasury and Long Term Funding departments. 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.

The Risk Control & Strategy department, which in accordance with national regulations and MaRisk operates independently – in terms of both function and organisation – of the divisions responsible for managing market-price risk, performs the 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. Another change implemented by the Bank during the reporting year was a Group-wide method of monitoring interest-rate risks in the banking book (IRRBB) from an earnings-based perspective using an earnings-at-risk model.

Risk and loss limits are derived from the business case 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 99 per cent (95 per cent until 6 November 2017) and a holding period of one trading day, or 250 days in cases of credit spread value-at-risk (CSVaR). Since 7 November 2017, the VaR has been scaled up from 99 per cent to

99.9 per cent using the factor of 1.328 from the normal distribution to reflect the risk potential of the risk-bearing capacity as accurately as possible.

The VaR is determined based on historical changes in the risk factors since 1 January 2008 (changes were determined over the previous twelve-month period until 6 November 2017). 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 used is based on historical data, and in this respect is dependent on the reliability of the time series used. The VaR is calculated based on the figures entered at the end of the day, and therefore does not show any changes in positions during the course of the day.

When determining the VaR with a holding period of 250 days as part of risk-bearing capacity and CSVaR management, this figure is scaled using the Hurst exponent H from the VaR with a holding period expressed in days (250H). The Hurst exponent applied is derived from empirical data and model assumptions (Vasicek model). Since the market data history in use since November 2017 covers an extended period of time, also including scenarios from times of crisis, the calculated risk indicators are generally more stable and the static value of H = 0.47 can be chosen conservatively, taking into account the dominant risk types.

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.

With respect to the VaR at the overall level of the Bank, the number of outliers in NORD/LB CBB during reporting year 2017 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 7.0 per cent for the reporting year. This results in a green light under the Basel traffic light system. A total of 17 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.

Earnings-at-risk (statistical risk measure) are also quantified by the Risk Control & Strategy department on a monthly basis for income-oriented interest-rate risk in the banking book. This calculation identifies the impact on net interest income, taking extensions and new business into consideration, for a holding period of one year (similar to the RBC model) and at a confidence level of 99.9 per cent (since November 2017, previously 95 per cent).

Several different stress scenarios, which can vary as needed, are also examined for the purpose of monitoring interest-rate risks in the banking book from an income-oriented perspective. These are currently:

- shift in yield curves of +/- 200 basis points
- interest rate increase on money market (short end)
- inverse yield curve

The effects of a standardised interest rate shock on the interest-rate risks in the banking book are also analysed monthly from a present value perspective in accordance with the requirements set out in CSSF Circular 16/642.

The stress test is designed as follows:

- upward shift in interest rate by 200 bp
- downward shift in interest rate by 200 bp with prudential floor (negative interest rates are not shifted any further, positive interest rates are floored at 0)
- 99 per cent value-at-risk using a historical

simulation approach, a holding period of one day and a history of 1,200 days

The highest of each of the three risk potentials above is reported to the regulator every six months.

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. Earnings-at-risk, including limit utilisation, is reported monthly to the member of the Managing Board responsible for the front office and the Head of Financial Markets within the scope of the IRRBB report.

The Managing Board receives thorough information in daily risk reports on market-price risks and the earnings situation. Information (including earnings-at-risk) 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.

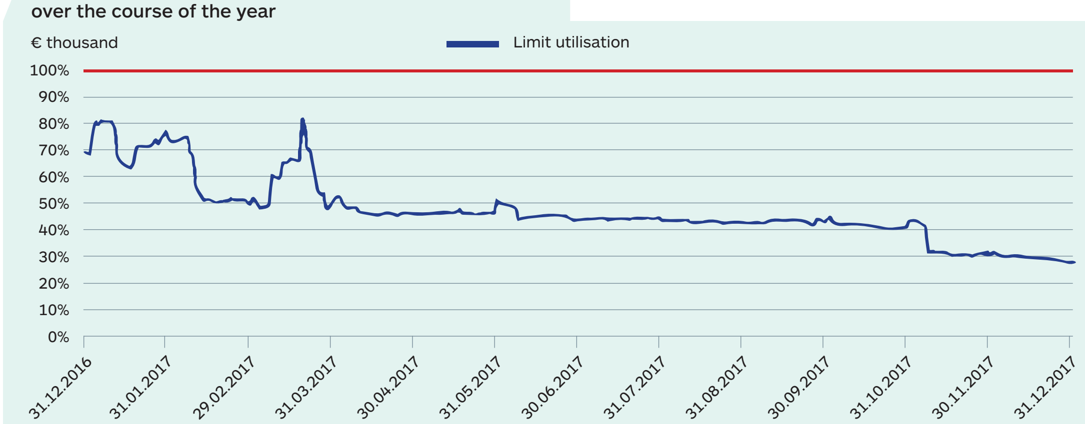
Market-price risk – development in 2017

Until 6 November 2017, market-price risks at NORD/LB CBB were calculated using a value-at-risk derived from a historical simulation (one-year history) at a confidence level of 95 per cent and with a holding period of one day. As at 7 November 2017, the Bank switched to a confidence level of 99 per cent with an extended data history beginning on 1 January 2008. As described above, the value-at-risk is scaled up to a confidence level of 99.9 per cent using the factor from the normal distribution and limited based on this in the daily report.

In February, the operating market-price risk limit for the value-at-risk (confidence level: 95 per cent; holding period: one day) was increased for the overall Bank from € 3.6 million to € 3.9 million. Following the change in operational management, a new limit of € 11.8 million was set for value-at-risk (confidence level: 99.9 per cent; holding period: one day) on 7 November 2017.

Due to the fact that different methods were used over the course of the year, the chart below shows the change in market-price risks based on limit utilisation with respect to the value-at-risk for the overall Bank:

Utilisation of the value-at-risk limit for the overall Bank over the course of the year



As at 31 December 2017, utilisation amounted to € 3.3 million, i.e. 28.3 per cent of the limit (previous year: 68.9 per cent). 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 € and GBP.

The average annual utilisation of the VaR limit was 47.4 per cent (previous year: 71.4 per cent), with a maximum utilisation of 81.4 per cent (previous year: 93.6 per cent) and a minimum utilisation of 28.2 per cent (previous year: 47.4 per cent).

As at 31 December 2017, measurements showed interest-rate risks of € 1.5 million, foreign currency risks of € 1.0 million, volatility risks of € 0.05 million and credit-spread risks from HfT and AfS positions of € 1.6 million. The Bank calculated these risks at a confidence level of 99 per cent and with a holding period of one day.

The result of the standardised interest rate shock, as set out in CSSF Circular 16/642, is still 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), a capital adequacy requirement of € 0.7 million (previous year: € 1.0 million) was calculated for market-price risk as at 31 December 2017.

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 business case perspective of the risk-bearing capacity model. Consequently, they are measured separately through the credit spread value-at-risk at a confidence level of 99 per cent and with an extended data history (from 1 January 2008), however with a holding period of 250 days. The historical simulation was performed at a confidence level of 95 per cent and a data history of one year until 6 November 2017.

Similar to the other market-price risks and in line with the management of risk-bearing capacity, the credit spread value-at-risk determined using the model is scaled up to a confidence level of 99.9 per cent using the factor from the normal distribution and limited by this. The limit is derived from the resolution scenario of the risk-bearing capacity model.

The limit for the credit spread value-at-risk (confidence level: 95 per cent; holding period: 250 days) of the LaR holdings as at 10 February 2017 was increased slightly from € 107 million to € 108 million. Following the change in operational management, a new limit of € 280 million was set for the credit spread value-at-risk (confidence level: 99.9 per cent; holding period: 250 days) of the LaR holdings as at 7 November 2017.

The average limit utilisation during the reporting year amounted to 39.3 per cent, with a maximum utilisation of 65.2 per cent and a minimum utilisation of 28.6 per cent.

As at 31 December 2017, the credit spread value-at-risk (99.9 per cent, 250 days) of the LaR holdings stood at € 175.9 million. The limit utilisation therefore came to 62.8 per cent (previous year: 60.7 per cent).

The earnings-at-risk (confidence level: 99.9 per cent; holding period: one year) was € 8.6 million as at 31 December 2017. The limit of € 39.6 million therefore had a utilisation of 21.6 per cent.

Market-price risk – outlook

NORD/LB CBB does not expect any significant increase in market-price risk in 2018. 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 enhancement 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:

Traditional liquidity risk

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.

Liquidity-spread risk

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. The focus here is on the entire range of maturities. Model assumptions are made for positions without any fixed maturities.

By considering individual currencies in the liquidity risk, spread risks from cross-currency swaps are also taken into account implicitly in the liquidity-spread risk.

Market-liquidity risk

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 funding 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.

In addition to hedging traditional liquidity risk, securities are also held primarily 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 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 subclasses 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. The LCR shows the relationship between the holdings of top-rated assets and the entire net outflow over the next 30 days. The liquidity buffer must be managed above the limits required by regulators and must therefore cover at least 80 per cent of the net outflow during the reporting year (net outflows must be fully covered from 2018 onward). The LCR is limited through use of a traffic light system. The traffic light thresholds are associated with specific reporting and escalation processes.

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. 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 2017

2017 was shaped by two rating downgrades by the Moody's ratings agency. The long-term issuer rating was lowered by one notch on both 18 April 2017 and 30 June 2017, from its original level of Baa1 to Baa3. In response to both rating moves, the parameters in the classic liquidity risk model were adjusted in the dynamic liquidity stress test.

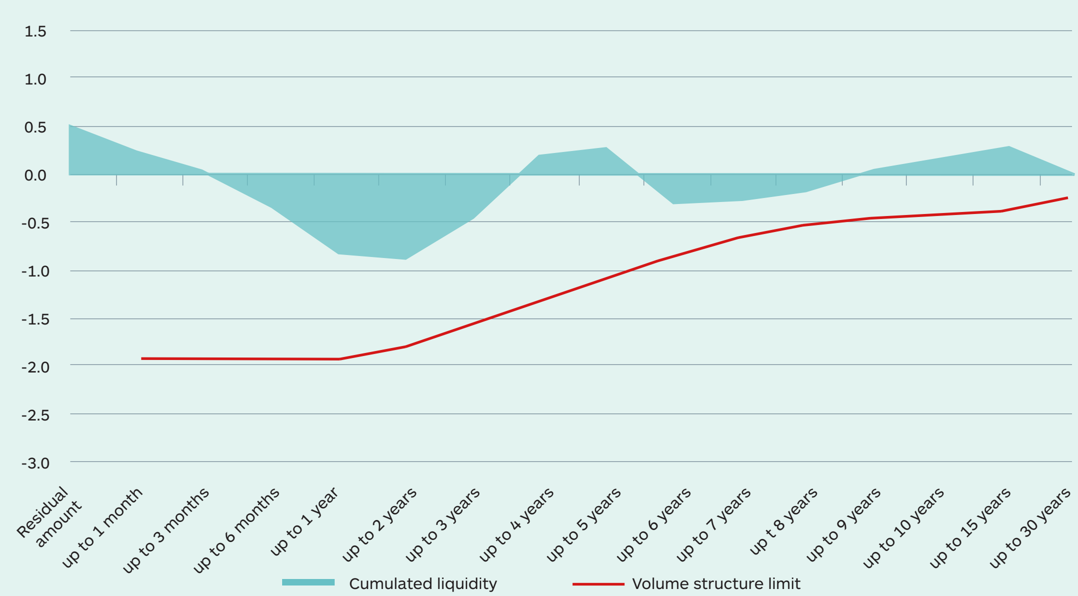
In spite of the rating downgrade and the extremely low interest rates, sufficient liquidity was mobilised on the market, irrespective of the news, which meant liquidity risk management remained at a comfortable level. New lending not eligible for cover pooling purposes was partially financed via long-term funding from the Group.

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).

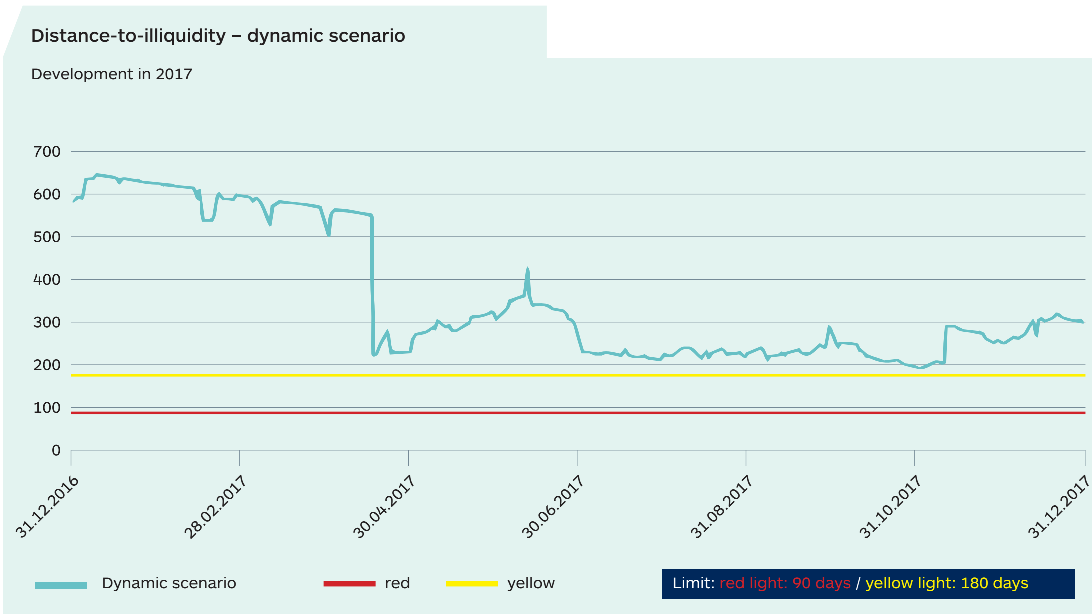
As at the reporting date, the aggregated liquidity maturity balance sheet used for internal refinancing risk management at NORD/LB CBB was as follows:

Liquidity refinancing risk of NORD/LB CBB as at 31.12.2017

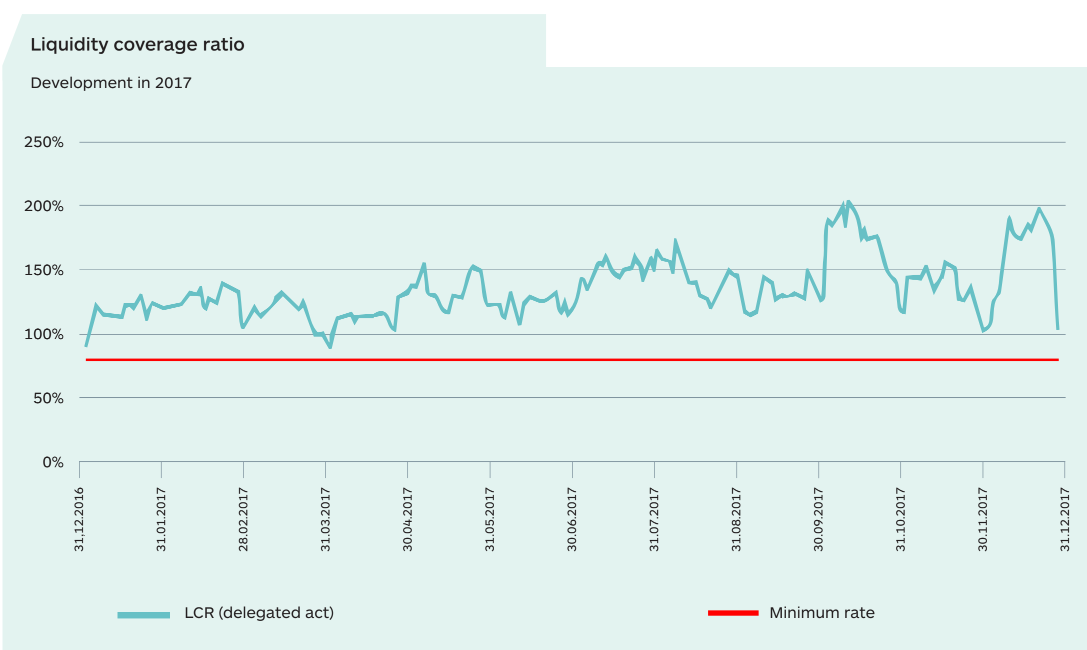
aggregate liquidity maturity balance sheet in € billion



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 180 days (at least 183 days) during the reporting year. This means there were no yellow phases. The development of the LCR for NORD/LB CBB in accordance with the delegated-act methodology was as follows during the year:



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

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 2017, the asset encumbrance rate for NORD/LB CBB stood at 51.5 per cent (previous year: 41.9 per cent). Consistent with the business model of a covered bond bank, 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 2018 due to active liquidity management and planned lending transactions. The methods to measure risks and the reporting processes are being continuously enhanced. The primary focus in 2018 will continue to be on the development and expansion of methods for validating and managing regulatory requirements, such as the NSFR.

The Bank currently uses the ABACUS/DaVinci software for the regulatory reporting system and plans to collaborate with software provider BearingPoint to migrate internal liquidity risk reporting to the new Abacus360 software platform. This will ensure that the same consistent data basis is available for both regulatory reporting and internal risk reporting. It will also considerably simplify the reconciliation of results between external and internal reports.

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 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. (breach of the law, regulations, codes of conduct or standards).
- 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 covers potential losses incurred by an institution due to decisions it makes primarily with the support of internal models that contain errors in design, execution or use.
- 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.
- 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, inner resignation 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 from a risk perspective. 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 business case scenario (strategy stipulation: 5 per cent; previous year: 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 function has 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 Risk Controlling department 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 (WpHG) 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 business continuity and emergency planning, appropriate insurance cover and regular monitoring of the latter. The sensitivity of all employees to risks in general plays a key role in preventing 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 departments involved in the process to control 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 (COSO) for internal controlling. This framework includes a specific structural and process organisation. 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. These plans govern areas such as building usage, procurement of replacement operating and office equipment, and energy consumption. Protection of employee health takes top priority. For instance, extensive preventive measures have been taken to prepare for a pandemic.

The Bank has adequate insurance cover. Natural disasters and terror attacks are defined as acts of force majeure. These risks are controlled using contingency plans and a disaster recovery centre.

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 protect against criminal activities, money laundering, financing of terrorism and other compliance risks. These are subject to continuous verification during control and monitoring activities and are continuously enhanced 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 proof 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 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. They 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.
For the risk-bearing capacity and for internal control purposes, a value-at-risk model based on a loss distribution approach is used within the NORD/LB Group. The distribution parameters are calculated based on internal data, scenario analyses and external data from the DakOR consortium. 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.
NORD/LB CBB uses the standard approach to

calculate the regulatory capital requirements.

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 four 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 2017

Close collaboration continued between the Compliance, Security, ICS, Emergency Management and OpRisk Management functions.

For NORD/LB CBB, a total of two (previous year: five) claims greater than € 5 thousand (previous year: € 1 thousand) were reported across all divisions in the reporting year, with all claims totalling € 147 thousand (previous year: € 12.1 thousand). Additionally, the reversal of a provision resulted in a gain in the amount of € 88 thousand.

As at 31 December 2017, the risk exposure for operational risk came to € 15.7 million according to the internal model (confidence level: 99.9 per cent; holding period: one year).

Operational risk – outlook

The Bank will collaborate closely with NORD/LB in 2018 to roll out a software solution designed to drive forward integrated OpRisk management.

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), reputational 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 those risks for which the risk potential is already included in the risk-bearing capacity calculation.

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.

Reputational risk refers to serious or permanent damage incurred by the Bank due to a loss of trust among customers, business partners, investors, employees, owners or the public. Reputational risk does not immediately result in a financial loss, rather it impacts business risk and liquidity risk indirectly. Step-in risk is part of reputational risk. Step-in risk describes the risk that a bank provides financial support to a shadow banking entity or other non-banking entity 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. This is reflected in the interest-rate risk. In addition, risks may arise on the liabilities side from negative deviations between actuarial assumptions and actual developments, such as with regard to life expectancy, wage and benefit trends. Pension risk therefore denotes the risk that the negative development of the respective actuarial parameters leads to an unexpected loss, both in terms of assets and liabilities.

A panel of experts meets on a quarterly basis to discuss the "management of other risks" in order to monitor other risks. 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 evaluation of other risks is primarily made here. The results of this panel are then presented to the attention of the LRC. Measures are defined as needed to limit other risks.

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 cover is deliberately set aside as a buffer, which also serves to hedge against risk contributions from non-material risks.

The relevant departments 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 2017.

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 2018 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	31.12.2017	31.12.2016	Change (absolute)	Change (in %)
Employees	189	186	3	2

The Managing Board and Supervisory Board particularly wish to recognise the efforts made by all employees towards achieving the satisfactory business performance in reporting year 2017. 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 – Statement

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 view 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 correct and 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.

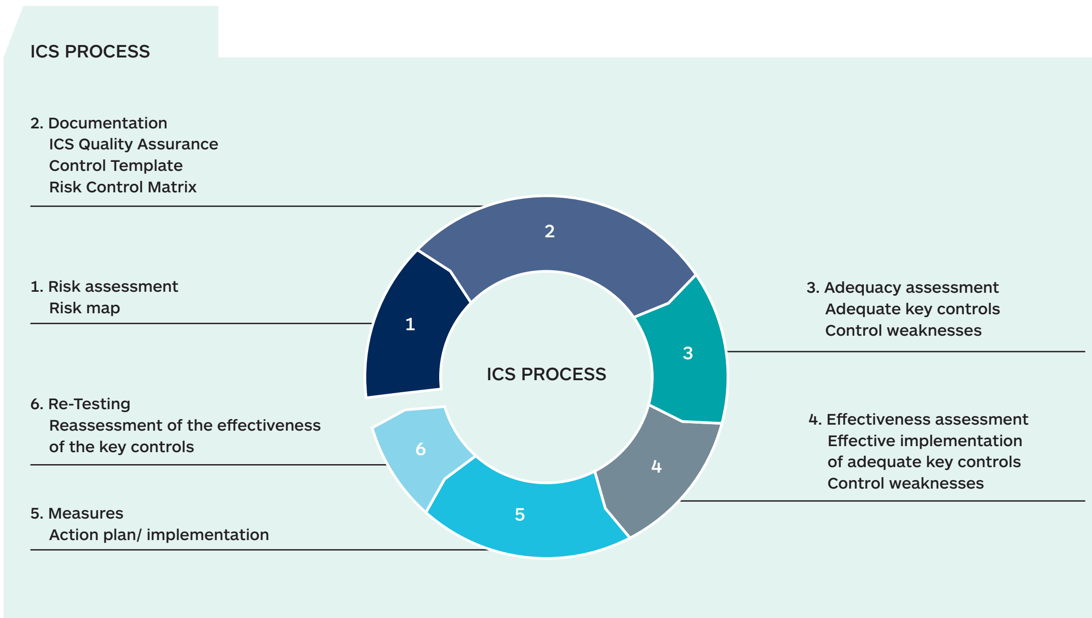
Risks for financial reporting may arise from errors in business processes. Fraudulent behaviour can also lead to misstatements. The Bank must therefore ensure that risks are minimised regarding misstatements, erroneous measurement or incorrect presentation of information in financial reporting.

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 methodology defined by the Bank's ICS Control Committee. It ensures that a uniform approach is taken to assess the ICS based on 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 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 CSSF 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 functions

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 function based on an individual delegation of authority. The members of the Managing Board represent each other mutually regarding board support functions. The Bank's process organisation is governed by a documentation of internal regulations that is continuously monitored and updated to reflect changes in markets, work processes and 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 function

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 the audits it has performed and their findings. Internal Auditing also monitors the implementation of measures required to rectify deficiencies.

Sustainability report

Sustainability report

Sustainability as a strategic factor

The former NORD/LB Luxembourg S.A. decided in 2013 to set up a Sustainability Management function. That same year the Sustainability Officer and a small team began their work, too. NORD/LB Luxembourg S.A. Covered Bond Bank has continued this work. The work performed by Sustainability Management is geared towards the requirements of the NORD/LB Group. NORD/LB CBB aims to be economically successful 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 Group'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.

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 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, such as a photovoltaic system on the roof of the Bank's own "Galileo Center".

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 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

No significant events occurred between the balance sheet reporting date of 31 December 2017 and the date when the Managing Board compiled this annual report on 13 March 2018.

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, 13 March 2018

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

Manfred Borchardt
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.

Income statement

of NORD/LB CBB for the reporting period from 1 January to 31 December 2017 compared with the financial year from 1 January to 31 December 2016:

	Notes	2017 (€ thousand)	2016 (€ thousand)
Net interest income and current income	**(17)**	**108,908**	**90,356**
Interest income and current income*		460,021	522,227
Interest expenses*		-357,025	-430,753
Interest rate anomalies		5,912	-1,119
Loan loss provisions	**(18)**	**-1,566**	**-181**
Net commission income	**(19)**	**-38,450**	**-41,249**
Commission income		15,544	18,045
Commission expenses		-53,994	-59,293
Profit/loss from financial instruments at fair value through profit or loss	**(20)**	**5,474**	**25,312**
Trading profit/loss		5,262	2,377
Profit/loss from the use of the fair value option		212	22,935
Profit/loss from hedge accounting	**(21)**	**-1,546**	**4,011**
Profit/loss from financial assets	**(22)**	**18,713**	**4,927**
Administrative expenses	**(23)**	**-42,756**	**-36,913**
Staff expenses		-22,948	-21,567
Other administrative expenses		-16,044	-12,430
Depreciation on property and equipment		-1,960	-1,536
Amortisation on intangible assets		-1,804	-1,380
Other operating profit/loss	**(24)**	**-8,440**	**-3,295**
Earnings before income taxes		**40,337**	**42,970**
Income taxes	**(25)**	**-11,013**	**-11,746**
Net profit		**29,324**	**31,224**

*) 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 2017 is composed of the income and expenses recorded in the income statement and those recognised directly in equity, and compares to the financial year from 1 January to 31 December 2016 as follows:

	2017 (€ thousand)	2016 (€ thousand)
Net profit	**29,324**	**31,224**
Other comprehensive income	**-7,920**	**9,848**
Other comprehensive income that will not be reclassified to the income statement in subsequent periods	**216**	**122**
Revaluation of net liability from defined benefit plans	337	266
Deferred taxes	-121	-144
Other comprehensive income that will be reclassified to the income statement in subsequent periods	**-8,137**	**9,725**
Changes from financial instruments classified as AfS	-11,484	12,722
Unrealised profit/losses	-11,061	13,343
Transfer due to realisation profit/loss	-423	-620
Deferred taxes	3,347	-2,997
Total comprehensive income for the year	**21,404**	**41,072**

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

The revaluation reserve did not contain any effects of changes in exchange rates during the period under review.

Balance sheet

of NORD/LB CBB as of 31 December 2017 compared to 31 December 2016:

Assets	Notes	31.12.2017 (in € million)	31.12.2016 (in € million)
Cash reserve	(26)	448.3	56.5
Loans and advances to banks	(27)	796.4	1,240.5
Loans and advances to customers	(28)	8,632.2	8,242.2
Risk provisioning	(29)	-7.6	-23.3
Financial assets at fair value through profit or loss	(30)	1,001.3	973.2
Derivatives – fair values from hedge accounting	(31)	219.8	327.7
Financial assets	(32)	4,178.2	5,030.8
Property and equipment	(33)	65.3	66.4
Intangible assets	(34)	22.1	19.6
Current income tax assets	(35)	0.0	0.0
Deferred income tax assets	(35)	0.7	0.8
Other assets	(36)	3.8	1.8
Total assets		**15,360.6**	**15,936.2**

Liabilities	Notes	31.12.2017 (in € million)	31.12.2016 (in € million)
Liabilities to banks	(37)	6,011.1	6,612.1
Liabilities to customers	(38)	3,210.7	3,412.8
Securitised liabilities	(39)	3,750.0	3,221.8
Financial liabilities at fair value through profit or loss	(40)	1,118.2	1,149.2
Derivatives – fair values from hedge accounting	(41)	517.7	706.7
Provisions	(42)	13.9	21.6
Current income tax liabilities	(43)	19.9	9.7
Deferred income tax liabilities	(43)	5.8	14.1
Other liabilities	(44)	10.6	15.2
Subordinated capital	(45)	0.0	61.7
Equity	(47)	**702.8**	**711.4**
Issued capital		205.0	205.0
Retained earnings		481.4	481.8
Revaluation reserves		16.4	24.6
Total liabilities and equity		**15,360.6**	**15,936.2**

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 2017 compared with the financial year from 1 January to 31 December 2016:

	2017 (in € million)	2016 (in € million)
Earnings before taxes	**40.3**	**43.0**
Adjustment for non-cash items		
Depreciation, impairment and write-ups of property and equipment and financial assets	5.2	-1.6
Increase/decrease in provisions	1.6	-0.2
Gains/losses from the disposal of property and equipment and financial assets	-15.1	2.0
Increase/decrease in other non-cash items	-12.9	-29.1
Net interest income	-108.9	-90.4
Other adjustments (net)	-0.1	-0.2
Subtotal	**-90.0**	**-76.6**
Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items		
Loans and advances to banks and customers	25.4	-1,226.0
Trading assets, trading liabilities and hedge accounting derivatives	-16.6	1,313.4
Other assets and liabilities from operating activities	117.6	-57.4
Liabilities to banks and customers	-354.9	-852.4
Securitised liabilities	531.4	92.1
Interest received		
Interest income	513.2	538.3
Negative interest paid on borrowings	15.3	5.5
Interest paid		
Interest expenses	-498.3	-563.4
Negative interest paid on financial investments	-9.4	-6.6
Income tax payments	-5.8	-6.2
Cash flow from operating activities	**228.1**	**-839.3**

	2017 (in € million)	2016 (in € million)
Cash receipts from the disposal and maturity of		
Financial assets	696.2	1,325.0
Property and equipment, and intangible assets	0.0	0.0
Payments for acquisition of		
Financial assets	-129.5	-530.2
Property and equipment, and intangible assets	-8.6	-9.8
Interest income from financial assets	91.8	114.5
Increase/decrease in funds from other capital (net)	0.0	0.0
Cash flow from investing activities	**649.9**	**899.6**
Cash receipts from equity contributions	0.0	0.0
Increase/decrease in funds from other capital	-454.2	-52.7
Interest expenses on subordinated capital	-2.0	-5.3
Dividends paid / distributions	-30.0	-30.0
Cash flow from financing activities	**-486.1**	**-88.0**
Cash and cash equivalents as at end of previous year	**56.5**	**84.1**
Cash flow from operating activities	228.1	-839.3
Cash flow from investing activities	649.9	899.6
Cash flow from financing activities	-486.1	-88.0
Total cash flow	**391.8**	**-27.7**
Effects of changes in exchange rates	0.0	0.0
Cash and cash equivalents as at end of reporting year	**448.3**	**56.5**

In the interest of improving the transparency and meaningfulness of the cash flow statement, the cash flows of interest payments from financial assets are presented separately for investing activities. Moreover, the Bank complied with additional disclosure requirements under an amendment to IAS 7 by including both subordinated capital and other financing activities in cash flow from financing activities. The previous year's figures were restated within this context.

For further information about the cash flow statement, 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 2017:

in € million	Issued capital	Capital reserves	Retained earnings	Revaluation reserve	Equity
Equity as at 01.01.2016	**205.0**	**0.0**	**480.5**	**14.8**	**700.3**
Net profit	0.0	0.0	31.2	0.0	31.2
Changes from AfS financial instruments	0.0	0.0	0.0	12.7	12.7
Revaluation of net liability from defined benefit plans	0.0	0.0	0.3	0.0	0.3
Deferred taxes	0.0	0.0	-0.1	-3.0	-3.1
Comprehensive income for the period under review	**0.0**	**0.0**	**31.3**	**9.7**	**41.1**
Distribution	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
Equity as at 31.12.2016	**205.0**	**0.0**	**481.8**	**24.6**	**711.4**
Equity as at 01.01.2017	**205.0**	**0.0**	**481.8**	**24.6**	**711.4**
Net profit	0.0	0.0	29.3	0.0	29.3
Changes from AfS financial instruments	0.0	0.0	0.0	-11.5	-11.5
Revaluation of net liability from defined benefit plans	0.0	0.0	0.3	0.0	0.3
Deferred taxes	0.0	0.0	-0.1	3.3	3.2
Comprehensive income for the period under review	**0.0**	**0.0**	**29.5**	**-8.1**	**21.4**
Distribution	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
Equity as at 31.12.2017	**205.0**	**0.0**	**481.4**	**16.4**	**702.8**

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 2017 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) Applicable IFRS).

The financial statements as at 31 December 2017 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 2017 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. 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 presented 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), (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 based on various assumptions regarding salary, wage and pension trends, the mortality rate and discount rates. Due to the long-term nature of the underlying assumptions and the complex valuation techniques, changes in the assumptions may lead to significant 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 about the amount of the taxable income.

Further information on taxes can be found in Note (35) Income tax assets and Note (43) Income tax liabilities.

(3) Applicable IFRS

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 2017 reporting period.

The following amendments to the standards requiring mandatory application as at 1 January 2017 were applied by NORD/LB CBB for the first time during the reporting period:

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

The objective of the amendments to IAS 7 is to improve the information about changes to the entity's indebtedness. According to the new version of IAS 7, an entity must disclose changes to financial liabilities for which cash proceeds and payments are recognised in the cash flow statement under cash flow from financing activities.

The application of IAS 7 has resulted in additional disclosure obligations for the financial statements of NORD/LB CBB, which are provided in the notes to the cash flow statement.

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.

Deferred taxes are already recognised in the Bank's financial statements in accordance with the amendments, so the amendments to IAS 12 have no effect.

Improvements to IFRS (cycle 2014 – 2016) under the IASB's annual improvement process

As part of the annual improvements process, changes were made to IFRS 12 that are applicable for these financial statements. It was clarified that the scope of the standard also applies for shares in other companies under IFRS 5; exceptions are the disclosure requirements of IFRS 12 on financial information.

This clarification does not have an effect on NORD/LB's consolidated financial statements.

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 2017.

IFRS 9 – Financial Instruments

IFRS 9, which was published in July 2014, replaces the existing guidelines in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 comprises revised guidelines for the classification and measurement of financial instruments, including a new model for expected credit losses to calculate the impairment of financial assets, and new general hedge accounting requirements. It also incorporates the guidelines from IAS 39 regarding the recognition and derecognition of financial instruments.

The adoption of IFRS 9 is expected to have a material effect on the accounting, measurement and presentation of financial instruments in future financial statements. To this end the Bank has launched a project with the aim of implementing the necessary professional, technical and process adjustments in good time. Application of IFRS 9 – Financial Instruments is mandatory for financial years beginning on or after 1 January 2018. The following information is based on the status of the IFRS 9 implementation as of the reporting date on 31 December 2017.

The estimated impacts on the Bank's equity capital as of 1 January 2018 are presented below:

	Estimated impacts from				
in € thousand	**Classification and measurement of financial instruments**	**Impairment of financial assets**	**Hedge accounting**	**Deferred taxes**	**Total**
Loans and financial assets	**17,892**	**4,877**	**0**	**0**	**22,769**
Deferred tax assets	0	0	0	0	**0**
Provisions	0	593	0	0	**593**
Deferred tax liabilities	0	0	0	5,768	**5,768**
Equity	17,892	4,284	0	-5,768	**16,408**
Of which:					
Retained earnings	-1,816	4,284	0	16	**2,484**
Reserves for OCA (own credit adjustments)	-2,530	0	0	0	**-2,530**
Revaluation reserve	22,238	0	0	-5,784	**16,454**

Since the opening balance sheet had not been prepared as of the date for assessing the initial application effect of IFRS 9 on 31 December 2017, the presented impact of the initial application of IFRS 9 is an estimate, and can change in future. The final figures will be published with the IFRS 9 opening balance sheet included in the interim financial statements as of 30 June 2018. The following notes and estimates of the Bank are based on the conditions and circumstances prevailing as of the date of initial application.

Under IFRS 9, the following regulatory areas of relevance to NORD/LB CBB will require adaptation:

Classification and measurement of financial instruments

In general, IFRS 9 provides for measurement of all financial assets at fair value. Subsequent recognition at amortised cost is permitted only if securities with debt characteristics or loans were assigned to a portfolio with the “Hold and collect” business model, and if their cash flows represent solely interest and principal payments on the outstanding capital of the financial instrument at contractually defined points in time. If the cash flows do not meet this requirement, the asset must be measured at fair value through profit and loss. Subsequent recognition with the fair value changes recognised in other comprehensive income (OCI) is permitted only if the securities with debt characteristics or loans were assigned to a portfolio with the “Collect and sell” business model, and if their cash flows represent solely interest and principal payments on the outstanding capital of the financial instrument at contractually defined points in time. If certain conditions are met, the financial instruments may be irrevocably designated at fair value upon initial recognition.

While classification under IAS 39 is based primarily on the type of financial asset, classification under IFRS 9 focuses on the entity’s intention regarding the collection of contractual cash flows (business model) and the structure of the financial instrument. IFRS 9 provides for three possible business models for financial instruments: “Hold and collect”, “Collect and sell” and “Others”. Based on the current assessment of the future project, the assets of the Bank were assigned to the three possible business models. A financial instrument is also classified by what is known as the cash flow criterion; this is used to examine the individual financial instrument to determine whether the contractual cash flows relate solely to principal and interest payments. Financial assets are classified and measured based on the combination of the business model and the characteristics of the cash flows.
Securities with equity characteristics must be measured at fair value through profit and loss because the cash flow criterion is not met. The option of fair value measurement directly in equity with changes in value recognised in other comprehensive income (OCI) may be exercised only if there is no intention to trade the assets. The Bank currently has no securities with equity characteristics in its portfolios. The Bank’s only investment, Galimondo S.à r.l. (in liquidation), is assigned to the “Collect and sell” business model. As the company is in liquidation, fair value was not determined. The carrying amount as at 1 January 2018 totalled € 12,500.

Derivatives should generally be recognised at fair value through profit and loss. Measurement methods do not change under IFRS 9.

Financial assets – loans

NORD/LB CBB mainly follows the “Hold and collect” business model in its loan business. Firstly, the contract components or ancillary agreements of loans used by the Bank in its loan business were reviewed – depending on the contract type – to identify features resulting in cash flows that are not exclusively interest and principal repayments in accordance with IFRS 9 requirements.

For the loans of NORD/LB CBB as at 31 December 2017, the review was conducted on loan contracts to identify components or ancillary agreements of relevance for the classification of transactions as subject to “mandatory measurement at fair value through profit and loss”. Those contract components or ancillary agreements of loans in the loan portfolio that conflict with the cash flow criterion are recorded at NORD/LB CBB for technical purposes.
In comparison to the classification under IAS 39, the new IFRS 9 classification model means no change for the loan business at NORD/LB CBB, which is still measured at amortised cost. Upon initial application, all loans fulfil the cash flow criterion.

Financial assets – securities
At NORD/LB CBB, all three of the business model versions under IFRS 9 are relevant upon initial application for securities with debt characteristics under assets. The portfolios with a long-term investment horizon are generally allocated to the “Hold and collect” business model. In the case of portfolios used for short and/or medium-term liquidity management, the Bank assigns them to the “Collect and sell” business model because they are actively managed and there is generally no intention to hold the securities to maturity. Portfolios managed at fair value are assigned to the “Others” business model.

Based on its business intentions, the Bank assigns most of its securities portfolio to the “Collect and sell” business model. These securities, which were previously measured at fair value directly in equity under IAS 39, will thus continue to be measured at fair value through other comprehensive income (FVOCI).

Part of NORD/LB CBB’s securities portfolio will be reclassified because of the assignment to the “Hold and collect” business model, and measured in future at amortised cost. Amounts previously included in the revaluation reserve due to their classification as Available for Sale (AfS) will be derecognised against the carrying amount upon the first-time application of IFRS 9. This generates a positive effect of € 13.6 million. By contrast, the revaluation reserve is reduced by € 10.0 million to account for deferred taxes.

The Bank’s securities portfolio business contains only a comparatively low number of cases that have to be measured at fair value through profit and loss because they do not fulfil the cash flow criterion (€ 79.0 million in nominal terms). These are almost exclusively financial instruments previously measured at amortised cost, whose carrying amount fell by € 4.4 million following the reclassification. Retained earnings also fell as a result by € 4.4 million (before taxes).

In accordance with IFRS 9 7.2.9 a), the Bank revoked the previous designation of securities measured at fair value as per IAS 39 because the accounting mismatch at the time the financial instruments were recognised no longer existed in that form at the date of initial application. The securities were assigned to the “Other” business model owing to the management of this sub-portfolio (€ 849.1 million in nominal terms) at fair value. Consequently, the securities are still measured at fair value through profit and loss.

Financial liabilities
The main change to the existing requirements concerns recognition of profit/loss from instruments in the fair value option. As a general rule, IFRS 9 stipulates that changes to the measurement of financial liabilities induced by credit ratings must be recognised directly in equity within other comprehensive income (OCI); the remaining part of the change in value will continue to be recognised in the income statement.
NORD/LB CBB does not expect this new method to produce measurement or recognition inconsistencies; therefore, fair value changes affecting

own credit risk for financial liabilities in the fair value option will always be recognised under other comprehensive income (OCI).

In accordance with IFRS 9 7.2.10 b), the Bank revoked the existing designation of securities measured at fair value as per IAS 39 because the accounting mismatch at the time the financial instruments were recognised no longer existed in that form as of the initial application. On account of a different accounting mismatch as at the time of the initial application, the securities of this sub-portfolio (€ 1,050.0 million in nominal terms) were designated at fair value again and therefore still measured at fair value through profit and loss. The fair value change realised since the issue of these securities from changes in own credit risk totalled € -2.5 million as at 31 December 2017, and will be recognised under other comprehensive income in future in accordance with IFRS 9 5.7.7.

Impairment of financial assets

IFRS 9 introduces a new impairment model which aims to provide useful decision-making information more adequately and promptly. IFRS 9 replaces the "accrued losses" model of IAS 39 with a forward-looking "expected credit loss" model. This requires significant discretionary decisions as to the extent to which the expected credit losses 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 securities held as financial assets – and to contractual assets.

In line with the new procedure, expected credit losses are therefore recognised upon initial measurement based on an Expected Loss (EL) model, rather than waiting until a credit event actually occurs. According to the new impairment model, those financial instruments, loan commitments and financial guarantees (provided they are not recognised in the balance sheet at fair value through profit and loss) will be subdivided into three stages, depending on the change in their credit quality since initial recognition. In Stage 1, the expected credit losses are calculated to the amount of the expected loss with an observation period of one year. In Stages 2 and 3, the Bank will calculate the expected credit losses for the entire expected remaining term of the financial instrument (lifetime expected loss). Stage 3 includes receivables already defaulted in accordance with existing IAS 39 procedures, which have been adapted in line with the new requirements of IFRS 9. This mainly involves the definition of default, which has been harmonised with regulatory requirements.

Determining and implementing suitable models for calculating expected loss and lifetime expected loss in line with accounting standards are crucial for NORD/LB CBB. A standard method has been developed for the allocation of stages under IFRS 9. The key elements of the method involve quantitative credit quality indicators which are suitable for ensuring a transfer to the corresponding stage of the impairment model in the event of a significant change in credit risk.

NORD/LB CBB calculates risk provisioning using an instrument-by-instrument approach. Risk provisioning is determined using a parameter-based approach for all financial instruments in Stages 1 and 2 and for non-significant Stage 3 financial instruments, whereas an expert-based approach involving multiple scenarios is selected for significant Stage 3 financial instruments.

The parameter-based calculation is carried out on the basis of default probabilities, loss rates and the possible amount of the exposure on default. The methodological concept for using forward-looking information as part of scenarios as well as the implementation of a multi-scenario view to determine risk provisioning have been completed at NORD/LB CBB. The Bank carried out an initial validation of the parameter-based calculation of risk provisioning during Stages 1 and 2 as well as during the level transfer. Further selected adjustments and improvements will be made in the first six months of 2018 to the specialist and IT processes introduced.

Because of the new classification requirements under IFRS 9 for the business model and assessment of the cash flow criterion, the range of all financial instruments used for the impairment will also change in future.

The corresponding risk provisioning amount under IFRS (always before taxes) for Stages 1 and 2 totals € 13.5 million, and € 5.2 million for Stage 3. This means an overall decline of € 4.3 million compared to the risk provisioning under IAS 39. The decrease affects only Stages 1 and 2 because the risk provisioning amount recognised for Stage 3 was virtually unchanged. The reason for the decline is that in contrast to IFRS 9, the Bank under IAS 39 adjusted the measurement parameters of problematic portfolios to parameters observable on the market, and underpinned these scenarios with a likelihood of occurrence. There are still uncertainties surrounding the estimation of effects from the first-time application of impairment rules under IFRS 9 because the calculation methodology was not completely finalised on 31 December 2017. These effects are largely based on the initial ratings used and are not likely to be significant based on current information. The final effects will be published with the IFRS 9 opening balance sheet included in the interim financial statements as at 30 June 2018.

Hedging relationships

In accordance with IFRS 9, the Bank must ensure that the accounting of hedging transactions is consistent with the goals and strategy of risk management and that a qualitative and forward-looking approach is used when assessing the effectiveness of hedging transactions. IFRS 9 also introduces new requirements regarding the reweighting of hedging transactions and eliminates the discretion entities have to voluntarily discontinue hedge accounting. Under the new model it is possible that more than one risk management strategy may fulfil the requirements for hedge accounting. This applies especially for those that include a risk hedging component (not including foreign currency risk) of a non-financial item.

The IASB has decided to subdivide hedge accounting into general hedge accounting and macro hedge accounting. Macro hedge accounting is not part of the published IFRS 9 now enacted in law, and is currently being revised by the IASB as an independent project.

Until the new regulations regarding macro hedge accounting are published, the regulations of IAS 39 regarding portfolio fair-value hedges for interest-rate risks will remain in effect. There is an option to apply the standard on general hedge accounting as from 1 January 2018, or to continue with the IAS 39 regulations. NORD/LB CBB decided to apply the hedge accounting under IFRS 9 early. Since the Bank had previously used only micro hedge accounting, the early adoption of the new standard will probably have no significant effects or changes in the management of interest-rate risks. The Bank is currently still verifying the alternatives offered by the new opportunities to handle FX basis spreads from cross currency swaps. Retrospective application applies here too, which would result in transfers of € 45.1 million from retained earnings within the Bank's equity capital.

Assessment of IFRS 9 initial application effect in accordance with IAS 8.30

The anticipated effect stemming from the initial application of IFRS 9 was validated with due discretion based on the status of the IFRS 9 opening balance sheet as at 1 January 2018 in the production systems as at 31 December 2017. The initial application effect is largely determined by the changed classification of financial assets and liabilities as well as by the new impairment methodology. Based on information as at 31 December 2017, NORD/LB CBB expects an initial application effect of € 2.5 million in the balance sheet after deferred taxes, which will be recognised under retained earnings. This effect will be almost completely offset by the new reserve for credit-risk-related changes in fair value of own issues measured at fair value. An initial application effect of € 16.5 million after deferred taxes is also expected in the revaluation reserve.

These effects will have an immaterial impact on the Bank's equity ratio. Since the opening balance sheet as at the date for assessing the initial application effect of IFRS 9 on 31 December 2017 had not yet been prepared, the impact of the initial application of IFRS 9 is provisional and can change in future.
The final figures will be published with the IFRS 9 opening balance sheet included in the interim financial statements as of 30 June 2018.

Recognition
In accordance with the IFRS 9 classification and measurement requirements, NORD/LB CBB will gear its future reporting on financial instruments more towards the measurement categories. In future, the IFRS 9 figures will be compared to the corresponding figures of the previous year. In the 2018 reporting year, as permitted, the retrospective application of IFRS 9 for reporting will be waived. This means that the IFRS 9 values in the 2018 reporting year will be compared to prior-year values determined for 2017 according to IAS 39 requirements. The Bank does not intend to utilise any other options.

IFRS 15 – Revenue from Contracts with Customers
The currently applicable standards for revenue recognition (IAS 18 and IAS 11) and the related interpretations were replaced from 2018 by IFRS 15. IFRS 15 provides for a new principle-based five-step model for the accounting and recognition of revenue. In particular, the new standard will impact the amount and timing of revenue recognition and its distribution in the statement of comprehensive income. The EU endorsed the standard in the fourth quarter of 2016; the clarifications were endorsed in the fourth quarter of 2017.

Application of the standard is mandatory for reporting periods beginning on or after 1 January 2018. The standard is fundamentally applicable for all contracts with customers of the Bank. 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. IFRS 15 is mainly applicable to the accounting of commission income, i.e. to the Bank's service business. The introduction of the standard will not have a material impact on the presentation of the financial position, assets and earnings position of NORD/LB CBB.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

The amendments affect the following areas:

- Consideration of vesting conditions (service conditions, market conditions and other performance conditions) when measuring cash-settled share-based payment transactions: According to the new rule, market conditions and non-vesting conditions must be taken into account in the fair value. Service conditions and other performance conditions adjust the number of awards.
- Classification of share-based payment transactions that provide for a net settlement of withholding taxes: If an entity reduces the number of equity instruments it otherwise has to deliver because it is obliged to withhold and pay the tax for its employees, and this net settlement is included in the contract, then the overall payment must be accounted for as a share-based payment transaction settled with equity instruments – in spite of the partial payment of liquid assets.
- Accounting for a change in conditions, if the

change means that the classification switches from “cash-settled” to “equity-settled”: An equity-settled payment transaction must be recognised as an addition to equity at its – prorated – fair value at the time of the change. Any difference to the derecognised debt is recognised in profit or loss.

The amendments are to be applied for payments granted or changed in financial years beginning on or after 1 January 2018; earlier application is permitted.

The Bank does not expect any impacts on the financial statements of NORD/LB CBB.

Improvements to IFRS (cycle 2014 – 2016) under the IASB's annual improvement process

As part of the annual improvements process, changes were made to IFRS 1 and IAS 28 that are applicable for financial years beginning on or after 1 January 2018. For IFRS 1, the short-term exemptions for first-time users were eliminated. The adjustment in IAS 28 specifies how venture capital companies may exercise their option regarding the carrying amount of certain investments.

The aforementioned clarifications will not have any 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 Bank's financial statements only after 31 December 2018.

IFRS 16 – Leases

In 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. It was implemented in European law in November 2017. 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.

The initial application of IFRS 16 is for financial years beginning on or after 1 January 2019. Early application together with the application of IFRS 15 Revenue from Contracts with Customers is not planned for NORD/LB CBB.

In particular, the new standard affects the Bank's accounting as a lessee. 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 financial position, assets and earnings position of NORD/LB CBB are caused in particular by an increase in total assets 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 and therefore not recognised in the balance sheet. Moreover, breaking down expenses into a depreciation component and an interest component using the effective interest method results in a degressive development of expense and an 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 implementing IFRS 16. The potential to exercise the options granted pursuant to IFRS 16 is primarily seen for lease agreements relating to operating and business equipment as well as short-term residential rental properties.

The introduction of the standard will not have a material impact on the presentation of the financial position, assets and earnings position of NORD/LB CBB.

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.

Amendments to IAS 40 – Transfers of Investment Property

In December 2016, the IASB published amendments to IAS 40 in order to clarify the guidelines for transfers to or from investment property holdings. It was clarified that such a transfer can take place only in the case of usage changes for which there is corresponding supporting evidence; this principle also applies to real estate under construction or development. The list of evidence in IAS 40.57 has been converted into a non-exhaustive list. The amendments to IAS 40 enter into effect for financial years beginning on or after 1 January 2018. There are currently no circumstances in the NORD/LB Group to which the amendments to IAS 40 apply.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

In October 2017, the IASB published narrow-scope amendments to IFRS 9 that are to be applied from 1 January 2019. These amendments clarify or adjust the existing rules in IFRS 9.B4.1.10 and B4.1.11(b). This was prompted by the ambiguous application of these rules in the case of financial instruments that include symmetric termination and indemnity clauses, where a termination indemnity could theoretically be paid by the borrower to the lender and by the lender to the borrower. The amendment clarifies that such contractual clauses do not contradict the fulfilment of the cash flow criterion – regardless of whether the termination indemnity is paid by the borrower or the lender.

NORD/LB CBB will take the clarification into account from the initial application of the amendment as part of the assessment of the cash flow criterion.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

The IASB in October 2017 published amendments to IAS 28 that are to be applied from 1 January 2019. These amendments clarify the rules in IAS 28.14 in conjunction with IFRS 9.2.1 (a). The adjustment in IAS 28 specifies that IFRS 9 must be applied for certain long-term financial instruments that form part of the net investment in an associate or joint venture provided they are not recognised using the equity method. This has no impact on the financial statements.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

In February 2018 the IASB published a narrow-scope amendment to IAS 19 that must be applied from 1 January 2019. The amendment relates to the use of updated assumptions to determine current service costs and the net interest result when accounting for pension plans for the remainder of the reporting period after a prior amendment, curtailment or termination of the plan. The NORD/LB Group is not affected by this amendment at present.

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

- IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration
- IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments
- Improvements to IFRS (cycle 2015 – 2017) under the IASB's annual improvements process

These changes are currently expected to have no impact, or no material impact, on NORD/LB CBB's financial statements.

The initial implementation of the amended standards described is stipulated for the respective time of initial 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 are translated using the ECB reference exchange rates as at 29 December 2017. 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. It is measured at the fair value of the consideration received or to be claimed.

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

In the case of impairments of interest-bearing assets, the interest income is determined on the basis of the interest rate used to calculate 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 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 transferred only partially 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 degree of 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 liabilities 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 a constant effective interest rate together with the allocation of the premium or discount to the notional value or the redemption amount. 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 set at the amortised cost that would have existed at the time of measurement without impairments.

// *Held to Maturity (HtM)*

Non-derivative financial assets with fixed or determinable payments and a fixed maturity can be allocated to this category if it is intended and possible to hold them to maturity. 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 Held to Maturity category 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 comprises financial instruments (trading assets and liabilities) acquired with the intention of generating 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 primarily include 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 measurements. 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 reported in the corresponding balance sheet item. They are subsequently measured 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 primarily loans and debt securities as well as shares and investments that are not measured pursuant to IAS 27, IAS 28 or IAS 31. The subsequent measurement is made at fair value; if it is not possible to reliably determine the fair value of 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 can be settled only by delivery), 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 lasting impairment is tested 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 for the part of the appreciation corresponding to the 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 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 measurement method which would be obtained on the basis of an orderly transaction, i.e. a disposal or transfer, 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-stage 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.

Level 1

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. These instruments are then allocated to Level 1 if there is an active market for these quotes, i.e. the bid-ask spread is low and there are multiple price suppliers with very little difference in their prices.

If the quotations are for (mixed) prices or if the price is set on an inactive market, the instruments are not assigned to Level 1 but to Level 2 of the fair value hierarchy, provided the quotations relate to binding offers, observable prices or market transactions. Level 1 prices are used without any adjustment. Level 1 financial instruments include trading assets and liabilities, financial instruments designated at fair value, financial assets recognised at fair value, other assets and other liabilities.

Level 2

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 largely by means of observable input data, such as 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. the discounted cash flow method and the Hull & White model for options) and the calculations of which are fundamentally based on inputs available on an active market. One 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 market 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, exchange rates and volatilities. A standard market approach is always selected for necessary model parameterisations. In the case of asset-side securities for which there is no active market and for which market prices can no longer be used for measurement, the fair value for measurement purposes is determined on the basis of discounted cash flows. With the discounted cash flow method, all payments are discounted using the risk-free interest rate curve adjusted by the credit spread. Spreads are determined based on comparable financial instruments (for example, taking account of the respective market segment and the issuer's credit rating). The financial instruments at NORD/LB Group 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 within the Group 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 for which listed prices on active markets cannot be used is based on term-specific interest rates, the credit rating of the respective issuer and, where applicable, further components such as foreign currency surcharges. Level 2 financial instruments include trading assets and liabilities, hedge accounting derivatives, financial instruments designated at fair value, financial assets recognised at fair value, and assets held for sale.

Level 3

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 valuation generally uses both institution-specific models and standard discounted cash flow models as well as data which are not observable on the market. The inputs used in these methods include, among other things, assumptions about cash flows, loss estimates and the discount rate, and are determined as far as possible on a near-market basis. Loans designated for syndication are assigned to Level 3. In overall terms, Level 3 financial instruments can include trading assets and liabilities, financial instruments designated at fair value, financial assets recognised at fair value, loans classified as LaR and assets held for sale.

Fair value calculation

All measurement models applied in the Group are reviewed periodically. The fair values are subject to internal controls and processes at the NORD/LB Group. These controls and processes are carried out in and coordinated by the Finance and Risk Control divisions. The models, the data used in them 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. In the context of the bid-ask spread, the measurement is generally carried out using the average price or average quote. 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 average quote is an observable input in the measurement method. In addition, the Level 3 methodology is used to determine the fair values for all of the Bank's loans required for the purposes disclosed in Note (54) Fair value of financial instruments.

The counterparty risk (Credit Value Adjustment (CVA)/Debit Value Adjustment (DVA)) is determined on the basis of the net risk position as per IFRS 13.48. The CVA/DVA is allocated to individual transactions in the balance sheet using the relative credit-adjustment approach. There are generally no quoted prices available for OTC market derivatives, so the fair value must be calculated using other measurement methods. The measurement is first carried out using cash flow models without taking account of the credit default risk. For a correct fair value measurement, both the counterparty credit default risk (CVA) and our own credit default risk (DVA) must be taken into account by means of an add-on procedure. The NORD/LB Group primarily measures secured OTC derivatives in accordance with the current market standard of overnight index swap discounting (OIS discounting). This means that secured derivatives are now discounted using the OIS interest rate curve rather than the term-specific interest rate. Unsecured derivatives continue to be discounted in accordance with the term-specific interest rate to establish their fair value.

Given the non-material effect, no funding valuation adjustment (FVA) is considered.

// *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 CBB'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 derivatives (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 financial instrument 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 (for underlying transactions in foreign currency).

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 or 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 under 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 under 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 no non-genuine securities repurchase agreements outstanding as at 31 December 2017.

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 principal repayment obligations, or other obligations, can be satisfied as scheduled. Such criteria include, among others, the default or delay in making interest or principal 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 at 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. Depreciation 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 acquisition cost 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

One framework contract concluded by the Bank (data processing hardware) is classified as a finance lease. With regard 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. Initial direct costs (such as experts' fees) are immediately recognised in profit and loss. 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 production 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 lapse, 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.

There are no intangible assets at NORD/LB CBB with an indefinite useful life.

(11) Provisions for pensions and similar obligations

The Bank's 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 institution to an external pension provider (defined contribution plan). In this case, the contributions to the pension plan 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 plan at NORD/LB CBB is based on a pension system where employees receive an entitlement to pension benefits wherein the pension benefit is specified and dependent on factors such as expected wage and salary increases, age, years of service and a predicted pension trend (defined benefit plan). The accounting principles of IAS 19 for defined benefit plans are applied for this pension scheme. The components of the pension plan 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, additional accounting current 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. In addition to the biometric assumptions, the calculation includes an actuarial interest rate (discount rate) that is based on high-quality corporate bonds, and future expected salary and pension increases.

The pension system is outsourced to a Luxembourg insurance company.

Please refer to Note (42) Provisions for information on provisions for pensions and similar obligations.

(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. Provisions are 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.

Provisions for reorganisation measures

In the absence of a legally enforceable, external obligation, IAS 37 focuses on a constructive obligation with regard to provisions for reorganisation measures. A constructive obligation means that the accounting entity – even without a legally enforceable obligation – has no realistic alternative to evade the obligation. It is important to note in this regard that this is an obligation to staff and not an obligation to the parent company.

A provision for reorganisation measures in relation to benefits associated with the termination of employment must therefore be recognised as an expense if the entity has informed the employees concerned about a plan regarding the termination of employment, and this plan cumulatively fulfils all of the following criteria:

- The measures required to implement the plan suggest that significant changes to the plan seem unlikely.
- The plan includes the number of employees whose jobs are to be terminated, their workplace categories or functions and their locations. However, the plan does not have to identify every individual employee.
- The plan includes the expected implementation date.
- The plan specifies the termination benefits in such detail that the employees can determine the type and amount of the benefits they may receive upon termination (IAS 19.167).

The aforementioned requirements are connected to the criteria for other obligations from reorganisation measures, which fall under IAS 37. Accordingly, those affected must have valid expectations that the reorganisation measures will be carried out. This is achieved vis-a-vis those affected by starting to implement the plan or by announcing its main constituent parts (IAS 37.72(b)).

When measuring the provisions for reorganisation measures, the only expenses taken into account are those directly associated with the reorganisation. These include, in particular, termination payments to employees whose employment is to be ended as a result of the reorganisation.

In estimating the expense to be provided for, the Bank relied on its own compensation concept.

(13) Income taxes

Current income tax assets and liabilities were calculated using the applicable tax rates at which the payment to or 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 asset 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 this income 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

Subordinated capital 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.

The Bank’s last outstanding subordinated bond fell due in December 2017.

A detailed listing of the subordinate liabilities can be found under Note (45) Subordinated capital.

Segment reporting

Segment reporting by business segment

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 structures 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 areas 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 to this segment 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 management and custody service as well as lending business with private banking customers remain at the Bank, as does the resulting income, and 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 Nordlux Vermögensmanagement 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 investments are reported here too.

Segmentation by region

The Bank's segment reporting by geographical segment is based on the headquarters of the counterparty. Expenses and income are calculated in relation to the segment assets or liabilities.

(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	**16,897**	**87,860**	**1,108**	**3,042**	**108,908**
Ditto previous year	5,023	83,122	1,455	756	**90,356**
Loan loss provisions	**365**	**-1,887**	**-44**	**0**	**-1,566**
Ditto previous year	-164	-144	127	0	**-181**
Net interest income after risk provisioning	**17,262**	**85,973**	**1,064**	**3,042**	**107,342**
Ditto previous year	4,859	82,978	1,582	756	**90,176**
Net commission income	**3,016**	**-41,258**	**-203**	**-4**	**-38,450**
Ditto previous year	2,163	-42,993	-416	-3	**-41,249**
Profit/loss from financial instruments at fair value through profit or loss	**5,474**	**0**	**0**	**0**	**5,474**
Ditto previous year	25,312	0	0	0	**25,312**
Profit/loss from hedge accounting	**0**	**0**	**0**	**-1,546**	**-1,546**
Ditto previous year	0	0	0	4,011	**4,011**
Profit/loss from financial assets	**18,694**	**19**	**0**	**0**	**18,713**
Ditto previous year	4,927	0	0	0	**4,927**
Administrative expenses	**-12,386**	**-12,386**	**-2,796**	**-15,187**	**-42,756**
Ditto previous year	-12,104	-12,032	-4,130	-8,646	**-36,913**
Other income/expenses	**-2,472**	**-301**	**1,423**	**-7,091**	**-8,440**
Ditto previous year	-2,589	-233	2,823	-3,296	**-3,295**
Earnings before taxes	**29,588**	**32,047**	**-512**	**-20,786**	**40,337**
Ditto previous year	22,586	27,737	-188	-7,165	**42,970**
in € million					
Segment assets	**6,859.3**	**8,370.2**	**39.1**	**91.9**	**15,360.6**
Ditto previous year	8,125.5	7,680.6	41.4	88.7	**15,936.2**
Segment liabilities (including equity)	**13,686.0**	**787.5**	**138.0**	**749.1**	**15,360.6**
Ditto previous year	13,090.6	1,928.1	148.6	769.0	**15,936.2**
Risk-weighted assets (average values)	**1,148.9**	**2,934.7**	**48.6**	**85.0**	**4,217.2**
Ditto previous year	1,447.4	2,632.5	61.3	102.3	**4,243.4**

Segments					
in € million	Financial Markets & Sales	Loans	Client Services & B2B	Bank Management & Other	Total
Capital commitment (average values)	**91.9**	**234.8**	**3.9**	**6.8**	**337.4**
Ditto previous year	115.8	210.6	4.9	8.2	**339.5**
CIR *	**54.1 %**	**26.8 %**	**120.1 %**	**-271.3 %**	**64.8 %**
Ditto previous year	40.5 %	30.2 %	106.9 %	588.9 %	**49.1 %**
RoRaC **	**21.1 %**	**13.7 %**	**-12.9 %**	**-246.9 %**	**11.1 %**
Ditto previous year	13.7 %	13.2 %	-3.6 %	-66.0 %	**11.0 %**

*) CIR = ratio of administrative expenses to the total of net interest income, net commission income, trading profit/loss, valuation result (excluding profit/loss from financial assets) and other operating profit/loss. (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 30 June 2017, this ratio was calculated by dividing administrative expenses by earnings before taxes and costs (administrative expenses) and risk components. Since 31 December 2017 the cost/income ratio (CIR) is determined by dividing administrative expenses by the total of net interest income, net commission income, trading profit/loss, valuation result (excluding profit/loss from financial assets) and other operating profit/loss. The Bank changed the calculation method in order to align with the method used by the Group parent company NORD/LB AöR and thereby improve comparability:

Until 30.06.2017

	31.12.2016
Cost/income ratio (in € million)	50.5 %
Administrative expenses	36.9
Earnings after taxes	31.2
Taxes	11.7
Costs (administrative expenses)	36.9
Risk components	-6.7

Since 31.12.2017:

	31.12.2017	31.12.2016
Cost/income ratio (in € million)	64.8 %	49.1 %
Administrative expenses	-42.8	-36.9
Net interest income	108.9	90.4
Net commission income	-38.5	-41.2
Profit/loss from financial instruments at fair value through profit or loss	5.5	25.3
Profit/loss from hedge accounting	-1.5	4.0
Other operating profit/loss	-8.4	-3.3

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 of the limit for committed capital or committed capital:

	31.12.2017	31.12.2016
RoRaC (in € million)	11.1 %	11.0%
Earnings before taxes	40.3	43.0
Limit for committed capital	364.6	391.1
Committed capital	337.4	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**	**65.3**	**65.3**
Ditto previous year	0.0	0.0	0.0	66.4	66.4
Depreciation on property and equipment, current year	**0.0**	**0.0**	**0.0**	**-2.0**	**-2.0**
Ditto previous year	0.0	0.0	0.0	-1.5	-1.5
Intangible assets, net	**0.0**	**0.0**	**0.0**	**22.1**	**22.1**
Ditto previous year	0.0	0.0	0.0	19.6	19.6
Amortisation on intangible assets, current year	**0.0**	**0.0**	**0.0**	**-5.2**	**-5.2**
Ditto previous year	0.0	0.0	0.0	-3.6	-3.6
Change to allowances on financial assets, current year	**3.6**	**0.0**	**0.0**	**0.0**	**3.6**
Ditto previous year	6.9	0.0	0.0	0.0	6.9

(16) Geographic segmentation of NORD/LB CBB

	Segments							
in € million	Germany	Luxem-bourg	Switzer-land	Other Europe	USA	Other Ame-rica	Other coun-tries	Total
Earnings before taxes	**19.9**	**0.6**	**2.3**	**10.2**	**4.6**	**1.9**	**0.8**	**40.3**
Ditto previous year	20.5	1.5	1.5	10.7	5.7	2.2	0.8	**43.0**
Segment assets	**7,594.7**	**231.8**	**896.6**	**3,868.2**	**1,746.8**	**715.9**	**306.6**	**15,360.6**
Ditto previous year	7,600.7	566.7	563.3	3,979.5	2,121.9	803.4	300.7	**15,936.2**
Segment liabilities (including equity)	**9,503.0**	**4,594.8**	**460.7**	**712.6**	**19.5**	**8.6**	**61.5**	**15,360.6**
Ditto previous year	8,043.3	6,090.2	738.5	957.1	24.4	31.3	51.4	**15,936.2**
Risk-weighted assets	**2,085.1**	**63.6**	**246.2**	**1,062.0**	**479.6**	**196.5**	**84.2**	**4,217.2**
Ditto previous year	2,023.9	150.9	150.0	1,059.7	565.0	213.9	80.1	**4,243.4**
Capital commitment	**166.8**	**5.1**	**19.7**	**85.0**	**38.4**	**15.7**	**6.7**	**337.4**
Ditto previous year (based on annual average values)	161.9	12.1	12.0	84.8	45.2	17.1	6.4	**339.5**

Notes to the income statement

(17) Net interest income and current income

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

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Interest income	**460,021**	**522,227**	**-12**
Interest income from lending and money market transactions	198,860	212,078	-6
Interest income from fixed-interest securities and debt securities	109,968	138,800	-21
Interest income from derivatives	151,092	171,266	-12
Expected return on plan assets	68	70	-3
Other interest income and similar income	33	14	> 100
Interest expenses	**-357,026**	**-430,753**	**-17**
Interest expenses from lending and money market transactions	-130,436	-132,129	-1
Interest expenses from securitised liabilities	-30,108	-31,131	-3
Interest expenses from subordinated capital	-932	-841	11
Interest expenses from derivatives	-195,411	-266,481	-27
Interest expenses from provisions and liabilities	-136	-166	-18
Other interest expenses and similar expenses	-2	-4	-58
Interest rate anomalies	**5,912**	**-1,119**	**< -100**
Interest expenses from asset-side lending and money market transactions	-4,919	-6,103	-19
Interest expenses from derivatives, receiver leg	-4,483	-533	> 100
Interest income from liabilities-side lending and money market transactions	11,950	2,578	> 100
Interest income from derivatives, payer leg	3,364	2,939	14
Total	**108,908**	**90,356**	**21**

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

(18) Loan loss provisions

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Income from provisions for lending business	**1,100**	**620**	**78**
Reversal of specific valuation allowances on loans and advances	341	421	-19
Reversal of portfolio valuation allowances on loans and advances	672	84	> 100
Reversal of provisions for lending business	74	115	-36
Additions to receivables written off	14	0	> 100
Expenses from provisions for lending business	**-2,666**	**-800**	**> 100**
Allocations to specific valuation allowances on loans and advances	-2,611	-129	> 100
Allocations to portfolio valuation allowances on loans and advances	0	0	-
Allocation to provisions for lending business	0	-34	-100
Direct write-offs of bad debts	-56	-637	-91
Total	**-1,566**	**-181**	**> 100**

(19) Net commission income

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

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 on a straight-line basis over this 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-banks. 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 on a pro rata basis 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.

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Commission income	**15,544**	**18,045**	**-14**
From security transactions and custody service	6,496	5,801	12
From brokerage business	0	0	-
From lending and guarantee business	8,497	11,323	-25
Other commission income	551	921	-40
Commission expenses	**-53,994**	**-59,293**	**-9**
From brokerage business	-37,965	-34,218	11
From lending and guarantee business	-12,625	-21,174	-40
Other commission expenses	-3,404	-3,902	-13
Total	**-38,450**	**-41,249**	**-7**

Expenses from the Group-internal brokerage business and the lending and guarantee business are the main reasons for the negative net commission income in both financial years. Brokerage expenses are based on a margin-splitting model adjusted in the financial year 2016.

(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).

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Trading profit/loss	**5,262**	**2,377**	**> 100**
Realised profit/loss	-189	-8,172	-98
From debt securities and other fixed-interest securities	0	-230	-100
From shares and other non-fixed-interest securities	0	0	-
From derivatives	-189	-7,942	-98
From loans and advances held for trading purposes	0	0	-
Valuation result	6,344	10,866	-42
From debt securities and other fixed-interest securities	0	180	-100
From shares and other non-fixed-interest securities	0	0	-
From derivatives	6,348	10,681	-41
From loans and advances held for trading purposes	-4	4	< -100
Foreign exchange result	-892	-317	> 100
Other profit/loss	0	0	-
Profit/loss from use of the fair value option	**212**	**22,935**	**-99**
Realised profit/loss from	-454	9,085	< -100
Debt securities and other fixed-interest securities	-454	9,085	< -100
From shares and other non-fixed-interest securities	0	0	-
Other business	0	0	-
Valuation result from	666	13,850	-95
Debt securities and other fixed-interest securities	-3,538	11,529	< -100
Securitised liabilities	4,205	2,321	81
From shares and other non-fixed-interest securities	0	0	-
Other business	0	0	-
Other profit/loss	0	0	-
Total	**5,474**	**25,312**	**-78**

The net interest income from the fair-value option in the amount of € 2,331 thousand (previous year: € 9,951 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.

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Profit/loss from micro fair value hedges	**-1,546**	**4,011**	**< -100**
From hedged underlying transactions	-126,164	-117,434	7
From derivatives used as hedging instruments	124,619	121,445	3
Total	**-1,546**	**4,011**	**< -100**

(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 investments reported as financial assets.

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Profit/loss from financial assets classified as LaR/OL	**18,973**	**-906**	**< -100**
Profit/loss from the disposal	-1,340	-3,815	-65
of debt securities and other fixed-interest securities	-1,340	-3,815	-65
of repurchased own bonds	0	0	-
Profit/loss from allowances for losses (including portfolio valuation allowances)	3,571	2,909	23
Profit/loss from valuation changes through profit and loss	16,742	0	> 100
Profit/loss from financial assets classified as AfS	**-260**	**5,833**	**< -100**
Profit/loss from the disposal	-9	1,814	< -100
of debt securities and other fixed-interest securities	-9	1,814	< -100
of repurchased own bonds	0	0	-
Profit/loss from valuation allowances	0	4,019	-100
Profit/loss from valuation changes through profit and loss	-251	0	> 100
Total	**18,713**	**4,927**	**> 100**

The increase in profit/loss from financial assets classified as LaR/OL, including portfolio valuation allowances, was mainly attributable to the change in estimation methods applied in connection with the foreign currency component of the hedge fair value of underlying transactions hedged against foreign currency risks (€ +16.5 million, including the profit/loss from valuation changes of AfS bonds). This change was made as part of the preparations to adopt IFRS 9.

(23) Administrative expenses

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

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Staff expenses	**-22,948**	**-21,567**	**6**
Wages and salaries	-19,453	-18,415	6
Social insurance contributions	-1,860	-1,626	14
Expenses for pensions and other benefits	-1,161	-912	27
Other staff expenses	-474	-614	-23
Other administrative expenses	**-16,044**	**-12,430**	**29**
Expenses for operating and office equipment, and data processing	-10,385	-8,408	24
Costs for legal, auditing, appraisal and consulting services	-3,822	-2,139	79
Other administrative expenses	-1,837	-1,883	-2
Amortisation and depreciation, and valuation allowances	**-3,764**	**-2,915**	**29**
Amortisation and depreciation	-3,764	-2,915	29
Property and equipment	-1,960	-1,536	28
Intangible assets	-1,804	-1,380	31
Total	**-42,756**	**-36,913**	**16**

Staff expenses include the allocation to the provision for reorganisation measures described in Note 12 amounting to € 4,285 thousand (previous year: € 3,912 thousand).

(24) Other operating profit/loss

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Other operating income	**2,453**	**4,306**	**-43**
From the reversal of provisions	1,000	0	100
Other income	1,453	4,306	-66
Other operating expenses	**-10,893**	**-7,601**	**43**
From allocations to provisions	0	0	-
Other expenses	-10,893	-7,601	43
Total	**-8,440**	**-3,295**	**> 100**

Other operating income results predominantly from the reversal of a provision created in the previous year (€ 1,000 thousand; previous year: € 0 thousand), rental income (€ 880 thousand; previous year: € 855 thousand), income from service charging for a major Group project (€ 500 thousand; previous year: € 798 thousand) and income for service charging with Nordlux Vermögensmanagement S.A. (€ 30 thousand; previous year: € 1,101 thousand).

Other operating expenses include primarily levies in relation to the bank resolution fund (Fonds de résolution Luxembourg (FRL)) and the Luxembourg deposit guarantee fund (Fonds de garantie des dépôts Luxembourg (FGDL)) (€ 4,103 thousand; previous year: € 2,148 thousand), impairment losses on internally-used software (€ 3,463 thousand; previous year € 2,217 thousand), expenses for service charging with the Group (€ 3,172 thousand; previous year: € 3,021 thousand) and expenses from the utilisation of a guarantee (€ 91 thousand; previous year: € 0).

(25) Income taxes

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Current taxes on income	-15,976	-12,138	32
Deferred taxes	4,963	392	> 100
Total	**-11,013**	**-11,746**	**-6**

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:

	2017 (€ thousand)	2016 (€ thousand)
IFRS earnings before taxes	**40,337**	**42,970**
Anticipated income tax expenditure	-10,923	-12,556
Effects of reconciliation:		
Taxes from previous years reported in the reporting period	-392	36
Effects of changes in tax rates	0	392
Non-creditable income taxes	0	0
Non-deductible operational expenditure	-32	-26
Effects of tax-free earnings	4	7
Other effects	330	401
Reported income tax expenses	**-11,013**	**-11,746**

The anticipated income tax expenditure in the tax reconciliation statement is calculated based on the corporation and commercial tax rate at 27.08 per cent (previous year: 29.22 per cent) applicable in Luxembourg in 2017.

Notes to the balance sheet

(26) Cash reserve

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Balances with the central banks	448.3	56.5	> 100
Total	**448.3**	**56.5**	**> 100**

Balances with central banks totalled € 437.2 million (previous year € 7.4 million) at the Swiss National Bank and € 11.2 million (previous year € 49.1 million) at the Luxembourg Central Bank; € 11.2 million of this amount relates to the minimum reserve requirement (previous year € 49.1 million).

(27) Loans and advances to banks

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Loans and advances resulting from money market transactions	**636.9**	**963.0**	**-34**
German banks	0.0	270.0	-100
Foreign banks	636.9	693.0	-8
Other loans and advances	**159.5**	**277.5**	**-43**
German banks	3.4	11.6	-71
Due on demand	3.4	11.6	-71
With a fixed term or period of notice	0.0	0.0	-
Foreign banks	156.2	265.9	-41
Due on demand	15.1	10.5	44
With a fixed term or period of notice	141.1	255.4	-45
Total	**796.4**	**1,240.5**	**-36**

€ 793.1 million (previous year: € 958.9 million) of the overall portfolio is attributable to loans and advances to foreign banks. A partial amount of € 12.8 million (previous year: € 129.4 million) of the loans and advances to banks is due only after more than twelve months have passed.

(28) Loans and advances to customers

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Loans and advances resulting from money market transactions	**226.7**	**465.4**	**-51**
Domestic customers	0.0	0.0	-
Customers abroad	226.7	465.4	-51
Other loans and advances	**8,405.5**	**7,776.8**	**8**
Domestic customers	105.6	151.4	-30
Due on demand	1.7	3.0	-44
With a fixed term or period of notice	103.9	148.5	-30
Customers abroad	8,299.9	7,625.3	9
Due on demand	5.1	31.7	-84
With a fixed term or period of notice	8,294.8	7,593.6	9
Total	**8,632.2**	**8,242.2**	**5**

€ 8,526.6 million (previous year: € 8,090.7 million) of the overall portfolio is attributable to loans and advances to customers abroad. € 6,373.7 million (previous year: € 6,097.0 million) of customer loans and advances is due only after more than twelve months have passed.

(29) Risk provisioning

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Specific valuation allowances on loans and advances	**-4.9**	**-19.9**	**-75**
Foreign banks	0.0	0.0	-
Domestic customers	0.0	0.0	-
Customers abroad	-4.9	-19.9	-75
Portfolio valuation allowances on loans and advances	**-2.7**	**-3.4**	**-22**
Total	**-7.6**	**-23.3**	**-68**

The risk provisioning reported under assets and provisions in lending business changed as follows:

in € million	Specific valuation allowances	Portfolio valuation allowances	Provisions in lending business	Total
01.01.2016	**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**
Effects of changes in foreign exchange rates, unwinding and other changes	0.6	0.0	0.0	**0.6**
Reclassifications	0.0	0.0	0.0	**0.0**
31.12.2016	**19.9**	**3.4**	**0.9**	**24.2**
Allocations	2.6	0.0	0.0	**2.6**
Reversals	-0.3	-0.7	-0.1	**-1.1**
Utilisation	-17.3	0.0	0.0	**-17.3**
Effects of changes in foreign exchange rates, unwinding and other changes	0.0	-0.1	0.0	**-0.1**
Reclassifications	0.0	0.0	0.0	**0.0**
31.12.2017	**4.9**	**2.7**	**0.8**	**8.3**

Please refer to Note (7) Risk provisioning, (18) Loan loss provisions and Note (42) Provisions.

A valuation allowance was used in the financial year for two borrowers from the industries of trade, maintenance and repairs as well as the services industry and the manufacturing industry. The volume of loans deemed to be in default amounts to € 7.4 million (previous year: € 21.5 million) on the reporting date. € 7.0 million is attributable to loan repayments and € 0.4 million to overdue interest payments. There are 10 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.

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Trading assets	**128.3**	**91.0**	**41**
Debt securities and other fixed-interest securities	0.0	0.0	-
Positive fair values from derivatives in conjunction with:	127.1	89.7	42
Interest-rate risks	27.4	55.5	-51
Currency risks	99.7	34.2	> 100
Share-price and other price risks	0.0	0.0	-
Trading portfolio claims	1.2	1.4	-15
Financial assets designated at fair value	**873.0**	**882.1**	**-1**
Loans and advances to banks and customers	0.0	0.0	-
Debt securities and other fixed-interest securities	873.0	882.1	-1
Shares and other non-fixed-interest securities	0.0	0.0	-
Total	**1,001.3**	**973.2**	**3**

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

€ 997.9 million (previous year: € 905.2 million) of the overall portfolio is due only after more than twelve months have passed. € 873.0 million of the financial assets designated at fair value are listed on an exchange.

(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.

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Positive fair values from allocated micro fair-value hedge derivatives	219.8	327.7	-33
Total	**219.8**	**327.7**	**-33**

Hedge derivatives with a fair value of € 217.1 million are due at the earliest after twelve months (previous year: € 326.1 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.

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Financial assets classified as LaR	**1,946.0**	**2,385.3**	**-18**
Bonds and debt securities	1,960.7	2,405.1	-18
issued by public-sector borrowers	1,326.9	1,622.2	-18
from other issuers	633.7	783.0	-19
Portfolio valuation allowances on LaR financial assets	-14.7	-19.9	-26
Financial assets classified as AfS	**2,232.2**	**2,645.6**	**-16**
Debt securities and other fixed-interest securities	2,232.2	2,645.6	-16
Money market instruments	0.0	0.0	-
Bonds and debt securities	2,232.2	2,645.6	-16
issued by public-sector borrowers	969.8	1,039.1	-7
from other issuers	1,262.3	1,606.4	-21
Shares and other non-fixed-interest securities	0.0	0.0	> 100
Shares in companies	0.0	0.0	-
Total	**4,178.2**	**5,030.8**	**-17**

The volume of financial assets issued by the central governments of certain euro countries (Portugal, Italy, Ireland, Greece, Spain and Hungary) totals € 187.1 million in nominal terms (previous year € 190.1 million). These concern three debt securities of the Republic of Italy with terms up to 2018 and 2033, a debt security of the Republic of Hungary with a term up to 2018 and a debtor warrant from the Republic of Greece with a term up to 2042. The carrying amount of this financial asset amounts to € 41 thousand (previous year: € 20 thousand) on the reporting date.

€ 3,696.9 million (previous year: € 4,496.2 million) of the financial assets are due only after more than twelve months have passed. € 1,272.5 million of the financial assets classified as LaR are listed on an exchange. € 2,068.0 million of the financial assets classified as AfS are listed on an exchange.

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 (as at 31 December 2017 the Bank still held only 12) 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 reclassification date 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 2017.

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

in € million	31.12.2017			31.12.2016			31.12.2015		
	Carrying amount on reclassification date	Carrying amount	Fair value	Carrying amount on reclassification date	Carrying amount	Fair value	Carrying amount on reclassification date	Carrying amount	Fair value
Reclassified financial assets	315.9	416.5	411.1	359.3	492.5	477.9	367.0	514.5	497.2

in € million	31.12.2014			31.12.2013			31.12.2012		
	Carrying amount on reclassification date	Carrying amount	Fair value	Carrying amount on reclassification date	Carrying amount	Fair value	Carrying amount on reclassification date	Carrying amount	Fair value
Reclassified financial assets	407.2	629.7	595.8	407.2	580.6	508.9	446.2	644.5	510.3

in € million	31.12.2011			31.12.2010			31.12.2009		
	Carrying amount on reclassification date	Carrying amount	Fair value	Carrying amount on reclassification date	Carrying amount	Fair value	Carrying amount on reclassification date	Carrying amount	Fair value
Reclassified financial assets	529.3	698.4	569.7	544.4	660.3	627.9	645.6	731.4	712.1

in € million	31.12.2008			01.07.2008		
	Carrying amount on reclassification date	Carrying amount	Fair value	Carrying amount on reclassification date	Carrying amount	Fair value
Reclassified financial assets	645.6	746.7	719.5	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 2.5 per cent and 5.75 per cent.

in € thousand	**31.12.2017**	**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	415	395	272	3,453

The pro-rata reversal amounted to € 415 thousand (previous year: € 395 thousand) during the 2017 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	**31.12.2017**	**31.12.2016**	**31.12.2015**	**31.12.2014**	**31.12.2013**	**31.12.2012**	**31.12.2011**	**31.12.2010**
Unrealised profit/ loss before taxes	-13.4	-23.3	-26.3	-36.1	-71.9	-135.2	-128.7	-32.4
Deferred taxes	3.5	6.3	7.7	10.5	21.0	39.5	37.1	9.3
Net effect on equity from reclassified available-for-sale financial assets	**-9.9**	**-17.0**	**-18.6**	**-25.6**	**-50.9**	**-95.7**	**-91.6**	**-23.1**

in € million	**31.12.2009**	**31.12.2008**	**01.07.2008**
Unrealised profit/loss before taxes	-19.3	-27.1	-13.2
Deferred taxes	5.5	8.0	3.9
Net effect on equity from reclassified available-for-sale financial assets	**-13.8**	**-19.1**	**-9.3**

The shares in affiliated companies as at the reporting date include the carrying amount of the investment in Galimondo S.à r.l., which has been in liquidation since 30 November 2017.

The following table shows the equity and the profit/loss for the reporting year from the investment accounted for at amortised cost:

Name/registered office	Share of capital	Carrying amount of investment	Equity (€ thousand)	Profit/loss 30.11.2017 (€ thousand)
Galimondo S.à r.L (in liquidation), Luxembourg	100%	13	77	0
Total		**13**	**77**	**0**

Investment in structured entities:
The Bank classifies investments in shares of companies that are structured and not controlled by voting rights as investments in structured entities, provided the Bank is exposed to variable returns from the investments.
As at 31 December 2017, NORD/LB CBB holds issues by securitisation vehicles worth € 23.6 million (previous year: € 51.1 million) in its portfolio. These issues relate to three securitisation vehicles with a total issue volume of € 1,086.7 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

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Land and buildings	61.7	62.6	-2
Operating and office equipment	3.6	3.8	-5
Total	**65.3**	**66.4**	**-2**

The historical cost of the Bank's own buildings is € 66.6 million.

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

in € million	Land and buildings	Operating and office equipment	Total
Cost as at 01.01.2016	**66.6**	**10.6**	**77.1**
Additions	0.0	0.7	**0.7**
Disposals	0.0	-1.0	**-1.0**
Total 31.12.2016	**66.6**	**10.3**	**76.8**
Accumulated depreciation as at 01.01.2016	**-3.3**	**-6.6**	**-9.9**
Depreciation	-0.6	-0.9	**-1.5**
Impairments	0.0	0.0	**0.0**
Reclassifications	0.0	0.0	**0.0**
Disposals	0.0	1.0	**1.0**
Total 31.12.2016	**-3.9**	**-6.5**	**-10.4**
Closing balance as at 31.12.2016	**62.6**	**3.8**	**66.4**
Cost as at 01.01.2017	**66.6**	**10.3**	**76.8**
Additions	0.0	0.8	**0.2**
Disposals	0.0	0.0	**0.0**
Total 31.12.2017	**66.6**	**11.1**	**77.6**
Accumulated depreciation as at 01.01.2017	**-3.9**	**-6.5**	**-10.4**
Depreciation	-0.9	-1.0	**-2.0**
Impairments	0.0	0.0	**0.0**
Reclassifications	0.0	0.0	**0.0**
Disposals	0.0	0.0	**0.0**
Total 31.12.2017	**-4.9**	**-7.5**	**-12.3**
Closing balance as at 31.12.2017	**61.7**	**3.6**	**65.3**

(34) Intangible assets

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Software	**9.5**	**9.1**	**4**
Purchased	9.5	9.1	4
Internally developed	0.0	0.0	-
Intangible assets under development	**12.6**	**10.5**	**20**
Other	**0.0**	**0.0**	**-**
Total	**22.1**	**19.6**	**13**

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 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**
Reclassifications	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	-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**
Cost as at 01.01.2017	**23.5**	**0.0**	**10.5**	**0.0**	**33.9**
Additions	0.5	0.0	7.3	0.0	**7.8**
Disposals	0.0	0.0	0.0	0.0	**0.0**
Reclassifications	5.1	0.0	-5.1	0.0	**0.0**
Total 31.12.2017	**29.1**	**0.0**	**12.6**	**0.0**	**41.7**

in € million	Software		Intangible assets under development	Other	Total
	Purchased	Internally developed			
Accumulated amortisation as at 01.01.2017	**-14.3**	**0.0**	**0.0**	**0.0**	**-14.3**
Amortisation	-1.8	0.0	0.0	0.0	**-1.8**
Impairments	-3.5	0.0	0.0	0.0	**-3.5**
Disposals	0.0	0.0	0.0	0.0	**0.0**
Total 31.12.2017	**-19.6**	**0.0**	**0.0**	**0.0**	**-19.6**
Closing balance as at 31.12.2017	**9.5**	**0.0**	**12.6**	**0.0**	**22.1**

During the financial year the Bank recorded two impairment losses on intangible assets. One was the result of a reduction in the value in use owing to a loss of expected cash flows, while the second was needed due to a switch to new software.

(35) Income tax assets

The income tax assets are broken down as follows:

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Current income tax assets	0.0	0.0	-
Deferred tax assets	0.7	0.8	-14
Total	**0.7**	**0.8**	**-14**

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 pension provisions.

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

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Assets	**0.0**	**0.0**	**-**
Liabilities	**0.7**	**0.8**	**-14**
Provisions	0.7	0.8	-14
Total	**0.7**	**0.8**	**-14**

(36) Other assets

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Tax assets from other taxes	1.2	0.1	> 100
Other assets	0.0	0.0	-
Other assets including prepaid expenses	2.6	1.8	48
Total	**3.8**	**1.8**	**> 100**

Other assets mainly consist of receivables amounting to € 0.5 million from intragroup service charging (previous year: € 0.9 million) and from prepaid expenses (€ 0.6 million; previous year: € 0.6 million).

(37) Liabilities to banks

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Deposits from other banks	**2,692.0**	**2,869.6**	**-6**
German banks	550.0	57.5	> 100
Foreign banks	2,142.0	2,812.1	-24
Liabilities resulting from money market transactions	**3,076.6**	**3,422.3**	**-10**
German banks	288.2	243.6	18
Foreign banks	2,788.3	3,178.7	-12
Other liabilities	**242.6**	**320.1**	**-24**
German banks	119.7	115.9	3
Due on demand	119.6	115.2	4
With a fixed term or period of notice	0.1	0.7	-85
Foreign banks	122.8	204.2	-40
Due on demand	105.9	204.2	-48
With a fixed term or period of notice	17.0	0.0	> 100
Total	**6,011.1**	**6,612.1**	**-9**

€ 2,115.3 million (previous year: € 2,172.5 million) of the overall portfolio is attributable to liabilities which are due only after more than twelve months have passed.

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

(38) Liabilities to customers

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Savings deposits	**0.0**	**0.0**	**-**
Liabilities resulting from money market transactions	**1,646.8**	**1,989.5**	**-17**
Domestic customers	480.3	663.6	-28
Customers abroad	1,166.5	1,325.9	-12
Other liabilities	**1,563.8**	**1,423.3**	**10**
Domestic customers	26.1	28.4	-8
Due on demand	26.1	28.4	-8
With a fixed term or period of notice	0.0	0.0	-
Customers abroad	1,537.7	1,394.9	10
Due on demand	106.2	120.2	-12
With a fixed term or period of notice	1,431.5	1,274.7	12
Total	**3,210.7**	**3,412.8**	**-6**

€ 1,487.4 million of the total customer liabilities held are due only after the next twelve months have passed (previous year: € 1,278.6 million).

(39) Securitised liabilities

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Issued debt securities	3,750.0	3,221.8	16
Total	**3,750.0**	**3,221.8**	**16**

€ 3,184.0 million (previous year: € 2,873.9 million) of the overall portfolio is attributable to liabilities which are due only after more than twelve months have passed.

A portion (€ 1,915.2 million; previous year: € 1,760.8 million) of the issued debt securities consists of Pfandbriefe under Luxembourg Law (Lettres de Gage). € 1,854.3 million of this amount is listed on the Luxembourg exchange (previous year: € 1,692.5 million). Lettres de Gage are listed on the Swiss exchange at an equivalent of € 60.9 million (previous year: € 68.3 million).

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

This item includes trading liabilities (HfT) and financial liabilities 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.

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Trading liabilities	**74.9**	**101.7**	**-26**
Negative fair values from derivatives in connection with:	74.9	101.7	-26
Interest-rate risks	57.8	71.4	-19
Currency risks	17.1	30.3	-43
Financial liabilities designated at fair value	**1,043.3**	**1,047.4**	**0**
Liabilities to banks and customers	0.0	0.0	-
Securitised liabilities	1,043.3	1,047.4	0
Total	**1,118.2**	**1,149.2**	**-3**

Trading liabilities amounting to € 1,105.5 million are due after twelve months at the earliest (previous year: € 1,115.5 million).

The financial liabilities designated at fair value result from own issues to avoid 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 to hedge interest-rate and currency risks.

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Fair values from allocated micro fair-value hedge derivatives	517.7	706.7	-27
Fair values as part of portfolio fair-value hedge accounting	0.0	0.0	-
Total	**517.7**	**706.7**	**-27**

Hedge derivatives with a negative fair value of € 487.8 million are due after twelve months at the earliest (previous year: € 694.1 million).

(42) Provisions

Provisions are broken down as follows:

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Provisions for reorganisation measures	**8.2**	**3.9**	**> 100**
Provisions for pensions and similar obligations	**3.7**	**3.8**	**-4**
Other provisions	**2.1**	**13.9**	**-85**
Provisions in lending business	0.8	0.9	-9
Provisions for uncertain liabilities	1.3	13.0	-90
Total	**13.9**	**21.6**	**-36**

Provisions for reorganisation measures mainly relate to obligations towards employees in connection with a restructuring project undertaken as part of a group-wide transformation programme for the purpose of boosting efficiency. Payment obligations are expected in 2018 and 2019. Refer to Note (12) Other provisions for further details.

Most of the provisions for uncertain liabilities relate to staff (€ 1.2 million; previous year € 1.9 million).

Given the short duration of the reorganisation and other provisions, and in connection with the generally low level of interest rates, the provisions are not discounted. The following information provides details about the discounting of pension provisions.

Provisions for pensions and similar obligations

The calculation is based on the following actuarial assumptions:

Actuarial assumptions	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Annual salary development	1.00	1.00	-
Annual inflation rate	2.50	2.50	-
Annual increase in the BBG (cost-of-living index included)	3.34	3.32	1
Discount rate	2.15	1.95	10
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	2.15	1.95	10
Turnover rate	2.00	2.00	-

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

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Present value of the defined benefit obligation	6.2	6.1	1
Less fair value of plan assets	-3.2	-2.9	10
Excess of plan assets not recognised as an asset	0.0	0.0	-
Other amounts recognised in the balance sheet (flat-rate tax)	0.6	0.7	-14
Total	**3.6**	**3.9**	**-8**

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

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Opening balance	**6.1**	**6.3**	**-3**
Current service cost	0.3	0.4	-17
Interest expense	0.1	0.2	-40
Contributions by plan participants	0.0	0.0	-
Actuarial gains/losses from the liability	-0.3	-0.1	> 100
Changes from foreign exchange rates	0.0	0.0	-
Retirement benefits paid	0.0	-0.6	-94
Additional accounting current service costs	0.0	0.0	-
Effects from curtailments	0.0	0.0	-
Effects from settlements/assignments (compensation payments)	0.0	0.0	-
Closing balance	**6.2**	**6.1**	**1**

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 € -132 thousand (previous year: € -863 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 was +/- 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:

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Opening balance	**2.9**	**3.1**	**-6**
Expected return on plan assets	0.1	0.1	43
Actuarial gains/losses on plan assets	0.0	0.1	-100
Changes from foreign exchange rates	0.0	0.0	-
Employer contributions	0.2	0.2	-2
Contributions by plan participants	0.0	0.0	-
Retirement benefits paid	0.0	-0.6	-100
Effects from settlements/assignments (compensation payments)	0.0	0.0	-
Closing balance	**3.2**	**2.9**	**10**

The fair value of plan assets is composed as follows:

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Equity instruments	3	3	0
Debt instruments	89	90	-1
Real estate	6	2	> 100
Other assets	2	5	-60

The fair value of plan assets includes equity instruments amounting to € 96 thousand (previous year: € 100 thousand), debt instruments amounting to € 2,853 thousand (previous year: € 2,617 thousand) and properties and other assets amounting to € 256 thousand (previous year: € 203 thousand). The total anticipated return of 2.15 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 € 67 thousand (previous year: € 65 thousand). The pension expense is composed as follows:

	31.12.2017 (€ thousand)	31.12.2016 (€ thousand)	Change (in %)
Current service cost	361	361	0
Interest expense	136	166	-18
Expected return on plan assets	-68	-70	-3
Additional accounting current service costs	0	0	-
Employer contributions to plan assets	-231	-204	13
Effects from plan amendments	0	0	-
Expected income from reimbursement claims	0	0	-
Actuarial effects not recognised in profit or loss	-337	-266	27
Total	**-139**	**-13**	**> 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:

	31.12.2017 (€ million)	31.12.2016 (€ million)	31.12.2015 (€ million)	31.12.2014 (€ million)	31.12.2013 (€ million)	31.12.2012 (€ million)	31.12.2011 (€ million)
Defined benefit obligation (DBO)	6.2	6.1	6.3	6.3	6.1	5.4	3.3
Plan assets	-3.2	-2.9	-3.1	-3.1	-3.9	-3.8	-2.6
Deficit	3.0	3.1	3.1	3.1	2.2	1.6	0.7
Actuarial gains/losses	-0.3	-0.3	-0.2	1.3	0.5	1.5	0.4
Adjustments made on the basis of experience to the defined benefit obligation (DBO) and plan assets	0.2	0.3	0.1	-0.2	-0.7	0.9	0.1

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**	**1.9**	**11.1**	**13.8**
Changes from foreign exchange rates	0.0	0.0	0.0	**0.0**
Utilisation	0.0	-0.6	-8.2	**-8.8**
Reversals	-0.1	-0.4	-2.9	**-3.4**
Reclassifications	0.0	0.0	0.0	**0.0**
Allocations	0.0	0.4	0.0	**0.4**
Closing balance	**0.8**	**1.3**	**0.0**	**2.1**

(43) Income tax liabilities

The income tax liabilities are broken down as follows:

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Current income tax liabilities	19.9	9.7	>100
Deferred tax liabilities	5.8	14.1	-59
Total	**25.7**	**23.8**	**8**

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). In the reporting year the deferred income tax liabilities relate to deferred tax liabilities on valuation differences recognised directly in equity for AfS securities. Please refer to Note (25) Income taxes for further information.

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

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Assets	**5.8**	**9.1**	**-37**
Financial assets	5.8	9.1	-37
Liabilities	**0.0**	**5.4**	**-100**
Equity	0.0	5.4	-100
Total	**5.8**	**14.5**	**-59**

(44) Other liabilities

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Liabilities resulting from outstanding invoices	2.2	3.7	-39
Liabilities from short-term employee remuneration	1.2	3.5	-67
Deferred income	1.5	3.0	-49
Liabilities from payable taxes and social insurance contributions	4.3	3.1	36
Other liabilities	1.4	1.8	-26
Total	**10.6**	**15.2**	**-30**

Liabilities from short-term employee remuneration largely comprise residual holiday entitlements.

(45) Subordinated capital

Subordinated liabilities were repaid only after the claims of all senior creditors were settled. They met the requirements of the CRR to be classified as regulatory Tier 2 capital. This eligibility depended on the residual term.

The expenses for subordinated liabilities amounted to € 932 thousand in the reporting year (previous year: € 841 thousand).

The change shown in the table stems from the maturity of a subordinated bond:

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Subordinated liabilities	0.0	61.7	-100
Participatory capital	0.0	0.0	-
Total	**0.0**	**61.7**	**-100**

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 TEUR	Amount before taxes 2017	Income tax effect 2017	Amount after taxes 2017	Amount before taxes 2016	Income tax effect 2016	Amount after taxes 2016
Increase/decrease from available for sale (AfS) financial instruments	-11,484	3,347	-8,137	12,722	-2,997	9,725
Actuarial gains (+) / losses (-) from defined benefit pension provisions	337	-121	216	266	-144	122
Profit/loss recognised directly in equity	**-11,147**	**3,227**	**-7,920**	**12,988**	**-3,141**	**9,848**

(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 2017. 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 2016 and 2017 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 (badwill) calculated as part of the initial consolidation are also deducted from retained earnings.

The effects from the measurement of available for sale financial instruments (AfS) are reported under the revaluation reserve.

Wealth tax

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 entity's value, the wealth tax owed without crediting is calculated as follows:

- Entity value of up to € 500 million: wealth tax rate of 0.5 per cent
- For the portion of the entity'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 2017. 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
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
2017	2.6	12.9	31.12.2022
Total	**14.4**	**71.6**	

For the previous years including 2015, 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 entity'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.

Regardless of the reserve allocation referred to above, the Bank is obliged to pay a minimum wealth tax of € 32 thousand every year to the Luxembourg tax authority.

(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, investing 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 flow from investing activities 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 investing activities comprises cash flows for investments 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.

For further information regarding liquidity risk management at NORD/LB CBB, please refer to the statements of the risk report in the management report.

The IASB published amendments to IAS 7 Statement of Cash Flows on 29 January 2016, which took effect as of 1 January 2017. The amendments were adopted into EU law by Commission Regulation (EU) 2017/1990. The additions to the disclosure information are designed to improve transparency of companies' financing activity.

The table below provides a detailed breakdown of the changes to financing activity:

in € million	01.01.2017	Cash flows	Non-cash changes			31.12.2017
			Foreign currency effects	Fair value changes	Other changes	
Liabilities to banks	400.0	-400.0	0.0	0.0	0.0	0.0
Subordinated capital	61.7	-54.2	-7.5	0.0	0.0	0.0
	461.7	**-454.2**	**-7.5**	**0.0**	**0.0**	**0.0**

in € million	01.01.2016	Cash flows	Non-cash changes			31.12.2016
			Foreign currency effects	Fair value changes	Other changes	
Subordinated capital	114.9	-52.7	-0.5	0.0	0.0	61.7
	114.9	**-454.2**	**-0.5**	**0.0**	**0.0**	**61.7**

Notes to financial instruments

(49) Remaining terms of financial liabilities and contingent liabilities

As at 31 December 2017:

in € million	< 1 month	1 month < 3 months	3 months < 1 year	1 year < 5 years	> 5 years	Total
Liabilities to banks	2,056.2	775.5	1,064.2	793.0	1,322.3	**6,011.1**
Liabilities to customers	1,031.3	285.1	406.9	220.5	1,266.8	**3,210.7**
Securitised liabilities	0.0	0.0	566.0	2,716.8	467.1	**3,750.0**
Financial liabilities at fair value through profit or loss (without derivatives)	0.0	0.0	0.0	397.4	645.9	**1,043.3**
Subordinated capital	0.0	0.0	0.0	0.0	0.0	**0.0**
Irrevocable lending commitments	65.2	17.8	188.6	1,409.2	60.7	**1,741.6**
Financial guarantees	0.0	25.4	0.2	66.4	35.0	**127.1**
Total	**3,152.7**	**1,103.9**	**2,225.9**	**5,603.3**	**3,797.9**	**15,883.7**

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 liabilities at fair value through profit or 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 lending 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**

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 2017 and the outlook.

(50) Carrying amounts by measurement category

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Assets			
Financial assets at fair value through profit or loss	**1,221.1**	**1,300.9**	**-6**
Financial assets held for trading	128.3	91.0	41
Derivatives – hedge accounting	219.8	327.7	-33
Financial assets designated at fair value through profit or loss	873.0	882.1	-1
Assets available for sale	**2,232.2**	**2,645.6**	**-16**
Loans and receivables (including all loan loss provisions)	**11,815.3**	**11,901.0**	**-1**
Total	**15,268.7**	**15,847.5**	**-4**
Liabilities			
Financial liabilities at fair value through profit or loss	**1,635.9**	**1,855.9**	**-12**
Financial liabilities held for trading	74.9	101.7	-26
Derivatives – hedge accounting	517.7	706.7	-27
Financial liabilities designated at fair value through profit or loss	1,043.3	1,047.4	0
Other liabilities	**12,971.7**	**13,308.4**	**-3**
Total	**14,607.6**	**15,164.2**	**-4**

The book values of underlying transactions from hedge accounting within the meaning of IAS 39 are assigned to the respective category. Only financial instruments were considered here.

(51) Net gains or losses by measurement category

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Financial instruments at fair value through profit or loss	**-37,400**	**34,934**	**< -100**
Financial instruments held for trading	5,310	2,048	> 100
Derivatives – hedge accounting	-45,254	-92,431	-51
Financial instruments designated at fair value through profit or loss	2,543	32,886	-92
Assets available for sale	**29,567**	**46,983**	**-37**
Loans and receivables	**287,013**	**293,775**	**-2**
Other liabilities	**-146,085**	**-162,926**	**-10**
Total	**133,094**	**120,335**	**11**

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

	2017 (€ thousand)	2016 (€ thousand)	Change (in %)
Assets available for sale			
Reversal of specific valuation allowances on AfS financial assets	0.0	4,019	-100
Total	**0.0**	**4,019**	**-100**
Loans and receivables			
Profit/loss from specific valuation allowances on LaR financial investments	-2,270	1,280	< -100
Profit/loss from portfolio valuation allowances on LaR financial assets as well as loans and advances to customers	4,243	2,005	> 100
Profit/loss from the formation/reversal of provisions in the lending business	74	80	-8
Profit/loss from direct write-offs of bad debts / additions to receivables written off	-42	-637	-93
Total	**2,005**	**2,728**	**-27**

(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 loss or directly in equity:

31.12.2017 in € million	Level 1 (mark-to-market)	Level 2 (mark-to-market)	Level 3 (mark-to-market)	Total
Trading assets	**0.0**	**128.3**	**0.0**	**128.3**
Debt securities and other fixed-interest securities	0.0	0.0	0.0	**0.0**
Positive fair values from derivatives	0.0	127.1	0.0	**127.1**
Interest-rate risks	0.0	27.4	0.0	**27.4**
Currency risks	0.0	99.7	0.0	**99.7**
Trading portfolio claims	0.0	1.2	0.0	**1.2**
Financial assets designated at fair value	**873.0**	**0.0**	**0.0**	**873.0**
Positive fair values from hedge accounting derivatives	**0.0**	**219.8**	**0.0**	**219.8**
Interest-rate risks	0.0	195.4	0.0	**195.4**
Currency risks	0.0	24.4	0.0	**24.4**
Financial assets (measured on a fair value basis)	**1,716.7**	**515.5**	**0.0**	**2,232.2**
Debt securities and other fixed-interest securities	**1,716.6**	**515.5**	**0.0**	**2,232.2**
Shares and other non-fixed-interest securities	0.1	0.0	0.0	**0.1**
Assets	**2,589.7**	**863.6**	**0.0**	**3,453.3**
Trading liabilities	**0.0**	**74.9**	**0.0**	**74.9**
Negative fair values from derivatives	0.0	74.9	0.0	**74.9**
Interest-rate risks	0.0	57.8	0.0	**57.8**
Currency risks	0.0	17.1	0.0	**17.1**
Financial liabilities designated at fair value	**499.3**	**544.0**	**0.0**	**1,043.3**
Negative fair values from hedge accounting derivatives	**0.0**	**517.7**	**0.0**	**517.7**
Interest-rate risks	0.0	447.9	0.0	**447.9**
Currency risks	0.0	69.8	0.0	**69.8**
Liabilities	**499.3**	**1,136.6**	**0.0**	**1,635.9**

31.12.2016 in € million	Level 1 (mark-to-market)	Level 2 (mark-to-market)	Level 3 (mark-to-market)	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 (measured 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**

As at the measurement date the Bank has no assets measured at fair value that were valued in accordance with Level 3, i.e. the mark-to-model method.

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

01.01 – 31.12.2017 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	27.7	0.0	0.0	0.0
Financial assets (measured on a fair value basis)	0.0	0.0	198.5	0.0	0.0	0.0
Assets	**0.0**	**0.0**	**226.2**	**0.0**	**0.0**	**0.0**
Liabilities	**0.0**	**0.0**	**501.2**	**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) in the first quarter. Eight securities from the AfS category (1 in the first quarter, 4 in the second quarter and 3 in the fourth quarter) also changed from the matrix valuation (Level 2) to the market valuation (Level 1). Furthermore, one security in the “Financial liabilities designated at fair value” category switched from matrix valuation (Level 2) to market valuation (Level 1) in the first quarter. Approximately 14% of the total stock of securities in the NORD/LB CBB portfolio was subject to level transfers.

The following level transfers took place in the previous year:

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 (measured 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 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:

31.12.2017 in € million	Level 1 (mark-to-market)	Level 2 (mark-to-market)	Level 3 (mark-to-market)	Total
Cash reserve	448.3	0.0	0.0	**448.3**
Loans and advances to banks	420.5	124.3	252.4	**797.2**
Loans and advances to customers	8.4	31.0	8,831.1	**8,870.5**
Financial assets not recognised at fair value	121.1	1,662.4	0.0	**1,783.5**
Assets	**998.3**	**1,817.8**	**9,083.5**	**11,899.6**
Liabilities to banks	386.7	84.1	5,695.1	**6,165.9**
Liabilities to customers	182.6	1,435.9	1,616.7	**3,235.2**
Securitised liabilities	1,509.4	2,255.3	0.0	**3,764.7**
Subordinated capital	0.0	0.0	0.0	**0.0**
Liabilities	**2,078.7**	**3,775.3**	**7,311.9**	**13,165.8**

31.12.2016 in € million	Level 1 (mark-to-market)	Level 2 (mark-to-market)	Level 3 (mark-to-market)	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**

(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 31.12.2017	Carrying amount on 31.12.2017	Difference on 31.12.2017	Fair value on 31.12.2016	Carrying amount on 31.12.2016	Difference on 31.12.2016
Assets	**11,892.0**	**11,815.3**	**76.7**	**11,950.3**	**11.901,0**	**49,2**
Cash reserve	448.3	448.3	0.0	56.5	56.5	0.0
Loans and advances to banks	797.2	796.4	0.8	1,241.0	1,240.5	0.5
Loans and advances to customers	8,870.5	8,632.2	238.4	8,497.4	8,242.2	255.2
Risk provisioning	-7.6	-7.6	0.0	-23.3	-23.3	0.0
Loans and advances after risk provisioning	**9,660.1**	**9,421.0**	**239.1**	**9,715.1**	**9,459.3**	**255.7**
Financial assets	**1,783.5**	**1,946.0**	**-162.5**	**2,158.9**	**2,385.3**	**-226.4**
Liabilities	**13,165.8**	**12,971.7**	**194.1**	**13,601.1**	**13,308.4**	**292.7**
Liabilities to banks	6,165.9	6,011.1	154.7	6,833.9	6,612.1	221.8
Liabilities to customers	3,235.2	3,210.7	24.6	3,468.3	3,412.8	55.4
Securitised liabilities	3,764.7	3,750.0	14.7	3,237.3	3,221.8	15.5
Subordinated capital	0.0	0.0	0.0	61.7	61.7	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 contain the assets and liabilities listed 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 € 63.9 million to € 162.5 million (previous year: € 226.4 million).

As at 31 December 2017, the Bank had no assets measured at fair value whose value had to be determined using Level 3 methodology (mark-to-model).

(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 can be shown on the balance sheet.

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

in € million	Nominal values on 31.12.2017	Nominal values on 31.12.2016	Positive market values on 31.12.2017	Positive market values on 31.12.2016	Negative market values on 31.12.2017	Negative market values on 31.12.2016
Interest-rate risks	**6,745.4**	**7,207.4**	**222.9**	**288.5**	**505.7**	**666.0**
Interest rate swaps	6,500.4	7,087.4	222.9	288.5	505.7	665.6
Interest rate options	0.0	100.0	0.0	0.0	0.0	0.4
Caps, floors	20.0	20.0	0.0	0.0	0.0	0.0
Exchange-traded contracts	225.0	0.0	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	**3,441.6**	**7,523.9**	**124.1**	**128.9**	**86.9**	**142.5**
Forward exchange transactions	1,575.0	5,867.5	0.9	34.2	9.0	11.8
Currency swaps / interest rate (cross-)currency swaps	1,866.5	1,656.4	123.1	94.7	77.9	130.6
Total	**10,186.9**	**14,731.3**	**346.9**	**417.4**	**592.6**	**808.4**

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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Remaining terms to maturity								
Up to 3 months	600.5	218.5	1,561.4	5,768.9	0.0	0.0	0.0	0.0
More than 3 months & up to 1 year	503.6	759.6	75.6	197.7	0.0	0.0	0.0	0.0
More than 1 year & up to 5 years	2,598.8	2,652.6	419.1	237.8	0.0	0.0	0.0	0.0
More than 5 years	3,042.5	3,576.7	1,385.5	1,319.5	0.0	0.0	0.0	0.0
Gesamt	**6,745.4**	**7,207.4**	**3,441.6**	**7,523.9**	**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 fair values of the derivative transactions broken down by their respective counterparties:

in € million	Nominal values 31.12.2017	Nominal values 31.12.2016	Positive market values	Positive market values	Negative market values	Negative market values
Banks in the OECD	9,802.1	14,533.9	344.3	412.9	588.1	807.6
Banks outside the OECD	85.5	109.0	0.0	0.1	0.1	0.2
Public-sector entities in the OECD	0.0	0.0	0.0	0.0	0.0	0.0
Other counterparties (including exchange-traded contracts)	299.3	88.4	2.7	4.4	4.3	0.6
Total	**10,186.9**	**14,731.3**	**346.9**	**417.4**	**592.6**	**808.4**

(56) Disclosures concerning selected countries

The following table shows the balance sheet values 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 Trading liabilities (Hft) and Designated financial liabilities reported at fair value (dFV) categories.

in € million	Assets available for sale		Loans and receivables	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
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	16.2	20.9
Total	**0.0**	**0.0**	**16.2**	**20.9**
Ireland				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	0.0	0.0	50.9	0.0
Corporates/others	0.0	0.0	33.9	0.5
Total	**0.0**	**0.0**	**84.8**	**0.5**
Italy				
Sovereign exposure	99.2	103.9	35.0	38.9
Financial institutions/insurance companies	0.0	28.5	23.6	48.7
Corporates/others	0.0	0.0	0.2	2.7
Total	**99.2**	**132.4**	**58.9**	**90.4**
Hungary				
Sovereign exposure	0.0	0.0	79.2	83.1
Financial institutions/insurance companies	0.0	0.0	5.2	0.0
Corporates/others	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**84.4**	**83.1**
Spain				
Sovereign exposure	0.0	0.0	0.0	0.0
Financial institutions/insurance companies	0.0	31.3	232.5	242.1
Corporates/others	0.0	0.0	2.1	2.2
Total	**0.0**	**31.3**	**234.7**	**244.3**
TOTAL	**99.2**	**163.7**	**478.9**	**439.2**

There are no exposures in the countries of Egypt, Russia, Slovenia and Cyprus.

163.7 million), the cumulative valuation result reported in equity for the selected countries totals € -13.6 million (previous year: € -12.6 million). No impairment losses were recognised in the income statement for the period (previous year: € 0.0 million).

Portfolio valuation allowances amounting to € 4.0 million (previous year: € 5.6 million) are in place for the receivables in the loans and receivables category relating to the selected countries. The fair value of these receivables in the loans and receivables category is € 468.4 million (previous year: € 412.6 million).

The interest rates for the transactions above range between 0.00% p.a. and 5.75% p.a. The individual terms of the transactions range from 2018 to 2042, with 15% of the receivables falling due in the next 12 months and 17% 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 2016 and 2017:

31.12.2017 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	99.2	0.0	0.0	**99.2**
Financial institutions/insurance companies	0.0	0.0	0.0	**0.0**
Corporates/others	0.0	0.0	0.0	**0.0**
Total	**99.2**	**0.0**	**0.0**	**99.2**
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	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**
TOTAL	**99.2**	**0.0**	**0.0**	**99.2**

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**

(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 undertaking measures to prevent a default or impairment. These measures include payment deferrals, restructuring or a waiver of margins. The following values relate to the amounts recognised in the balance sheet on the reporting date:

31.12.2017 in € million	Balance sheet value before specific valuation allowance	Specific valuation allowance	Balance sheet value after specific valuation allowance
Construction	0.0	0.0	0.0
Services and other	25.3	-4.6	20.8
Financial institutions and insurance companies	0.0	0.0	0.0
Trading	0.9	0.0	0.9
Manufacturing	0.0	0.0	0.0
Total	**26.2**	**-4.6**	**21.7**

Forborne engagements amounting to € 67.0 million overall were repaid or derecognised after use of collateral. New additions included two guaranteed exposures from the corporate sector totalling € 19.8 million. The forborne engagements on both reporting dates fell by € 3.3 million.

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**

There are also no loan provisions for the exposures disclosed here.

Portion of the non-performing exposure for which timely repayment is unlikely or which is already in default:

31.12.2017 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
	22.4	0.0	0.0	1.8
Total	**22.4**	**0.0**	**0.0**	**1.8**

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
Summe	**64.3**	**0.0**	**0.2**	**1.7**

(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. Reported below for information purposes are the financial assets and liabilities which are hedged items as part of an effective micro fair-value hedge:

	31.12.2017 (€ million)	31.12.2016 (€ million)	Change (in %)
Assets			
Loans and advances to banks	88.1	189.7	-54
Loans and advances to customers	430.0	975.4	-56
Financial assets	2,708.6	3,427.7	-21
Total	**3,226.7**	**4,592.8**	**-30**
Liabilities			
Liabilities to banks	61.9	109.4	-43
Liabilities to customers	1,189.8	1,082.4	10
Securitised liabilities	1,128.3	662.6	70
Total	**2,380.0**	**1,854.4**	**28**

(59) NORD/LB CBB as a collateral provider and collateral taker

The following assets were assigned by the Bank as collateral for liabilities:

	31.12.2017 (€ million)	31.12.2016 (€ million)
Loans and advances to banks	390.0	513.3
Loans and advances to customers	509.2	0.0
Financial instruments measured at fair value through profit and loss	421.6	308.1
Financial assets	828.0	994.6
Total	**2,148.8**	**1,816.0**

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 for security 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:

	31.12.2017 (€ million)	31.12.2016 (€ million)
Financial investments transferred to the Bank as collateral	405.0	435.9
Liabilities to banks	144.8	23.0
Total	**549.9**	**458.9**

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 2017 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 2017 reporting period and at 31 December 2016 are shown in the following tables:

31.12.2017 (€ million)	Gross amount before offsetting	Amount of offsetting	Net amount after off-setting	Master netting arrangements and similar arrangements without offset-ting: Of which: financial instru-ments	Collateral: Securities as colla-teral	Collateral: Cash col-lateral	Net amount
Assets	**794.3**	**0.0**	**794.3**	**-297.7**	**-313.5**	**-144.1**	**39.0**
Derivatives	344.0	0.0	344.0	-197.7	0.0	-144.1	2.1
Securities lending and repurchase transactions	450.3	0.0	450.3	-100.0	-313.5	0.0	36.8
Liabilities	**1,671.4**	**0.0**	**1,671.4**	**-297.7**	**-978.6**	**-384.7**	**10.4**
Derivatives	591.5	0.0	591.5	-197.7	0.0	-384.7	9.1
Securities lending and repurchase transactions	1,079.9	0.0	1,079.9	-100.0	-978.6	0.0	1.3

31.12.2016 (€ million)	Gross amount before offsetting	Amount of offsetting	Net amount after off-setting	Master netting arrangements and simi-lar arrangements without offsetting: Of which: financial inst-ruments	Collateral: Securities as collateral	Collateral: Cash colla-teral	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

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. Accordingly, there is no current right to offset in accordance with IAS 32.42.

	31.12.2017 (€ million)	31.12.2016 (€ million)
Genuine repurchase agreements as lender (reverse repos)	**450.3**	**635.4**
Loans and advances to banks	228.2	170.0
Loans and advances to customers	222.2	465.4
Genuine repurchase agreements as borrower (repos)	**1,079.9**	**1,211.9**
Liabilities to banks	1,079.9	1,211.9
Liabilities to customers	0.0	0.0
TLTRO (Targeted Longer-Term refinancing operations)	500.0	0.0
Liabilities to banks	500.0	0.0

In 2017 NORD/LB CBB took part in the ECB's TLTRO-II programme.

	31.12.2017 (€ million)	31.12.2016 (€ 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**

	31.12.2017 (€ million)	31.12.2016 (€ million)
Securities sold under repurchase agreements	**1,078.1**	**1,194.8**
Securities sold under repurchase agreements at fair value through profit or loss	323.1	276.1
Securities sold under repurchase agreements from financial assets	755.0	918.6
Securities bought under repurchase agreements	**405.0**	**435.9**

(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.

	31.12.2017		31.12.2016	
	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	504.7	500.0	0.0	0.0
Assets measured at fair value through profit and loss	323.1	323.6	276.1	276.6
Financial assets not recognised at fair value	124.6	124.8	390.6	403.8
Financial assets recognised at fair value	630.4	631.4	528.0	531.5
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	**1,582.8**	**1,579.9**	**1,194.8**	**1,211.9**

In 2017 NORD/LB CBB took part in the ECB's TLTRO-II programme.

Additional information

(62) Regulatory information

Regulatory capital and the capital requirements are based on IFRS and have been calculated in accordance with CRR rules since financial year 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.

	31.12.2017 (€ million)	31.12.2016 (€ million)
Total risk exposure amount	**4,244.4**	**4,209.7**
Capital requirements for credit risk	325.4	321.7
Capital requirements for operational risks	13.5	14.0
Capital requirements for market risks	0.0	0.1
Capital requirements for loan amount adjustments	0.7	0.9
Capital requirements	**339.5**	**336.7**

Regulatory capital

	31.12.2017 (€ million)	31.12.2016 (€ million)
Paid-in capital	205.0	205.0
Other reserves	445.7	445.5
Deductible items	-26.0	-25.5
Common Equity Tier 1 capital	**624.8**	**625.0**
Components of additional Tier 1 capital	0.0	0.0
Tier 1 capital	**624.8**	**625.1**
Subordinate debt securities (imputable part)	0.0	12.2
Eligible provisions in excess of expected losses under the IRB approach	2.5	11.8
Tier 2 capital	**2.5**	**24.0**
Own funds	**627.3**	**649.0**

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 are stipulated for the regulatory capital variables. In these targets the numerator is the relevant capital variable and the denominator is formed from the total risk exposure in accordance with the CRR regulations.

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 2016 and 2017. The Bank had the following ratios at the end of the respective year:

	31.12.2017	31.12.2016
Common equity tier 1 capital ratio	14.7 %	14.8 %
Tier 1 capital ratio	14.7 %	14.8 %
Total capital ratio	14.8 %	15.4 %

The common equity tier 1 capital ratio of NORD/LB CBB totalled 14.7%, which is above the regulatory requirement just like the total capital ratio of 14.8%. For 2017 the ECB stipulated an institution-specific premium for the Bank of 0.5%, comprising nothing but common equity tier 1 capital. Taking the minimum requirements into account according to Article 92 CRR, the Bank thus had to comply with a common equity tier 1 capital ratio of at least 5%, a tier 1 capital ratio of at least 6.5% and a total capital ratio of at least 8.5%.

The Bank requested and received an exemption from the regulatory authority CSSF 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 2017:

in € million	USD	JPY	CHF	Other	Total
Assets					
Cash reserve	0.0	0.0	437.2	0.0	**437.2**
Loans and advances to banks	24.7	0.1	128.2	3.1	**156.1**
Loans and advances to customers	970.8	14.5	263.3	904.5	**2,153.1**
Risk provisioning	-0.1	0.0	-0.6	0.0	**-0.7**
Financial assets at fair value through profit or loss	14.2	0.0	0.4	51.2	**65.9**
Positive fair values from hedge accounting	1.1	0.0	24.3	0.1	**25.4**
Financial assets	1,187.0	119.4	161.4	146.6	**1,614.3**
Other assets	0.0	0.0	0.0	0.0	**0.0**
Total	**2,197.7**	**134.0**	**1,014.2**	**1,105.5**	**4,451.4**
Liabilities					
Liabilities to banks	1,723.1	0.0	0.0	206.1	**1,929.2**
Liabilities to customers	103.8	0.3	0.5	33.3	**137.9**
Securitised liabilities	0.0	0.0	60.9	248.3	**309.2**
Financial liabilities at fair value through profit or loss	11.3	0.0	1.5	1.1	**13.9**
Negative fair values from hedge accounting	292.3	23.0	5.5	44.6	**365.3**
Other liabilities	0.0	0.0	0.0	0.4	**0.4**
Subordinated capital	0.0	0.0	0.0	0.0	**0.0**
Total	**2,130.5**	**23.3**	**68.3**	**533.8**	**2,755.9**

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

	31.12.2017 (€ million)	31.12.2016 (€ million)
Contingent liabilities	**127.1**	**133.3**
Liabilities arising from guarantees and indemnity agreements	127.1	133.3
Irrevocable lending commitments	**1,741.6**	**1,917.2**
Total	**1,868.7**	**2,050.5**

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.

Given the short duration of the contingent liabilities and in connection with the generally low level of interest rates, the liabilities are not discounted.

(65) Subordinated assets

	31.12.2017 (€ million)	31.12.2016 (€ million)
Financial assets	0.0	45.0
Total	**0.0**	**45.0**

Assets are considered subordinate if they involve loans and advances that may be repaid in the event of the liquidation or the insolvency of the debtor only after the loans and advances of other creditors have been settled.
The subordinated asset in the previous year fell due in the course of financial year 2017.

(66) Trust activities

There were no trust activities during the financial year or the previous year.

(67) Subsequent events

There were no significant events between the balance sheet reporting date on 31 December 2017 and the preparation of the financial statements by the Managing Board on 13 March 2018.

(68) Auditor fee

	2017 (in € thousand)	2016 (in € thousand)
Auditor fee for:		
Auditing	523	329
Other certification services	282	184
Tax consulting	11	48
Other services	15	120

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 credit institutions and securities firms and in relation to the deposit guarantee and investor compensation systems ("the Law") was adopted on 18 December 2015. It was used to transpose into Luxembourg law EU Directive 2014/59/EU establishing a framework for the restructuring and resolution of credit institutions and securities firms as well as EU Directive 2014/49/EU on deposit guarantee schemes and investor compensation systems.

There is a contribution-based system in Luxembourg for deposit guarantees and investor compensation, which the Bank takes part in. The system protects deposits of 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 (36) of the Law stipulates that the target amount of financial funds to be held in the 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/was collected from the credit institutions through annual contributions in the financial years from 2015 to 2024.

The target amount of financial funds to be held in the 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 (8) of the Law, of the relevant financial institutions. This target amount must be achieved by the end of 2018. The contributions are/were 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 (8) of the Law.

(70) Geographical distribution in the cover pool

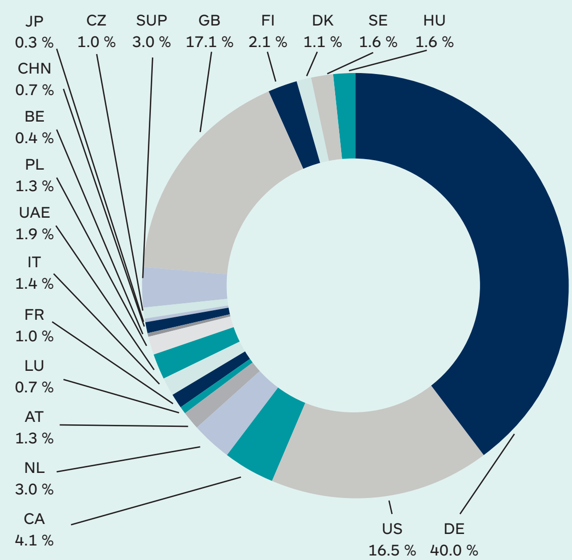
As a rule, the Luxembourg Pfandbrief legislation allows the coverage of loans and advances from countries which belong to the OECD, the European Union or the EEA, or countries with a (very) good rating from approved rating agencies.

The Bank has no risk positions in its cover pool in Estonia, Latvia, Lithuania, Iceland, Mexico or Turkey. Due to the difficult economic situation at present in these countries, the Bank is not planning any new commitments 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 in the individual national economies. The cover pool of NORD/LB CBB is diversified geographically over 19 (previous year: 17) different countries and one international organisation:

As of the reporting date 31 December 2017:

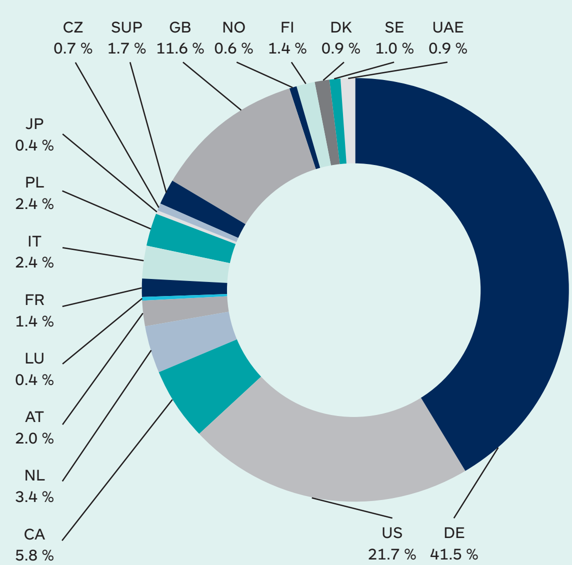
Geographical distribution



Region	in %
Europe	76.5
North America	20.6
Asia	2.9
Other	0.0

As of the reporting date 31 December 2016:

Geographical distribution



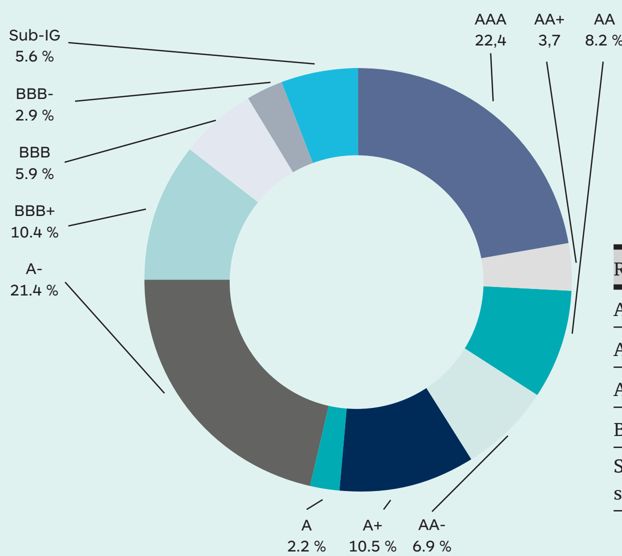
Region	in %
Europe	71.3
North America	27.5
Asia	1.2
Other	0.0

(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 2017:

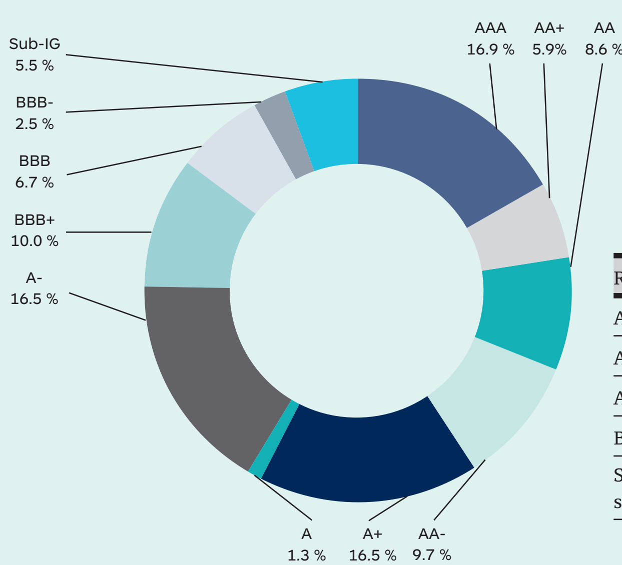
Credit rating structure



Rating	in %	in %	in %
AAA	22.4		41.2
AA	18.8	75.3	
A	34.1		
BBB	19.1		
Sub-IG segment	5.6		

As of the reporting date 31 December 2016:

Credit rating structure



Rating	in %	in %	in %
AAA	16.9		41.1
AA	24.2	75.3	
A	34.2		
BBB	19.2		
Sub-IG segment	5.5		

(72) Cover ratio

The cover ratio is presented in the cover calculation as follows:

Cover calculation	Cover holdings (in € million)		Issues * (in € million)		Shortfall (-) / Over-collateralisation (+) (in € million)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Total	4,930.4	4,523.7	3,971.9	3,649.0	+958.5	+874.7

*) nominal amount of 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 2017	Male 2016	Female 2017	Female 2016	Total 2017	Total 2016
	129.3	126.2	60.8	60.5	190.2	186.7

The employees and Managing Board of NORD/LB CBB are allocated to the following functions:

Group	2017	2016
Managing Board	2.0	1.8
Management employees	8.0	8.0
Employees	180.2	176.9
Total	**190.2**	**186.7**

Related parties

(74) 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 parties 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 parties in 2016 and 2017 can be found below. Changes in the group of related parties lead to adjustments of the previous year's figures where necessary:

As at 31 December 2017:

in € thousand	Shareholders	Persons in key functions	Other Related parties
Outstanding loans and advances	56,943	0	42,025
to banks	56,943	0	15,677
to customers	0	0	26,348
Trading and hedge derivatives under assets	313,054	0	40,419
Other assets	6,423	0	13
Total assets	**376,420**	**0**	**82,456**
Outstanding liabilities	1,648,277	0	117,991
to banks	1,648,277	0	99,928
to customers	0	0	18,063
Securitised liabilities	1,836,973	0	31,977
Trading and hedge derivatives under liabilities	752,340	0	0
Subordinated capital	0	0	0
Other liabilities	39	1,911	0
Total liabilities and equity	**4,237,629**	**1,911**	**149,967**
Guarantees / sureties received	**3,830,466**	**0**	**0**
Guarantees / sureties granted	**0**	**7**	**0**
Interest expenses	-147,818	0	75
Interest income	81,593	50	1,232
Commission expenses	-50,467	0	-2,142
Commission income	4,922	0	328
Profit/loss from derivatives incl. foreign exchange result	91,037	0	0

in € thousand	Shareholders	Persons in key functions	Other Related parties
Profit/loss from use of the fair value option	2,315	-69	0
Profit/loss from hedge accounting	-31,523	0	-187
Other income and expenses	-2,609	0	-106
Total earnings contributions	**-52,549**	**-19**	**-800**

Prior to the spin-off of Nordlux 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 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 and equity	**4,541,498**	**1,840**	**53,761**
Guarantees / sureties received	**3,902,642**	**0**	**30,070**
Guarantees / sureties granted	**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**

(75) Members of governing bodies and list of mandates

Supervisory Board

Thomas S. Bürkle,
Chairman of the Managing Board of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (Chairman of the Supervisory Board)

Ulrike Brouzi,
Member of the Managing Board of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (Deputy Chair of the Supervisory Board) (Member of the Supervisory Board until 30 April 2018)

Christoph Dieng,
Member of the Managing Board of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (Member of the Supervisory Board since 15 May 2017)

Walter Kleine
Member of the Managing Board of Seghorn AG, Bremen (Member of the Supervisory Board until 31 December 2017)

Dr. Ulf Meier,
General Representative of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (Member of the Supervisory Board since 15 May 2017)

Günter Tallner,
Member of the Managing Board of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover (Member of the Supervisory Board since 15 June 2017)

Members of the Managing Board

Thorsten Schmidt, Irrel
Member of the Managing Board

Manfred Borchardt, Trier
Member of the Managing Board (since 5 May 2017, formerly General Representative)

Mandates

The following mandates were held by the members of the Managing Board of NORD/LB Luxembourg S.A. Covered Bond Bank during financial year 2017:

Thorsten Schmidt
NORD/LB G-MTN S.A., Luxembourg
Member of the Winding-up Board

(76) Remuneration of and loans to governing bodies

	2017 (in € thousand)	2016 (in € thousand)
Salaries of active board members	**2,036**	**1,918**
Extended Managing Board *	1,963	1,842
Short-term employee benefits	1,765	1,681
Post-employment benefits	199	161
Other long-term benefits	0	0
Benefits upon termination of employment	0	0
Supervisory Board	73	76

*) relates to the Managing Board and management employees

In light of regulatory requirements, the scope of the information presented in this Note was adjusted. This modification also impacted the previous year's information.
As at the reporting date on 31 December 2017, 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 2017 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 financial position, assets and earnings position of NORD/LB Luxembourg S.A. Covered Bond Bank, and that the business development and performance, including the business profit, situation and the key risks and uncertainties of NORD/LB Luxembourg S.A. Covered Bond Bank, are presented in the management report in a way that conveys a fair presentation and describes the key opportunities and risks of expected development at the Bank.

Luxembourg, 13 March 2018
NORD/LB Luxembourg S.A. Covered Bond Bank

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

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

Report of the réviseur d'entreprises agréé

To the shareholders of

NORD/LB Luxembourg S.A. Covered Bond Bank
7, rue Lou Hemmer
L-1748 Luxembourg-Findel

Report on the annual audit

Audit opinion

We have audited the attached financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank (the Bank), which consist of the balance sheet as at 31 December 2017, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the financial year then ended, and the notes, which contain a summary of significant accounting methods and other explanatory information.

In our opinion, the attached financial statements provide a true and fair view of the financial position of the Bank as at 31 December 2017, as well as of the earnings position and cash flows for the financial year then ended, in accordance with the International Financial Reporting Standards as they are applied in the European Union.

Basis for audit opinion

We conducted our audit in accordance with EU Regulation No. 537/2014, the Act on Auditing ("Act of 23 July 2016") and with the International Standards on Auditing (ISA) as adopted in Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF"). Our responsibility in accordance with this regulation, this Act and these standards is described in more detail in the section entitled "Responsibility of the réviseur d'entreprises agréé" for the annual audit. We are independent of the Bank in compliance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF, together with the professional standards of conduct which we must adhere to during the audit; we have fulfilled all other professional obligations in accordance with these standards of conduct. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate audit opinion on these matters.

The key audit matters are presented below:

1. *Recoverability of loans and advances to customers*

In this context we refer to the description of the accounting and measurement methods in the notes to the financial statements under Note 7, as well as the explanatory material on the risk provisioning recorded in the financial year 2017 as set forth in Note 18 Loan loss provisions and Note 22 Profit/loss from financial assets, and on the balance of risk provisions as described in Note 29 Risk provisioning and Note 32 Financial assets.

Risk for the financial statements

The carrying amount of the Bank's securities as well as loans and advances not measured at fair value through profit and loss totalled € 14,047.5 million on the reporting date. The Bank took account of the credit risk by recording specific and portfolio valuation allowances amounting to € 22.3 million as well as credit risk provisions of € 0.8 million.

Loan loss provisions in the form of valuation allowances for loan receivables were recorded to take account of risks of loss in the loan and securities portfolio. These represent the management's best estimate of the losses sustained in the loan and securities portfolio as of the reporting date. Given the assumptions and estimation uncertainties, there is considerable discretion associated with identifying an impairment event and calculating the amount of the loan loss provision. This discretion stems from the economic situation and developments at the borrower as well as the valuation of loan collateral, and has an impact on the amount and timing of future expected cash flows.

Specific valuation allowances are calculated based on the discounted cash flow method. The expected cash flows are estimated, as are the expected proceeds from collateral realisation.

Loan loss provisions are formed at portfolio level for risks that have already arisen as at the reporting date but have not yet been identified by the Bank. These collectively defined loan loss provisions are calculated using models based on estimates of historical default probabilities and regulatory loss ratios as well as the period between the inception of a loss and its identification by the Bank. 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.

This is why – given the volume of the loans and advances – we identified the recoverability of assets subject to credit risk as a key audit matter.

Our approach during the audit

To assess the appropriateness of the loan loss provisions, we reviewed the key processes and models in credit risk management as well as a selection of exposures from the loan and securities portfolio.

We ascertained the Bank's lending and monitoring process, paying close attention to the division of work with NORD/LB Norddeutsche Landesbank Girozentrale as the Bank's parent company. For this purpose we conducted interviews with the staff responsible, and we inspected, analysed and critically questioned internal guidelines to determine whether these were suitable for properly identifying inherent risks and thus deriving an adequate provision in the form of a valuation allowance. We checked the efficiency of relevant key controls with regard to their design and implementation, and in a sample.

Using a sample drawn from the loan and securities portfolio not measured at fair value through profit and loss, we reviewed whether individual impairment events were detected appropriately and on a timely basis. The sample was largely selected on a risk basis with due consideration of the borrower's credit rating, industry and country of residence. This deliberate selection was expanded with the help of a sample of exposures without any special risk indicators, drawn on a test basis using a statistical selection process.

If impairment was identified, we examined these events critically to determine whether the estimates made were appropriate in terms of the amount and timing of future cash flows expected from repayments and collateral. We carried out this review in order to assess the appropriateness of the loan loss provisions in the financial statements.

Thereafter we verified that the valuation allowance was calculated correctly.

2. Recognition and measurement of a provision for reorganisation measures

In this context we refer to the description of accounting and measurement methods in the notes to the financial statements under Note 12 Other provisions, and the explanations of the Managing Board on the provision recorded in the financial year for reorganisation measures as contained in Note 24 Other operating profit/loss and in Note 42 Provisions.

Risk for the financial statements

As the parent company of the Bank, NORD/LB Norddeutsche Landesbank Girozentrale launched the group-wide transformation programme "One Bank" in the first quarter of 2017. This initiative focuses on ensuring an overlap-free business model and on the core business areas of the Group. Restructuring measures were also developed for the Bank based on the corresponding project planning in order to contribute to the cost-cutting objectives of the Group.

Based on this restructuring project, the Bank raised its existing provision for reorganisation measures in the reporting year by € 4.3 million to € 8.2 million.

The recognition and measurement of provisions for uncertain liabilities in general, and for reorganisation measures in particular, entail major estimation uncertainties and the need for discretion stemming from identifying the employees affected, assessing the progress made with implementing the planned measures and quantifying the expenses that arise. These factors have an impact on the amount and timing of future expected expenses

Our approach during the audit

We analysed the reorganisation plan to see whether it fulfilled the recognition criteria under IAS 37.72 - 83 and thus a constructive obligation existed as a result of a past event. In this respect we assessed in particular whether a detailed, formal reorganisation plan existed, whether the main features of the restructuring measures had been communicated to the employees affected, or whether the implementation of the plan had started.

Moreover, we sought information from the Bank's Managing Board about the assumptions underlying the valuation of the provisions for reorganisation measures, and examined whether they were in line with the restructuring plan. We also compared the assumptions with reorganisation measures taken in the past, and subjected the contracts and agreements concluded by the end of our audit to a critical review.

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 Statement, but not the financial statements nor the report from the réviseur d'entreprises agréé regarding these financial statements.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Managing Board and those charged with governance for the financial statements

The Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Managing Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the financial statements, the Managing Board is responsible for assessing the Bank's ability to continue as a going concern and disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Managing Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Responsibility of the réviseur d'entreprises agréé for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a "réviseur d'entreprises agréé" report that includes our audit opinion. Reasonable assurance is a high level of assurance, but not a guarantee, that an audit conducted in accordance with the EU Regulation No 537/2014, the Act of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with EU Regulation No 537/2014, the Act of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF, we exercise our professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the internal control system relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Managing Board.
- Conclude on the appropriateness of the Managing Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our "réviseur d'entreprises agréé" report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our "réviseur d'entreprises agréé" report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and assess whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with

governance regarding multiple matters, including the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control system that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and have discussed with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We were appointed as "réviseur d'entreprises agréé" by the Annual General Meeting of Shareholders on 31 March 2017, and the duration of our uninterrupted engagement, including previous renewals and reappointments, is seven years.

The management report, which is the responsibility of the Managing Board, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement, which is included in the management report, is the responsibility of the Managing Board. The information required by Article 70a (1) c) and d) of the Act of 17 June 1992 on the accounts and consolidated accounts of credit institutions under Luxembourg law is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that we did not perform any prohibited non-audit services as set out in EU Regulation No 537/2014 on the audit profession and that we remain independent of the Bank in conducting the audit.

Other matters

The Corporate Governance Statement includes the information required by Article 70a (1) c) and d) of the amended law dated 17 June 1992 on the accounts and consolidated accounts of credit institutions under Luxembourg law.

Luxembourg, 13 March 2018
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 year. The Supervisory Board met four times during the 2017 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 15 March 2018 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. Fundamental issues concerning business policy and operational areas were discussed in detail at several meetings.

The Supervisory Board approved the results of the audit carried out by the auditors, and following the results of its own examination it raised no objections.

The Supervisory Board approved the management report and the financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank as at 31 December 2017 at its meeting on 15 March 2018.

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 2017.

Luxembourg, March 2018

Thomas S. Bürkle
Chairman of the Managing Board
NORD/LB Norddeutsche Landesbank Girozentrale

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Luxembourg

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