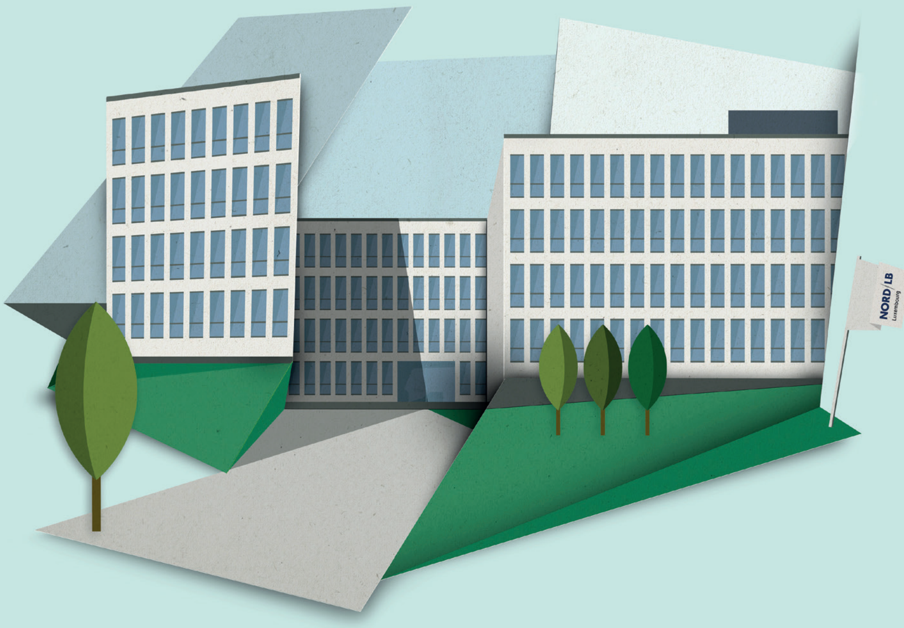
NORD/LB
Covered Bond Bank
Luxembourg




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

Finanzgruppe

**Annual Report 2018**

The following tables may contain computational rounding differences.

| Business performance | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in € million) | Change (in %) |
|---|---|---|---|---|
| Cash reserve | 443.4 | 448.3 | -4.9 | -1 |
| Trading assets | 191.2 | 128.3 | 62.9 | 49 |
| Financial assets at fair value through profit or loss | 1,042.3 | 873.0 | 169.3 | 19 |
| Financial assets at fair value directly in equity | 2,101.7 | 2,232.2 | -130.5 | -6 |
| Financial assets at amortised cost | 13,103.0 | 11,367.0 | 1,735.9 | 15 |
| Positive fair values from hedge accounting derivatives | 218.8 | 219.8 | -1.0 | 0 |
| Other assets | 98.9 | 91.9 | 7.0 | 8 |
| **Total assets** | **17,199.3** | **15,360.6** | **1,838.7** | **12** |
| Trading liabilities | 81.1 | 74.9 | 6.2 | 8 |
| Financial liabilities at fair value through profit or loss | 1,634.1 | 1,043.3 | 590.8 | 57 |
| Financial liabilities at amortised cost | 14,320.4 | 12,971.7 | 1,348.7 | 10 |
| Negative fair values from hedge accounting derivatives | 438.5 | 517.7 | -79.2 | -15 |
| Provisions | 9.8 | 13.9 | -4.2 | -30 |
| Other liabilities | 34.0 | 36.2 | -2.3 | -6 |
| Reported equity | 681.4 | 702.8 | -21.4 | -3 |
| **Total liabilities and equity** | **17,199.3** | **15,360.6** | **1,838.7** | **12** |

| Earnings performance | 2018 (in € thousand) | 2017 (in € thousand) | Change (in € thousand) | Change (in %) |
|---|---|---|---|---|
| Net interest income | 113,904 | 108,908 | 4,996 | 5 |
| Net commission income | -41,170 | -38,450 | -2,720 | 7 |
| Profit/loss from fair value measurement | -25,120 | 6,366 | -31,486 | < -100 |
| Net valuation allowance from financial instruments not measured at fair value through profit or loss | 5,153 | 1,931 | 3,222 | > 100 |
| Net disposal result from financial instruments not measured at fair value through profit or loss | 0 | 15,142 | -15,142 | -100 |
| Profit/loss from hedge accounting | -7,628 | -1,546 | -6,083 | > 100 |
| Foreign exchange result | 493 | -892 | 1,385 | < -100 |
| Administrative expenses | -38,442 | -38,992 | 550 | -1 |
| Current amortisation and depreciation | -2,783 | -3,764 | 981 | -26 |
| Other operating profit/loss | -3,450 | -8,367 | 4,916 | -59 |
| Income taxes | 136 | -11,013 | 11,149 | < -100 |
| **Earnings after taxes** | **1,092** | **29,324** | **-28,231** | **-96** |

| Key performance indicators | 31.12.2018 | 31.12.2017 | Change (absolut) | Change (in %) |
| --- | --- | --- | --- | --- |
| Cost/income ratio in % * | 111.3% | 64.8% | 46.5% | 72 |
| RoRaC in % ** | 0.3% | 11.1% | -10.8% | -97 |

*) Also see Note ((16) Segmentation of NORD/LB CBB by business segment) for definition of cost/income ratio (CIR).
**) Also see Note ((16) Segmentation of NORD/LB CBB by business segment) for definition of RoRaC.

| Key regulatory indicators | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in € million/%) | Change (in %) |
| --- | --- | --- | --- | --- |
| Total risk exposure amount | 4,443.1 | 4,244.4 | 198.7 | 5 |
| Tier 1 capital | 613.1 | 624.8 | -11.7 | -2 |
| Own funds | 613.1 | 627.3 | -14.0 | -2 |
| Common equity tier 1 capital ratio | 13.8% | 14.7% | -0.9% | -6 |
| Total capital ratio | 13.8% | 14.8% | -1.0% | -7 |

| Workforce | 31.12.2018 | 31.12.2017 | Change (absolut) | Change (in %) |
| --- | --- | --- | --- | --- |
| Number of employees | 173 | 189 | -16 | -8 |

# Summary of key data

# Contents

## Loan portfolio

Increase of loans in cover pool by roughly € 1 billion

## Long-term funding

USD 650 million Lettres de Gage publiques issue with an order book of more than USD 1 billion

## Sales

250 European, institutional customers in 29 countries

## Factoring

Almost 70 transactions worth about € 2.2 billion Programme limit (+11 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 clientèle.*

# Rethink covered banking

# Foreword

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

2018 marks the end of a year that has turned out to be much more eventful than was generally assumed. Political events have had a major impact on the financial markets, and continue to do so.

The Pfandbrief market, which is crucial for us as a covered bond bank, is influenced by the monetary policy measures of the European Central Bank (ECB), which plots the course for yields and risk premiums for European covered bonds. NORD/LB CBB's Lettres de Gage publiques were also unable to escape the overarching trend of wider swap spreads on the international market for covered bank bonds. The main reason behind this trend is likely to have been the reduction in the ECB's purchases of covered bonds from autumn 2018 onwards. Despite the wider spreads mentioned above, for Lettres de Gage publiques as well, they did not widen as much as most other jurisdictions and thus developed well. In the past year for example, NORD/LB Luxembourg S.A. Covered Bond Bank once again consistently worked towards its goal of green bonds and sustainability, and in so doing expanded its Lettres de Gage issues.

2019 will also pose challenges for NORD/LB Luxembourg S.A. Covered Bond Bank. Nevertheless, our Luxembourg Pfandbriefe will play an important role for our investors and the Group as a secure form of investment and source of refinancing in the coming year. This will be based on the spirit of innovation and the high motivation of our employees.

NORD/LB and its owners adopted a comprehensive strategy at the beginning of April 2019 to strengthen capital and reposition the Bank. This is aimed at preparing the Bank for further increases in regulatory requirements and permanently strengthening its crisis resilience and competitiveness. We make an active contribution to these change processes within the NORD/LB Group.

Thorsten Schmidt

Manfred Borchardt

# Managing board

**Thorsten Schmidt**
Member of the Managing Board

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

After receiving his university-entrance diploma (Abitur), Mr Schmidt began training at 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 the former 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 2022.

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 has since spearheaded 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 Group Service & B2B.

On 28 February 2018 NORD/LB CBB liquidated its subsidiary Galimondo S.à r.l., Luxembourg. Galimondo S.à r.l. was established on 5 September 2014 as a company with limited liability under Luxembourg law. The purpose of this company was to provide and coordinate services that are needed to construct and maintain the functionality of buildings and facilities. Due to its subordinate materiality, Galimondo S.à r.l. was not included in the Bank's reports under commercial law.

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.

**Dependencies of NORD/LB CBB on NORD/LB and going concern:**

NORD/LB CBB is dependent on NORD/LB as the parent company, particularly with regard to liquidity and funding. Other material dependencies concern compliance with the Group's capital adequacy requirements, rating development, and intragroup management and organisation. Bilateral service relationships and considerable links also exist in the form of intragroup IT requirements and liabilities between the Bank and NORD/LB.

In recent years, the ongoing crisis in the shipping sector has gradually led to an increase in non-performing loan portfolios as well as to significant risk provisioning requirements with corresponding burdens on the regulatory capital ratios of NORD/LB and the NORD/LB Group. Corresponding developments also contributed to a substantial loss for NORD/LB in the 2018 financial year.

In order to reduce the non-performing shipping loan portfolio and lay the foundations for measures to strengthen the capital ratios, NORD/LB and its owners initiated a comprehensive concept in the 2018 financial year to reposition the Bank and strengthen its capital, which includes measures to sell non-performing loan portfolios. This was intended to prepare NORD/LB for further increases in regulatory requirements and to strengthen its crisis resilience and competitiveness on a sustainable basis. The aim is still to reposition NORD/LB's business model.

A bidding process to allow external investors to participate in NORD/LB was carried out to strengthen capital ratios. As part of this process, bids have been received from various investors for a possible investment in NORD/LB. In NORD/LB's ad-hoc notification of 3 December 2018 on the status of the bidding process and the reduction of the non-performing shipping loan portfolio, it stated that the progress made in reducing this portfolio prior to implementing the measures for strengthening NORD/LB's capital could lead to lower capital ratios and a loss at the level of

NORD/LB.

NORD/LB published another ad-hoc notification on 2 February 2019, stating among other things that a considerable net loss is expected for the 2018 financial year at the NORD/LB Group level (due in part to the additional risk provisioning for the NORD/LB NPL portfolio and corresponding portfolio transactions) and that the common equity tier 1 capital ratio will sometimes fall below the threshold required by the regulators. NORD/LB informed the banking supervisory authorities of this. Following the ad hoc notification, the current owners of NORD/LB agreed to focus together with the previous owners and Deutsche Sparkassen- und Giroverband e.V (DSGV) in the public sector on achieving a joint solution for strengthening the capital. According to the ad hoc notification, this solution should be detailed in further talks to be held with the DSGV and must be agreed with the relevant supervisory authorities and from the perspective of government aid.

On 5 February 2019, NORD/LB entered the restructuring phase of its recovery plan due to the foreseeable negative impact on profitability and capital indicators.

Based on the measures planned to strengthen capital and its loan portfolio transactions, NORD/LB prepared a capital strategy and business plan at the request of the banking regulators, which was submitted to the regulators on 1 March 2019 and presented to them on 4 March 2019 together with the owners and DSGV.

On 3 April 2019, an updated capital strategy and business plan was presented to the banking regulators. In a joint letter from the State of Lower Saxony and DSGV on the “NORD/LB I capitalisation through the owners and Sparkasse Finance Group: basic agreement” sent to the banking regulators and NORD/LB on 8 April 2019 including the enclosed basic agreement between the owners, the DSGV and NORD/LB, written consent was given in particular to the capital measures and the realignment of the business model. NORD/LB assumes that by implementing the capital-strengthening measures contained therein and realigning the business model, this will lead to a significant increase in the capital ratios and all regulatory requirements will be met. Furthermore, NORD/LB has decided to postpone the second ship portfolio transaction and pursue the establishment of an internal settlement unit instead.

The measures for realigning the business model of NORD/LB provide for an extensive transformation of individual business areas and subsidiaries of NORD/LB and the Group in the coming years. The measures may include a (partial) disposal or closure of NORD/LB CBB.

The capital strategy and business plan upon which the NORD/LB Managing Board’s forecast of the bank as a going concern is based take account of the capital injection described and the realignment of NORD/LB’s business model.

Given the dependencies of NORD/LB outlined above, there is a significant level of uncertainty regarding the going concern of NORD/LB CBB. The going concern assumption made for accounting and measurement purposes as well as the continued existence of NORD/LB CBB depend on the continued existence of NORD/LB.

The continued existence of NORD/LB itself is subject to considerable uncertainty and is based in particular on the assumption that

- the measures pursued to strengthen capital at the level of NORD/LB will be implemented, completed and approved by all relevant stakeholders, in particular by the state parliaments of Lower Saxony and Saxony-Anhalt and the Deutsche Sparkassen- und Giroverband e.V.(DSGV), with the result that the capital ratios and buffers as well as the thresholds required by the regulators will be met in future,
- the banking regulators, in particular the European Central Bank, the Federal Financial Supervisory Authority and the Deutsche Bundesbank, will tolerate the failure to meet the minimum capital ratios demanded by

the regulators until the measures pursued to reinforce capital at the level of NORD/LB are completed,

- all official permits required to implement the plan, particularly from the European Commission and the responsible banking regulators, will be issued, and
- the realignment of the business model and the restructuring measures envisaged are put into practice on schedule.

In addition, the corresponding acceptance at the level of the relevant stakeholders and the market is necessary to successfully implement the re-dimensioning and reorganisation of the NORD/LB Group.

The assumption made about the going concern of NORD/LB at the time of preparing the Bank's financial statements is beset with uncertainty as key factors are beyond NORD/LB's control. The going concern status of the NORD/LB Group depends primarily on whether the planned capital measures will be conducted to such an extent that the regulatory capital requirements can be met again in future. For this to happen, the planned capital measures must be implemented quickly, in particular by the federal states of Lower Saxony and Saxony-Anhalt and the DSGV, as well as by the connected savings banks. This requires, in particular, approval of government aid by the responsible EU authorities, the corresponding formal resolutions at the level of the owners and the conclusion of the necessary contractual agreements.

If the planned measures to strengthen capital are not implemented as planned at the level of NORD/LB, NORD/LB could be wound up. In this case, it could also lead to the wind-up, sale or closure of NORD/LB CBB. In such a situation or in the event of a rating downgrade of NORD/LB or other adverse developments, the funding options available to NORD/LB CBB could also be fundamentally limited.

# International economic developments

**Economic environment**

Global growth slowed gradually over the course of 2018, with sentiment in the major economies dipping considerably towards the end of the year in particular. The background to this was the various global risks posed by US trade policy, Brexit and the new government in Italy for example. However, with real GDP growth sitting at 3.7 per cent p.a., global economic growth remained quite solid for the year as a whole. In the USA real growth even accelerated to 2.9 per cent p.a., while China and the eurozone experienced a slowdown in growth.

The very dynamic development seen previously in the eurozone did not continue in 2018. Instead, the upturn increasingly flattened in the course of the year. In the single currency area, real gross domestic product expanded by 1.8 per cent p.a. in 2018, the lowest growth recorded in four years. The continuing decline in unemployment and the associated increase in employment were supportive. The annual average unemployment rate fell to 8.2 per cent p.a. However, the higher inflation rate, which at times exceeded 2.0 per cent p.a., put the brakes on the growth in real disposable income.

In Germany, the dip in economic growth was even more marked. Throughout 2018, real gross domestic product increased by 1.5 per cent p.a. This is the smallest increase in five years. In 2018, the German economy suffered in particular from the clouds gathering over the world's economy as a result of global risk factors. The export-oriented German economy was hit particularly hard by the problems stemming from the trade conflicts and the forthcoming Brexit.

Domestic demand was the most important pillar of growth on the consumption side, even though consumption was weaker than expected. The labour market continued to develop well too: The number of people in employment rose by 1.3 per cent in 2018 as a whole, while the unemployment rate fell to 5.2 per cent p.a. Despite the high level of uncertainty, investment trends were very dynamic as net exports made a negative contribution to growth.

The higher global uncertainty was also reflected in the capital markets. Germany's DAX equity index lost a good 18 per cent p.a. in the course of the year and closed out the year at 10,559 points. Monetary policy remained very loose overall. The Federal Reserve raised interest rates by 25 basis points on four occasions in 2018, and it also continued reducing the size of its balance sheet. In the eurozone, however, the European Central Bank (ECB) stuck by its very expansionary monetary policy, even though the ECB phased out net bond purchases under the Extended Asset Purchase Programme (EAPP) at the end of the year. That said, maturing bonds from the programme will continue to be fully reinvested. Key rates remained at historic lows, and the forward guidance was also adjusted only slightly in the past year. Treasuries in the USA were unable to maintain the 3.0 per cent p.a. mark, which had temporarily been exceeded. European capital market interest rates trended downwards in 2018 after initially continuing to rise in the first half of the year. In February, the yield on ten-year German Bunds reached an annual high of a good 0.80 per cent p.a. In May and at the end of the year, however, uncertainty drove investors into safe havens, pushing the Bund yield down to around 0.20 per cent p.a.

Euro money market rates remained almost unchanged in negative territory. The US dollar benefited from the stronger tightening of US monetary policy and the greater growth differential in the past year. The European single currency fell significantly in value and was quoted at below USD 1.15 to the euro at the end of the year. The EUR/USD basis swap spreads narrowed significantly over the course of the year to settle at between -10 and -15 basis points across all maturities.

## General economic development

*Global economic outlook*

The dynamics of the global economy are slowing in 2019 compared to the previous year. The effect of the tax reform is coming to an end in the US economy, but real growth is likely to be in the region of 2.5 per cent p.a. again. In China and the eurozone, by contrast, the economies are suffering greater setbacks. Unemployment will fall at a slower pace in the eurozone. The inflation rate in the eurozone is short of the 2.0 per cent p.a. mark, and is thus well below the inflation target of the European Central Bank (ECB) again.

*Economic forecast for Germany and the eurozone*

The German economy is set to recover slowly from the economic downturn. After GDP growth came to a standstill in the second half of 2018, the most important leading indicators for the first half of the year point to a persistently flat underlying economic trend. Catch-up effects in industrial production are difficult to determine after output was considerably reduced in some sectors of the economy due to special effects (WLTP, low water levels). These special effects certainly exaggerated the extent of the economic slowdown. Incoming orders for 2019 do indicate a gradual recovery, at least for automobile manufacturers, so moderate catch-up effects can be expected in the spring, albeit building on a much flatter underlying economic trend. The mood among financial market experts and in German companies has recently worsened significantly. Although the ZEW Indicator of Economic Sentiment improved slightly at the beginning of the year, it did so against the backdrop of a much worse situation assessment. With global risks high, ifo‘s business expectations deteriorated markedly again in January 2019. Even if the global risks of a hard Brexit and a trade war do not come to pass, the German economy found itself in a downturn in the winter of 2018/19. However, domestic demand should be robust enough to keep growth slightly above 1.0 per cent p.a. and therefore at least close to its potential.
The leading indicators also give little hope for a rapid economic recovery in the eurozone 2019. Italy‘s economy fell into recession at the end of 2018. Unemployment will continue to decline in 2019, albeit at a slower pace than before. In 2019, NORD/LB anticipates real economic growth of 1.2 per cent year on year, followed by 1.5 per cent in the following year. Monetary policy will remain very expansionary for now. The downside risks for the outlook include, in particular, geopolitical conflicts, US trade policy, the exit of the United Kingdom from the European Union (Brexit), the European elections coming up in spring 2019 and potential political instabilities in some eurozone Member States (Italy, France).

*Financial market performance and interest rate forecasts*

The US Federal Reserve will be more cautious in 2019 and is only set to raise interest rates on two more occasions. By contrast, the ECB is continuing its very expansionary monetary policy. The first interest rate hike from the ECB is not likely to come until 2020. This means the monetary climate remains favourable. The development of capital market interest rates may well be very subdued under such circumstances. The yield on ten-year German Bunds should rise slightly to 0.5 per cent p.a. by the end of 2019. For the USD exchange rate, NORD/LB forecasts a rate of USD 1.20 per euro 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 -10 basis points. Econometric forecasting models indicate that the yield curve should remain flat.

## Covered bond markets and Lettres de Gage publiques and Lettres de Gage énergies renouvelables

Das Marktsegment der gedeckten SchuldThe market segment of covered bonds remained under the significant influence of the Eurosystem's monetary policy in 2018. The European Central Bank announced and has already partly implemented a change of direction, which impacted on the primary and secondary markets. Spreads widened noticeably as a result, particularly in the second half of the year. The political confrontations surrounding the wrangling for a solution to the Brexit issue and the discourse between Brussels and the decision-makers in Rome regarding the Italian budget were also important for market participants and thus for pricing on the international covered bond markets. In addition, the Commission's draft and the subsequent discussion process on (European) covered bond harmonisation were used to set or prepare the regulatory path.

Looking at the details, 2018 had a comparatively high new issue volume of around € 135 billion on the covered bond market for EUR-denominated benchmark bonds, which largely exceeded the expectations of market participants. Such a volume was last seen back in 2015. The issuing activity was spread across nearly 100 issuers from more than 20 countries, with an issuing company from Japan among the few new covered bond debutants. The largest share of new issues was found in Germany, amounting to roughly € 29 billion, followed closely by France with around € 25 billion, and Canada some way behind with a figure of € 13 billion. Breaking the primary market volume down by issuer origin, we find that, similarly to the previous year, the majority of the placements amounting to about € 81 billion came from the eurozone, accounting for approximately 60%. The preferred maturities were 7Y (28%), 5Y (27%) and 10Y (18%), with a relatively high proportion of maturities over 10Y (9%).

As a result of the ECB's decision to reduce its buying in primary market transactions, spreads for new issues widened significantly, leading to a marked increase in new issue premiums for benchmark covered bonds. As a result, spreads for covered bonds were also revalued on the secondary market, resulting in significant spread widening in 2018. Spreads across all jurisdictions exhibited an upwards trend. Nonetheless, the overall picture with regard to the extent of the spread widening was heterogeneous, thanks not least to the political debate on the Italian budget and Brexit developments.

NORD/LB CBB's Lettres de Gage publiques were also unable to escape the spread-widening trend, but they widened less than most other jurisdictions and so performed well.

*Innovations in the Financial Sector Act - Lettres de Gage énergies renouvelables asset class*

On 22 June 2018, the amendment to the Law of 5 April 1993 on the financial sector entered into force with regard to the introduction of Pfandbriefe for renewable energies - Lettres de Gage énergies renouvelables (Lettre de Gage Renewable Energy). This is the first time that a legal framework has been created for a covered bond class that is secured via the financing of renewable energies.

Article 12-3 para. 2 f) et seq. of the law on the financial sector for receivables from loans used to finance renewable energy projects adopted the definition for renewable energies according to the EU Regulation (2009/28, Article 2 (a)-(e)).

Accordingly, financing for energy from renewable non-fossil sources, such as wind, solar, aerothermal, geothermal, hydrothermal and ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas and biogases, qualifies as a cover asset for the new asset class of Lettres de Gage énergies renouvelables.

The law stipulates that it is not only the financing of energy production, but also the financing of infrastructure for transmission, storage and transformation that can be refinanced using the new Luxembourg Lettre de Gage Renewable Energy, provided that more than 50% is effectively used with renewable energies.

The proceeds from the Lettres de Gage Renewable Energy issue will be used to provide sustainable financing. These include, in particular, projects in the field of renewable energies such as wind power - onshore and offshore -, photovoltaics, hydropower and biogas.

# 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 as well as allied lending business with other units of NORD/LB, with a particular focus on expanding sales.

*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, cover pool management 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 makes a complementary contribution to refinancing the NORD/LB Group's core business both on the money and capital markets. In the money market, ALM/Treasury is characterised by having a broad diversification of funding sources and a high degree of flexibility in terms of currencies and maturities. By way of example we can mention the growing network of counterparties in Switzerland, including access to open market transactions of the Swiss National Bank („SNB"). The focus of issuing activities in the capital market, which use various currencies customary on the different markets, lies on trading in Lettres de Gage, especially for medium and long terms. Short and medium-term maturities dominate the uncovered issues.

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 with due consideration of internal limitations and regulatory requirements. In this regard, ALM/Treasury is responsible for the long-term compliance and cost-optimised monitoring of regulatory indicators (such as the liquidity coverage ratio).

Moreover, ALM/Treasury represents the Bank in key national and international committees and working groups in the area of the Luxembourg covered bond.

*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 (SSSA) 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 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**

The Fed continued its slow but steady tightening of monetary policy at the end of 2018 with an increase in the key interest rate, the fourth this year. Due to the ECB's zero-interest policy, which was to remain in place until the end of the year, the yield curves remained very flat. NORD/LB CBB's earnings continue to be influenced by these monetary policy decisions. 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.
NORD/LB CBB concentrated in recent years on establishing a Lettres de Gage benchmark curve in euros, and then placed a USD benchmark issue on the market in February 2018. This is the first Lettres de Gage USD issue since 2007.
The USD 650 million bond with a maturity of 3 years was very well received by the market. 34 investors from 14 countries generated an order book of over USD 1 billion. The lion's share of investors came from Scandinavia (42 per cent), followed by German investors (21 per cent) and French buyers (16 per cent). In terms of investor groups, central banks and public-sector institutions led the way with 47 per cent, followed by banks at 29 per cent and fund managers with 22 per cent. This issue represented another successful step by NORD/LB CBB and thus by the NORD/LB Group towards broadening the investor base beyond the firmly established group of customers buying Pfandbrief products denominated in euros. In addition to the benchmark issue, various registered Pfandbriefe with long maturities of more than 10 years were issued in the form of private placements during the year.
As at 31 December 2018, the nominal over-collateralisation including derivatives was 34.0 per cent and the present value was 45.3 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 77.8 per cent coming from Europe (42.9 per cent from Germany).
Fixed Income/Structured Products Sales Europe again significantly boosted its business activities, both in the primary and secondary markets.

**Loans**

The allied lending business concentrated on the cooperation between NORD/LB CBB and partners from the Corporate Customer, Structured Finance, Maritime Industries and Aircraft Finance divisions of NORD/LB, and is the core business of NORD/LB CBB. NORD/LB CBB offers the NORD/LB Group unique added value with respect to its financing of credit transactions that qualify for the Lettre de Gage publiques. This is why the credit business eligible for cover pooling in Luxembourg is accounted by NORD/LB CBB across the Group. New business trends were encouraging again, leading to an increase in the lending portfolio eligible for cover pooling with these areas.
PPP business (Public Private Partnership) and lending to publicly-owned companies account for the majority of loans eligible for cover pooling, supported by selective business secured by export credit insurance. The geographical focus of the new business is on the core European states, in addition to selected new business from Asia. 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.
In addition to the credit transactions that qualify for the Lettres de Gage publiques, credits to finance renewable energies (solar and wind power) have also been accounted at NORD/LB CBB since 2018.

**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. This business is mainly handled by NORD/LB CBB within the NORD/LB Group. This line of business represents an important and strategically significant growth area of NORD/LB and NORD/LBB CBB, and is operated in close cooperation with the Group. To strengthen and expand this segment, NORD/LB CBB is also working on initiatives to digitalise this business segment. Internal processes are being promoted with the help of innovative software solutions, and work is under way to expand an existing cooperation framework with a FinTech company.

**Group Service & B2B**

The Group Service/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**

*General:*

While economic conditions were still recovering in the first half of 2018, the year as a whole ultimately turned out to be one of trade conflicts and interest rate concerns. The synchronous global expansion recorded in 2017 gave way to a mixed growth scenario in 2018. It is assumed that economic momentum will continue to weaken, but that growth will remain robust. Solving the trade conflicts could once again support the business climate, capital spending and growth.

NORD/LB and its owners have been working intensively since the end of 2017 on a comprehensive strategy to strengthen capital and reposition the Bank. This is aimed at preparing the Bank for further increases in regulatory requirements and permanently strengthening its crisis resilience and competitiveness. Various far-reaching options are currently being examined in this process.

NORD/LB CBB, as a wholly-owned subsidiary of NORD/LB, is contributing to the efficient restructuring of the Group with the RefiCo „Refinancing Competence Centre“ project. Based on the decisions of the Steering Committee, 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 by 2021. Achieving this goal will also mean a further reduction in employee capacity; the extent of the restructuring still needs to be determined. The efforts required to implement these measures will have a significant impact on 2019.

The Managing Board updated a restructuring plan in 2018 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 to balance the interests of the employees affected. An appropriate provision for reorganisation measures was recognised to cover the financial expense associated with planned restructuring measures or measures that have already been initiated.

*Covered Bond Märkte:*

Activities at European level to harmonise the covered bond markets have entered the decisive phase. After the European Commission presented its harmonisation proposals in March 2018, the European Council and the Committee on Economic and Monetary Affairs (ECON) of the European Parliament followed with their proposals.

They form the basis for the so-called trilogue

negotiations between the European Commission, the European Council and the European Parliament, which began in January 2019 and are to be successfully concluded soon according to the wishes of those involved. This is the prerequisite for completing the Covered Bond harmonisation project during the current legislative period of the European Parliament (until May 2019) with the adoption of the law.
Since the legislative project has yet to be completed, it is not yet possible to make any statements on the nature and extent of possible effects on the Lettres de Gage business. To ensure the status of Lettres de Gage as a successful Pfandbrief product in Europe, the Bank has actively and constructively engaged in dialogue with the European institutions and interest groups involved in the harmonisation process.
The amendment of the Luxembourg law of 5 April 1993 on the financial sector which came into force on 22 June 2018 concerning the introduction of Pfandbriefe for renewable energies created the first legal framework in the world for a covered bond class secured by the financing of renewable energies. This new field of activity offers great opportunities for NORD/LB CBB in particular in cooperation with NORD/LB.

*Financial Markets, Sales, Loans:*
Financial Markets continues to provide refinancing services by offering covered refinancing through the issue of both private placements and asset portfolios of 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. As part of the RefiCo, a decision was made to merge the new loan business not eligible for cover pooling, with the exception of factoring, into NORD/LB from 1 September 2018. Nevertheless, the development of new business is still deemed positive. A further expansion of the loan portfolio eligible for cover pooling can therefore be expected.

*Factoring:*
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.

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

As at 31 December 2018, NORD/LB CBB's ratings were as follows[1] :

| | FITCH RATINGS | MOODY'S |
|---|---|---|
| **NORD/LB Luxembourg Covered Bond Bank** | | |
| Long-term / Short-term | A-* / F1* | Baa2** / P-2*** |
| Lettres de Gage publiques | AAA* | Aa3** |

* Rating Watch Negative
** Review Direction Uncertain
*** Review for Downgrade

NORD/LB CBB began 2018 with a long-term issuer rating "Baa3" (negative outlook) and a short-term issuer rating of "P-2" from ratings agency Moody's Investors Service (Moody's), as well as a Long-Term Issuer Default Rating (IDR) of "A-" (negative outlook) and a Short-Term Issuer Default Rating of "F1" from Fitch Ratings (Fitch). The ratings were confirmed by Fitch on 19 March 2018.

The implementation of the EU's Bank Recovery and Resolution Directive (BRRD) into national law in Germany led to a change in Moody's methodology. As a result, the issuer rating was raised from "Baa3" to "Baa2" on 3 August 2018. On 3 December 2018, NORD/LB published an ad-hoc announcement on the status of the bidding process to boost its capital and reduce the NPL ship portfolio. Thereafter, Fitch set the IDR to "Rating Watch Negative" on 7 December 2018, and Moody's set all long-term ratings to "Review Direction Uncertain" and the "P-2" short-term and deposit ratings to "Review for Downgrade" on 18 December 2018.

After the balance sheet date, Moody's Investors Service changed its rating as follows as part of a rating review:

On 14 February 2019, Moody's moved the long-term issuer rating of NORD/LB CBB from "Review Direction Uncertain" to "Review for Upgrade". The Lettres de Gage publique rating was moved by Moody's on 18 February 2019 from "Review Direction Uncertain" to "Review for Upgrade".

**Lettres de Gage publiques**

Moody's rating for the Luxembourg Pfandbrief Lettres de Gage publiques remained unchanged at "Aa3" at the beginning of the year. The rating action by Moody's on 18 December 2018 meant that the outlook for the Lettres de Gage publiques programme was set to "Review Direction Uncertain" on 19 December 2018. According to Moody's, this rating action is not due to a deterioration in the credit quality of the covered pool assets.

On 26 January 2018, Fitch confirmed the rating for the Lettres de Gage publiques at "AAA" with a stable outlook. On 11 December 2018, Fitch set the Lettres de Gage publiques rating to "Rating Watch Negative" because of the "Rating Watch Negative" for the Issuer Default Rating on 7 December 2018.

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 Fitch and Moody's.

[1]For more information, see www.nordlbcbb.lu

# Earnings

The financial statements of NORD/LB CBB dated 31 December 2018 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 2018 and 2017:

| | 2018 (in € thousand) | 2017 (in € thousand) | Change * (in € thousand) |
|---|---|---|---|
| Net interest income | 113,904 | 108,908 | 4,996 |
| Net commission income | -41,170 | -38,450 | -2,720 |
| Profit/loss from fair value measurement | -25,120 | 6,366 | -31,486 |
| Net valuation allowance from financial instruments not measured at fair value through profit or loss | 5,153 | 1,931 | 3,222 |
| Net disposal result from financial instruments not measured at fair value through profit or loss | 0 | 15,142 | -15,142 |
| Profit/loss from hedge accounting | -7,628 | -1,546 | -6,083 |
| Foreign exchange result | 493 | -892 | 1,385 |
| Profit/loss from shares in companies | 0 | 0 | 0 |
| Administrative expenses | -38,442 | -38,992 | 550 |
| Current amortisation and depreciation | -2,783 | -3,764 | 981 |
| Other operating profit/loss | -3,450 | -8,367 | 4,916 |
| **Earnings before income taxes** | **956** | **40,337** | **-39,380** |
| Income taxes | 136 | -11,013 | 11,149 |
| **Earnings after tax** | **1,092** | **29,324** | **-28,231** |

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

The structure of the income statement was adjusted as follows because of the first-time application of IFRS 9; also see Note ((2) Structural adjustments).

The breakdown of earnings components is as follows:

**Net interest income**

| | 2018 (in € thousand) | 2017 (in € thousand) | Change * (in € thousand) |
|---|---|---|---|
| Interest income | 463,769 | 460,021 | 3,747 |
| Interest expenses | -358,106 | -357,026 | -1,080 |
| Interest rate anomalies | 8,241 | 5,912 | 2,329 |
| **Net interest income** | **113,904** | **108,908** | **4,996** |

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

Net interest income increased in the 2018 financial year by € 4,996 thousand (4.6%) to €113,904 thousand.
The main factors in this context include the reduction by € -13,434 thousand of the interest income from debt securities and other fixed-interest securities owing to the declining volume of securities in the Bank’s portfolio. This was compensated for by the increases in interest income from the continued expansion of the loan business totalling € 7,828 thousand, and the higher interest income from derivatives amounting to € 9,335 thousand.
In addition, € 3,567 thousand (previous year: € 0 thousand) was generated in 2018 from special monetary policy measures of the ECB (TLTRO II).
Interest expenses are largely stable, with compensating effects therein seen with the decline in interest expenses from derivatives of € -12,210 thousand and the increase in interest expenses from financial liabilities designated at fair value through profit or loss of € 14,281 thousand.
Furthermore, interest rate anomalies resulted in interest totalling € 8,241 thousand (previous year: € 5,912 thousand) in the 2018 financial year.
For further explanations please refer to Note ((18) Net interest income and current income).

## Net commission income

| | 2018 (in € thousand) | 2017 (in € thousand) | Change * (in € thousand)) |
|---|---|---|---|
| Commission income | 12,658 | 15,544 | -2,886 |
| Commission expenses | -53,828 | -53,994 | 166 |
| **Net commission income** | **-41,170** | **-38,450** | **-2,720** |

*) Das Vorzeichen in der Veränderungsspalte gibt die Auswirkung auf das Ergebnis an.

Net commission income deteriorated year on year by € 2,720 thousand to € -41,170 thousand.

Commission income was generated principally in lending and guarantee business (€ 6,392 thousand, previous year: € 8,497 thousand) and the security transactions and custody service business (€ 5,860 thousand, previous year: € 6,496 thousand). Other commission income (€ 405 thousand, previous year: € 551 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 NORD/LB Group units (€ -37,933 thousand; previous year: € -37,966 thousand) and from lending and guarantee business (€ -12,955 thousand; previous year: € -12,580 thousand), also taking into account the costs to cover credit risks. In addition, commission expenses also arise primarily from security transactions and custody service business (€ -979 thousand; previous year: € -1,044 thousand).

**Profit/loss from financial instruments at fair value through profit or loss**

| | 2018 (€ thousand) | 2017 (€ thousand) | Change * (€ thousand) |
|---|---|---|---|
| Trading profit/loss | -8,705 | 6,154 | -14,859 |
| Profit/loss from financial assets mandatorily at fair value through profit or loss | -7,502 | 0 | -7,502 |
| Profit/loss from securitised liabilities designated at fair value through profit or loss | -8,913 | 212 | -9,125 |
| **Profit/loss from fair value measurement** | **-25,120** | **6,366** | **-31,486** |

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

**Profit/loss from financial instruments at fair value through profit or loss** (€ -25,120 thousand, previous year: € 6,366 thousand) shows the trading profit/loss proper and the profit/loss from financial instruments mandatorily or voluntarily measured at fair value.

The significant profit/loss reduction in all of the mentioned items is largely due to changes in the measurement parameters. Unhedgeable basis-spread effects from cross currency swaps alone generated a temporary valuation loss of € 10,243 thousand (previous year: € 108 thousand). There was also a modest widening of the credit spreads for held securities given the uncertainties on the market.

**Net valuation allowance from financial instruments not measured at fair value through profit or loss**

| | 2018 (€ thousand) | 2017 (€ thousand) | Change * (€ thousand) |
|---|---|---|---|
| Loan loss provisions for financial assets at fair value directly in equity | -31 | 0 | -31 |
| Loan loss provisions for financial assets at amortised cost | 5,184 | 1,931 | 3,252 |
| **Net valuation allowance from financial instruments not measured at fair value through profit or loss** | **5,153** | **1,931** | **3,222** |

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

Changes in **loan loss provisions** resulted in income of € 5,153 thousand (previous year: € 1,931 thousand). This largely resulted from a reduction in the valuation allowance under IFRS 9 owing to the lower default risks in accordance with the classification to provisioning levels 1 and 2. The result also includes an addition to a written-off receivable amounting to € 1,239 thousand.

**Net disposal result from financial instruments not measured at fair value through profit or loss**

| | 2018 (€ thousand) | 2017 (€ thousand) | Change * (€ thousand) |
|---|---|---|---|
| Financial assets at fair value directly in equity | 0 | -260 | 260 |
| Financial assets at amortised cost | 0 | -1,340 | 1,340 |
| Financial liabilities at amortised cost | 0 | 0 | 0 |
| **Other disposal profit/loss** | **0** | **16,742** | **-16,742** |
| **Net disposal result from financial instruments not measured at fair value through profit or loss** | **0** | **15,142** | **-15,142** |

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

No securities or loans were sold in the 2018 financial year. The other disposal profit/loss from the previous year 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.

### Profit/loss from hedge accounting

| | 2018 (€ thousand) | 2017 (€ thousand) | Change * (€ thousand) |
|---|---|---|---|
| Profit/loss from hedged underlying transactions | -58,421 | -126,164 | 67,743 |
| Profit/loss from derivatives employed as hedging instruments | 50,793 | 124,619 | -73,826 |
| **Profit/loss from hedge accounting** | **-7,628** | **-1,546** | **-6,083** |

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

The changes in the **profit/loss from hedge accounting** (€ -7,628 thousand; previous year: € -1,546 thousand) are the result of market interest fluctuations as well as OIS and CVA/DVA effects. These two effects occur in isolation in hedging transactions, thereby resulting in low inefficiencies and thus to an unbalanced profit/loss from hedge accounting.

In addition, effects from cross-currency basis spreads are included, which also occurred unilaterally in the hedging transactions.

### Foreign exchange result

| | 2018 (€ thousand) | 2017 (€ thousand) | Change * (€ thousand) |
|---|---|---|---|
| **Foreign exchange result** | **493** | **-892** | **1,385** |

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

The foreign exchange result is generally balanced at the Bank as currency risks are normally eliminated. Temporary and minor inefficiencies in this process result in a low foreign exchange result.

### Administrative expenses

| | 2018 (€ thousand) | 2017 (€ thousand) | Change * (€ thousand) |
|---|---|---|---|
| **Staff expenses** | **-19,662** | **-22,948** | **3,286** |
| - Wages and salaries | -16,916 | -19,453 | 2,537 |
| - Social insurance contributions and pension expenses | -2,746 | -3,495 | 748 |
| **Other administrative expenses** | **-18,779** | **-16,044** | **-2,735** |
| **Administrative expenses** | **-38,442** | **-38,992** | **550** |

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

**Administrative expenses** fell by € 550 thousand compared to the previous year. This is due on the one hand to the reduction in staff expenses because of the multi-stage restructuring process currently being implemented, and on the other hand to an increase in other administrative expenses, mainly IT and communication costs (€ -9,977 thousand; previous year: € -8,470 thousand) as well as legal, auditing, appraisal and consulting costs (€ -4,759 thousand; previous year: € -3,818 thousand). The other administrative expenses remained largely the same.

### Current amortisation and depreciation

Straight-line amortisation and depreciation on property and equipment as well as intangible assets fell by € 981 thousand to € -2,783 thousand. The decrease compared to the previous year was attributable to impairment losses recorded in the previous year. These resulted in a non-recurring depreciation charge for property and equipment in the 2017 financial year of € 332 thousand. There was also no amortisation for software components subject to impairment in the previous year, which was recorded under other operating expenses.

### Other operating profit/loss

| | 2018 (€ thousand) | 2017 (€ thousand) | Change * (€ thousand) |
|---|---|---|---|
| Other operating income | 5,594 | 2,496 | 3,097 |
| Other operating expenses | -9,044 | -10,863 | 1,819 |
| **Other operating profit/loss** | **-3,450** | **-8,367** | **4,916** |

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

The **other operating profit/loss** improved by € 4,916 thousand to € -3,450 thousand.

Other operating income stems primarily from VAT reimbursements obtained outside the period (€ 2,088 thousand, previous year: 0), income from service charging for a major Group project (€ 2,003 thousand, previous year: € 500 thousand), rental income (€ 721 thousand, previous year: € 880 thousand) as well as minor income from the reversal of provisions (€ 462 thousand; previous year: € 1,074 thousand).

Other operating expenses primarily include levies in relation to the bank resolution fund (Fonds de resolution Luxembourg (FRL)) and the Luxembourg deposit guarantee fund (Fonds de garantie des depots Luxembourg (FGDL)) (€ 5,390 thousand; previous year: € 4,103 thousand), and expenses for service charging with the Group (€ 3,289 thousand; previous year: € 3,172 thousand). In the previous year there were also expenses for impairment on internally-used software (€ 3,463 thousand).

### Income taxes

| | 2018 (€ thousand) | 2017 (€ thousand) | Change * (€ thousand) |
|---|---|---|---|
| Current taxes | -226 | -15,976 | 15,750 |
| Deferred taxes | 362 | 4,963 | -4,601 |
| **Income taxes** | **136** | **-11,013** | **11,149** |

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

**Current taxes** are calculated based on the tax rate applicable for the 2018 financial year.

# Net assets and financial position

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in € million) |
|---|---|---|---|
| Cash reserve | 443.4 | 448.3 | -4.9 |
| Trading assets | 191.2 | 128.3 | 62.9 |
| Financial assets at fair value through profit or loss | 1,042.3 | 873.0 | 169.3 |
| Financial assets at fair value directly in equity | 2,101.7 | 2,232.2 | -130.5 |
| Financial assets at amortised cost | 13,103.0 | 11,367.0 | 1,735.9 |
| Positive fair values from hedge accounting derivatives | 218.8 | 219.8 | -1.0 |
| Other assets | 98.9 | 91.9 | 7.0 |
| **Total assets** | **17,199.3** | **15,360.6** | **1,838.7** |
| Trading liabilities | 81.1 | 74.9 | 6.2 |
| Financial liabilities designated at fair value through profit or loss | 1,634.1 | 1,043.3 | 590.8 |
| Financial liabilities at amortised cost | 14,320.4 | 12,971.7 | 1,348.7 |
| Negative fair values from hedge accounting derivatives | 438.5 | 517.7 | -79.2 |
| Provisions | 9.8 | 13.9 | -4.2 |
| Other liabilities | 34.0 | 36.2 | -2.3 |
| Reported equity | 681.4 | 702.8 | -21.4 |
| **Total liabilities and equity** | **17,199.3** | **15,360.6** | **1,838.7** |

The structure of the net assets and financial position was adjusted as follows because of the first-time application of IFRS 9; also see Note ((2) Structural adjustments).

**Total assets** rose by € 1,838.7 million compared with 31 December 2017, from € 15,360.6 million to € 17,199.3 million.

The **cash reserve** comprises balances with central banks and is almost unchanged.

**Trading assets** largely contain derivatives that do not qualify for hedge accounting on the balance sheet but are found in economic hedges (€ 191.2 million, previous year: € 128.3 million).

**Financial assets at fair value through profit or loss** (€ 1,042.3 million, previous year: € 0.0 million) largely consisted of financial assets mandatorily measured at fair value (€ 1,029.9 million) as of 31 December 2018. The previous year's figures (€ 873.0 million) comprised financial assets designated at fair value through profit or loss. The change in the measurement categories was brought on by the introduction of IFRS 9. The expansion of the portfolio was mainly based on portfolio widening caused by new business (€ 122.9 million), the recognition of receivables and securities (€ 35.1 million) at fair value that do not fulfil the cash flow criteria (SPPI criteria).

**Financial assets at fair value directly in equity** only comprise debt securities and other fixed-interest securities (€ 2,101.7 million, previous year: € 2,232.2 million). The decline in financial assets at fair value directly in equity is mostly due to maturities and repayments that were not fully compensated for by new business.

The **financial assets at amortised cost** comprise loans and advances to banks (€ 1,966.4 million, previous year: € 796.4 million), debt securities and other fixed-interest securities (€ 1,765.8 million, previous year: € 1,946.0 million) as well as loans and advances to customers (€ 9,370.8 million, previous year: € 8,624.6 million). The decline in debt securities and other fixed-interest securities at amortised cost is mostly due to maturities and repayments that were not fully compensated for by new business either. The increase in loans and advances to customers was based on the growth in new loans during the financial year. The increase in loans and advances to banks was largely due to a short-term borrowing that was placed on the interbank market for a short period.

The **positive fair values from hedge accounting derivatives** (€ 218.8 million, previous year: € 219.8 million) are almost unchanged compared to the previous year.

The largest items under **other assets** (€ 98.9 million, previous year: € 91.9 million) are property and equipment (€ 64.2 million; previous year: € 65.3 million) as well as intangible assets (€ 27.0 million, previous year: € 22.1 million). There were no major changes in this item during the 2018 financial year.

**Trading liabilities** largely include derivatives, most of which are found under economic hedges (€ 81.1 million, previous year: € 74.9 million).

**Financial liabilities designated at fair value through profit or loss** (€ 1,634.1 million) only comprise own issues recognised in the balance sheet as designated at fair value due to an accounting mismatch (previous year: € 1,043.3 million). Lettres de Gage with a nominal volume of USD 650 million were issued in the financial year and assigned to this measurement category.

**Financial liabilities at amortised cost** (€ 14,320.4 million, previous year: € 12,971.7 million) include liabilities to banks (€ 5,942.4 million, previous year: € 6,011.1 million), liabilities to customers (€ 4,549.1 million, previous year: € 3,210.7 million) as well as securitised liabilities (€ 3,828.9 million, previous year: € 3,750.0 million). Liabilities to banks mainly comprise money market transactions, sub-loans, repo transactions as well as registered covered bonds and debt securities issued. Liabilities to customers comprise money market transactions and issued Lettres de Gage. The planned growth in Lettres de Gage purchased by institutional investors was continued in the 2018 financial year (€ 1,519.6 million; previous year: € 1,412.0 million). The maturity dates for these are between 2019 and 2048. There was practically no change in securitised liabilities (€ 3,828.9 million; previous year: € 3,750.0 million).

The **provisions** not only include provisions for reorganisation measures (€ 4.6 million, previous year: € 8.2 million) but also, and principally, provisions for pensions and similar obligations (€ 3.3 million, previous year: € 3.7 million).

**Other liabilities** mainly include income tax liabilities (€ 20.4 million, previous year: € 25.7 million).

The Bank's **reported equity** stood at € 681.4 million as of 31 December 2018 (previous year: € 702.8 million), down slightly because of a dividend distribution and valuation changes from the Bank‘s own credit risk to be considered for the first time.

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 2018 was prepared in accordance with IFRS 7.
The Bank does not accept significant risks from derivatives with complex structures.
With due consideration of the future requirements in accordance with "BCBS 239 – Risk data aggregation and risk reporting", the risk reporting follows the Management Approach. Internal and external risk reporting are essentially based on the same concepts, methods and data.

**Risk management**

*Principles*

The business activity of a bank inevitably involves the conscious undertaking of risks. Efficient risk management in the sense of a risk/return-oriented allocation of equity is therefore a key component of modern bank management and has been a high priority at NORD/LB CBB since the very beginning. Risk management focuses primarily on controlling risks. The purpose of internal risk reporting is to inform NORD/LB CBB decision-makers about the risks entered into by the Bank to control and monitor risks in line with the situation and strategy and to be able to react in good time and appropriately to special events. Fulfilling legal requirements is an additional facet of external risk reporting.
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 to create a risk inventory according to the German Minimum Requirements for Risk Management (MaRisk), General Part BGB 2.2, which profiles the risk types relevant for 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 risk inventory is checked 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: counterparty risk, market-price risk, liquidity risk and operational risk. The following risks are also relevant: business and strategic risk, reputational risk, real estate risk and pension risk.
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.

*Risk management – strategies*

Managing risks responsibly is the top priority in the business policy of NORD/LB CBB. The formulated risk strategy that is integrated into the risk strategy of the NORD/LB Group is therefore in accordance with the business model and the business strategy. It is reviewed at least once a year. In the Bank‘s risk strategy, the individual risk types of the business segments are defined via a segment risk-type matrix as well as the associated risk sub-strategies and the risk capital allocation requirements. Accordingly, the risk strategy determines the risk appetite and the handling of the main risk types to implement the business model.

The Group-wide risk-bearing capacity model (RBC model) embodies the operational procedure for controlling and limiting material risks as a bank-wide management instrument. In conjunction with the defined escalation processes, the RBC model supports the ongoing assurance of capital adequacy in the context of the Bank‘s Risk Appetite Framework (RAF). The business case at an underlying confidence level of 99.9 per cent is decisive for providing evidence of the adequacy of the capital resources. In addition to taking an economic and normative perspective into account, the assumptions from the medium-term forecast with regard to base scenarios and adverse developments are also considered.

The operational management and limitation of risks takes place within the secondary criterion of risk-bearing capacity based on a quantitative limit system. The internal requirements of the risk strategy regarding risk appetite (primary criterion) and the allocation of risk capital (secondary criterion) are operationalised and monitored within RBC reporting in the form of traffic light signals. 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.

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

The main duty of the Asset Liability Committee (ALCO) is to define framework conditions for the control of market-price and liquidity risk positions and the Bank’s loan and investment books. The ALCO develops recommendations for courses of action to support decision-taking by the Managing Board, taking into account the (current) market situation and its impact on the Bank‘s liquidity and funding. The ALCO also meets at least 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 Luxembourg supervisory authority CSSF), primarily defined in updated CSSF Circular 12/552. The role of the ICS officer is handled by the HR & Organisation unit.

Risk management is subject to continuous monitoring and further development. The Bank uses the uniform NORD/LB Group methods for this. Any adjustments comprise organisational measures, changes in procedures for risk quantification and the 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 | Finance, Risk & Operations |
| | IT |
| | Compliance |
| | HR & Organisation |
| | Audit |

The Risk Control & Strategy department (Finance, Risk & Operations) within the Bank is responsible for implementing the RBC model applicable within NORD/LB, the continuous monitoring of compliance and the 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 is filled at NORD/LB CBB by the Finance, Risk & Operations 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, 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.
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.
Examining the risk-bearing capacity results under the premise of business continuation (business case) at an underlying confidence level of 99.9 per cent is crucial for providing evidence of the internal process for assessing and ensuring appropriate capital adequacy. 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 the ongoing coverage of economic risks. The normative perspective demanded by the supervisory authorities is covered via the explicit focus of the business case on the regulatory capital requirements, including the buffer provisions in accordance with the Capital Requirements Directive IV (CRD IV), within the meaning of the Overall Capital Requirements (OCR) including the capital recommendation for pillar II.
As a further economic perspective the resolution case offers a strict additional condition focusing on creditor protection within a wind-up scenario. Risks are quantified both in the business and in the resolution case with a confidence level of 99.9 per cent. Unlike the business case, credit-spread risks from fair value positions are added in the resolution case. The risk capital in the resolution case is based on regulatory own funds, which can also be supplemented by bail-in capital based on the purely economic approach. Hidden liabilities from securities carried at amortised cost 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 amortised cost 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 provide 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. In conjunction with the established sub-processes for risk controlling, risk monitoring and risk reporting within the risk management process, this approach 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. For the Bank, risk concentrations are aggregations of risk positions that react the same way in the event of certain developments or a certain event. In accordance with the strategic focus, concentrations within a risk type stem largely from credit risks (as a subcategory of counterparty risks) and can emerge at borrower, country and industry level.

The Bank uses various limit models and stress tests to identify and monitor risk concentrations. The stress test scenarios generally take place across risk types and therefore include assumptions about diversification and concentration within (intra-risk-specific) and between (inter-risk-specific) the material risk types examined. 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.

The recession scenario constitutes a fixed component of the Bank's stress testing programme in the form of a severe economic downturn, and is reported on a quarterly basis as part of risk reporting.

*Risk management – development of risk-bearing capacity in 2018*

The table below shows the utilisation of risk capital in the business case for NORD/LB CBB as at 31 December 2018 and as at 31 December 2017:

| Risk-bearing capacity | | | | |
|---|---|---|---|---|
| **in € million** | **31.12.2018** | | **31.12.2017** | |
| **Risk capital** | **578** | **100%** | **462** | **100%** |
| Credit risk | 123 | 21% | 134 | 29% |
| Market-price risk | 88 | 15% | 45 | 10% |
| Liquidity risk | 50 | 9% | 42 | 9% |
| Operational risk | 17 | 3% | 16 | 3% |
| **Total risk potential** | **278** | | **237** | |
| **Risk capital utilisation** | | **48%** | | **51%** |

As of 31 December 2018, the Bank's risk-bearing capacity is well assured, similarly to the rest of the year. Despite increased risk potential in the business case, the utilisation fell by 3 percentage points to 48 per cent because significantly more risk capital was available at the end of the year due to lower minimum capital requirements. The main driver in the development of risk potential is market-price risk, which is increasing, particularly due to the integration of cross-currency basis risks into risk measurement.

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 2018.

*Risk management – outlook*

The regulatory requirements placed on risk management have evolved steadily in the recent past and will become stricter in the future too.

In the first half of 2019, particular focus will be placed on implementing the requirements of BCBS 239 for the effective aggregation of risk data and risk reporting. These include the introduction of a new overall risk report and interaction within the data management organisation.

### Counterparty risk

In terms of counterparty risks, credit and investment risks are considered on a consolidated basis within the Group. Investment risks, however, have no strategic significance for NORD/LB CBB.

### 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.

*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. According to the objective of a Luxembourg covered bond bank, the focus is on lending and portfolio management of assets eligible for cover pooling in Luxembourg, so 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.

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. Alongside the established “Lettre de Gage publique”, in 2019 the Bank intends to place its first “Lettre de Gage énergies renouvelables” issue on the market, and is therefore increasingly acquiring assets that qualify for this cover pool, in cooperation with the relevant business segments of NORD/LB.

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

Just like capital market business, new lending business focuses on borrowers or counterparties with good credit ratings.

*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 & Operations 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 perspective 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 counterparty 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 limits are geared towards the Bank's risk-bearing capacity.
The Finance, Risk & Operations Division at NORD/LB CBB is responsible for independent monitoring of the portfolio 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 the 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 2016/647 were implemented in the Finance, Risk & Operations Division of the Bank. Shadow banking entities are identified at NORD/LB CBB by means of a standardised Group-wide, checklist-based screening method.
To set and manage exposure limits for shadow banking entities, we have to distinguish between 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). According to the EBA, the limit for exposures to shadow banking entities under the fallback approach should be subject to the limits on large exposures and correspond to 25 per cent of eligible own funds. Finance handles the monitoring.
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. As of 30 November 2018, the exposure limit for shadow banking entities using the principal approach was increased to € 344 million. The limit at individual borrower level is € 7 million.
The utilisation of limits for shadow banking entities is monitored and reported by the Risk

Control & Strategy unit in the monthly Risk-Bearing Capacity Report. As at 31 December 2018, 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.

*Investments*

On 28 February 2018 NORD/LB CBB liquidated its only subsidiary Galimondo S.à r.l., Luxembourg. This is an insignificant investment with a carrying amount of € 12,500.

Up to its liquidation, 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 used the simple risk-weighting approach in accordance with CRR. We did not quantify risk-bearing capacity due to materiality reasons.

The Bank's business strategy does not include taking on any new investments.

*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 a Group-wide counterparty risk model for different confidence levels and a time frame of one year. The counterparty risk model used by all units in the NORD/LB Group includes correlations and concentrations together in the risk assessment and facilitates a consolidated view of credit and investment risks. The latter are not relevant for NORD/LB CBB.

The counterparty 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 estimated based on internal rating methods. The loss rates (loss given default or LGD) are defined in a transaction-specific manner.

The counterparty risk model uses a simulation method that also takes account of specific mutual interdependencies of borrowers, e.g. based on Group structures. In addition to default losses, losses that might be caused by rating migrations are also considered.

The counterparty risk model is subject to an annual review and validation. 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 NORD/LB CBB by the Risk Control & Strategy and Credit Risk Management units of the Bank, taking institution-specific needs into account.

NORD/LB CBB applies the internal ratings-based approach (IRBA) to calculate the regulatory capital requirement for credit risks. An exception is made for a few portfolios where the credit risk – standardised approach (CRSA) is applied. The Bank is authorised via its parent institution to use its rating system and to apply credit risk reduction techniques.

*Credit risk – reporting*

As part of the management information system, the Risk Control & Strategy unit 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 the timely detection of existing risks and/or risk concentrations and the implementation of any necessary measures. Credit portfolio reports are also discussed in meetings of the Supervisory Board.

In principle, the credit portfolio report is based on economic calculations of risk indicators (expected and unexpected loss) and therefore bears a direct relation to the risk-bearing capacity scenarios.

In addition to a detailed account of the credit portfolio by segment, rating class, industries and region, the report also includes quantitative and qualitative analyses on selected borrowers and individual exposures. The development of regulatory indicators is also covered by the report, as are credit-risk-specific stress tests.

Moreover, the Credit Risk Management department provides the Managing Board and members of the LRC with additional regular and ad hoc reports on the Bank's loan portfolio, such as on risk concentrations under borrower units, country and industry concentrations and noteworthy exposures (credit risk watch list).

*Credit risk – development in 2018*

The maximum default risk exposure for balance-sheet and off-balance-sheet financial instruments came to € 18.9 billion on the reporting date and increased by 13.0 per cent or € 2.2 billion in 2018. The increase stemmed largely from loans and advances to banks as well as loans and advances to customers, while a decline was noted for financial assets in particular.

| Risk-bearing financial instruments in € million | Maximum default risk exposure | |
|---|---|---|
| | **31.12.2018** | **31.12.2017** |
| Loans and advances to banks | 1,966.4 | 796.3 |
| Loans and advances to customers | 9,370.8 | 8,624.7 |
| Financial assets at fair value through profit or loss | 1,233.5 | 1,001.3 |
| Positive fair values from hedge accounting | 218.8 | 219.8 |
| Financial assets | 3,867.5 | 4,178.2 |
| **Subtotal** | **16,656.9** | **14,820.3** |
| Liabilities arising from guarantees and indemnity agreements | 151.2 | 127.1 |
| Irrevocable loan commitments | 2,088.8 | 1,741.6 |
| **Total** | **18,897.0** | **16,689.0** |

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). Irrevocable and revocable loan commitments are included at 35.0 per cent (previous year: 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 2018 totalled € 19.1 billion. The significant increase of € 1.9 billion compared to the previous year is particularly due to new loan business and a higher volume of call and time deposits.

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 2017:

| **Rating structure** [1) 2)] in € million | **Loans**[3)] | **Securities** [4)] | **Derivatives** [5)] | **Other** [6)] | **Total** | |
|---|---|---|---|---|---|---|
| | 31.12.2018 | | | | **31.12.2018** | **31.12.2017** |
| very good to good | 10,933.6 | 4,356.3 | 319.6 | 736.1 | **16,345.6** | **14,495.5** |
| good / satisfactory | 1,378.3 | 519.2 | 0.0 | 112.7 | **2,010.2** | **1,855.4** |
| reasonable / satisfactory | 276.6 | 24.5 | 0.0 | 30.1 | **331.2** | **315.5** |
| increased risk | 342.5 | 13.8 | 0.0 | 0.0 | **356.3** | **497.0** |
| high risk | 42.6 | 0.0 | 0.0 | 0.0 | **42.6** | **38.5** |
| very high risk | 34.8 | 0.0 | 0.0 | 0.0 | **34.8** | **23.2** |
| default (=NPL) | 7.4 | 0.0 | 0.0 | 3.7 | **11.1** | **24.6** |
| **Total** | **13,015.7** | **4,913.8** | **319.6** | **882.6** | **19,131.7** | **17,249.6** |

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 (85.4 per cent) is rated as “very good to good”. The still 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] | Loans [3] | Securities [4] | Derivatives [5] | Other [6] | Total | |
|---|---|---|---|---|---|---|
| in € million | | 31.12.2018 | | | **31.12.2018** | **31.12.2017** |
| Financing institutions / insurance companies | 4 346.2 | 2 596.8 | 319.4 | 29.2 | **7,291.6** | **5,940.4** |
| Service industries / other | 3,146.3 | 2,081.9 | 0.1 | 167.6 | **5,395.9** | **5,679.0** |
| *Of which: Land, housing* | 175.8 | 0.0 | 0.0 | 19.2 | **195.0** | **161.7** |
| *Of which: Public administration* | 62.2 | 2,057.3 | 0.0 | 2.5 | **2,122.0** | **2,439.4** |
| Transportation / communications | 911.9 | 24.4 | 0.1 | 83.0 | **1,019.4** | **769.0** |
| *Of which: Shipping* | 94.1 | 0.0 | 0.0 | 0.0 | **94.1** | **0.0** |
| *Of which: Aviation* | 46.2 | 0.0 | 0.0 | 0.0 | **46.2** | **48.9** |
| Manufacturing industry | 1,774.4 | 0.0 | 0.0 | 99.5 | **1,873.9** | **1,879.5** |
| Energy, water and mining | 1,769.8 | 210.7 | 0.0 | 453.0 | **2,433.5** | **1,965.7** |
| Trade, maintenance and repairs | 771.6 | 0.0 | 0.0 | 48.3 | **819.8** | **785.0** |
| Agriculture, forestry and fishing | 8.5 | 0.0 | 0.0 | 0.0 | **8.5** | **10.7** |
| Construction | 287.0 | 0.0 | 0.0 | 2.0 | **289.1** | **220.3** |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | **0.0** |
| **Total** | **13,015.7** | **4,913.8** | **319.6** | **882.6** | **19,131.7** | **17,249.6** |

[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 (38.1 per cent overall). Due to the further expansion of the allied lending business with NORD/LB, the distribution is shifting towards the Energy, water and mining sectors (12.7 per cent), which accounted for the largest share after the Service industries / other segment (excluding public administration 17.1 per cent).

The total credit exposure by region breaks down as follows:

| Regions [1) 2)] in € million | Loans [3)] | Securities [4)] | Derivatives [5)] | Other [6)] | Total | |
|---|---|---|---|---|---|---|
| | 31.12.2018 | | | | 31.12.2018 | 31.12.2017 |
| Euro countries | 9,318.1 | 2,434.8 | 310.5 | 868.0 | **12,931.5** | **11,400.5** |
| *Of which: Germany* | 7,523.9 | 1,065.8 | 289.4 | 845.8 | **9,724.9** | **9,207.6** |
| Other Europe | 2,598.3 | 606.3 | 6.9 | 14.5 | **3,226.1** | **3,070.8** |
| North America | 958.1 | 1,476.2 | 2.2 | 0.0 | **2,436.5** | **2,372.5** |
| Middle and South America | 103.7 | 0.0 | 0.0 | 0.0 | **103.7** | **94.6** |
| Middle East / Africa | 2.0 | 0.0 | 0.0 | 0.0 | **2.0** | **2.0** |
| Asia / Australia | 35.4 | 396.5 | 0.0 | 0.0 | **431.9** | **309.2** |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | **0.0** |
| **Total** | **13,015.7** | **4,913.8** | **319.6** | **882.6** | **19,131.7** | **17,249.6** |

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

At NORD/LB CBB, only guarantees and surety as well as financial collateral are recognised to mitigate risks.
The following table illustrates the type and amount of collateral, broken down by the rating structure of the credit exposure:

| Security structure by rating class [1) 2)] in € million | Excluding | Financial collateral [3)] | Guarantees | Total | |
|---|---|---|---|---|---|
| | 31.12.2018 | | | 31.12.2018 | 31.12.2017 |
| **Covered** | | 1,709.2 | 4,781.7 | **6,490.9** | **5,622.3** |
| very good to good | | 1,696.0 | 3,079.3 | **4,775.3** | **4,041.1** |
| good / satisfactory | | 10.1 | 1,007.5 | **1,017.5** | **914.1** |
| reasonable / satisfactory | | 2.2 | 303.8 | **306.0** | **261.6** |
| increased risk | | 0.9 | 328.1 | **329.0** | **339.9** |
| high risk | | 0.0 | 21.7 | **21.7** | **24.1** |
| very high risk | | 0.1 | 31.4 | **31.5** | **23.2** |
| default (=NPL) | | 0.0 | 9.9 | **9.9** | **18.3** |
| **Uncovered** | 12,640.8 | | | **12,640.8** | **11,627.4** |
| **Total** | **12,640.8** | **1,709.2** | **4,781.7** | **19,131.7** | **17,249.6** |

1) The figures are reported in line with economic criteria, as in the internal reports
2) Please see the preceding table on the rating structure
3) including repo business

NORD/LB continues to be the largest provider of collateral, securing an exposure of € 4.1 billion (previous year: € 3.5 billion) with guarantees as at 31 December 2018.

*Non-performing loans (NPLs)*

The portfolio of non-performing loans was reduced considerably (-55 per cent) in the course of the year after the derecognition of a fully guaranteed exposure and the partial derecognition of an impaired exposure as well as scheduled recoveries; as at 31 December 2018, it comprised an exposure of € 11.1 million. The exposure is largely attributable to a borrower from the trading sector (€ 7.4 million), which, however, is fully guaranteed by NORD/LB. A further € 2.5 million is divided between two borrowers from the service industries who are also secured by the parent company. The remaining exposure of € 1.2 million is from a total of eight customers from different sectors.

The development of non-performing loans also had a significant impact on the Bank‘s risk provisioning (including credit provisions), which have been determined in accordance with the new IFRS 9 accounting standard since the beginning of the year, and fell by a total of € 8.2 million to € 11.6 million as of 31 December 2018.

*Credit risk – outlook*

Measures to further optimise the models for quantifying and controlling credit risks are planned for 2019. In addition to the further development of the economic credit risk model, the loss data collection to validate 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. 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.

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 consciously 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 institutions 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 run-off portfolio are gradually reduced through portfolio divestments. 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: 36 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 arise 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 unit. 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 (current) market situation and its impact on liquidity and funding.

The Risk Control & Strategy unit, 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 standard value-at-risk (VaR) procedure within the NORD/LB Group is used to control, monitor and limit market-price risks for all portfolios of NORD/LB CBB. The Bank also implemented a Group-wide method of monitoring interest-rate risks in the banking book 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 Financial Markets & Sales as well as Finance, Risk & Operations are responsible for portfolio distribution. No correlation effects are taken into account when allocating the overall limit to sub-limits. For selected portfolios, any losses are counted towards the associated loss limit depending on the management approach, which reduces the corresponding VaR limit in accordance with the principle of self-absorption.

One risk monitoring objective to highlight here is the 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 and unilateral confidence level of 99 per cent and a holding period of one trading day, or 250 days in cases of credit spread value at risk (CSVaR). The VaR is 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. The models take into account correlation effects between risk factors and sub-portfolios.

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 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 and the underlying confidence level of 99 per cent, there were no outliers at NORD/LB CBB during the reporting year, so the light was in the green zone according to the Basel traffic light approach. The same applies to the backtesting of the CSVaR, where no outliers observed at a confidence level of 99 per cent.

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 unit 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.

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 (bp)
- interest rate increase on money market (short end)
- inverse yield curve
- BCBS steepener
- BCBS flattener

- End-2010 scenario (ECB stress test 2017)

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 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 ("Interest Rate Risk in the Banking Book") .

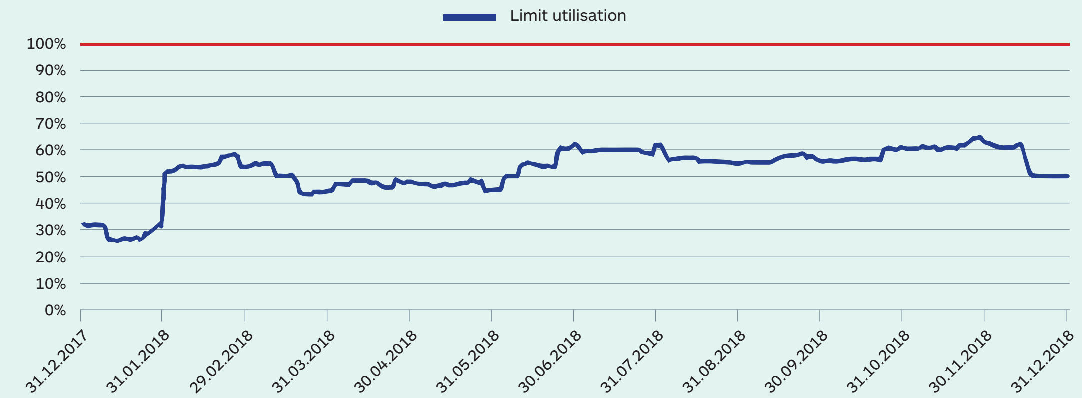
The Managing Board receives thorough information in daily risk reports on market-price risks and the earnings situation. Information is also provided in the monthly risk report. Market-price risks are also included in the reporting on risk-bearing capacity across all risk types.

*Market-price risk – development in 2018*

As at 1 February 2018, the operating market-price risk limit for the value-at-risk (confidence level: 99.9 per cent; holding period: one day) was reduced for the overall Bank from € 11.8 million to € 7.1 million. NORD/LB carried out a limit transfer of € 1.5 million as at 17 December 2018 for hard syndications. This raised the overall bank limit to € 8.6 million.

The following chart shows the development of the utilisation of the value-at-risk limit 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 2018, the utilisation totalled € 4.2 million and 49. 2 per cent (utilisation in the 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 EUR and GBP.

The average annual utilisation of the VaR limit was 51.5 per cent (previous year: 47.4 per cent), with a maximum utilisation of 63.9 per cent (previous year: 81.4 per cent) and a minimum utilisation of 24.9 per cent (previous year: 28.2 per cent).

As at 31 December 2018, measurements showed interest-rate risks of € 4.0 million, foreign currency risks of € 1.8 million, volatility risks of € 0.1 million and credit-spread risks from fair value positions of € 2.8 million. The Bank calculated these risks at a confidence level of 99.9 per cent and with a holding period of one day.

The earnings-at-risk (confidence level: 99.9 per cent; holding period: one year) was € 1.3 million as at 31 December 2018. The limit of € 20.0 million therefore had a utilisation of 6.5 per cent.

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 € 0.9 million (previous year: € 0.7 million) was calculated for market price risk as at 31 December 2018.

In contrast to the credit-spread risks of the fair value positions, the credit-spread risks of the amortised cost positions are not included in the value-at-risk for market-price risks because they are 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), but with a holding period of 250 days.

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: 99.9 per cent; holding period: 250 days) of the amortised cost positions as at 1 February 2018 was reduced slightly from € 280 million to € 273 million. The average limit utilisation during the reporting year amounted to 62.0 per cent,

with a maximum utilisation of 65.4 per cent and a minimum utilisation of 59.5 per cent.
As at 31 December 2018, the credit spread value-at-risk (99.9 per cent, 250 days) of the amortised cost positions stood at € 166.7 million. The limit utilisation therefore came to 61.1 per cent (previous year: 62.8 per cent).

*Market-price risk – outlook*
NORD/LB CBB does not expect any significant increase in market-price risk in 2019. 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 (focus here on Brexit), 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.
In addition, work is being carried out on technical innovations to ensure a uniform implementation of the risk identification process throughout the Group. Further methodological developments are taking place to integrate additional balance sheet perspectives into risk management.

**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 changes in own refinancing conditions.

When managing its liquidity, the Bank differentiates between traditional liquidity risk and liquidity spread 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. The focus for the NORD/LB Group lies on the next 12 months and on the intraday risk.
Taking a longer-term perspective, potential causes for risks may include 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.
In the intraday scenario (also intraday liquidity risk), it is particularly important whether an institution effectively manages intraday liquidity. Intraday risk occurs when payments cannot be made at the scheduled time and the Group‘s own liquidity situation or that of others is affected. The possible causes of risks include market disruptions (delayed/defaulted cash flows from market participants), the ability to assess the Company‘s own intraday liquidity situation at any time, and to make the most comprehensive forecasts possible about expected cash flows in terms of amount and timing. The focus here is on the intraday management of liquidity and the institution‘s ability to meet its own payment obligations even in stressful situations.

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 lies on the entire maturity range. 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. Securities are modelled in accordance with their liquidity class, so market-liquidity risks are implicitly taken into account too. 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. 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.

*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. In both cases the risks are mitigated by corresponding 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.

To minimise market-liquidity risk the Bank mainly trades in securities transactions 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.

NORD/LB CBB, as a Luxembourg Pfandbrief bank, complements the activities of NORD/LB and generates covered refinancing via the Luxembourg Pfandbrief (Lettres de Gages) for the core business of the NORD/LB Group. Intra-group funding concentrations on the liabilities side via the parent company and Lettres de Gages are deliberately tolerated in this context or due to the business model.

*Liquidity risk – structure and organisation*

Operationally, liquidity risks within NORD/LB CBB are managed by the ALM/Treasury unit in the Financial Markets & Sales division. It also manages the regulatory liquidity indicators, particularly the liquidity coverage ratio (LCR). ALM/Treasury bears the gains and losses arising from changes in liquidity (in general or specific to the bank).

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 unit 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 liquidity-spread 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.

The traditional liquidity risk is primarily controlled by analysing a dynamic stress scenario. The scenario describes the most probable crisis situation and therefore a heightened risk as of the reporting date of a rating downgrade for NORD/LB to non-investment grade. 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), as well as for planned new business and refinancing opportunities, 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.

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 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 from this reporting year must therefore cover the entire net outflow. 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 derived 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 the 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 liquidity spread 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. Since 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 regulatory requirements currently applicable.

*Liquidity risk – reporting*

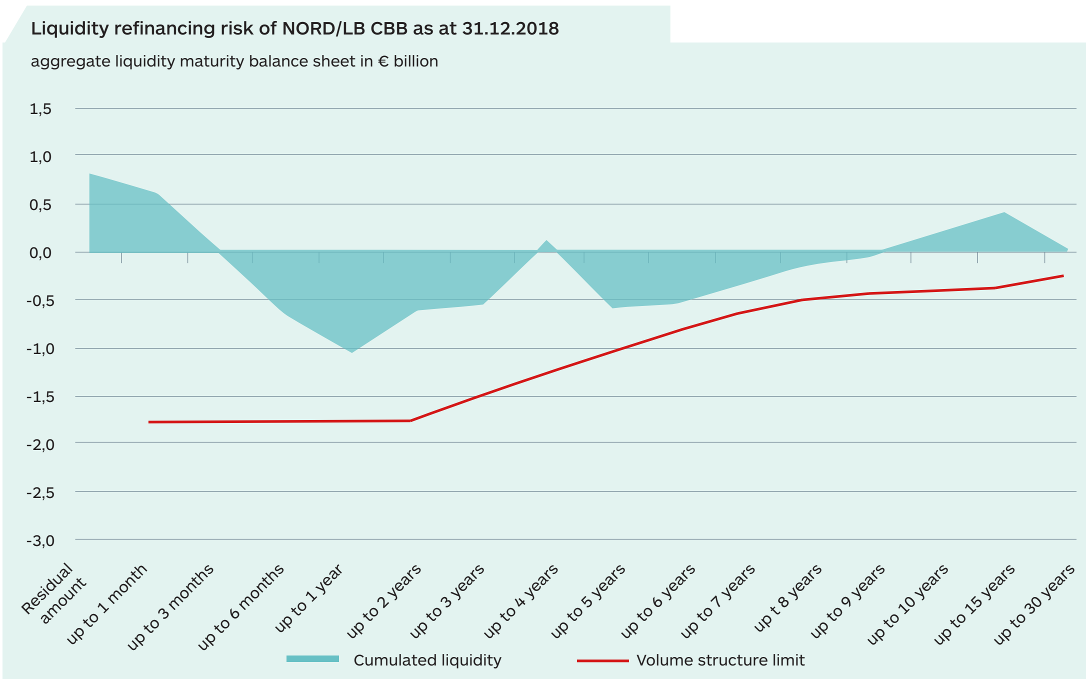
Risk Control & Strategy calculates the liquidity risk indicators on a daily basis and submits them to the Trading department for liquidity risk management.

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 liquidity spread 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 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 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. ALM/Treasury monitors the collateral values within the framework of cover pool management in conjunction with Reporting and Cover Pool Support.

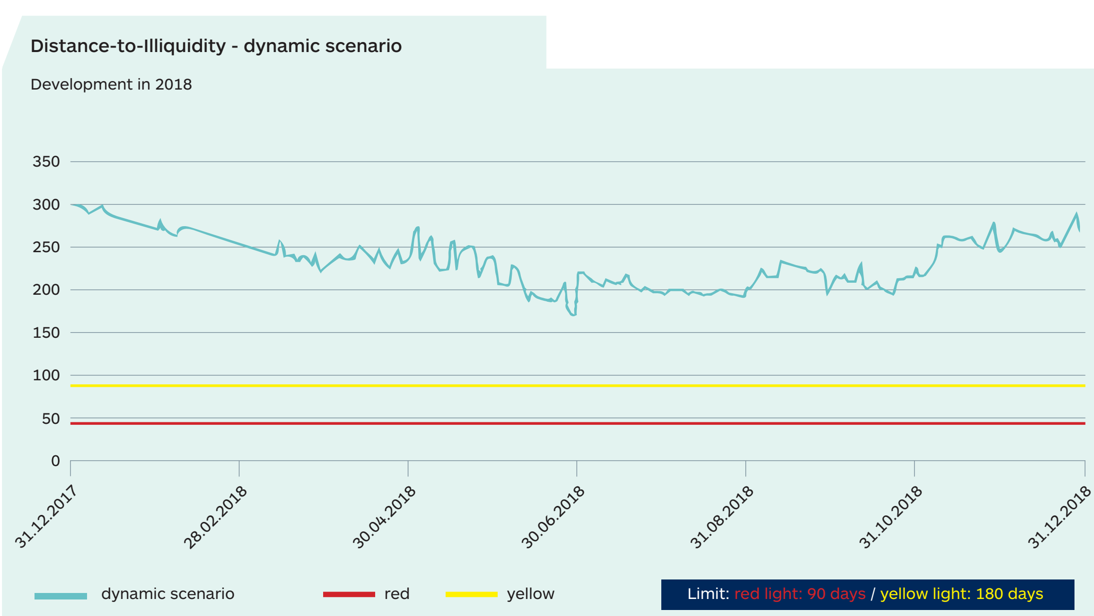
*Liquidity risk – development in 2018*

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.

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




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

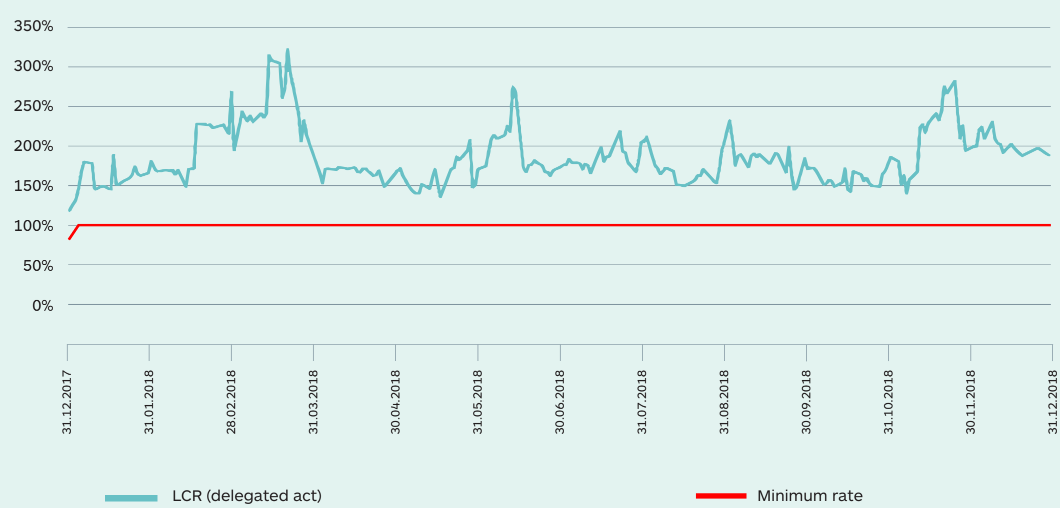


The DTI in the dynamic scenario that is relevant for daily operational liquidity management was easily in the GREEN zone as at 31 December 2018 at 278 days. There was only one YELLOW phase during the year between 26 and 29 June (the minimum was 166 days).

The LCR was determined at the Bank in accordance with Commission Delegated Regulation (EU) 2015/61 in conjunction with Commission Implementing Regulation (EU) 2016/322. The LCR for NORD/LB CBB developed as follows during the year:

**Liquidity Coverage Ratio**

Development in 2018




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 2018, the asset encumbrance rate for NORD/LB CBB stood at 50.5 per cent (previous year: 51.5 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.

The Bank anticipates liquidity risks will increase in 2019 due to the planned lending business. The methods to measure risks and the reporting processes are being continuously enhanced. The primary focus in 2019 will continue to be on the development and expansion of methods for validating and managing regulatory requirements, such as the NSFR.

The Bank already 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, information security risks and vulnerabilities related to emergency and crisis management.

- Legal risk denotes the risk of damages due to failure to comply or fully 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 is the current or future income and capital risk derived from violations of or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards, and can result in fines, damages, and/or the invalidation of contracts, and impair the reputation of the institute.
- 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.
- Information security risk is the risk relating to the loss of confidentiality, integrity or availability of information and is derived from the need to protect information. In this context, information can be available in digital, physical or verbal form. Information security risks can arise in all processes and sub-processes connected with holding, processing and forwarding of proprietary and confidential information. This also covers outsourced business processes / value added chains.
- Vulnerabilities in emergency and crisis management denote the risk that business continuity and resumption planning do not guarantee the emergency management measures that safeguard adequate emergency operations and the resumption of normal operations as soon as possible.

*Operational risk – strategy*

NORD/LB CBB strives for effective and sustainable management of operational risks, i.e. early detection, prevention or transfer, where economically prudent from a risk perspective. This is evidenced by the low capital allocation to operational risks in the business case scenario (strategy stipulation: 5 per cent).

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.

*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 a 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 the 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 the proper implementation of centralised methods and plays a coordinating role in implementing decentralised methods at NORD/LB CBB.

*Operational risk – control and monitoring*

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.

An annual integrated self-assessment should help detect future developments early by using expert know-how. The assessment contains all of the questionnaires of the second line of defence in one survey. 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.

As part of scenario analyses, detailed insight is gained into the risk situation at topic or process level, and demand-oriented measures are determined. Analysis planning is risk-oriented on the basis of all available data (e.g. claims, self-assessments, audit reports, results of the ICS Control Committee). The results serve as input for the internal OpVaR model, thus increasing measurement accuracy.

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.

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.

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 there is a second, off-site data centre.

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*

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 Compliance.

*Operational risk – development in 2018*

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

For NORD/LB CBB, no (previous year: two) claims greater than € 5 thousand were reported in the financial year (all claims in previous year totalled € 147 thousand).

As at 31 December 2018, the risk exposure for operational risk came to € 16.5 million according to the internal model (confidence level: 99.9 per cent; holding period: one year).

The capital requirement according to the standard approach was € 14.1 million as of the reporting date.

*Operational risk – outlook*

The Bank will collaborate closely with NORD/LB in 2019 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 relevant to the Bank that have been identified as immaterial include business and strategy 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.

Reputational risk refers to serious or permanent damage sustained 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. The risk impact in business risk constitutes the risk that income may decline as a result of reputational damage (reputational risk under assets). The risk impact in liquidity risk (reputational risk under equity/liabilities) manifests itself in two ways: On the one hand, it concerns the funding spread risk, i.e. the risk that refinancing costs may rise or an unexpected need for refinancing occurs due to reputational damage. Since the Bank refinances itself on the money and capital markets or through customer deposits, reputational losses can make refinancing more difficult and/or more expensive. These effects are reflected in the liquidity spread risk. On the other hand, reputational losses can also lead to the withdrawal or non-renewal of deposits or money transactions. This has an effect on traditional liquidity risk and is taken into account there accordingly. Reputational risks as a second-round effect due to operational losses are included in operational risk. These are mainly effects attributable to operational risk criteria (processes, employees, external influences and technology) or to issues raised as part of operational risk management. 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).

In accordance with IFRS accounting standards, the Bank is obliged to provide for pension commitments made to employees, or to capitalise assets that only serve to cover these claims. 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. 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. Consequently, pension risk only includes risks stemming from negative deviations in the valuation assumptions for life expectancy, salary and old-age pension dynamics from the actual developments.

To monitor the other risks mentioned above, the OpRisk officer discusses the current status of the individual risk types with the respective experts. The results are then presented for the attention of the LRC.

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 the 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 2018.
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 2019 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 | 31.12.2018 | 31.12.2017 | Change (absolute) | Change (in %) |
|---|---|---|---|---|
| **Employees** | **173** | **189** | **-16** | **-8** |

The Managing Board and Supervisory Board particularly wish to thank the efforts made by all staff in the reporting year. 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.

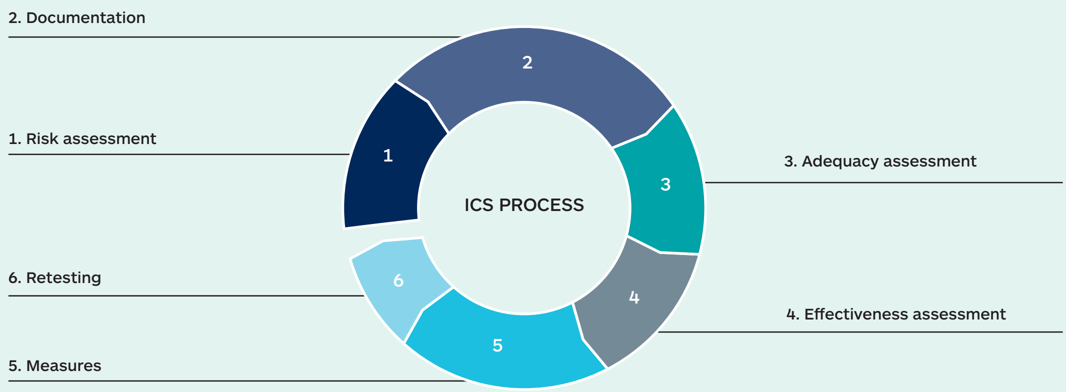
The Bank's ICS aims to provide reasonable assurance regarding compliance with applicable legal requirements, the propriety and efficiency of business activities, and the completeness and accuracy of financial reporting.

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 ICS-process




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, and the ICS Officer of HR & Organisation 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 documentation of internal regulations that is continuously monitored and updated to reflect changes in markets, work processes and external regulations. The core components of this documentation include organisational charts, guidelines, process descriptions and forms. 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**
NORD/LB Luxembourg S.A. Covered Bond Bank has a Sustainability Management department with a sustainability officer and team. 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 sustainability strategy defines the basic orientation of the Bank's actions. The focal points in individual areas of activity that the Bank wishes to achieve by 2020 are documented here.

*Governance*
Acting with integrity is synonymous with responsible corporate governance for the Bank; it also helps to consistently strengthen the trust of all interest groups 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

**Statements on the continuation of business activities**

Please refer to our comments under „Dependencies of NORD/LB CBB on NORD/LB and going concern“.

**Brexit**

Please refer to Note ((59) Foreign currency volume) in the notes to the financial statements for general information on Brexit.

In the financial year to date from 1 January to 10 April 2019, the Bank has recognised temporary measurement losses of € -8.0 million from its cross-currency swaps (GBP/EUR) that hedge the loan portfolio in GBP. This led to an almost balanced result for the period as at 10 April 2019. The change in the cross-currency basis spreads was due to easing political tensions regarding Brexit. The Bank's cross-currency swap portfolio in GBP/EUR reacts to measurement changes in the basis spread curve between GBP and EUR with a sensitivity of € 1.3 million per basis point. The Bank anticipates temporary measurement gains in the event of a hard Brexit, and temporary measurement losses if Brexit is averted.

The Bank still does not hold any significant unhedged cash or forward positions in GBP. It looks like there will be no material changes with regard to the impact on loan loss provisions described above.

# 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, 11 April 2019

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# 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 2018 compared with the financial year from 1 January to 31 December 2017:

| | Notes | 2018 (€ thousand) | 2017 (€ thousand) | Change (in %) |
|---|---|---|---|---|
| **Net interest income** | **(18)** | **113,904** | **108,908** | **5** |
| Interest income from assets | | 463,769 | 460,021 | 1 |
| Interest expenses from assets | | -7,604 | -9,402 | -19 |
| Interest expenses from liabilities | | -358,106 | -357,026 | 0 |
| Interest income from liabilities | | 15,845 | 15,315 | 4 |
| **Net commission income** | **(19)** | **-41,170** | **-38,450** | **7** |
| Commission income | | 12,658 | 15,544 | -19 |
| Commission expenses | | -53,828 | -53,994 | 0 |
| **Profit/loss from financial instruments** | | **-27,102** | **21,001** | **< -100** |
| Trading profit/loss | (20) | -8,705 | 6,154 | < -100 |
| Profit/loss from financial assets mandatorily at fair value through profit or loss | (20) | -7,502 | 0 | > 100 |
| Profit/loss from financial instruments designated at fair value through profit or loss | (20) | -8,913 | 212 | < -100 |
| Modification gain/loss | (21) | 0 | 0 | - |
| Net valuation allowance from financial instruments not measured at fair value through profit or loss | (22) | 5,153 | 1,931 | > 100 |
| Net disposal result from financial instruments not measured at fair value through profit or loss | (22) | 0 | 15,142 | -100 |
| Profit/loss from hedge accounting | (24) | -7,628 | -1,546 | > 100 |
| Foreign exchange result | | 493 | -892 | < -100 |
| **Administrative expenses** | **(26)** | **-38,442** | **-38,992** | **-1** |
| **Current amortisation and depreciation** | **(27)** | **-2,783** | **-3,764** | **-26** |
| **Other operating profit/loss** | **(28)** | **-3,450** | **-8,367** | **-59** |
| **Earnings before taxes** | | **956** | **40,337** | **-98** |
| **Income taxes** | **(29)** | 136 | -11,013 | < -100 |
| **Earnings after taxes** | | **1,092** | **29,324** | **-96** |

The following notes are an integral part of the financial statements.
The structure of the income statement was adjusted as follows because of the first-time application of IFRS 9; also see Note ((2) Structural adjustments).

# Statement of comprehensive income

NORD/LB CBB's total income for 2018 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 2017 as follows:

| | 2018 (€ thousand) | 2017 (€ thousand) | Change (in %) |
|---|---|---|---|
| **Net profit** | **1,092** | **29,324** | **-96.3** |
| **Other comprehensive income that will not be reclassified to the income statement in subsequent periods** | **-1,226** | **216** | **< -100** |
| Change in financial liabilities designated at fair value through profit or loss that are attributable to the change in credit risk | -2,239 | 0 | > 100 |
| Revaluation of net liability from defined benefit plans | 582 | 337 | 72.6 |
| Deferred taxes | 431 | -121 | < -100 |
| **Other comprehensive income that will be reclassified to the income statement in subsequent periods** | **-6,933** | **-8,137** | **-14.8** |
| Changes from financial instruments at fair value directly in equity | -9,371 | -11,484 | -18.4 |
| Unrealised profit/losses | -9,371 | -11,061 | -15.3 |
| Reclassification based on realised profits/losses, including reclassifications to financial assets at fair value through profit or loss | 0.0 | -423 | -100 |
| Deferred taxes | 2,437 | 3,347 | -27.2 |
| **Other profit/loss** | **-8,160** | **-7,921** | **3.0** |
| **Comprehensive income for the period under review** | **-7,067** | **21,403** | **< -100** |

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

# Balance sheet

of NORD/LB CBB as of 31 December 2018 compared to 31 December 2017:

| Assets | Notes | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|---|
| **Cash reserve** | **(30)** | **443.4** | **448.3** | **-1** |
| **Trading assets** | **(31)** | **191.2** | **128.3** | **49** |
| Of which: loans and advances to banks | | 0.0 | 0.0 | - |
| Of which: loans and advances to customers | | 53.7 | 1.2 | > 100 |
| **Financial assets mandatorily at fair value through profit or loss** | **(31)** | **1,042.3** | **0.0** | **> 100** |
| Of which: loans and advances to banks | | 12.4 | 0.0 | > 100 |
| Of which: loans and advances to customers | | 0.0 | 0.0 | - |
| **Financial assets designated at fair value through profit or loss** | **(31)** | **0.0** | **873.0** | **-100** |
| Of which: loans and advances to banks | | 0.0 | 0.0 | - |
| Of which: loans and advances to customers | | 0.0 | 0.0 | - |
| **Financial assets at fair value directly in equity** | **(32)** | **2,101.7** | **2,232.2** | **-6** |
| Of which: loans and advances to banks | | 0.0 | 0.0 | - |
| Of which: loans and advances to customers | | 0.0 | 0.0 | - |
| **Financial assets at amortised cost** | **(33)** | **13,103.0** | **11,367.0** | **15** |
| Of which: loans and advances to banks | | 1,966.4 | 796.3 | > 100 |
| Of which: loans and advances to customers | | 9,370.8 | 8,624.7 | 9 |
| **Positive fair values from hedge accounting derivatives** | **(34)** | **218.8** | **219.8** | **-** |
| **Property and equipment** | **(35)** | **64.2** | **65.3** | **-2** |
| **Intangible assets** | **(36)** | **27.0** | **22.1** | **22** |
| **Current income tax assets** | **(37)** | **3.0** | **0.0** | **> 100** |
| **Deferred income tax assets** | **(37)** | **1.8** | **0.7** | **> 100** |
| **Other assets** | **(38)** | **3.0** | **3.8** | **-20** |
| **Total assets** | | **17,199.3** | **15,360.6** | **12** |

The structure of the income statement was adjusted as follows because of the first-time application of IFRS 9; also see Note ((2) Structural adjustments).

| Liabilities | Notes | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|---|
| **Trading liabilities** | **(39)** | **81.1** | **74.9** | **8** |
| Of which: liabilities to banks | | 0.0 | 0.0 | - |
| Of which: liabilities to customers | | 0.0 | 0.0 | - |
| Of which: securitised liabilities | | 0.0 | 0.0 | - |
| Of which: subordinated liabilities | | 0.0 | 0.0 | - |
| **Financial liabilities designated at fair value through profit or loss** | **(39)** | **1,634.1** | **1,043.3** | **57** |
| Of which: liabilities to banks | | 0.0 | 0.0 | - |
| Of which: liabilities to customers | | 0.0 | 0.0 | - |
| Of which: securitised liabilities | | 1,634.1 | 1,043.3 | 57 |
| Of which: subordinated liabilities | | 0.0 | 0.0 | - |
| **Financial liabilities at amortised cost** | **(40)** | **14,320.4** | **12,971.7** | **10** |
| Of which: liabilities to banks | | 5,942.4 | 6,011.1 | -1 |
| Of which: liabilities to customers | | 4,549.1 | 3,210.7 | 42 |
| Of which: securitised liabilities | | 3,828.9 | 3,750.0 | 2 |
| Of which: subordinated liabilities | | 0.0 | 0.0 | - |
| **Negative fair values from hedge accounting derivatives** | **(41)** | **438.5** | **517.7** | **-15** |
| **Provisions** | **(42)** | **9.8** | **13.9** | **-29** |
| **Current income tax liabilities** | **(43)** | **11.2** | **19.9** | **-44** |
| **Deferred income tax liabilities** | **(43)** | **9.1** | **5.8** | **58** |
| **Other liabilities** | **(44)** | **13.6** | **10.6** | **29** |
| **Equity** | **(45)** | **681.4** | **702.8** | **-3** |
| Of which: issued capital | | 205.0 | 205.0 | 0 |
| Of which: retained earnings | | 455.5 | 481.4 | -5 |
| Of which: other comprehensive income (OCI) | | 20.8 | 16.4 | 27 |
| **Total liabilities and equity** | | **17,199.3** | **15,360.6** | **12** |

The structure of the income statement was adjusted as follows because of the first-time application of IFRS 9; also see Note ((2) Structural adjustments). 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 2018 compared with the financial year from 1 January to 31 December 2017:

| | 2018 (in € million) | 2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Net profit** | **1.0** | **40.3** | **-98** |
| Adjustment for non-cash items | | | |
| Depreciation, impairment and write-ups | 2.8 | 7.2 | -61 |
| Increase/decrease in provisions | -2.5 | 1.6 | < -100 |
| Gains/losses from the disposal of property and equipment and financial assets | 0.0 | -15.1 | -100 |
| Risk provisioning | -4.3 | -2.0 | > 100 |
| Increase/decrease in other non-cash items | 26.5 | -12.9 | < -100 |
| Net interest income | -113.9 | -108.9 | 5 |
| Other adjustments (net) | 0.2 | -0.1 | < -100 |
| **Subtotal** | **-90.2** | **-90.0** | **0** |
| Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items | | | |
| Financial assets at amortised cost | -1,785.9 | 339.1 | < -100 |
| Trading assets, trading liabilities and hedge accounting derivatives | -86.7 | -21.3 | > 100 |
| Financial assets mandatorily at fair value through profit or loss | -105.1 | 0.0 | > 100 |
| Financial assets mandatorily at fair value through profit or loss Assets | - | 4.8 | -100 |
| Financial assets at fair value directly in equity | 83.1 | 384.2 | -78 |
| Other assets from operating activities | 0.8 | -2.0 | < -100 |
| Financial liabilities at amortised cost | 1,345.5 | 176.6 | > 100 |
| Financial liabilities designated at fair value through profit or loss | 566.9 | 0.0 | > 100 |
| Other liabilities from operating activities | -5.1 | -11.6 | -56 |
| Interest received | | | |
| Interest income | 591.2 | 605.0 | -2 |
| Positive interest income from borrowings | 15.8 | 15.3 | 3 |
| Dividends received | 0.0 | 0.0 | -100 |
| Interest paid | | | |
| Interest expenses | -479.3 | -498.3 | -4 |
| Negative interest paid on financial investments | -7.6 | -9.4 | -19 |
| Income tax payments | -11.9 | -5.8 | > 100 |
| **Cash flow from operating activities** | **31.6** | **886.6** | **-96** |

| | 2018 (in € million) | 2017 (in € million) | Change (in %) |
|---|---|---|---|
| Cash receipts from the disposal of | | | |
| shares in companies | 0.0 | 0.0 | - |
| property and equipment, and intangible assets | 0.0 | 0.0 | - |
| Payments for acquisition of | | | |
| property and equipment, and intangible assets | -6.5 | -8.6 | -24 |
| **Cash flow from investing activities** | **-6.5** | **-8.6** | **-24** |
| | | | |
| Increase/decrease in funds from other capital (including subordinated capital) | 0.0 | -454.2 | -100 |
| Interest paid on other capital (including subordinated capital) | 0.0 | -2.0 | -100 |
| Dividends paid | -30.0 | -30.0 | 0 |
| **Cash flow from financing activities** | **-30.0** | **-486.1** | **-94** |
| | | | |
| **Cash and cash equivalents as at 01.01.** | **448.3** | **56.5** | **> 100** |
| Cash flow from operating activities | 31.6 | 886.6 | -96 |
| Cash flow from investing activities | -6.5 | -8.6 | -24 |
| Cash flow from financing activities | -30.0 | -486.1 | -94 |
| **Total cash flow** | **-4.9** | **391.8** | **< -100** |
| Effects of changes in exchange rates | 0.0 | 0.0 | - |
| **Cash and cash equivalents as at 31.12.** | **443.4** | **448.3** | **-1** |

For further information about the cash flow statement, refer to Note ((48) Notes to the ca h 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 2018:

| | | | Other comprehensive income (OCI) | | | |
|---|---|---|---|---|---|---|
| (in € million) | Issued capital | Retained earnings | Fair value changes from financial assets at fair value directly in equity | Own credit-risk adjustment (OCA) | Revaluation of net liability from pensions | Equity |
| **Equity as at 01.01.2018** | **205.0** | **481.4** | **16.4** | **0.0** | **0.0** | **702.8** |
| Reclassification of the revaluation of net liabilities from defined benefit plans | 0.0 | 2.0 | 0.0 | 0.0 | -2.0 | 0.0 |
| First-time application IFRS 9 | 0.0 | 1.0 | 16.5 | -1.9 | 0.0 | 15.7 |
| **Adjusted equity as at 01.01.2018** | **205.0** | **484.4** | **32.9** | **-1.9** | **-2.0** | **718.5** |
| **Distribution** | **0.0** | **-30.0** | **0.0** | **0.0** | **0.0** | **-30.0** |
| Net profit | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 | 1.1 |
| Changes from financial assets at fair value directly in equity | 0.0 | 0.0 | -9.4 | 0.0 | 0.0 | -9.4 |
| Change in financial liabilities designated at fair value through profit or loss that are attributable to the change in credit risk | 0.0 | 0.0 | 0.0 | -2.2 | 0.0 | -2.2 |
| Revaluation of net liability from defined benefit plans | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 0.6 |
| Deferred taxes | 0.0 | 0.0 | 2.4 | 0.6 | -0.2 | 2.9 |
| **Comprehensive income for the period under review** | **0.0** | **1.1** | **-6.9** | **-1.7** | **0.4** | **-7.1** |
| **Equity as at 31.12.2018** | **205.0** | **455.5** | **26.0** | **-3.5** | **-1.6** | **681.4** |

| (in € million) | Issued capital | Retained earnings | Other comprehensive income (OCI) | Equity |
|---|---|---|---|---|
| **Equity as at 01.01.2017** | **205.0** | **481.8** | **24.6** | **711.4** |
| Net profit | 0.0 | 29.3 | 0.0 | 29.3 |
| Changes from financial assets at fair value directly in equity | 0.0 | 0.0 | -11.5 | -11.5 |
| Changes in financial liabilities designated at fair value through profit or loss that are attributable to the change in credit risk | 0.0 | 0.0 | 0.0 | 0.0 |
| Revaluation of net liability from defined benefit plans | 0.0 | 0.3 | 0.0 | 0.3 |
| Deferred taxes | 0.0 | -0.1 | 3.3 | 3.2 |
| **Comprehensive income for the period under review** | **0.0** | **29.5** | **-8.1** | **21.4** |
| Distribution | 0.0 | -30.0 | 0.0 | -30.0 |
| **Equity as at 31.12.2017** | **205.0** | **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 and statements on the going concern**

The financial statements of NORD/LB CBB as at 31 December 2018 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 (5) Applicable IFRS).

The financial statements as at 31 December 2018 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 2018 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 opportunities and risks of future developments (risk report) as part of the management report.

Assets are generally measured at amortised cost, except for financial instruments, which are measured at fair value. 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 € million according to standard commercial practice, unless otherwise indicated. Percentile deviations relate to unrounded amounts.

The accounting and measurement were based on the going-concern principle. This assumption and the continuation of NORD/LB Luxembourg S.A. Covered Bond Bank is closely connected with NORD/LB as a going concern in light of various significant dependencies related to the liquidity and refinancing of the Bank by the parent company. Other material dependencies concern compliance with the Group's capital adequacy requirements, the Bank's rating development as well as intragroup management and organisation. Bilateral service relationships and considerable links also exist in the form of intragroup IT requirements and liabilities between the Bank and NORD/LB.

The continued existence of NORD/LB itself is subject to considerable uncertainty and is based in particular on the assumption that

- the measures pursued to strengthen capital at the level of NORD/LB will be implemented, completed and approved by all relevant stakeholders, in particular by the state parliaments of Lower Saxony and Saxony-Anhalt and the Deutsche Sparkassen- und Giroverband e.V.(DSGV), with the result that the capital ratios and buffers as well as the thresholds required by the regulators will be met in future,
- the banking regulators, in particular the European Central Bank, the Federal Financial Supervisory Authority and the Deutsche Bundesbank, will tolerate the failure to meet the minimum capital ratios demanded by the regulators until the measures pursued to reinforce capital at the level of NORD/LB are completed,
- all official permits required to implement the plan, particularly from the European Commission and the responsible banking regulators, will be issued, and
- the realignment of the business model and the restructuring measures envisaged are put

into practice on schedule.

In addition, the corresponding acceptance at the level of the relevant stakeholders and the market is necessary to successfully implement the re-dimensioning and reorganisation of the NORD/LB Group.

The assumption made about the going concern of NORD/LB at the time of preparing the Bank's financial statements is beset with uncertainty as key factors are beyond NORD/LB‘s control. The going concern status of the NORD/LB Group depends primarily on whether the planned capital measures will be conducted to such an extent that the regulatory capital requirements can be met again in future. For this to happen, the planned capital measures must be implemented quickly, in particular by the federal states of Lower Saxony and Saxony-Anhalt and the DSGV, as well as by the connected savings banks. This requires, in particular, approval of government aid by the responsible EU authorities, the corresponding formal resolutions at the level of the owners and the conclusion of the necessary contractual agreements.

If the planned measures to strengthen capital are not implemented as planned at the level of NORD/LB, NORD/LB could be wound up. In this case, it could also lead to the wind-up, sale or closure of NORD/LB CBB. In such a situation or in the event of a rating downgrade of NORD/LB or other adverse developments, the funding options available to NORD/LB CBB could also be fundamentally limited.

For going concern assessments and further information regarding the specific implementation of measures, please refer to the details in the management report, “Dependencies of NORD/LB CBB on NORD/LB and going concern”.

**(2) Structural adjustments**

In the 2018 financial year, NORD/LB CBB altered the structure of its income statement, balance sheet and other disclosures in order to provide more reliable and more relevant information about the financial position and financial performance following the first-time application of IFRS 9.

The following tables show the changes between the previous and the new items of the income statement and the balance sheet applying the accounting policies of IAS 39 applicable up until 31 December 2017. No changes were made to items of the balance sheet and income statement that are not listed:

| Assets before adjustment | | Adjustments | | Assets after adjustment | |
|---|---|---|---|---|---|
| 31.12.2017 (in € million) | | Breakdown of financial assets at fair value through profit or loss | Breakdown of financial assets | 31.12.2017 (in € million) | |
| | | 128.3 | | Trading assets | 128.3 |
| Financial assets at fair value through profit or loss | 1,001.3 | 873.0 | 0.0 | Financial assets designated at fair value through profit or loss | 873.0 |
| Financial assets (AfS) | 2,232.2 | | 2,232.2 | Financial assets at fair value directly in equity | 2,232.2 |
| Financial assets (LaR) | 1,946.0 | 0.0 | 1,946.0 | | |
| Loans and advances to banks | 796.4 | 0.0 | 0.0 | | |
| Loans and advances to customers | 8,632.2 | 0.0 | 0.0 | | |
| Loan loss provisions | -7.6 | 0.0 | 0.0 | Financial assets at amortised cost | 11,367.0 |
| **Total** | **14,600.5** | | | **Total** | **14,600.5** |

| Equity/liabilities before adjustment | | Adjustments | Equity/liabilities after adjustment | |
|---|---|---|---|---|
| 31.12.2017 (in € million) | | Breakdown of financial liabilities at fair value through profit or loss | 31.12.2017 (in € million) | |
| Liabilities to banks | 6,011.1 | 0.0 | | |
| Liabilities to customers | 3,210.7 | 0.0 | Financial liabilities at amortised cost | |
| Securitised liabilities | 3,750.0 | 0.0 | | 12,971.7 |
| | | 74.9 | Trading liabilities | 74.9 |
| Financial liabilities at fair value through profit or loss | 1,118.2 | 1,043.3 | Financial liabilities designated at fair value through profit or loss | 1,043.3 |
| **Total** | **14,090.0** | | **Total** | **14,090.0** |

| Income statement before adjustment | | Adjustments | | | Income statement after adjustment | |
|---|---|---|---|---|---|---|
| 01.01.2017-31.12.2017 (in € thousand) | | Reclassif-ication of loan loss provisi-ons | Break-down of foreign exch-ange result | Breakdown of profit/ loss from finan-cial assets | 01.01.2017-31.12.2017 (in € thousand) | |
| Loan loss provisions | -1,566 | 1,566 | 0 | 0 | | |
| Trading profit/loss | 5,262 | 0 | 892 | 0 | Profit/loss from fair value measurement | 6,154 |
| | | -1,640 | 0 | 3,571 | Net valuation allowance from financial instruments not measured at fair value through profit or loss | 1,931 |
| | | 0 | 0 | 15,142 | Net disposal result from financial instruments not measured at fair value through profit or loss | 15,142 |
| Profit/loss from financial assets | 18,713 | 0 | 0 | -18,713 | | |
| | | 0 | -892 | 0 | Foreign exchange result | -892 |
| Other operating profit/loss | -8,440 | 74 | 0 | 0 | Other operating profit/loss | -8,367 |
| **Total** | | **0** | **0** | **0** | | |

**(3) Reconciliations of IAS 39 categories and classes to IFRS 9**

As a result of the first-time application of IFRS 9 as at 1 January 2018 there are some changes to the classification of financial assets and liabilities compared to IAS 39. The following table presents the effects for each class stemming from a changed classification and a changed valuation. First of all, the carrying amounts of financial instruments measured in accordance with IAS 39 and classified in accordance with IFRS 7 as of 31 December 2017 were reclassified with the same measurement to the classes of financial instruments in accordance with IFRS 7 using IFRS 9. This effect is shown for each class in the row „Reclassification“. In the second step, the measurement provisions of IFRS 9 are applied to the classes of financial instruments in accordance with IFRS 7. This effect is shown for each class in the „Revaluation” row. The sum of the carrying amounts recognised as at 31 December 2017 and the effect of the first-time application of IFRS 9 results in the carrying amount of the financial instruments per class recognised under IFRS 9 as at 1 January 2018.

**Reconciliation of assets:**

| (in € million) | IAS 39 Hold category | Financial assets at fair value through profit or loss | | | Financial assets at FV | Financial assets not at FV | LaR | LaR |
|---|---|---|---|---|---|---|---|---|
| | IAS 39 category | Financial assets designated at fair value (DFV) | | | Financial assets (AfS) | Financial assets (LaR) | Loans and advances to banks * | Loans and advances to customers * |
| | | **Retention of FVO** | **Voluntary reversal of FVO** | **Mandatory reversal of FVO** | | | | |
| **Carrying amount IAS 39 as at 31.12.2017 after loan loss provisions** | **14,820.4** | **0.0** | **0.0** | **873.0** | **2,232.2** | **1,946.0** | **796.3** | **8,624.7** |
| **IFRS 9 class** | **Carrying amounts IFRS 9 as at 1.1.2018** | | | | | | | |
| **Financial assets mandatorily at fair value through profit or loss** | | | | | | | | |
| Debt securities | | | | | | | | |
| Reclassification | 911.0 | 0.0 | 0.0 | 873.0 | 0.1 | 37.9 | 0.0 | 0.0 |
| Revaluation | -4.7 | 0.0 | 0.0 | 0.0 | 0.0 | -4.7 | 0.0 | 0.0 |
| **Carrying amount IFRS 9 as at 1.1.2018** | **906.4** | **0.0** | **0.0** | **873.0** | **0.1** | **33.3** | **0.0** | **0.0** |
| Loans and advances | | | | | | | | |
| Reclassification | 36.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 31.5 | 5.2 |
| Revaluation | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 |
| **Carrying amount IFRS 9 as at 1.1.2018** | **37.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **31.7** | **5.2** |
| **Financial assets designated at fair value through profit or loss** | | | | | | | | |
| Debt securities and other fixed-interest securities | | | | | | | | |
| Reclassification | 0.0 | 0.0 | 0.0 | -873.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Revaluation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Carrying amount IFRS 9 as at 1.1.2018** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |

| (in € million) | IAS 39 Hold category | Financial assets at fair value through profit or loss | | | Financial assets at FV | Financial assets not at FV | LaR | LaR |
|---|---|---|---|---|---|---|---|---|
| | IAS 39 category | Financial assets designated at fair value (DFV) | | | Financial assets (AfS) | Financial assets (LaR) | Loans and advances to banks * | Loans and advances to customers * |
| **Financial assets at fair value directly in equity** | | | | | | | | |
| Debt securities | | | | | | | | |
| Reclassification | 2,199.1 | 0.0 | 0.0 | 0.0 | 2,132.9 | 66.2 | 0.0 | 0.0 |
| Revaluation | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | 0.0 | 0.0 |
| **Carrying amount IFRS 9 as at 1.1.2018** | **2,199.8** | **0.0** | **0.0** | **0.0** | **2,132.9** | **66.9** | **0.0** | **0.0** |
| **Financial assets at amortised cost** | | | | | | | | |
| Debt securities | | | | | | | | |
| Reclassification | 1,941.1 | 0.0 | 0.0 | 0.0 | 99.2 | 1,841.9 | 0.0 | 0.0 |
| Revaluation | 26.9 | 0.0 | 0.0 | 0.0 | 13.6 | 13.4 | 0.0 | 0.0 |
| **Carrying amount IFRS 9 as at 1.1.2018** | **1,968.0** | **0.0** | **0.0** | **0.0** | **112.8** | **1,855.2** | **0.0** | **0.0** |
| Receivables | | | | | | | | |
| Reclassification | 9,384.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 764.8 | 8,619.6 |
| Revaluation | -1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | -1.6 |
| **Carrying amount IFRS 9 as at 1.1.2018** | **9,382.9** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **764.9** | **8,618.0** |

* The IAS 39 carrying amount as at 31 December 2017 comprises loan loss provisions of € 0.1 million for loans and advances to banks, and loan loss provisions of € 7.4 million for loans and advances to customers.

The reconciliation table presented above for financial assets comprises all of the significant changes brought on by the first-time application of IFRS 9. The revaluation effects were recognised as at 1 January 2018 in the retained earnings at € -0.5 million and in other comprehensive income (OCI) at € +22.3 million. The figures are before deferred taxes.
Further information regarding the reconciliation of the classification methods between IAS 39 and IFRS 9 can be found below.

Financial assets at fair value through profit or loss
The financial assets at fair value through profit or loss under IAS 39 comprised derivatives outside of documented hedging transactions as well as debt securities designated at fair value through profit or loss on account of an accounting mismatch.
In the case of all debt securities assigned to the fair value option under IAS 39 upon initial recognition, in order to avoid or significantly reduce recognition and measurement mismatches a mandatory reversal of the fair value option was carried out as the accounting mismatch no longer applied at the time of initial application. Due to the management of this specific portfolio according to fair value, the entire portfolio was assigned to the „Other“ business model in accordance with the classification requirements of IFRS 9, and is therefore now mandatorily measured at fair value through profit or loss.
Within the categories of trading assets (HfT) including hedging derivatives and trading liabilities (HfT) including hedging derivatives, there were no effects from the reclassification or revaluation.

*Financial assets classified as AfS*
The financial assets categorised as available for sale under IAS 39 comprised debt securities. The Bank has no equity securities in its portfolio. All of these debt securities fulfil the cash flow criterion. Since these mostly relate to securities held as liquidity reserves, for example, the Bank has allocated this specific portfolio to the „hold and sell“ business model and continues to measure these instruments at fair value directly in equity.
No reclassification into a category at fair value through profit or loss was required at the time IFRS 9 was first applied.
Following the first-time application, debt securities fulfilling the cash flow criterion and allocated to a portfolio under the „hold“ business model were now measured at amortised cost.
The following table shows the fair values of these financial assets as at 31 December 2018 and the fair value result that would have been recognised in other comprehensive income (OCI) in the reporting period if no reclassification had taken place:

| According to IFRS 9 as at 31.12.2018 (in € million) | Fair value as at 31.12.18 | Fair value profit/loss that would have been in other comprehensive income (OCI) in 2018 |
|---|---|---|
| **Financial assets at amortised cost** | **92.4** | **-4.8** |
| **Debt securities** | 92.4 | -4.8 |
| **Total** | 92.4 | -4.8 |

*Financial assets classified as LaR*

The financial assets classified under Loans and Receivables in accordance with IAS 39 also include debt securities. In accordance with IFRS 9, the Bank reclassified the debt securities that do not fulfil the cash flow criterion, and now measures the instruments at fair value through profit or loss. The Bank largely assigned the financial instruments that fulfil the cash flow criterion to the „hold" business model, since they are cover-pool financial assets for example, and continues to measure them at amortised cost.

A small portion of the debt securities held were allocated to the „hold and sell" business model and are therefore measured at fair value directly in equity.

*Loans and advances in LaR category*

The financial assets categorised under IAS 39 as Loans and Receivables comprise loans and advances to banks and customers from money market trading activities to syndicated lending. The Bank assigned the financial instruments that fulfil the cash flow criterion to the „hold" business model, and continues to measure them at amortised cost.

In accordance with IFRS 9, the Bank reclassified the loans and advances that do not fulfil the cash flow criterion, and now measures the instruments at fair value through profit or loss.

As a result, all assets previously classified under Loans and Receivables have been reclassified to financial assets mandatorily at fair value through profit or loss as they do no meet the SPPI criterion.

**Reconciliation of financial liabilities:**

| (in € million) | IAS 39 Hold category | Financial liabilities at fair value through profit or loss | | | Other liabilities | | |
|---|---|---|---|---|---|---|---|
| | IAS 39 class | Financial liabilities designated at fair value (DFV) | | | Liabilities to banks | Liabilities to customers | Securitised liabilities |
| | | Retention of FVO | Voluntary reversal of FVO | Mandatory reversal of FVO | | | |
| **Carrying amounts IAS 39 as at 31.12.2017** | **14,607.6** | **1,043.3** | **0.0** | **0.0** | **6,011.1** | **3,210.7** | **3,750.0** |
| **IFRS 9 category** | **Carrying amounts IFRS 9 as at 1.1.2018** | | | | | | |
| **Financial liabilities designated at fair value through profit or loss** | | | | | | | |
| Issued debt securities | | | | | | | |
| Reclassification | 1,043.3 | 1,043.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Revaluation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Carrying amounts IFRS 9 as at 1.1.2018** | **1,043.3** | **1,043.3** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Financial liabilities at amortised cost** | | | | | | | |
| Deposits | | | | | | | |
| Reclassification | 9,221.8 | 0.0 | 0.0 | 0.0 | 6,011.1 | 3,210.7 | 0.0 |
| Revaluation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Carrying amounts IFRS 9 as at 1.1.2018** | 9,221.8 | 0.0 | 0.0 | 0.0 | 6,011.1 | 3,210.7 | 0.0 |
| Issued debt securities | | | | | | | |
| Reclassification | 3,750.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3,750.0 |
| Revaluation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Carrying amounts IFRS 9 as at 1.1.2018** | **3,750.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **3,750.0** |

The reconciliation table presented above for financial liabilities comprises all of the significant changes brought on by the first-time application of IFRS 9.
Own issues recognised at fair value under IAS 39 due to an accounting mismatch will continue to be recognised at fair value under IFRS 9. The own credit-risk adjustments (OCA) accumulated at the time of first-time application amounted to € -2.5 million before taxes as of 1 January 2018 and are reported in equity.

In addition to first-time application effects from assets and liabilities, loan loss provisions for off-balance sheet transactions were remeasured, resulting in a pre-tax effect of € -0.6 million.

*Financial liabilities at fair value through profit or loss*
The deposits and issued debt securities remaining in the category are still assigned to the fair value option in order to avoid or significantly reduce recognition and measurement mismatches.

The following table reconciles the loan loss provisions per category in accordance with IAS 39 as at 31 December 2017 with the loan loss provisions calculated in accordance with IFRS 9 as at 1 January 2018:

| | Loan loss provisions IAS 39 31.12.2017 | | Reclassification | Revaluation IFRS 9 | Loan loss provisions IFRS 9 1.1.2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Spec. val. allow | Portf. val. allow. | | | Level 1 | Level 2 | Level 3 | Total |
| **Reported loan loss provisions** | | | | | | | | |
| **from amortised cost (IAS 39)** | **4.9** | **17.4** | **-22.3** | | | | | |
| to amortised cost (IFRS 9) | | | 21.9 | -3.6 | 4.2 | 9.3 | 4.8 | 18.4 |
| to fair value directly in equity (IFRS 9) | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| to fair value through profit or loss (IFRS 9) | | | 0.3 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **4.9** | **17.4** | **0.0** | **-3.9** | **4.2** | **9.3** | **4.8** | **18.4** |
| | | | | | | | | |
| **from fair value directly in equity (IAS 39)** | **0.0** | **0.0** | **0.0** | | | | | |
| to amortised cost (IFRS 9) | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| to fair value directly in equity (IFRS 9) | | | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 |
| to fair value through profit or loss (IFRS 9) | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **0.0** | **0.0** | **0.0** | **0.1** | **0.1** | **0.0** | **0.0** | **0.1** |
| | | | | | | | | |
| IFRS 9 loan loss provisions for category | | | | | | | | |
| amortised cost (IFRS 9) | | | 21.9 | -3.5 | 4.3 | 9.3 | 4.8 | 18.4 |
| to fair value directly in equity (IFRS 9) | | | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 |
| to fair value through profit or loss (IFRS 9) | | | 0.3 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | | | **22.3** | **-3.8** | **4.3** | **9.3** | **4.8** | **18.5** |

| | Provisions in lending business IAS 39 31.12.2017 | | | Reclassification | Revaluation IFRS 9 | Provisions in lending business IFRS 9 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Provisions | Portf. val. allow. (prov.) | | | Level 1 | Level 2 | Level 3 | Total |
| **Provisions in lending business** | | | | | | | | | |
| Loan commitments | | 0.0 | 0.3 | 0.3 | 0.3 | 0.4 | 0.2 | 0.0 | 0.5 |
| Financial guarantees | | 0.4 | 0.1 | 0.5 | 0.3 | 0.1 | 0.3 | 0.4 | 0.8 |
| **Total** | | **0.4** | **0.4** | **0.8** | **0.6** | **0.5** | **0.5** | **0.4** | **1.4** |

**(4) 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 (8) and (49).

*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 (13) Rückstellungen für Pensionen und ähnliche Verpflichtungen and Note (42) Rückstellungen.

*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 carry forwards 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 (37) Ertragsteueransprüche and Note (43) Ertragsteuerverpflichtungen.

**(5) 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 2018 reporting period.

*The following amendments to the standards requiring application as at 1 January 2018 were applied by NORD/LB CBB for the first time during the reporting period:*

*IFRS 9 – Financial Instruments*

IFRS 9 - Financial Instruments replaces IAS 39 - Financial Instruments: Recognition and Measurement, introducing new requirements for the classification and measurement of financial assets. IFRS 9 also modifies the accounting of the effects of changes in own credit risk for financial liabilities at fair value through profit or loss. The previous rules on the impairment of financial assets and the regulations for hedge accounting have also been amended. In addition, extensive disclosures are required in the notes. Please refer to Note (8) Finanzinstrumente for the individual rules. The impacts on the financial statements of NORD/LB CBB are presented in Note (3) Überleitung der Kategorien und Klassen von IAS 39 auf IFRS 9. In the course of the first-time application of the new standard, the Bank is aligning its reporting from the 2018 financial year onwards with the measurement categories of IFRS 9 (see Note (2) Anpassung der Ausweisstruktur).

*IFRS 15 – Revenue from Contracts with Customers*
The currently applicable standards for revenue recognition (IAS 18 and IAS 11) and the related interpretations will be replaced from 2018 by IFRS 15. IFRS 15 provides for a new principle-based five-step model for the accounting and recognition of revenue. The provisions of the new standard IFRS 15 do not deviate fundamentally from the provisions of IAS 11 and IAS 18, but they can influence the amount, realisation and distribution of incomes in the income statement. The standard is fundamentally applicable for all contracts with customers of NORD/LB CBB, but in many cases it is not relevant for the Bank because large parts of the income in the statement of comprehensive income are subject to the provisions of other standards. With regard to the business model of NORD/LB CBB, IFRS 15 is only applicable with regard to the realisation of commission income (see (19) Provisionsüberschuss), i.e. for the services business of the Bank.
NORD/LB CBB applied IFRS 15 retrospectively and in a modified form at the time of initial application. For contracts amended prior to the first-time adoption of IFRS 15 on 1 January 2018, the aggregated effects of all contract amendments are taken into account at the date of first-time adoption.
Within commission income, IFRS 15 had an impact on income from agency fees and income from a servicing fee for factoring. As at 31 December 2018, the impact amounted to € 0.3 million, which corresponds to 2.5 per cent of commission income. In the previous year, the impact amounted to € 0.3 million, which corresponds to 1.9 per cent of commission income.

*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. This does not impact NORD/LB CBB.

*Amendments to IFRS 2 – Share-based Payment*
The European Union adopted the changes to IFRS 2, which clarify the classification and measurement of share-based payment transactions, for application in Europe.
In particular, the amendments published by the IASB in June 2016 focused on accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payments settled net of tax withholdings, and recognising the modification of share-based payment transactions from cash-settled to equity-settled. This does not impact on NORD/LB CBB.

*Amendments to IFRS 4 – Insurance Contracts*
On 12 September 2016, the IASB published amendments to IFRS 4 Insurance Contracts regarding the first-time application of IFRS 9 Financial Instruments, which are applicable from 1 January 2018. The amendments introduced two approaches – the overlay approach and the deferral approach – to counter the consequences of the first-time application of IFRS 9 and the follow-up standard to IFRS 4 (IFRS 17). This does not impact on NORD/LB CBB.

*Improvements to IFRS (cycle 2014 – 2016) under the IASB's annual improvements process*
Changes were made to IFRS 1 and IAS 28 as part of the annual improvements process. 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 do not have any effect on the financial statements of NORD/LB CBB.

*IFRIC 22 – Foreign Currency Transactions and Advance Consideration*
IFRIC 22 clarifies the accounting for foreign-currency transactions that include the receipt or payment of advance consideration. The determination of the transaction date is specified in the event IAS 21 is applied. Its application results in no major impacts on 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 NORD/LB CBB only after 31 December 2018.*

*IFRS 16 – Leasing*
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.
NORD/LB CBB shall apply IFRS 16 from the mandatory date for first-time application, 1 January 2019.
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.
NORD/LB CBB will apply the provisions of IFRS 16 retrospectively in a modified format. The previous year's figures have therefore not been adjusted.
As lessee, the Bank will make use of the option not to recognise rights of use or lease liabilities for short-term leases and low-value leased assets. Instead, the expenses arising from these contracts are recognised in the income statement in the period in which they are incurred. Lease agreements expiring in 2019 are also treated as short-term leases.
Effects on the financial position and financial performance of NORD/LB CBB as lessee are caused in particular by an increase in total assets in the balance sheet as a result of the recognition requirement for right of use assets and liabilities for leases that are currently recorded under IAS 17 as operating leases and therefore not recognised in the balance sheet. As at 1 January 2019, right of use assets of € 2.8 million and lease liabilities of the same amount are recognised for the first time.

| | |
|---|---|
| Undiscounted future minimum lease payments from operating lease agreements in accordance with IAS 17 | 898 |
| Discounted minimum future lease payments from operating lease agreements in accordance with IAS 17 | 865 |
| No recognition of lease liability in accordance with IFRS 16 | |
| Short-term lease agreements | 0 |
| Low-value leased assets | 80 |
| Lease agreement ends in 2019 | 35 |
| Discounted minimum future lease payments from finance lease agreements in accordance with IAS 17 | 1,912 |
| Lease obligation as per IFRS 16 | 2,777 |

Moreover, breaking down lease expenses previously recognised under administrative expenses into a depreciation component and an interest component using the effective interest method results in a degressive development of expense from 2019 onward and an earlier recognition of expenses in the earlier periods of the term of a lease agreement. For NORD/LB CBB as the lessee, IFRS 16 only results in amended disclosures in the notes.

*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) regarding the classification of financial assets. 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, under certain conditions, 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.

The NORD/LB Group will take the clarification into account from the initial application of the amendment as part of the assessment of the cash flow criterion. The adjustment does not impact on the financial statements of NORD/LB CBB.

*The following standards and amendments to standards were still awaiting adoption into European law by the European Commission as at the date these financial statements was compiled:*

*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 Bank is not currently affected by the amendment.

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

In October 2017, the IASB published amendments to IAS 28 that must 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 does not impact on the financial statements of NORD/LB CBB.

*Amendments to IAS 1 and IAS 8 – Definition of materiality*

The amendments to IAS 1 and IAS 8 published at the end of October 2018 tighten up the definition of “materiality” by standardising the definition in all IFRS and the Conceptual Framework, clarifying the definition of “material” as well as the issue of “obscuring material and immaterial information”. The definition of “primary users” for this purpose was also clarified. The new definition of “materiality” is contained in IAS 1, while the previous definition in IAS 8 is replaced by a reference to IAS 1. Application of the changes is mandatory for the first time from 1 January 2020. They are not expected to have a significant impact on the financial statements of NORD/LB CBB.

*Amendments to IFRS 3 – Definition of a business*

In October 2018, IFRS 3 Business Combinations was revised with regard to the definition of a business. Application is mandatory for the first time from 1 January 2020. This does not impact

NORD/LB CBB.

*IFRS 17 – Insurance Contracts*
In May 2017, the IASB published the new standard IFRS 17 on Insurance Contracts, which replaces the previous standard IFRS 4 Insurance Contracts. This regulates the principles governing the recognition, measurement and presentation of insurance contracts anew. Application of IFRS 17 is mandatory, retrospectively for financial years beginning on or after 1 January 2021. In November 2018, the IASB nevertheless made a provisional decision to defer the mandatory first-time application to financial years beginning on or after 1 January 2021. There are not expected to be any material changes compared to the current accounting practices of NORD/LB CBB.

*Improvements to IFRS (cycle 2015 – 2017) under the IASB's annual improvements process*
As part of the annual improvements process, changes were made to IFRS 3, IFRS 11, IAS 12 and IAS 23 that are applicable for financial years beginning on or after 1 January 2019. The clarification in IFRS 3 and IFRS 11 regarding when control is obtained of joint operations has no relevance for NORD/LB CBB. The adjustment in IAS 12 regarding the tax treatment of dividends is in line with the current procedure at the Bank. The clarification of IAS 23 regarding borrowing costs also has no impact on the financial statements of NORD/LB CBB.

Furthermore, the following interpretations and general amendments are not expected to have any or any material influences on the Bank:

- IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments
- Amendment to Conceptual Framework of IFRS Standards

The first-time application of the standards and standard amendments to be implemented by the Bank after 31 December 2018 is scheduled for the respective first-time application dates.

**(6) 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 31 December 2018. 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.

**(7) 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.

**(8) Financial instruments**

IFRS 9 replaces the provisions of IAS 39 and sets new rules for the classification as well as the measurement of financial assets and financial liabilities. The initial measurement of financial assets and liabilities still takes place at fair value, just like under IAS 39. For financial instruments not measured at fair value through profit or loss, the transaction costs are included in the cost, if they are directly attributable. For financial instruments measured at fair value through profit or loss, any transaction costs are recognised immediately through profit or loss. The subsequent measurement depends on which IFRS 9 measurement category the financial instruments were assigned to at initial recognition. The methodology under IFRS 9 from 1 January 2018 is explained below followed by the methodology under IAS 39 before 1 January 2018.

Recognition of assets after 1 January 2018 in accordance with IFRS 9:

*a) Classification and measurement of financial assets*

The classification under IAS 39 was mainly based on the type of financial asset. The classification under IFRS is based on the actual management of the cash flows of financial assets (business model) and the characteristics of the financial asset (cash flow criterion).

aa) Business model

Financial assets must be considered at an aggregated level to assess the business model. For this purpose, those with the same strategic or economic objectives are combined into assessment portfolios. An IFRS 9 business model in line with the objectives of these assessment portfolios is assigned. Specific classification criteria at NORD/LB CBB include, for example, the strategic management of transactions as well as past transactions and expectations with regard to future transactions within the assessment portfolio, or the type of performance measurement and internal reporting on them. The assessment portfolios are formed based on the Bank's business segments. The Managing Board determined the assessment portfolio and allocated it to an IFRS 9-compliant business model on this basis. The allocation of the assessment portfolios to IFRS 9 business models in line with the portfolios' objectives is reviewed at least once a year, or as required, as part of the review of the business segment strategies.

IFRS 9 provides for three possible business models for financial assets: “Hold”, “Hold and sell”, and “Other”.

Within the „Hold“ business model, financial assets are managed with the objective of realising the contractual cash flows from these assets until their final maturity. In assessing whether this business model prevails, the frequency, volume and timing of receivable sales in previous periods, the reasons for these sales and the expected future sales activities are considered at the level of the relevant assessment portfolio. In particular, the sale of receivables shortly before maturity or due to a deterioration in creditworthiness is essentially considered to be compatible with this business model. The same applies to disposals that are substantial in terms of volume but occur very irregularly, and to disposals that are insignificant both individually and in their entirety, even if they occur regularly. Compliance with the exceptions and the immateriality limits for sales from hold portfolios is reviewed on an ad hoc basis and/or at least once a year.

The “Hold and sell” business model provides for both the realisation of contractual cash flows and more than occasional sales of financial assets. For example, portfolios with the following objectives are assigned to this business model: Covering daily liquidity requirements or achieving a specific interest income profile.

Financial assets are allocated to the „Other“ business model if they are managed neither in the

„Hold“ business model nor in the „Hold and Sell“ business model. Financial instruments within this business model are held for trading with the intention of a prompt resale or managed based on fair value. In both cases, the Bank manages the financial assets with the objective of generating cash flows principally by selling them. Realising contractual cash flows is not an integral part of this business model.

ab) Cash flow criterion
With regard to the cash flow criterion (SPPI criteria), the extent to which the contractual cash flows of the financial asset only contain unleveraged interest and principal payments must be assessed at the level of each individual financial asset. The analysis is based on the contractual terms that apply when the asset is initially recognised.
Contractual cash flows that do not fulfil the requirements for the cash flow criterion include, for example, principal payments in excess of the contractual nominal amount, interest payments linked to shares, commodity prices or other indices, or a nominal currency other than the currency of the reference interest rate.
By contrast, termination rights, special repayment agreements and extension options fulfil the cash flow condition provided that the repayment amount, in addition to outstanding instalments and interest, includes an appropriate early repayment settlement or the extension option provides adequate compensation for the term extension.
For assets where the creditor only has a right of recourse to certain assets of the debtor or to payments from these assets in order to satisfy its claim, and where the cash flows of the financial instrument are therefore significantly dependent on the performance of the financed asset (non-recourse financing), the cash flow criteria may not be fulfilled. However, this does not necessarily lead directly to a breach of the cash flow criterion if the subsequent „look-through“ test confirms, from an economic perspective, that the bank bears the risks of an investor rather than those of a lender from a credit perspective. This is the case, for example, when the ratio of the loan amount to the value of the collateral exceeds a defined threshold. As at 31 December 2018, NORD/LB CBB had no non-recourse financing in its portfolio that did not meet the SPPI criteria.

An assessment of the cash flow condition is waived only in respect of contract components that have a very minor impact on the contractual cash flows or are highly unlikely to occur.

Depending on the classification of the business model and the fulfilment of the cash flow condition, we arrive at the following valuation categories:

ac) Financial assets at amortised cost
Non-derivative financial assets of the „Hold“ business model are allocated to this category if the cash flow criterion is also met. Since this category covers significant parts of the traditional credit and loan business, it is the most comprehensive category at NORD/LB CBB. Part of the Bank‘s securities portfolio is also allocated to this category.
The subsequent measurement of this category is at amortised cost applying the effective interest method. In addition, the expected credit losses determined in accordance with the valuation allowance rules reduce the carrying amount in the balance sheet. Allocations to and reversals of loan loss provisions are recognised in the income statement under the item „Net valuation allowance from assets not measured at fair value through profit or loss“. Interest income as well as any interest expenses are recognised under net interest income, while commission income and commission expenses are recognised under net commission income.

ad) Financial assets at fair value directly in equity
Non-derivative financial assets of the „Hold and sell“ business model are allocated to this category if the cash flow criterion is also met. At NORD/LB CBB these are, in particular, securities used for short or medium-term liquidity management or for which there is no general intention to hold them until maturity.
Subsequent measurement in this category is at fair value, with the profit or loss from the fair value measurement recognised in other comprehensive income (OCI). When debt instruments in this category are sold, the valuation result accumulated in other comprehensive income (OCI) is reversed and recognised in the income statement. Differences between the cost of acquisition and the redemption amount for debt instruments are amortised through profit and loss using the effective interest method. Interest income as well as any interest expenses are recognised under net interest income, while commission income and commission expenses are recognised under net commission income.
Debt instruments in this category are subject to the same valuation allowance provisions as financial assets measured at amortised cost. Allocations and reversals of loan loss provisions are also recognised through profit or loss in the loan loss provisions result here. However, the expected credit losses determined for this category do not reduce the carrying amount at fair value, instead they are recognised separately in other comprehensive income (OCI).
For equity instruments that are essentially measured at fair value through profit or loss, there is an option to irrevocably assign them to this measurement category at initial recognition. The rules on valuation allowances are not applicable for equity instruments. When sold, the valuation result that has accumulated by that time under other comprehensive income (OCI) is not recognised in the income statement, but directly in equity under retained earnings. The Bank had no equity instruments during the reporting period, so this option was not used.

ae) Financial assets at fair value through profit or loss
Financial assets in this category are measured at fair value through profit and loss in subsequent measurements. Premiums and discounts are not amortised separately using a constant effective interest rate and no expected credit loss is calculated either. Interest is recognised under interest income or interest expenses on assets, while commissions are recognised under commission income or commission expenses. Effects from the fair value measurement are recognised in the profit or loss from fair value measurement.
Financial assets at fair value through profit or loss are divided into three sub-categories:

i) Trading assets (financial assets held for trading)
This sub-category comprises financial assets acquired with the intention of selling them in the short term, and so they are always allocated to the “Other” business model. Additionally, all derivatives with positive fair values are recorded under trading assets if they are not hedging instruments as part of hedge accounting arrangements. Trading assets largely comprise derivatives used for macro hedging purposes.

ii) Financial assets mandatorily at fair value through profit or loss
This sub-category comprises financial assets that are either allocated to the “Other” business model without being held for trading, or which, independent of the business model, do not fulfil the cash flow criterion.
Upon the first-time application of IFRS 9, in the category of financial assets mandatorily at fair value through profit or loss the Bank had a portfolio managed at fair value (nominal value of € 849.1 million), as well as assets that do not fulfil the SPPI criteria (nominal value of € 79.0 million).

iii) Financial assets designated at fair value through profit or loss

This sub-category known as the fair value option comprises all financial assets that would otherwise be measured at amortised cost or directly in equity at fair value. This is subject to the use of the fair value option avoiding or significantly reducing the recognition and measurement mismatches arising from the different valuation methods of financial assets and liabilities. This option was not used in the reporting year.

*b) Modification*

During the modification of existing loan contracts, qualitative criteria supplemented with a quantitative criterion are used to check whether the cash flows of the loan are subject to significant change because of the modification and therefore the disposal criteria under IFRS 9 are fulfilled. If this is the case, the modified loan is initially measured at fair value as a new financial instrument and classified for subsequent measurement using the business model and cash flow criterion. For modifications that do not lead to a significant change in the cash flows, the difference resulting from a present value analysis of the cash flows before and after modification is recognised in the modification gain/loss and amortised over the remaining term of the existing loan.

Modifications of financial assets other than loans are not currently relevant at NORD/LB CBB. No modifications were carried out in the reporting year that would have resulted in a corresponding modification profit/loss. See Note (21) Modification gain/loss.

*c) Classification and measurement of financial liabilities*

ca) Financial liabilities at amortised cost

This category includes, in particular, liabilities to banks and customers and securitised liabilities, provided these liabilities were not designated at fair value as part of the fair-value option. The subsequent measurement is at amortised cost applying the effective interest method. Interest expenses and any interest income are recognised under net interest income, while commission expenses are recognised under net commission income.

cb) Financial liabilities at fair value through profit or loss

Financial liabilities in this category are measured at fair value through profit and loss in subsequent measurements. Premiums and discounts are not amortised separately using a constant effective interest rate. Interest is recognised under interest expenses or interest income from financial liabilities, while commissions are recognised under commission income or commission expenses.

Financial liabilities at fair value through profit or loss are divided into two sub-categories:

i) Trading liabilities (financial liabilities held for trading)

This sub-category comprises all derivatives with negative fair values that do not represent hedging investments as part of hedge accounting, and the financial liabilities that are held for trading. Thus trading liabilities include, in particular, derivatives with negative fair values.

ii) Financial liabilities designated at fair value through profit or loss

In this sub-category, financial liabilities otherwise measured at amortised cost are designated at fair value through profit or loss. NORD/LB CBB uses the fair value option to reduce or avoid accounting mismatches. If financial liabilities are designated at fair value, the fair value changes that can be attributed to own credit risk are recorded as OCA (own credit-risk adjustments) under other comprehensive income (OCI). When these transactions are disposed of, these fair value changes are reclassified to retained earnings. Other fair value changes as well as all the fair value changes in liabilities held for trading are recorded in the income statement under the profit or loss from the fair value measurement.

Upon the application of IFRS 9, the methods for measuring financial assets and financial liabilities as per IFRS 13 do not change.
Please refer to Note (2) Structural adjustments and Note (3) Reconciliations of IAS 39 categories and classes to IFRS 9 for the presentation of the impacts of the changed classification and measurement after transitioning from IAS 39 to IFRS 9, as required upon the initial application of IFRS 9.

*d) Reclassifications*
According to the provisions of IFRS 9, reclassifications are only to be carried out following a significant change in business model. No reclassification was required at NORD/LB CBB during the reporting period.

*e) Determination of fair value*
As a general rule, the unit of account on which the appraisal of financial instruments is based is determined by IFRS 9. 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 IFRS 9 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 at NORD/LB CBB

include financial assets mandatorily measured at fair value through profit or loss or directly in equity, financial liabilities designated at fair value through profit or loss, and financial assets and liabilities at amortised cost.

*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 there are no quoted prices on active markets is based on term-specific interest rates, the credit rating of the respective issuer and, where applicable, other components, such as foreign currency premiums.

Level 2 financial instruments include trading assets and liabilities, hedge accounting derivatives under assets and equity/liabilities, assets mandatorily measured at fair value through profit or loss and directly in equity, financial liabilities designated at fair value through profit or loss, as well as financial assets and liabilities measured at amortised cost.

*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.

Financial instruments classified in Level 3 include financial assets and liabilities measured

at amortised cost. The fair value of these financial instruments is only determined for disclosure purposes.
There were no Level 3 securities in the Bank's portfolio as at 31 December 2018.

*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, Level 3 methodology is used to determine fair values for all of the Bank's loans.
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.

*Level transfer*

Level allocations of all securities in the portfolio at NORD/LB CBB are reviewed on a quarterly basis. Publicly quoted stock exchange prices and prices actually traded on the over-the-counter (OTC) market are used and analysed with the help of external information sources. The criteria for level allocation were described in the previous sections. If a security does not continue to meet the criteria for its level allocation, it is reclassified.
The level allocations and any effects on reporting are also taken into consideration on a quarterly basis.
Please refer to Note (49) Fair-value hierarchy for the level allocation and the presentation of level transfers.

*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 cash flow 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.

Given that the fair values for the afore-mentioned assets and liabilities are only used for reporting purposes, the level allocation is not subject to regular revision.

*f) Structured products*

Structured products comprise two components: a host contract (e.g. security) and one or more embedded derivative financial instruments (embedded derivatives, e.g. swaps, futures, caps). 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 had to be separated from the host contract and recognised in the balance sheet as an independent derivative if certain criteria were met. By contrast, with hybrid financial assets under IFRS 9, the host contract and the derivative are classified together, not separately. Financial liabilities that have to be separated - unless allocated to the financial liabilities at fair value through profit or loss category - are measured and recognised separately, and therefore largely comply with the procedure under IAS 39. The recognition and measurement of the host contract are at amortised cost, while the embedded derivative is recognised and measured at fair value through profit or loss as part of the trading assets or as a hedging derivative.

No liabilities requiring separation were identified at NORD/LB CBB in the reporting year. Any structured assets were thus classified and measured in their entirety.

*g) Hedge accounting (recognising hedging transactions)*

IFRS 9 changes the rules on general hedge accounting. There is an option to apply this from 1 January 2018 or continue with the rules of IAS 39; NORD/LB CBB opted to apply the new IFRS 9 standard. Since practically only “perfect hedges” were concluded under IAS 39, nothing changes with regard to the basic orientation of hedge accounting. In contrast to the previous financial year, however, there was no pure hedge accounting to hedge currency risks.

The Bank's hedge policy follows risk management procedures more closely. Since IFRS 9 has not resulted in any changes to the management of business risks, the impacts on the Bank‘s hedge accounting are minimal. NORD/LB CBB only uses micro fair value hedge accounting for interest rate risks, and combines interest rate and currency risks. Fixed-interest financial assets or financial liabilities are hedged using interest rate or cross-currency interest rate swaps. This takes place with 1:1, 1:N or N:1 hedge arrangements. The main critical terms of the underlying transaction and hedging transactions are the same. The assessment of effectiveness under IFRS 9 is based on prospective criteria. However, the Bank

continues to measure and monitor retrospective effectiveness.
As outlined above, there are no material impacts from applying the new IFRS 9 standard.

Macro hedge accounting is not covered by the published IFRS 9 and is currently being further developed by the IASB as a standalone project. Since NORD/LB CBB has not had any macro hedge accounting so far, this amendment currently does not affect the Bank.
For further information on hedge accounting, refer to Note (24) Profit/loss from hedge accounting.

*h) Securities repurchase and lending transactions*
Genuine securities repurchase agreements as well as securities lending business do not qualify as disposals from the balance sheet in accordance with IFRS 9, and are therefore permitted, without breaching the criteria of the "Hold" business model.
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 is recognised as a financial liability. Agreed interest payments are recognised as interest expense according to their maturity.
Provided the business model and cash flow conditions are fulfilled, reverse repo transactions are recognised under financial assets measured at amortised cost. 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 2018.

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 IFRS 9, 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 (57) Offsetting of financial assets and financial liabilities regarding the scope and volume of security repurchase transactions.

*Bilanzierung von Vermögenswerten vor dem 1. Januar 2018 nach IAS 39:*

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) Classification 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 if 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 impairment and their value is impaired when necessary. 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 sub-categories:

*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, as well derivatives with positive fair values. Trading liabilities primarily include derivatives with negative fair values 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). 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 primarily include 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.

*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.

*e) Structured products*

Structured products comprise two components – one or more embedded derivative financial instrument (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 volatility 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. Changes to measurements are recognised in profit or loss. 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 agreements 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.
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.

**(9) Loan loss provisions**

IFRS 9 introduced a new impairment model. The „three-step model“ records losses on financial assets due to credit ratings not only when there is objective evidence of impairment, but also upon initial measurement after recognition based on an expected loss model. The model is applied across all products to all debt instruments that are measured at amortised cost or at fair value directly in equity. Financial assets are allocated to one of three levels depending on the relative change in their credit quality since initial recognition.
At the time of initial recognition, all relevant financial assets that do not already show objective evidence of impairment are classified in Level 1, irrespective of the creditworthiness of the debtor. At this level, the expected losses stem from the

present value of the expected payment defaults resulting from possible default events over the next 12 months. Interest income is recognised at this level based on the gross carrying amount, i.e. by applying the effective interest rate to the carrying amount before deducting expected losses.

If a significant increase is identified in the default risk since recognition at any subsequent reporting date, but there is no objective evidence of impairment, the underlying financial assets are transferred from Level 1 to Level 2. At this level, a loan loss provision is recognised at the amount of the present value of the expected losses over the remaining term of the financial instrument (lifetime expected credit loss), taking into account the corresponding probability of default for the same maturity. Interest is realised in the same way as at Level 1.

NORD/LB CBB uses quantitative and qualitative criteria to determine a significant increase in the probability of default. The quantitative review is based on the change in the cumulative probability of default due to credit ratings. For this purpose, the initial 12-month forward default probability derived from a default profile at recognition is compared with the actual 12-month default probability on the measurement date. In addition, there is a significant deterioration in credit quality if qualitative criteria are met, such as either a payment delay of more than 30 days or if there is an indication of forebearance.

If there is objective evidence of impairment at the reporting date, for example a default or delay with interest and/or principal payments or concessions made by the lender to support the borrower, the asset is transferred to Level 3 and the financial asset is classified as impaired (credit-impaired). NORD/LB CBB therefore allocates all loan receivables in default to Level 3. At this level, the loan loss provisions are also measured as the present value of the expected losses over the remaining term. Interest is recorded based on the net carrying value, i.e. after deduction of the loan loss provisions.

Significant criteria for a default or objective evidence of impairment include, for example, a default on interest and principal payments of more than 90 days or significant financial difficulties of the borrower, such as arithmetical and actual insolvency or the sustained negative development of a restructuring. These criteria also include concessions by the lender such as interest exemptions, debt waivers or repayment deferrals.

Financial assets which already show objective evidence of impairment at the time of acquisition or issue ("POCI assets") are not subject to the „three-level model". For these assets, no loan loss provisions are recognised at the time of recognition since the fair value at that time adequately reflects the expected losses over the remaining term. In subsequent periods, a loan loss provision is recognised at the amount of the change in the expected loss over the remaining term compared with the initial expected loss.

NORD/LB CBB does not apply the low credit risk exemption. This makes it possible, without further examination, to assume an insignificant increase in the default risk since recognition for financial assets that only have a low default risk on the reporting date.

The impairment model is a symmetrical approach. If there is no longer a significant increase in default risk at the reporting date, the given financial asset is transferred from Level 2 back to Level 1. Similarly, a financial instrument must be transferred back from Level 3 to Level 2 if there is no longer any objective evidence of impairment. With the qualitative criteria, however, there must be some periods of good conduct prior to any transfer back.

At NORD/LB CBB, loan loss provisions are calculated at the level of the individual financial asset. All Level 1 and Level 2 financial assets as well as non-significant financial assets at Level 3 are subject to a parameter-based determination of the loan loss provisions. The parameter-based calculation is carried out on the basis of default probabilities, loss rates and the possible amount of the exposure on default.

In principle, in a parameter-based determination of loan loss provisions, four parameters are calculated for each credit data record, irrespective of the level allocation:

- Lifetime ECL (LECL) in the currency of the data record.
- Lifetime ECL (LECL) in EUR
- 12-month ECL in the currency of the data record
- 12-month ECL in EUR

The Lifetime Expected Credit Loss (LECL) in the credit currency is calculated for each credit data record according to the following formula:

$$LECL_{Curr} = \sum_{t=1}^{T} EAD_{t-1} \times PD_t \times LGD_t \times DF_{t-1}$$

where T = expected loan term (rounded up to whole periods), EAD t-1 = exposure at default in the period t-1 to t, PDt = probability of default (marginal PD) in the period t-1 to t, LGDt = expected loss on default in the period t-1 to t, DFt-1 = discount factor at time t-1.

The discount factor is determined from the effective interest rate of the transaction.

As an IRBA institute, NORD/LB CBB uses rating procedures which have been developed in cooperation with other banks. These are the rating modules of the RSU Rating Service Unit (RSU), which were developed within the Landesbanken Group, as well as the procedures supported by the Savings Bank Rating and Risk System (SR), which were developed as part of a cooperation with the Savings Bank Finance Group. Each rating is linked to a probability of default (PD), which is used for the above calculation. In addition to the probability of default, the development of the probability of default over the expected term of the loan is also required, which is referred to as the PD profile. The PD profiles are provided by the rating service providers RSU and SR and depend on various parameters, including the industry and the country of domicile.

The Lifetime Expected Credit Loss (LECL) in EUR is thus calculated as:

$$LECL = LECL_{Curr} \times FXR$$

FXR = EUR exchange rate against credit currency at time of calculation.

In the event of a currency mismatch between the credit currency and the collateral currency, a discount of 10 per cent on the collateral value is applied with regard to the LGDt.

The periodicity for the ECL calculation is set to months. Since the PDs or PD profiles assigned to the ratings are specified on an annual basis, the ECL calculation must be converted on a monthly basis. This is done simply by dividing the relevant annual PD by 12. The 12-month ECL (12mECL) is determined from the same formulas as the LECL, where T is capped at 12 months. The 12-month ECL is to be regarded as part of the LECL.

An expert-based approach is applied for Level 3 financial assets, taking several scenarios into account.

In the expert-based approach, any positive or negative scenarios underlying the impairment calculation are determined and weighted according to risk, taking into account the special circumstances of the given market segment (e.g. historical average values) and the individual case (e.g. market value or capitalised earnings value of the financed property). The number of scenarios to be recognised depends on the risk relevance of the individual exposure.

For assets measured at amortised cost, the loan loss provision reduces the carrying amount of the balance sheet item in which the financial assets are carried, whereas for debt instruments measured at fair value directly in equity, the loan loss provision is reported in other comprehensive income (OCI).

The loan loss provision for off-balance sheet transactions in the form of loan commitments and

financial guarantees is also determined using the expected loss model and reported as a provision in the lending business.
If it is assumed that financial assets can no longer be realised (irrecoverable receivables), the gross carrying amount in question is written off directly. Payments received for written-off receivables are recognised through profit or loss.
The expenses from allocations to loan loss provisions and the income from the reversal of loan loss provisions are shown in the income statement under „Profit/loss from loan loss provisions“. The unwinding to be taken into account for Level 3 under IFRS 9 is reported under net interest income.

The parameters used for the ECL calculation are determined taking into account the current and expected future economic environment. In doing so, the Bank relies on modelling of the parent company. In particular, the Bank assesses the economic situation for customers in the rating (PD). This is supported by the rating procedures - depending on the respective methodological approach. For example, additional capital market information is added in the Corporates scorecard procedure (Merton model) and the Project Financing simulation procedure is based on the expected development of revenues, costs and debt service over the project term. The rating information is kept up-to-date by means of regular annual and ad-hoc re-ratings.

Please refer to Note (50) Loan loss provisions and gross carrying amount for the presentation of loan loss provisions depending on the level allocation.

Please refer to Note (2) Structural adjustments and Note (3) Reconciliations of IAS 39 categories and classes to IFRS 9 for the transitioning of loan loss provisions per category from IAS 39 to IFRS 9, as required upon the initial application of IFRS 9.

The IAS 39 procedure prior to 1 January 2018 is presented below:

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 loan loss provisions is forborne exposures, 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 condtions
- 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 loan loss provisions are recorded for losses which have not occurred.

**(10) 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 fair value less disposal costs or the value in use of the asset, whichever is higher. Depreciation and impairments are recorded under administrative expenses.

Property and equipment are depreciated using the following periods:

| | Useful life in years |
|---|---|
| Land and 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.

**(11) 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. Please refer to Note (5) Applicable IFRSs for the impacts of the introduction of IFRS 16.

**(12) 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 at the amount by which the carrying amount exceeds the fair value less disposal costs or the value in use of the asset, whichever is higher. Impairment losses are reversed if the reasons for the impairment lapse, though not beyond the amount of amortised costs. Scheduled and unscheduled amortisation is recorded under administrative expenses.

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

Significant intangible assets for the Bank include, in particular, the Avaloq software used across the Bank as well as a central data administration application called FINCUBE. The carrying amounts as at 31 December 2018 total € 4.0 million each for Avaloq and FINCUBE. The planned residual useful life depends on the capitalised modules and is between 4 and 15 years.

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

**(13) 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.

Both defined benefit obligations and plan assets may fluctuate over time. This can have a negative or positive impact on the funding status. The volatility in defined benefit pension obligations stems in particular from changes in financial assumptions, such as actuarial interest rates, but also from changes in demographic assumptions, such as changes in life expectancy. Due to the structure of the existing pension commitments, the amount of the committed benefits depends, among other things, on the development of the pensionable income, the income threshold for contributions to the statutory pension insurance and the social security pension. If these measures develop differently than assumed in the provision calculations, there may be a need for additional financing.

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.

**(14) 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.

Contingent liabilities are divided into two categories. A possible obligation arising from past events, whose existence or non-existence depends on a small number of certain future events that are not fully controlled by the entity, and present obligations arising from past events for which an outflow of resources to settle the obligation is unlikely. At the Bank it is mostly the second category that applies. The disclosure takes the form of a Note (62) Contingent liabilities and other obligations.

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, early retirement payments, and termination payments to employees whose employment is to end as a result of the reorganisation.

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

**(15) Income taxes**

Current income tax assets and liabilities were calculated using the applicable tax rates at which the payment to or reimbursement from the tax 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 classification 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 impairment as at every reporting date.

For the wealth tax reserves, please refer to the statements made under Note (47) Notes to the statement of changes in equity.

# 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. The segment information is presented in IFRS on the basis of internal reporting to management the way it is regularly reported internally for performance assessment and for decisions on the allocation of resources to the segments. The reporting is carried out monthly.

Net interest income generated by the individual segments is calculated based on the market interest rate method. In doing so, the contribution from interest terms for each customer transaction is determined by comparing the customer terms with the similarly structured market rate for a notional offsetting transaction applicable at the time they were concluded. This market interest rate is also used as the cost rate for the balancing provision in Treasury. As a result there is no gross recognition of interest income and interest expenses. The financing income from committed equity is distributed across market segments. At the Bank, every interest-bearing customer transaction is applied to the balancing provision held by the Treasury as the central cash management unit. There are no direct business relationships among market divisions within the Bank. For this reason, no inter-segment earnings are recognised in the internal reporting.

The segment expenses include original expenses as well as expenses allocated on the basis of cost and service charging. The loan loss provisions have been allocated to the segments on the basis of actual costs.

In addition to the income statement figures, the attributable risk-weighted assets, segment assets and liabilities, committed capital and the key figures of the cost-income ratio (CIR) and Return on Risk adjusted Capital (RoRaC) are also presented in the segment report.

Committed capital in the segments is calculated on the basis of average annual values.

The following segments are considered in the segment reporting by business segment:

**Financial Markets & Sales**

This segment primarily includes the areas commissioned with managing the Bank (liquidity supply, interest and currency management). The main focus of Financial Markets & Sales is issuing Lettres de Gage. Sales activities in which the European marketing capacities of the NORD/LB Group are bundled are allocated to this segment too.

**Loans**

This segment principally comprises the credit business transferred from the Group with the resulting contributions to earnings (including the two business models / USP "credit business eligible for cover pooling" and "factoring").

**Group Service & B2B**

One fundamental concept in this segment is the use of infrastructure employed by the Bank itself along with available know-how to offer services for third parties (e.g. IT structure in business model / USP "Helios / IT Group Services"). Additionally, the Bank outsourced the business segment of Private Banking to Nordlux Vermögensmanagement S.A. at the end of 2014. Account management and custody service as well as lending business with private banking customers remained at the Bank, as did the resulting income, and are allocated to the Group Service / 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.

### (16) Segmentierung NORD/LB CBB nach Geschäftsfeldern

| Segments | | | | | |
|---|---|---|---|---|---|
| In € thousand (01.01.2018 - 31.12.2018 / 01.01.2017 - 31.12.2017) | Financial Markets & Sales | Loans | Group Service B2B | Bank Management & Other | Total |
| **Net interest income** | **21,182** | **87,343** | **1,198** | **4,180** | **113,904** |
| Previous year | 16,897 | 87,860 | 1,108 | 3,042 | 108,908 |
| **Net commission income** | **3,098** | **-43,757** | **-506** | **-5** | **-41,170** |
| Previous year | 3,016 | -41,258 | -203 | -4 | -38,450 |
| **Net disposal result from financial instruments not measured at fair value through profit or loss** | **0** | **0** | **0** | **0** | **0** |
| Previous year | 15,123 | 19 | 0 | 0 | 15,142 |
| **Profit/loss from financial instruments at fair value through profit or loss** | **-14,877** | **0** | **0** | **-10,243** | **-25,120** |
| Previous year | 6,366 | 0 | 0 | 0 | **6,366** |
| **Profit/loss from hedge accounting** | **0** | **0** | **0** | **-7,628** | **-7,628** |
| Previous year | 0 | 0 | 0 | -1,546 | -1,546 |
| **Foreign exchange result** | **493** | **0** | **0** | **0** | **493** |
| Previous year | -892 | 0 | 0 | 0 | -892 |
| **Other operating profit/loss** | **-2,490** | **-333** | **2,716** | **-3,719** | **-3,826** |
| Previous year | -3,472 | -301 | 1,423 | -7,091 | -9,440 |
| **Administrative expenses** | **-11,187** | **-11,187** | **-5,264** | **-10,803** | **-38,442** |
| Previous year | -11,125 | -11,125 | -2,655 | -14,087 | -38,992 |
| **Amortisation and depreciation** | **-907** | **-907** | **-176** | **-792** | **-2,783** |
| Previous year | -1,261 | -1,261 | -141 | -1,101 | -3,764 |
| **Modification gain/loss** | **0** | **0** | **0** | **0** | **0** |
| Previous year | 0 | 0 | 0 | 0 | 0 |
| **Profit/loss from provisions** | **5** | **351** | **20** | **0** | **376** |
| Previous year | 0 | 37 | 37 | 1,000 | 1,074 |
| **Profit/loss from loan loss provisions – not at fair value through profit or loss** | **4,034** | **1,089** | **30** | **0** | **5,153** |
| Previous year | 3,936 | -1,924 | -80 | 0 | 1,931 |
| **Earnings before taxes** | **-650** | **32,598** | **-1,982** | **-29,010** | **956** |
| Previous year | 29,588 | 32,047 | -512 | -20,786 | 40,337 |
| **Taxes** | | | | **136** | **136** |
| Previous year | | | | -11,013 | -11,013 |
| **Net profit/loss for the financial year** | **-650** | **32,598** | **-1,982** | **-28,874** | **1,092** |
| Previous year | 29,588 | 32,047 | -512 | -31,799 | 29,324 |

| In € thousand (01.01.2018 - 31.12.2018 / 01.01.2017 - 31.12.2017) | Segments<br>Financial Markets & Sales | Loans | Group Service B2B | Bank Management & Other | Total |
|---|---|---|---|---|---|
| **Segment assets** | **7,670** | **9,391** | **39** | **99** | **17,199** |
| Previous year | 6,859 | 8,370 | 39 | 92 | 15,361 |
| **Segment liabilities (including equity)** | **14,509** | **1,848** | **123** | **719** | **17,199** |
| Previous year | 13,686 | 787 | 138 | 749 | 15,361 |
| **Risk assets (annual average figures)** | **1,053** | **3,044** | **34** | **95** | **4,226** |
| Previous year (annual average figures) | 1,149 | 2,935 | 49 | 85 | 4,217 |
| **Capital commitment** | **84.3** | **243.5** | **2.7** | **7.6** | **338.1** |
| Previous year | 91.9 | 234.8 | 3.9 | 6.8 | 337.4 |
| **CIR** | **111.3** | **27.7%** | **158.7%** | **-66.6%** | **111.3%** |
| Previous year | 54.1% | 26.8% | 120.1% | -271.3% | 64.8% |
| **RoRaC/RoE*** | **0.3** | **13.4%** | **-72.4%** | **-381.9%** | **0.3%** |
| Previous year | 21.1% | 13.7% | -12.9% | -246.9% | 11.1% |

*) The cost/income ratio is calculated by dividing administrative expenses, including depreciation and amortisation, by the result of the sum of net interest income, net commission income, profit/loss from financial instruments measured at fair value, foreign exchange result, profit/loss from hedge accounting 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. As at 31 December 2017, the cost/income ratio (CIR) was 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 new structure of items under IFRS 9 means that since 30 June 2018 the cost/income ratio is calculated by dividing administrative expenses, including depreciation and amortisation, with the result of the sum of net interest income, net commission income, profit/loss from financial instruments measured at fair value, foreign exchange result, profit/loss from hedge accounting and other operating profit/loss.

Profit/loss based on structure of items as at 31.12.2017:

| | 31.12.2017 |
|---|---|
| **Cost/income ratio (in € million)** | 64.8 % |
| Administrative expenses | -42.8 |
| Net interest income | 108.9 |
| Net commission income | -38.5 |
| Profit/loss from financial instruments at fair value through profit or loss | 5.5 |
| Profit/loss from hedge accounting | -1.5 |
| Other operating profit/loss | -8.4 |

Profit/loss based on method as at 31.12.2018:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Cost/income ratio (in € million)** | 111.3 % | 64.8 % |
| Administrative expenses including amortisation and depreciation | -41.2 | -42.8 |
| Net interest income | 113.9 | 108.9 |
| Net commission income | -41.2 | -38.5 |
| Profit/loss from financial instruments measured at FV | -25.1 | 6.3 |
| Foreign exchange result | 0.5 | -0.9 |
| Profit/loss from hedge accounting | -7.6 | -1.5 |
| Other operating profit/loss | -3.5 | -8.4 |

**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 limit for committed capital, or committed capital, whichever is higher:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **RoRaC (in € million)** | 0.3 % | 11.1 % |
| Earnings before taxes | 1.0 | 40.3 |
| Limit for committed capital | 357.2 | 364.6 |
| Committed capital | 338.1 | 337.4 |

| Further segment information | | | | | |
|---|---|---|---|---|---|
| in € million | Financial Markets & Sales | Loans | Group Service B2B | Bank Management & Other | Total |
| **Property and equipment, net** | **0.0** | **0.0** | **0.0** | **64.2** | **64.2** |
| Previous year | 0.0 | 0.0 | 0.0 | 65.3 | 65.3 |
| **Depreciation on property and equipment, current year** | **0.0** | **0.0** | **0.0** | **-1.6** | **-1.6** |
| Previous year | 0.0 | 0.0 | 0.0 | -2.0 | -2.0 |
| **Intangible assets, net** | **0.0** | **0.0** | **0.0** | **27.0** | **27.0** |
| Previous year | 0.0 | 0.0 | 0.0 | 22.1 | 22.1 |
| **Amortisation on intangible assets, current year** | **0.0** | **0.0** | **0.0** | **-1.1** | **-1.1** |
| Previous year | 0.0 | 0.0 | 0.0 | -5.3 | -5.3 |
| **Valuation allowances on financial assets, current year** | **2.8** | **0.0** | **0.0** | **0.0** | **2.8** |
| Previous year | 3.6 | 0.0 | 0.0 | 0.0 | 3.6 |

## (17) Geographic segmentation of NORD/LB CBB

| in € million | Germany | Luxem-bourg | Switzer-land | Other Europe | USA | Other America | Other coun-tries | Total |
|---|---|---|---|---|---|---|---|---|
| | Segments | | | | | | | |
| **Earnings before taxes** | **1.2** | **-1.4** | **0.1** | **0.7** | **0.3** | **0.1** | **0.1** | **1.0** |
| Previous year | 19.9 | 0.6 | 2.3 | 10.2 | 4.6 | 1.9 | 0.8 | 40.3 |
| **Segment assets** | **8,158.6** | **907.6** | **668.4** | **4,516.5** | **1,784.0** | **720.5** | **443.5** | **17,199.3** |
| Previous year | 7,594.7 | 231.8 | 896.6 | 3,868.2 | 1,746.8 | 715.9 | 306.6 | 15,360.6 |
| **Segment liabilities (incl. equity)** | **11,537.0** | **4,360.4** | **523.8** | **691.8** | **20.7** | **5.5** | **60.1** | **17,199.3** |
| Previous year | 9,503.0 | 4,594.8 | 460.7 | 712.6 | 19.5 | 8.6 | 61.5 | 15,360.6 |
| **Property and equipment** | **0.0** | **64.2** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **64.2** |
| Previous year | 0.0 | 65.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 65.3 |
| **Intangible assets** | **0.0** | **27.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **27.0** |
| Previous year | **0.0** | **22.1** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **22.1** |
| **Risk assets (annual average figures)** | **2,004.6** | **223.2** | **164.2** | **1,109.8** | **438.4** | **177.0** | **109.0** | **4,226.2** |
| Previous year (annual average figures) | 2,085.1 | 63.6 | 246.2 | 1,062.0 | 479.6 | 196.5 | 84.2 | 4,217.2 |
| **Capital commitment (based on average annual figures)** | **160.4** | **17.9** | **13.1** | **88.8** | **35.1** | **14.2** | **8.7** | **338.1** |
| Previous year (based on average annual figures) | 166.8 | 5.1 | 19.7 | 85.0 | 38.4 | 15.7 | 6.7 | 337.4 |

# Notes to the income statement

**(18) Net interest income and current income**

The interest income and interest expenses items include paid and received interest, accrued interest and pro rata reversals of premiums and discounts on financial instruments.

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| **Interest income from assets** | **456,165** | **450,619** | **1** |
| **Interest income from financial assets at fair value through profit or loss** | **50,432** | **8,001** | **> 100** |
| Interest income from trading assets | 41,502 | 893 | > 100 |
| Interest income from trading derivatives | 41,024 | 660 | > 100 |
| Interest income from loans and advances | 478 | 233 | > 100 |
| Interest income from financial instruments mandatorily at fair value | 8,930 | 0 | > 100 |
| Interest income from debt securities and other fixed-interest securities | **8,435** | **0** | **> 100** |
| Interest income from loans and advances | 495 | 0 | > 100 |
| Interest income from financial assets designated at fair value through profit or loss | 0 | 7,108 | -100 |
| Interest income from debt securities and other fixed-interest securities | 0 | 7,108 | -100 |
| **Interest income from financial assets at fair value directly in equity** | **21,908** | **29,828** | **-27** |
| Interest income from debt securities and other fixed-interest securities | 21,908 | 29,828 | -27 |
| **Interest income from financial assets at amortised cost** | **271,917** | **271,663** | **0** |
| Interest income from debt securities and other fixed-interest securities | 66,191 | 73,032 | -9 |
| Interest income from loans and advances | 205,715 | 198,628 | 4 |
| Interest income from impaired debt securities and other fixed-interest securities as well as loans and advances | 11 | 3 | > 100 |
| **Interest income from hedging derivatives** | **119,403** | **150,432** | **-21** |
| **Other interest income and similar income** | **109** | **99** | **10** |
| **Interest expenses from assets** | **-7,604** | **-9,402** | **-19** |

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| **Interest expenses from liabilities** | **-342,261** | **-341,711** | **0** |
| **Interest expenses from financial liabilities at fair value through profit or loss** | **-85,822** | **-5,598** | **> 100** |
| Interest expenses from trading liabilities | -66,764 | -821 | > 100 |
| Interest expenses from trading derivatives | -66,764 | -821 | > 100 |
| **Interest expenses from financial liabilities designated at fair value through profit or loss** | **-19,058** | **-4,777** | **> 100** |
| Interest expenses from securitised liabilities | -19,058 | -4,777 | > 100 |
| **Interest expenses from financial liabilities at amortised cost** | **-155,697** | **-156,700** | **-1** |
| Interest expenses from deposits | -129,972 | -130,436 | 0 |
| Interest expenses from securitised liabilities | -25,725 | -26,263 | -2 |
| **Interest expenses from hedging derivatives** | **-116,438** | **-194,591** | **-40** |
| **Other interest expenses and similar expenses** | **-150** | **-138** | **9** |
| **Interest income from financial liabilities** | **15,845** | **15,315** | **3** |
| **Total** | **113,904** | **108,908** | **5** |

Net interest income rose by € 4,996 thousand to € 113,904 thousand compared to the previous year, which is largely due to the increase in interest-bearing assets in the form of loans. A further € 3,567 thousand (previous year: € 0) was generated as of the reporting date from special ECB monetary policy measures ("Targeted longer-term refinancing operations II").

The following developments are mainly due to the introduction of IFRS 9:
Interest income amounting to € 8,435 thousand from financial assets previously designated at fair value through profit or loss is recognised as interest income from financial instruments mandatorily at fair value owing to the changed classification methodology in 2018.
Furthermore, a marked increase of € 40,364 thousand in interest income from trading derivatives is offset by a significant reduction in interest income from hedging derivatives, totalling € -31,029 thousand. The reason for the change is the termination in foreign currency hedge accounting as previously described in Note (8) Financial instruments. Interest income from these derivatives will in future be reported as interest income from trading derivatives, and not hedging derivatives. The same principle applies for changes in interest expenses from derivatives. Other interest income and expenses stem largely from unwinding and from the interest effects of defined benefit pension plans.
No interest is agreed within NORD/LB CBB that is not consistent with the procedure outlined in Note (7) Interest and commissions. Interest that is not realised on a pro rata basis using the effective interest method is not recognised at zero in the table above.

**(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, which are realised on a straight-line basis over this period. Commissions linked to a specific period are not distributed using the effective interest method given their subordinate importance.

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 stem predominantly from the brokerage business with NORD/LB, Hanover. The transaction-dependent commissions are primarily derived from own payment transactions and securities commission transactions of the Bank.

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| **Commission income** | **12,658** | **15,544** | **-19** |
| Lending and guarantee business | 6,392 | 8,497 | -25 |
| Account management and payment transactions | 160 | 158 | 1 |
| Security transactions and custody service | 5,860 | 6,496 | -10 |
| Other commission income | 245 | 392 | -38 |
| Commission expenses | **-53,828** | **-53,994** | **0** |
| **Lending and guarantee business** | **-12,955** | **-12,580** | **3** |
| Account management and payment transactions | -156 | -218 | -28 |
| Security transactions and custody service | -979 | -1,044 | -6 |
| Brokerage business | -37,933 | -37,966 | 0 |
| Other commission expenses | -1,805 | -2,187 | -17 |
| Total | **-41,170** | **-38,450** | **7** |

Expenses from the internal Group 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 2016 financial year. All of the commission income and expenses stem from financial instruments not measured at fair value.

| 2018 in € million | Financial Markets & Sales | Loans | Group Service B2B | Bank Management & Other | Total profit/ loss |
|---|---|---|---|---|---|
| Commission income | 5.5 | 5.6 | 1.5 | 0.0 | 12.7 |

| 2017 in € million | Financial Markets & Sales | Loans | Group Service B2B | Bank Management & Other | Total profit/ loss |
|---|---|---|---|---|---|
| Commission income | 5.7 | 7.7 | 2.1 | 0.0 | 15.5 |

The individual types of commission income are examined in more detail below:

**Lending and guarantee business:**

Commission income is generated based on various services related to the lending business and factoring. This mainly includes the initiation, structuring and brokerage of loans, participation therein and the provision of collateral.

**Security transactions and custody service**

Commission income is generated by Fixed Income/Structured Products Sales and relates to the Europe-wide sale of NORD/LB Fixed Income products to institutional customers and banks in non-German-speaking countries of Europe.

Commission income is also realised from securities transactions with private customers in cooperation with Nordlux Vermögensmanagement S.A., where the Bank manages accounts and portfolios. The Bank takes part in buying and selling securities based on a commission participation model.

**Account management, payment transactions and other commission income**

Commission income is largely realised from the cooperation with Nordlux Vermögensmanagement S.A., where the Bank manages accounts and portfolios. The Bank participates in income from account management as well as money market and securities transactions. Please refer to Note (70) Related parties for further details.

NORD/LB CBB applied IFRS 15 retrospectively and in a modified form at the time of initial application. For contracts amended prior to the first-time adoption of IFRS 15 on 1 January 2018, the aggregated effects of all contract amendments are taken into account at the date of first-time adoption.

Within commission income, IFRS 15 had an impact on income from agency fees and income from a servicing fee for factoring. As at 31 December 2018, the impact amounted to € 0.3 million, which corresponds to 2.5 per cent of commission income. In the previous year, the impact also amounted to € 0.3 million, which corresponds to 1.9 per cent of commission income. Due to the minor impacts on the presentation of financial position and financial performance, the Bank therefore did not recognise any contract assets or liabilities.

**(20) Profit/loss from fair value measurement**

The profit/loss from fair value measurement comprises the realised profit/loss (defined as the difference between the disposal proceeds and the carrying amount at the last reporting date) and the measurement profit/loss from financial instruments at fair value through profit or loss (defined as unrealised expenses and income from fair value measurement).

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| **Trading profit/loss** | **-8,705** | **6,154** | **< -100** |
| Profit/loss from derivatives | -8,693 | 6,158 | < -100 |
| - Interest-rate risks | -327 | 3,637 | < -100 |
| - Currency risks | -8,366 | 2,522 | < -100 |
| Profit/loss from loans and advances held for trading | -12 | -4 | > 100 |
| **Profit/loss from financial assets mandatorily at fair value through profit or loss** | **-7,502** | **0** | **> 100** |
| Profit/loss from debt securities and other fixed-interest securities | -6,441 | 0 | > 100 |
| Profit/loss from loans and advances | -1,061 | 0 | > 100 |
| **Profit/loss from financial instruments designated at fair value through profit or loss** | **-8,913** | **212** | **< -100** |
| Profit/loss from debt securities and other fixed-interest securities | 0 | -3,993 | -100 |
| Profit/loss from securitised liabilities | -8,913 | 4,205 | < -100 |
| **Total** | **-25,120** | **6,366** | **< -100** |

The significant increase in the profit/loss from financial assets mandatorily measured at fair value through profit or loss and the reduction in the profit/loss from debt securities and other fixed-interest securities at fair value through profit or loss are directly related, and mainly due to the introduction of IFRS 9.

This was caused by the derecognition outlined above in Note (8) Financial instruments of the financial assets designated at fair value and their reclassification to the measurement category of financial assets mandatorily measured at fair value through profit or loss. Consequently, valuation results from financial assets previously designated at fair value through profit or loss in 2018 are presented as valuation results from assets mandatorily measured at fair value through profit or loss owing to the change in classification.

**(21) Modification gain/loss**

There were essentially six loans and advances affected by a modification in the reporting year, one of which would have had a modification gain/loss in accordance with IFRS 9. The borrower concerned settled the receivable in full and on time so there was no modification gain or loss.

### (22) Net valuation allowance from financial instruments not measured at fair value through profit or loss

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| **Loan loss provisions for financial assets at fair value directly in equity** | **-31** | **0** | **> 100** |
| Income from reversal of loan loss provisions for | | | |
| debt securities and other fixed-interest securities | 7 | 0 | > 100 |
| Expenses from allocations of loan loss provisions for | | | |
| debt securities and other fixed-interest securities | -38 | 0 | > 100 |
| **Loan loss provisions from financial assets at amortised cost** | **3,944** | **1,931** | **> 100** |
| Income from reversal of loan loss provisions for | | | |
| debt securities and other fixed-interest securities | 3,452 | 3,571 | -3 |
| receivables | 2,334 | 1,027 | > 100 |
| Expenses from allocations of loan loss provisions for | | | |
| debt securities and other fixed-interest securities | -616 | 0 | > 100 |
| receivables | -1,226 | -2,666 | -54 |
| **Additions to receivables written off** | **1,239** | **0** | **> 100** |
| **Total** | **5,153** | **1,931** | **> 100** |

Changes in loan loss provisions resulted in income of € 5,153 thousand (previous year: € 1,931 thousand). This was mainly because of lower default risks of a US municipal bond and the resultant reduction in loan loss provisions of € 3,226 thousand. The result also includes an addition to a written-off receivable amounting to € 1,239 thousand.

### (23) Net disposal result from financial instruments not measured at fair value through profit or loss

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| **Profit/loss from disposal of financial assets at fair value directly in equity** | **0** | **-260** | **-100** |
| Profit/loss from the disposal of | | | |
| debt securities and other fixed-interest securities | 0 | -260 | -100 |
| **Profit/loss from the disposal of financial assets at amortised cost** | **0** | **-1,340** | **-100** |
| Profit/loss from the disposal of | | | |
| loans and advances | 0 | -1,340 | -100 |
| **Profit/loss from the disposal of financial liabilities at amortised cost** | **0** | **0** | **-** |
| Profit/loss from the disposal of | | | |
| deposits | 0 | 0 | -100 |
| **Other disposal profit/loss** | **0** | **16,742** | **-100** |
| **Total** | **0** | **15,142** | **-100** |

In the reporting year, there was no profit or loss from the disposal of financial assets or liabilities. The other disposal profit/loss from the previous year 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 when preparing for IFRS 9. The recognition outlined above is attributable to the adjusted structure of the income statement following the first-time recognition of IFRS 9; see Note (2) Structural adjustments.

**(24) 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. Please refer to Note (8) Financial instruments for information on the hedge accounting. Hedged underlying transactions include loans and advances or liabilities to banks and customers, financial assets and own issues.

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| **Profit/loss from micro fair value hedges** | **-7,628** | **-1,546** | **> 100** |
| from hedged underlying transactions | -58,421 | -126,164 | -54 |
| from derivatives employed as hedging instruments | 50,793 | 124,619 | -59 |
| **Total** | **-7,628** | **-1,546** | **> 100** |

The profit/loss from hedge accounting is down on the previous year. This was mainly due to catch-up effects from the positive hedging results in previous years.

The Bank hedges interest and currency risks in accordance with its risk strategy. To this end, interest rate swaps are used to hedge fixed-income underlying transactions in euros. Pure interest rate swaps in the same currency or cross currency interest rate swaps can be used for fixed-income underlying transactions in foreign currencies. The interest and currency hedging also takes place using derivatives outside of IFRS hedge accounting.

The Bank generally hedges risks from underlying transactions with a single derivative, whose critical terms of nominal amounts, currencies, maturities and interest rates match those of the underlying transaction. Here, the fixed interest payments from the underlying transactions under assets are passed on via the paying leg of the derivative. For loans it is often only the interest rate costs that are hedged. On the receiving leg, the Bank receives variable interest based on a reference interest rate (generally EURIBOR or LIBOR) plus a margin. For underlying transactions under liabilities, the Bank receives a fixed interest payment from the receiving leg of the derivative, and pays variable interest in the paying leg of the derivative, also based on a reference interest rate (generally EURIBOR or LIBOR) plus a margin.

The following table presents the hedging transactions of underlying and hedging investments that only hedge interest-rate risks for hedging investments:

| | Nominal amount (in € million) 31.12.2018 | Average interest rates (in %) 31.12.2018 | Nominal amount (in € million) 31.12.2017 | Average interest rates (in %) 31.12.2017 |
|---|---|---|---|---|
| **Financial assets at fair value directly in equity** | | | | |
| Underlying transactions | 551.5 | 1.65 | 804.4 | 2.10 |
| Hedging investments | 551.5 | 1.65 | 804.4 | 2.10 |
| **Financial assets at amortised cost** | | | | |
| Underlying transactions | 1,438.4 | 5.42 | 1,746.0 | 5.23 |
| Hedging investments | 1,386.4 | 5.39 | 1,685.1 | 5.28 |
| **Financial liabilities at amortised cost** | | | | |
| Underlying transactions | 2,049.7 | 2.06 | 1,946.2 | 2.14 |
| Hedging investments | 1,996.9 | 1.98 | 1,890.6 | 2.06 |

The differences in the nominal amounts are due to zero-bond structures.

The following table presents the hedging transactions of underlying and hedging investments that only hedge interest-rate and currency risks for hedging investments:

| | Nominal amount (in € million) 31.12.2018 | Average interest rates (in %) 31.12.2018 | Nominal amount (in € million) 31.12.2017 | Average interest rates (in %) 31.12.2017 |
|---|---|---|---|---|
| **Financial assets at fair value directly in equity** | | | | |
| Underlying transactions | 67.4 | 2.14 | 73.5 | 2.11 |
| Hedging investments | 67.4 | 2.14 | 73.5 | 2.11 |
| **Financial assets at amortised cost** | | | | |
| Underlying transactions | 330.6 | 3.75 | 218.3 | 3.88 |
| Hedging investments | 330.6 | 3.51 | 218.3 | 3.85 |
| **Financial liabilities at amortised cost** | | | | |
| Underlying transactions | 205.2 | 4.97 | 258.7 | 5.12 |
| Hedging investments | 205.2 | 4.97 | 258.7 | 5.12 |

The Bank assesses the effectiveness of hedge designation using the critical terms of the underlying transactions and the hedging investments. Hedge fair values are recorded in the balance sheet and in the income statement on a daily basis. The corresponding ineffectiveness is recognised in the hedging result.

Market interest rate effects accumulated and recognised from underlying transactions and hedging investments since the hedge designation are presented below:

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| **Financial assets at fair value directly in equity** | **-0.1** | **-0.6** | **-78** |
| Underlying transactions | 13.0 | 28.0 | -54 |
| Hedging investments | -13.1 | -28.6 | -54 |
| **Financial assets at amortised cost** | **-3.1** | **0.7** | **< -100** |
| Underlying transactions | 248.7 | 290.4 | -14 |
| Hedging investments | -251.8 | -289.7 | -13 |
| **Financial liabilities at amortised cost** | **4.2** | **6.1** | **-31** |
| Underlying transactions | -206.2 | -203.6 | 1 |
| Hedging investments | 210.4 | 209.7 | 0 |
| | 1.0 | 6.1 | -84 |

The following effects have an impact on the hedging result and result in ineffectiveness:

- The interest rate change effect of the variable interest rates in the hedging derivative reveals a fluctuation within the set periods (usually 1, 3 or 6 months) depending on the reference interest rates.
- CVA/DVA effects are only found in the hedging investments and therefore cannot be hedged.
- Base effects from cross currency interest rate swaps are also only seen in the corresponding hedging investments, resulting in inefficiencies because they are not included in the underlying transactions.
- Furthermore, according to the table above, there are some minor differences in the hedged interest rates that may result in insignificant inefficiencies.

### (25) Foreign exchange result

The foreign exchange result improved by € 1,385 thousand to € 493 thousand.

### (26) Administrative expenses

The administrative expenses comprise staff expenses and other administrative expenses:

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| **Staff expenses** | **-19,662** | **-22,948** | **-14** |
| Wages and salaries | -16,916 | -19,453 | -13 |
| Social insurance contributions | -1,571 | -1,860 | -16 |
| Expenditure on pension schemes and other benefits | -1,000 | -1,161 | -14 |
| Other staff expenses | -176 | -474 | -63 |
| **Other administrative expenses** | **-18,779** | **-16,044** | **17** |
| Costs for IT and communications | -9,977 | -8,470 | 18 |
| Building occupancy costs | -754 | -701 | 8 |
| Expenses for marketing, communications and entertainment | -158 | -210 | -25 |
| Personnel-related material expenses | -627 | -631 | -1 |
| Costs for legal, auditing, appraisal and consulting services | -4,759 | -3,818 | 25 |
| Levies and contributions | -516 | -177 | > 100 |
| Expenses for operating and office equipment | -32 | -28 | 13 |
| Other administrative expenses | -1,957 | -2,010 | -3 |
| **Total** | **-38,442** | **-38,992** | **-1** |

### (27) Current amortisation and depreciation

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| Property and equipment | -1,647 | -1,960 | -16 |
| Intangible assets | -1,135 | -1,804 | -37 |
| **Total** | **-2,783** | **-3,764** | **-26** |

In contrast to the previous year, there were no impairments in the 2018 reporting year on property and equipment or intangible assets. No signs were identified for a reversal of previous write-downs either.

The decrease compared to the previous year was attributable to impairment losses recorded in the previous year. These resulted in a non-recurring depreciation charge for property and equipment in the 2017 financial year of € 332 thousand. There was also no amortisation for software components subject to impairment in the previous year, which was recorded under other operating expenses.

### (28) Other operating profit/loss

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| **Other operating income** | **5,594** | **2,496** | **> 100** |
| Rental income | 721 | 880 | -18 |
| Income from the reversal of provisions | 462 | 1,074 | -57 |
| Income from intra-Group service charging | 2,003 | 500 | > 100 |
| Other operating income | 2,408 | 42 | > 100 |
| **Other operating expenses** | **-9,044** | **-10,863** | **-17** |
| Expenses from the bank levy | -5,390 | -4,103 | 31 |
| Other taxes | -58 | -58 | 0 |
| Expenses from allocations to provisions | -86 | 0 | > 100 |
| Expenses from intra-Group service charging | -3,289 | -3,172 | -4 |
| Other operating expenses | -222 | -3,529 | -94 |
| **Total** | **-3,450** | **-8,367** | **-59** |

Income and expenses from intra-Group service charging related to services received and made available.

Other operating income stemmed largely from value added tax reimbursements obtained outside the period (€ 2,088 thousand, previous year: € 0).

The other operating expenses in the previous year were largely due to impairment on internally-used software (€ 3,463 thousand).

## (29) Income taxes

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| Current taxes on income and earnings | -226 | -15,976 | -99 |
| Deferred taxes | 362 | 4,963 | -93 |
| **Total** | **136** | **-11,013** | **< -100** |

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:

| | 2018 (in € thousand) | 2017 (in € thousand) |
|---|---|---|
| **IFRS earnings before taxes** | 956 | 40,337 |
| Anticipated income tax expenditure | -249 | -10,923 |
| Effects of reconciliation: | | |
| Taxes from previous years reported in the reporting period | 58 | -392 |
| Non-deductible operational expenditure | -29 | -32 |
| Effects of tax-free earnings | 19 | 4 |
| Adjustments from foreign imputable withholding tax | 337 | 330 |
| **Reported income tax expenses** | **136** | **-11,013** |

The anticipated income tax expenditure in the tax reconciliation statement is calculated based on the corporation and commercial tax rate at 26.01 per cent (previous year: 27.08 per cent) applicable in Luxembourg in 2018.

# Notes to the balance sheet

## (30) Cash reserve

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Balances with the central banks | 443.4 | 448.3 | -1 |
| **Total** | **443.4** | **448.3** | **-1** |

Balances with central banks totalled € 419.3 million (previous year: € 437.2 million) at the Swiss National Bank and € 24.1 million (previous year: € 11.2 million) at the Luxembourg Central Bank; € 24.1 million of this amount relates to the minimum reserve requirement (previous year: € 11.2 million).

## (31) Financial assets at fair value through profit or loss

This item contains NORD/LB CBB's trading assets as well as the financial assets mandatorily measured at fair value through profit or loss.

The Bank's trading activities comprise trading in loans, debt securities and other fixed-interest securities as well as other derivative financial instruments not used for hedging purposes. The category of financial assets mandatorily measured at fair value includes the other financial instruments measured at fair value through profit or loss owing to the cash flow or business model criterion in accordance with IFRS 9, and are allocated to the "Other" portfolio under IFRS 9.

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Trading assets** | **191.2** | **128.3** | **49** |
| Positive fair values from derivatives | | | |
| Interest-rate risks | 35.6 | 27.4 | 30 |
| Currency risks | 101.8 | 99.7 | 2 |
| Loans and advances to customers | 53.7 | 1.2 | > 100 |
| **Financial assets mandatorily at fair value through profit or loss** | **1,042.3** | **0.0** | **> 100** |
| Debt securities and other fixed-interest securities | 1,029.9 | 0.0 | > 100 |
| Loans and advances to banks | 12.4 | 0.0 | > 100 |
| **Financial assets at fair value through profit or loss** | **0.0** | **873.0** | **-100** |
| Debt securities and other fixed-interest securities | 0.0 | 873.0 | -100 |
| **Total** | **1,233.5** | **1,001.3** | **23** |

As at 31 December 2018, the Bank had no equity instruments or any assets designated at fair value through profit or loss. NORD/LB CBB does not have any credit derivatives or similar financial instruments in its portfolios either.
€ 1,001.2 million (previous year: € 997.9 million) of the overall portfolio is only due only after more than twelve months. € 1,029.9 million of the debt securities and other fixed-interest securities at fair value through profit or loss (previous year: € 873.0 million) is listed.

**(32) Financial assets at fair value directly in equity**

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Debt securities and other fixed-interest securities | 2,101.7 | 2,232.2 | -6 |
| **Total** | **2,101.7** | **2,232.2** | **-6** |

The decline in financial assets at fair value directly in equity is mostly due to maturities and repayments as well as reclassifications from the first-time application of IFRS 9 that were not fully compensated for by new business.

The changes to loan loss provisions affecting these items and recorded under other comprehensive income (OCI) is presented in Note (50) Loan loss provisions and gross carrying amount.
Please refer to Note (3) Reconciliations of IAS 39 categories and classes to IFRS 9 for information on the reclassifications in accordance with IFRS 9.

**(33) Financial assets at amortised cost**

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Debt securities and other fixed-interest securities | 1,765.8 | 1,946.0 | -9 |
| Loans and advances to banks | 1,966.4 | 793.7 | > 100 |
| Loans and advances to customers | 9,370.8 | 8,627.3 | 9 |
| **Total** | **13,103.0** | **11,367.0** | **15** |

The decline in debt securities and other fixed-interest securities at amortised cost is mostly due to maturities and repayments.

The increase in loans and advances to customers was based on the growth in new loans during the 2018 financial year. The increase in loans and advances to banks was largely due to a short-term borrowing that was placed on the interbank market for a short period.

Note (50) Loan loss provisions and gross carrying amount presents the changes to loan loss provisions in this item.

**(34) Positive fair values from hedge accounting derivatives**

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 interest/currency risk.

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Derivatives under micro fair value hedges | 218.8 | 219.8 | 0 |
| *of which: derivatives under micro fair value hedges from interest-rate risks* | 197.4 | 195.4 | 1 |
| *of which: derivatives under micro fair value hedges from interest-rate/currency risks* | 21.4 | 24.4 | -12 |
| **Total** | **218.8** | **219.8** | **0** |

Hedging derivatives with a fair value of € 214.9 million are due at the earliest after twelve months (previous year: € 217.1 million).

Please refer to Note (24) Profit/loss from hedge accounting for further details on hedge accounting as well as the results of hedge accounting.

**(35) Property and equipment**

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Land and buildings | 61.3 | 61.7 | -1 |
| Operating and office equipment | 2.8 | 3.6 | -22 |
| **Total** | **64.2** | **65.3** | **-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 01.01.2017** | **66.6** | **10.3** | **76.8** |
| Additions | 0.0 | 0.8 | 0.8 |
| Disposals | 0.0 | 0.0 | 0.0 |
| **Totals 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 |
| Disposals | 0.0 | 0.0 | 0.0 |
| **Totals 31.12.2017** | **-4.9** | **-7.5** | **-12.3** |
| **Closing balance as at 31.12.2017** | **61.7** | **3.6** | **65.3** |
| **Cost as at 01.01.2018** | **66.6** | **11.1** | **77.6** |
| Additions | 0.0 | 0.5 | 0.5 |
| Disposals | 0.0 | 0.0 | 0.0 |
| **Totals 31.12.2018** | **66.6** | **11.6** | **78.1** |
| **Accumulated depreciation as at 01.01.2018** | **-4.9** | **-7.5** | **-12.3** |
| Depreciation | -0.6 | -1.1 | -1.6 |
| Reclassifications | 0.2 | -0.2 | 0.0 |
| Disposals | 0.0 | 0.0 | 0.0 |
| **Totals 31.12.2018** | **-5.2** | **-8.8** | **-14.0** |
| **Closing balance as at 31.12.2018** | **61.3** | **2.8** | **64.2** |

## (36) Intangible assets

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Software | 11.1 | 9.5 | 16 |
| Purchased | 11.1 | 9.5 | 16 |
| Payments on account and intangible assets under development | 15.9 | 12.6 | 26 |
| **Total** | **27.0** | **22.1** | **22** |

NORD/LB CBB continues to use software that has been fully amortised.

The intangible assets currently under development are mostly 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.

| in € million | Software: Purchased | Software: Internally developed | Payments on account and intangible assets under development | Other | Total |
|---|---|---|---|---|---|
| **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 |
| **Totals 31.12.2017** | **29.1** | **0.0** | **12.6** | **0.0** | **41.7** |
| **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 (non-scheduled) | -3.5 | 0.0 | 0.0 | 0.0 | -3.5 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Totals 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** |
| **Cost as at 01.01.2018** | **29.1** | **0.0** | **12.6** | **0.0** | **41.7** |
| Additions | 0.5 | 0.0 | 5.5 | 0.0 | 6.0 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reclassifications | 2.2 | 0.0 | -2.2 | 0.0 | 0.0 |
| **Totals 31.12.2018** | **31.8** | **0.0** | **15.9** | **0.0** | **47.7** |
| **Accumulated amortisation as at 01.01.2018** | **-19.6** | **0.0** | **0.0** | **0.0** | **-19.6** |
| Amortisation | -1.1 | 0.0 | 0.0 | 0.0 | -1.1 |
| Impairments (non-scheduled) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Totals 31.12.2018** | **-20.7** | **0.0** | **0.0** | **0.0** | **-20.7** |
| **Closing balance as at 31.12.2018** | **11.1** | **0.0** | **15.9** | **0.0** | **27.0** |

During the 2017 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. No such impairment loss was recognised as at 31 December 2018 because the expected cash flows remained constant in the 2018 financial year and therefore there was neither an impairment loss nor an increase in value in use that would result in an additional impairment loss or reversal of an impairment loss.

**(37) Income tax assets**

The income tax assets are broken down as follows:

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Current income tax assets | 3.0 | 0.0 | > 100 |
| Deferred tax assets | 1.8 | 0.7 | > 100 |
| **Total** | **4.8** | **0.7** | **> 100** |

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 Bank applies the provisions of tax law to the IFRS financial statements. This means that many temporary differences do not apply.

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

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | **0.0** | **0.0** | **-** |
| **Liabilities** | **1.8** | **0.7** | **> 100** |
| Provisions | 0.6 | 0.7 | -21 |
| Financial liabilities designated at fair value through profit or loss | 1.2 | 0.0 | > 100 |
| **Total** | **1.8** | **0.7** | **> 100** |

Deferred tax assets related to pension provisions (€ 0.6 million, previous year: € 0.7 million) and changes to credit risk from financial liabilities measured at fair value through profit or loss (€ 1.2 million, previous year: € 0.0 million). Please refer to Note (47) Notes to the statement of changes in equity for the fair value changes.

### (38) Other assets

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Tax assets from other taxes | 0.0 | 1.2 | -97 |
| Deferred income | 0.9 | 0.6 | 51 |
| Receivables from intra-Group service charging | 2.0 | 0.5 | > 100 |
| Other assets | 0.1 | 1.5 | -93 |
| **Total** | **3.0** | **3.8** | **-20** |

### (39) Financial liabilities at fair value through profit or loss

This item includes trading liabilities and financial liabilities designated at fair value through profit or loss.

The trading liabilities comprise negative fair values from derivative financial instruments that are not employed in hedge accounting; only securitised liabilities are found in the category of financial liabilities designated at fair value through profit or loss.

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Trading liabilities** | **81.1** | **74.9** | **8** |
| Negative fair values from derivatives | | | |
| Interest-rate risks | 53.2 | 57.8 | -8 |
| Currency risks | 27.9 | 17.1 | 63 |
| **Financial liabilities designated at fair value through profit or loss** | **1,634.1** | **1,043.3** | **57** |
| Securitised liabilities | 1,634.1 | 1,043.3 | 57 |
| **Total** | **1,715.2** | **1,118.2** | **53** |

Financial liabilities at fair value through profit or loss amounting to € 1,605.0 million are due after twelve months at the earliest (previous year: € 1,105.5 million).

Only securitised liabilities are used as financial liabilities designated at fair value through profit or loss. They are designated on the basis of mismatches in measurement and recognition („accounting mismatches“) arising from the portfolio of „financial assets mandatorily at fair value through profit or loss“. The designation criterion is essentially based on the volume and interest sensitivity of the portfolio of „financial assets mandatorily at fair value through profit or loss“ for the best possible reduction of accounting anomalies.

Please refer to Note (46) Notes to the statement of comprehensive income for changes in fair value attributable to changes in the Bank‘s own credit risk. The changes shown there relate both to the 2018 financial year and the cumulative changes resulting from the first-time application of IFRS 9 in the 2018 reporting year. The aforementioned values were not transferred within the equity items.
Furthermore, there was no derecognition of a financial liability designated at fair value through profit or loss in the reporting year.

Please refer to Note (49) Fair-value hierarchy regarding the difference between carrying amount of the financial liability and the amount that the company would contractually have to pay at maturity to the creditor of the liability.

## (40) Financial liabilities at amortised cost

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Deposits** | **10,491.5** | **9,221.8** | **14** |
| Deposits of banks | 5,942.4 | 6,011.1 | -1 |
| Deposits of customers | 4,549.1 | 3,210.7 | 42 |
| **Securitised liabilities** | **3,828.9** | **3,750.0** | **2** |
| Pfandbriefe | 1,343.5 | 1,915.2 | -30 |
| Other securitised liabilities | 2,485.4 | 1,834.8 | 35 |
| **Total** | **14,320.4** | **12,971.7** | **10** |

**(41) Negative fair values from hedge accounting**

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

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Derivatives under micro fair value hedges | 438.5 | 517.7 | -15 |
| of which: derivatives under micro fair value hedges from interest-rate risks | 365.7 | 447.9 | -18 |
| of which: derivatives under micro fair value hedges from interest-rate/currency risks | 72.9 | 69.8 | 4 |
| **Total** | **438.5** | **517.7** | **-15** |

Hedging derivatives with a negative fair value of € 431.7 million are due after twelve months at the earliest (previous year: € 487.8 million).

Please refer to (24) Profit/loss from hedge accounting for further details on hedge accounting as well as the results of hedge accounting.

## (42) Provisions

Provisions are broken down as follows:

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Provisions for pensions and similar obligations** | **3.3** | **3.7** | **-9** |
| **Other provisions** | **6.4** | **10.8** | **-37** |
| Provisions for staff | 0.8 | 1.2 | -37 |
| Provisions in lending business | 1.1 | 0.8 | 36 |
| Provisions for reorganisation measures | 4.6 | 8.2 | -44 |
| Other provisions | 0.0 | 0.1 | -100 |
| **Total** | **9.8** | **13.9** | **-30** |

Provisions for reorganisation measures mainly relate to obligations towards employees in connection with a current restructuring project undertaken as part of a Group-wide transformation programme for the purpose of boosting efficiency. Payment obligations were met in the 2018 financial year and will continue to met in 2019. Please refer to Note (14) Other provisions for further details.

Staff provisions mainly comprise payment obligations related to savings accounts.

Given the short duration of the 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 | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Annual salary development | 1.0 | 1.0 | 0.0 |
| Annual inflation rate | 2.5 | 2.5 | - |
| Annual increase in the BBG (cost-of-living index included) | 3.2 | 3.3 | -4 |
| Discount rate | 2.2 | 2.2 | 2 |
| 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 | 2.2 | 2.2 | 2 |
| Turnover rate | 2.0 | 2.0 | 0 |

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

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Present value of the defined benefit obligation | 6.0 | 6.2 | -3 |
| Less fair value of plan assets | -3.3 | -3.2 | 2 |
| Other amounts recognised in the balance sheet (flat-rate tax) | 0.6 | 0.6 | -9 |
| **Negative balance (net indebtedness)** | **3.3** | **3.6** | **-9** |

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:

| | 2018 (in € million) | 2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Opening balance 01.01.** | **6.2** | **6.1** | **3** |
| Current service cost | 0.3 | 0.3 | 8 |
| Interest expense | 0.1 | 0.1 | 5 |
| Actuarial gains/losses from the liability | -0.4 | -0.3 | 54 |
| Retirement benefits paid | -0.3 | 0.0 | > 100 |
| **Closing balance 31.12.** | **6.0** | **6.2** | **-3** |

The defined benefit obligation as at the reporting 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 € -483 thousand (previous year: € -132 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:

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

The fair value of plan assets developed as follows:

| | 2018 (in € million) | 2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Opening balance** | **3.2** | **2.9** | **10** |
| Expected return on plan assets | 0.1 | 0.1 | -13 |
| Actuarial gains/losses on plan assets | 0.1 | 0.0 | - |
| Employer contributions | 0.2 | 0.2 | -31 |
| Retirement benefits paid | -0.3 | 0.0 | - |
| **Closing balance** | **3.3** | **3.2** | **3** |

The fair value of plan assets comprises the following:

| | 31.12.2018 (in %) | 31.12.2017 (in %) | Change (in %) |
|---|---|---|---|
| Equity instruments | 2 | 3 | -25 |
| Debt instruments | 89 | 89 | - |
| Real estate | 5 | 6 | -21 |
| Other assets | 4 | 2 | > 100 |

The fair value of plan assets includes equity instruments amounting to € 74 thousand (previous year: € 96 thousand), debt instruments amounting to € 2,899 thousand (previous year: € 2,853 thousand) and properties and other assets amounting to € 300 thousand (previous year: € 256 thousand). The total anticipated return of 2.2 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 € 77 thousand (previous year: € 67 thousand).

The pension expense is as follows:

| | 2018 (in € thousand) | 2017 (in € thousand) | Change (in %) |
|---|---|---|---|
| Current service cost | 332 | 361 | -8 |
| Interest expense | 143 | 136 | 5 |
| Expected return on plan assets | -77 | -68 | 13 |
| Employer contributions to plan assets | -158 | -231 | -32 |
| Actuarial effects, no impact on income statement | -522 | -337 | 55 |
| **Total** | **-283** | **-139** | **> 100** |

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

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) |
|---|---|---|
| Defined benefit obligation (DBO) | 6.0 | 6.2 |
| Plan assets | -3.3 | -3.2 |
| Deficit | 2.7 | 3.0 |
| Actuarial gains/losses | -0.5 | -0.3 |
| Adjustments made on the basis of experience to: | | |
| Defined benefit obligations (DBO) and plan assets | -0.5 | 0.2 |

Provisions developed as follows during the reporting period:

| in € million | Pensions and other defined benefit obligations after end of employment relationship | Other long-term employee benefits | Reorganisation measures | Commitments and guarantees given | Other provisions |
|---|---|---|---|---|---|
| **Opening balance as at 1.1.2018** | **3.7** | **1.2** | **8.2** | **0.8** | **0.1** |
| **First-time application IFRS 9** | **0.0** | **0.0** | **0.0** | **0.6** | **0.0** |
| Additional provisions, including increase of existing provisions | -0.4 | 0.1 | 0.0 | 0.1 | 0.0 |
| (-) amounts used | 0.0 | -0.3 | -3.6 | 0.0 | -0.1 |
| (-) amounts not used, which were reversed during the reporting period | 0.0 | -0.2 | 0.0 | -0.5 | 0.0 |
| Increase in amount discounted during reporting period and impacts of changes to discount rate | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other changes | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 |
| **Closing balance** | **3.3** | **0.8** | **4.6** | **1.1** | **0.0** |

### (43) Income tax liabilities

The income tax liabilities are broken down as follows:

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Current income tax liabilities | 11.2 | 19.9 | -44 |
| Deferred income tax liabilities | 9.1 | 5.8 | 58 |
| **Total** | **20.4** | **25.7** | **-21** |

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 refer to deferred tax liabilities on valuation differences directly in equity from the securities at fair value directly in equity. Please refer to Note (29) Income taxes for further information.

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

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | **9.1** | **5.8** | **58** |
| Financial assets at fair value directly in equity | 9.1 | 5.8 | 58 |
| **Liabilities** | **0.0** | **0.0** | **-** |
| **Total** | **9.1** | **5.8** | **58** |

### (44) Other liabilities

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Liabilities from short-term employee remuneration | 1.6 | 1.2 | 36 |
| Liabilities from accruals and other provisions | 5.0 | 3.1 | 58 |
| Liabilities from payable taxes and social insurance contributions | 3.7 | 3.2 | 15 |
| Deferred income | 1.6 | 1.5 | 1 |
| Other liabilities | 1.8 | 1.5 | 21 |
| **Total** | **13.6** | **10.6** | **29** |

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

### (45) Equity

Breakdown of equity:

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Issued capital | 205.0 | 205.0 | - |
| Retained earnings | 455.5 | 481.4 | -5 |
| Other comprehensive income (OCI) | 20.9 | 16.4 | 27 |
| Of which: own credit-risk adjustment (OCA) | -3.5 | 0.0 | > 100 |
| Of which: assets at fair value directly in equity | 26.0 | 16.4 | 59 |
| Of which: revaluation of net liability from pensions | -1.6 | 0.0 | > 100 |
| **Total** | **681.4** | **702.8** | **-3** |

Please note that own credit-risk adjustments (OCA) must be recognised for the first time following the introduction of IFRS 9. Similar measurement adjustments of the previous year are included in the first-time application effect described in Note (3) Reconciliations of IAS 39 categories and classes to IFRS 9, and are not recognised separately.

# Other disclosures

**(46) Notes to the statement of comprehensive income**

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

| in € thousand | Amount before taxes 2018 | Income tax effect 2018 | Amount after taxes 2018 | Amount before taxes 2017 | Income tax effect 2017 | Amount after taxes 2017 |
|---|---|---|---|---|---|---|
| Changes in financial assets at fair value directly in equity | -9,371 | 2,437 | -6,933 | -11,484 | 3,347 | -8,137 |
| Changes in financial liabilities designated at fair value through profit or loss that are attributable to the change in own credit risk | -2,239 | 582 | -1,657 | 0.0 | 0.0 | 0.0 |
| Actuarial gains (+) / losses (-) from defined benefit pension provisions | 582 | -151 | 430 | 337 | -121 | 216 |
| **Profit/loss recognised directly in equity** | **-11,028** | **2,868** | **-8,160** | **-11,147** | **3,227** | **-7,920** |

Please note that own credit-risk adjustments (OCA) must be recognised for the first time following the introduction of IFRS 9. Similar measurement adjustments of the previous year are included in the first-time application effect described in Note (3) Reconciliations of IAS 39 categories and classes to IFRS 9 and are not recognised separately.

**(47) Notes to the statement of changes in equity**

The issued capital of NORD/LB CBB still amounts to € 205.0 million as at 31 December 2018, divided into 820,000 registered shares with no par value. 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 2017 and 2018 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.

Further key components of equity include measurement changes from financial liabilities designated at fair value directly in equity as well as changes from financial liabilities designated at fair value through profit or loss which are due to the change in own credit risk.

**Wealth tax**

The Bank may credit wealth tax to itself 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 (0.05 per cent)

Correspondingly, the Bank's wealth tax expense without crediting amounted to € 2.6 million for 2018. With a corporate tax expense of € 0.1 million for 2018, only the sum of € 0.5 million was allocated to the capital reserve.

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

| Year | Wealth tax in € million | Formation of reserves (= five times the credited wealth tax) in € million | Committed until |
|---|---|---|---|
| 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 |
| 2018 | 0.1 | 0.5 | 31,12,2023 |
| **Total** | **11.7** | **58.0** | |

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 2018, the Bank intends to propose to the Annual General Meeting that the free reserves of € 0.5 million be reclassified to committed reserves.

**(48) Notes to the cash flow statement**

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

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.

The cash flow from investing activities comprises payments from the disposal and payments for the acquisition of property and equipment, intangible assets and shares in companies.

The presentation of the NORD/LB CBB cash flow statement has changed for the annual report as at 31 December 2018. This is due to the introduction of IFRS 9 as well as alignment with the presentation of the NORD/LB Group. Aligning the structures means that all of the payments for the securities portfolio will be recognised in future under operating activities and not in the cash flow for investing activities. There are no further changes to the preparation and presentation of the cash flow statement.

In the 2018 reporting year, there were no requirements brought on by IAS 7.

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

Further disclosures regarding financing activity are required in accordance with IAS 8. Since there were no changes in the 2018 financial year that were relevant for payments, apart from a dividend paid to NORD/LB, no further details on financing activity are provided. For the purposes of reconciliation and to ensure completeness, the following table provides a more detailed breakdown of the changes in financing activity in the 2017 financial year:

| | | | Non-cash changes | | | | |
|---|---|---|---|---|---|---|---|
| **in € million** | **01.01.2017** | **Cash flows** | **Foreign currency effects** | **Fair value changes** | **Other changes** | **31.12.2017** | **31.12.2018** |
| Liabilities to banks | 400.0 | -400.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Subordinated capital | 61.7 | -54.2 | -7.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| | **461.7** | **-454.2** | **-7.5** | **0.0** | **0.0** | **0.0** | **0.0** |

The following tables show the adjustments made between the previous and the current cash flow statement:

| before adjustment | | adjustments | | | after adjustment | |
|---|---|---|---|---|---|---|
| 31.12.2017 (in € million) | | Breakdown of cash receipts and payments from the disposal, acquisition and maturity of financial assets | Breakdown of other financial asset items impacting on cash | Change in interest income from financial assets impacting on cash | 31.12.2017 (in € million) | |
| Loans and advances to banks and customers | 25.4 | 204.0 | 109.5 | | Financial assets at amortised cost | 339.1 |
| Trading assets, trading liabilities and hedge accounting derivatives | -16.6 | | | | Trading assets, trading liabilities and hedge accounting derivatives | -21.3 |
| | | | | | Financial assets at fair value through profit or loss | 4.8 |
| | | 362.7 | 21.5 | | Financial assets at fair value directly in equity | 384.2 |
| Other assets and liabilities from operating activities | 117.6 | | -131.1 | | Other assets from operating activities | -2.0 |
| | | | | | Other liabilities from operating activities | -11.6 |
| Interest received: Interest income | 513.2 | | | 91.8 | Interest received: Interest income | 605.0 |
| Cash receipts from the disposal of financial assets | 696.2 | -696.2 | | | Cash receipts from the disposal of shares in companies | 0.0 |
| Payments for acquisition of financial assets | - 129.5 | 129.5 | | | Payments for acquisition of shares in companies | 0.0 |
| Interest income from financial assets | 91.8 | | | -91.8 | Interest income from financial assets | 0.0 |

# Notes to financial instruments

### (49) Fair-value hierarchy

The fair values of financial assets and their breakdown according to the fair value hierarchy are presented in the following table with the carrying amounts:

| in € million | 31.12.2018 | | | | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair value total | Carrying amount | Difference |
| **Assets** | | | | | | |
| **Cash reserve** | **443.4** | **0.0** | **0.0** | **443.4** | **443.4** | **0.0** |
| **Trading assets** | **0.0** | **191.2** | **0.0** | **191.2** | **191.2** | **0.0** |
| Positive fair values from derivatives | 0.0 | 137.5 | 0.0 | 137.5 | 137.5 | 0.0 |
| Interest-rate risks | 0.0 | 35.6 | 0.0 | 35.6 | 35.6 | 0.0 |
| Currency risks | 0.0 | 101.8 | 0.0 | 101.8 | 101.8 | 0.0 |
| **Financial assets mandatorily at fair value through profit or loss** | **982.9** | **59.5** | **0.0** | **1,042.3** | **1,042.3** | **0.0** |
| Debt securities and other fixed-interest securities | 982.9 | 47.1 | 0.0 | 1,029.9 | 1,029.9 | 0.0 |
| Loans and advances | 0.0 | 12.4 | 0.0 | 12.4 | 12.4 | 0.0 |
| **Financial assets at fair value through profit or loss** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Financial assets at fair value directly in equity** | **1,618.3** | **483.4** | **0.0** | **2,101.7** | **2,101.7** | **0.0** |
| Debt securities and other fixed-interest securities | 1,618.3 | 483.4 | 0.0 | 2,101.7 | 2,101.7 | 0.0 |
| **Financial assets at amortised cost** | **495.7** | **1,534.5** | **11,120.2** | **13,150.4** | **13,103.0** | **47.4** |
| Debt securities and other fixed-interest securities | 84.9 | 1,530.9 | 0.0 | 1,615.8 | 1,765.8 | -150.0 |
| Loans and advances | 410.7 | 3.6 | 11,120.2 | 11,534.6 | 11,337.1 | 197.4 |
| **Positive fair values from hedge accounting derivatives** | **0.0** | **218.8** | **0.0** | **218.8** | **218.8** | **0.0** |
| Interest-rate risks | 0.0 | 197.4 | 0.0 | 197.4 | 197.4 | 0.0 |
| Currency risks | 0.0 | 21.4 | 0.0 | 21.4 | 21.4 | 0.0 |
| **Total** | **3,540.3** | **2,487.3** | **11,120.2** | **17,147.8** | **17,100.3** | **47.4** |

| in € million | 31.12.2017 Level 1 | Level 2 | Level 3 | Fair value total | Carrying amount | Diffe-rence |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Cash reserve** | **448.3** | **0.0** | **0.0** | **448.3** | **448.3** | **0.0** |
| **Trading assets** | **0.0** | **128.3** | **0.0** | **128.3** | **128.3** | **0.0** |
| Positive fair values from derivatives | 0.0 | 127.1 | 0.0 | 127.1 | 127.1 | 0.0 |
| Interest-rate risks | 0.0 | 27.4 | 0.0 | 27.4 | 27.4 | 0.0 |
| Currency risks | 0.0 | 99.7 | 0.0 | 99.7 | 99.7 | 0.0 |
| Loans and advances | 0.0 | 1.2 | 0.0 | 1.2 | 1.2 | 0.0 |
| **Financial assets at fair value through profit or loss** | **873.0** | **0.0** | **0.0** | **873.0** | **873.0** | **0.0** |
| Debt securities and other fixed-interest securities | 873.0 | 0.0 | 0.0 | 873.0 | 873.0 | 0.0 |
| **Financial assets at fair value directly in equity** | **1,716.7** | **515.5** | **0.0** | **2,232.2** | **2,232.2** | **0.0** |
| Debt securities and other fixed-interest securities | 1,716.7 | 515.5 | 0.0 | 2,232.2 | 2,232.2 | 0.0 |
| **Financial assets at amortised cost** | **550.0** | **1,817.8** | **9,075.9** | **11,443.7** | **11,367.0** | **76.7** |
| Debt securities and other fixed-interest securities | 121.1 | 1,662.4 | 0.0 | 1,783.5 | 1,946.0 | -162.5 |
| Loans and advances | 428.9 | 155.3 | 9,075.9 | 9,660.1 | 9,421.0 | 239.1 |
| **Positive fair values from hedge accounting derivatives** | **0.0** | **219.8** | **0.0** | **219.8** | **219.8** | **0.0** |
| Interest-rate risks | 0.0 | 195.4 | 0.0 | 195.4 | 195.4 | 0.0 |
| Currency risks | 0.0 | 24.4 | 0.0 | 24.4 | 24.4 | 0.0 |
| **Total** | **3,588.0** | **2,681.4** | **9,075.9** | **15,345.4** | **15,268.7** | **76.7** |

The fair values of financial liabilities and their breakdown according to the fair value hierarchy are presented in the following table with the carrying amounts:

| | 31.12.2018 | | | | | |
|---|---|---|---|---|---|---|
| **in € million** | **Level 1** | **Level 2** | **Level 3** | **Fair value total** | **Carrying amount** | **Diffe-rence** |
| **Liabilities** | | | | | | |
| **Trading liabilities** | **0.0** | **81.1** | **0.0** | **81.1** | **81.1** | **0.0** |
| **Negative fair values from derivatives** | **0.0** | **81.1** | **0.0** | **81.1** | **81.1** | **0.0** |
| Interest-rate risks | 0.0 | 53.2 | 0.0 | 53.2 | 53.2 | 0.0 |
| Currency risks | 0.0 | 27.9 | 0.0 | 27.9 | 27.9 | 0.0 |
| Financial liabilities designated at fair value through profit or loss | 1,081.9 | 552.3 | 0.0 | 1,634.1 | 1,634.1 | 0.0 |
| **Securitised liabilities** | **1,081.9** | **552.3** | **0.0** | **1,634.1** | **1,634.1** | **0.0** |
| Financial liabilities at amortised cost | 1,887.2 | 4,490.3 | 8,127.3 | 14,504.8 | 14,320.4 | 184.4 |
| Deposits | 880.9 | 1,650.7 | 8,127.3 | 10,658.9 | 10,491.5 | 167.4 |
| **Securitised liabilities** | **1,006.4** | **2,839.5** | **0.0** | **3,845.9** | **3,828.9** | **17.0** |
| **Negative fair values from hedge accounting derivatives** | **0.0** | **438.5** | **0.0** | **438.5** | **438.5** | **0.0** |
| Interest-rate risks | 0.0 | 365.7 | 0.0 | 365.7 | 365.7 | 0.0 |
| **Currency risks** | **0.0** | **72.9** | **0.0** | **72.9** | **72.9** | **0.0** |
| **Total** | **2,969.1** | **5,562.1** | **8,127.3** | **16,658.5** | **16,474.1** | **184.4** |

| in € million | 31.12.2017 Level 1 | Level 2 | Level 3 | Fair value total | Carrying amount | Diffe-rence |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| **Trading liabilities** | **0.0** | **74.9** | **0.0** | **74.9** | **74.9** | **0.0** |
| **Negative fair values from derivatives** | **0.0** | **74.9** | **0.0** | **74.9** | **74.9** | **0.0** |
| Interest-rate risks | 0.0 | 57.8 | 0.0 | 57.8 | 57.8 | 0.0 |
| Currency risks | 0.0 | 17.1 | 0.0 | 17.1 | 17.1 | 0.0 |
| Financial liabilities designated at fair value through profit or loss | 499.3 | 544.0 | 0.0 | 1,043.3 | 1,043.3 | 0.0 |
| **Securitised liabilities** | **499.3** | **544.0** | **0.0** | **1,043.3** | **1,043.3** | **0.0** |
| Financial liabilities at amortised cost | 2,078.7 | 3,775.3 | 7,311.9 | 13,165.8 | 12,971.7 | 194.1 |
| Deposits | 569.2 | 1,520.0 | 7,311.9 | 9,401.1 | 9,221.8 | 179.3 |
| **Securitised liabilities** | **1,509.4** | **2,255.3** | **0.0** | **3,764.7** | **3,750.0** | **14.7** |
| **Negative fair values from hedge accounting derivatives** | **0.0** | **517.7** | **0.0** | **517.7** | **517.7** | **0.0** |
| Interest-rate risks | 0.0 | 447.9 | 0.0 | 447.9 | 447.9 | 0.0 |
| **Currency risks** | **0.0** | **69.8** | **0.0** | **69.8** | **69.8** | **0.0** |
| **Total** | **2,578.0** | **4,911.8** | **7,311.9** | **14,801.7** | **14,607.6** | **194.1** |

The fair values were determined using the discounted cash flow method based on the yield curves applicable on the reporting date.

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

The hidden liabilities after loan loss provisions and taking into account any hidden reserves on debt securities and other fixed-interest securities at amortised cost amounted to € 150.0 million, down on the previous year (€ 162.5 million) by € 12.5 million.

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

| 01.01.2018 - 31.12.2018 (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 |
|---|---|---|---|---|---|---|
| **Financial assets at fair value directly in equity** | **0.0** | **0.0** | **106.2** | **0.0** | **0.0** | **0.0** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 106.2 | 0.0 | 0.0 | 0.0 |

Three financial assets at fair value directly in equity in the form of debt securities switched from Level 2 to Level 1 in the reporting year on account of their improved liquidity.

Transfers between levels were made for approximately 2 per cent of NORD/LB CBB's total portfolio of debt securities and other fixed-interest securities. The following level transfers took place in the previous year:

| 01.01.2017- 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 |
|---|---|---|---|---|---|---|
| **Financial assets mandatorily at fair value through profit or loss** | **0.0** | **0.0** | **27.7** | **0.0** | **0.0** | **0.0** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 27.7 | 0.0 | 0.0 | 0.0 |
| **Financial assets at fair value directly in equity** | **0.0** | **0.0** | **198.5** | **0.0** | **0.0** | **0.0** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 198.5 | 0.0 | 0.0 | 0.0 |
| **Financial liabilities designated at fair value through profit or loss** | **0.0** | **0.0** | **501.2** | **0.0** | **0.0** | **0.0** |
| Securitised liabilities | 0.0 | 0.0 | 501.2 | 0.0 | 0.0 | 0.0 |

**(50) Loan loss provisions and gross carrying amount**

A new model (three-level model) was introduced with IFRS 9 to assess loan loss provisions. For financial assets and off-balance sheet liabilities where the credit risk has not risen significantly as at the reporting date compared to the date of initial recognition, loan loss provisions are recorded at the amount of the expected loss for the next 12 months (Level 1). If the credit risk is significantly higher as at the reporting date compared to the date of initial recognition, the loan loss provision amounts to the expected loss for the remaining term of the financial assets and the off-balance sheet liabilities (Level 2). A loan loss provision amounting to the expected loss for the remaining term of the financial assets and off-balance sheet liabilities is also recorded if there is a significant increase in the credit risk as at the reporting date compared to the date of initial recognition and impairment has been recorded (Level 3).

Please refer to Note (3) Reconciliations of IAS 39 categories and classes to IFRS 9 for the reconciliation of loan loss provisions under IAS 39 to determine the opening balance as at 1 January 2018 and the impacts of the first-time application of IFRS 9.

The following table presents the changes in loan loss provisions over the reporting period for financial assets not at fair value through profit or loss and for off-balance items. First of all the loan loss provisions including carrying amounts are presented, aggregated at the levels defined in accordance with IFRS 9. This is followed by details on the classification methodology and level allocations:

| in € million | Gross carrying amount 31.12.2018 | Loan loss provisions 31.12.2018 |
|---|---:|---:|
| Level 1 | 15,028.1 | 3.7 |
| Level 2 | 619.9 | 7.1 |
| Level 3 | 10.7 | 0.8 |
| **Total** | **15,658.6** | **11.6** |

| in € million | Opening balance as at 01.01.2018 | Transfer to Level 1 | Transfer to Level 2 | Transfer to Level 3 | Allocation: Allocation due to credit ratings | Allocation: Addtions to assets | Reversal: Reversals due to credit ratings | Reversal: Use | Reversal: Disposals from assets |
|---|---|---|---|---|---|---|---|---|---|
| **Loan loss provisions for financial assets at fair value directly in equity** | | | | | | | | | |
| Assets with no significant increase in credit risk (Level 1) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt securities and other fixed-interest securities | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Assets with significant increase in credit risk, not impaired (Level 2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Assets with significant increase in credit risk, impaired (Level 3)** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Total** | **0.1** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |

| in € million | Other changes: Modif- ications to assets | Other changes: Unwinding | Other changes: Model and parameter changes | Other changes: Currency conversions | Other changes: Other changes | Closing ba- lance as at 31.12.2018 |
|---|---|---|---|---|---|---|
| **Loan loss provisions for financial assets at fair value directly in equity** | | | | | | |
| Assets with no significant increase in credit risk (Level 1) | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.1** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Assets with significant increase in credit risk, not impaired (Level 2) | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Assets with significant increase in credit risk, impaired (Level 3)** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Total** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.1** |

| in € million | Opening balance as at 01.01.2018 | Transfer to Level 1 | Transfer to Level 2 | Transfer to Level 3 | Allocation: Allocation due to credit ratings | Allocation: Additions to assets | Reversal: Reversals due to credit ratings | Reversal: Use | Reversal: Disposals from assets |
|---|---|---|---|---|---|---|---|---|---|
| **Loan loss provisions for financial assets at amortised cost** | | | | | | | | | |
| **Assets with no significant increase in credit risk (Level 1)** | **4.4** | **0.0** | **-0.1** | **0.0** | **0.4** | **0.8** | **0.8** | **0.0** | **1.4** |
| Debt securities and other fixed-interest securities | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances | 4.1 | 0.0 | -0.1 | 0.0 | 0.3 | 0.8 | 0.7 | 0.0 | 1.3 |
| **Assets with significant increase in credit risk, not impaired (Level 2)** | **9.1** | **0.0** | **0.1** | **0.0** | **0.6** | **0.0** | **3.4** | **0.0** | **0.1** |
| Debt securities and other fixed-interest securities | 9.1 | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 | 3.4 | 0.0 | 0.0 |
| Loans and advances | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 |
| **Assets with significant increase in credit risk, impaired (Level 3)** | **4.8** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **4.3** | **0.2** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances | 4.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.3 | 0.2 |
| **Total** | **18.4** | **0.0** | **0.0** | **0.0** | **1.0** | **0.8** | **4.2** | **4.3** | **1.6** |

| in € million | Other changes: Modifications to assets | Other changes: Unwinding | Other changes: Model and parameter changes | Other changes: Currency conversions | Other changes: Other changes | Closing balance as at 31.12.2018 |
|---|---|---|---|---|---|---|
| **Loan loss provisions for financial assets at amortised cost** | | | | | | |
| **Assets with no significant increase in credit risk (Level 1)** | **0.0** | **0.0** | **0.0** | **-0.1** | **0.0** | **3.4** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 |
| Loans and advances | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 3.1 |
| **Assets with significant increase in credit risk, not impaired (Level 2)** | **0.0** | **0.0** | **0.0** | **0.4** | **0.0** | **6.8** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 6.7 |
| Loans and advances | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| **Assets with significant increase in credit risk, impaired (Level 3)** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.4** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 |
| **Total** | **0.0** | **0.0** | **0.0** | **0.3** | **0.0** | **10.5** |

| in € million | Opening balance as at 01.01.2018 | Transfer: to Level 1 | Transfer: to Level 2 | Transfer: to Level 3 | Allocation: Allocation due to credit ratings | Allocation: Additions to assets | Reversal: Reversals due to credit ratings | Reversal: Use | Reversal: Disposals from assets |
|---|---|---|---|---|---|---|---|---|---|
| **Loan loss provisions for loan commitments, financial guarantees and other off-balance sheet liabilities** | | | | | | | | | |
| **Off-balance sheet items with no significant increase in credit risk (Level 1)** | **0.5** | **0.0** | **0.0** | **0.0** | **0.0** | **0.1** | **0.2** | **0.0** | **0.1** |
| Loan commitments | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 | 0.0 | 0.1 |
| Financial guarantees | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Off-balance sheet items with significant increase in credit risk, not impaired (Level 2)** | **0.5** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.1** | **0.0** | **0.0** |
| Loan commitments | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| Financial guarantees | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| **Off-balance sheet items with significant increase in credit risk, impaired (Level 3)** | **0.4** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Financial guarantees | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **1.4** | **0.0** | **0.0** | **0.0** | **0.0** | **0.1** | **0.4** | **0.0** | **0.1** |

| in € million | Other changes: Modifications to assets | Other changes: Unwinding | Other changes: Model and parameter changes | Other changes: Currency conversions | Other changes: Other changes | Closing balance as at 31.12.2018 |
|---|---|---|---|---|---|---|
| **Loan loss provisions for loan commitments, financial guarantees and other off-balance sheet liabilities** | | | | | | |
| **Off-balance sheet items with no significant increase in credit risk (Level 1)** | **0.0** | **0.0** | **0.0** | **0.1** | **0.0** | **0.3** |
| Loan commitments | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.2 |
| Financial guarantees | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| **Off-balance sheet items with significant increase in credit risk, not impaired (Level 2)** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.4** |
| Loan commitments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Financial guarantees | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 |
| **Off-balance sheet items with significant increase in credit risk, impaired (Level 3)** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.4** |
| Financial guarantees | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 |
| **Total** | **0.0** | **0.0** | **0.0** | **0.1** | **0.0** | **1.1** |

The following table presents the changes to gross carrying amounts in the reporting period of financial assets at fair value directly in equity and of financial assets at amortised cost:

| in € million | Opening balance as at 01.01.2018 | Transfer to Level 1 | Transfer to Level 2 | Transfer to Level 3 | Additions to assets | Disposals from assets | Direct write-downs of assets |
|---|---|---|---|---|---|---|---|
| **Gross carrying amount for financial assets at fair value directly in equity** | | | | | | | |
| **Assets with no significant increase in credit risk (Level 1)** | **2,199.8** | **0.0** | **0.0** | **0.0** | **214.1** | **318.2** | **0.0** |
| Debt securities and other fixed-interest securities | 2,199.8 | 0.0 | 0.0 | 0.0 | 214.1 | 318.2 | 0.0 |
| **Assets with significant increase in credit risk, not impaired (Level 2)** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Assets with significant increase in credit risk, impaired (Level 3)** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Total** | **2,199.8** | **0.0** | **0.0** | **0.0** | **214.1** | **318.2** | **0.0** |
| **Gross carrying amount for financial assets at amortised cost** | | | | | | | |
| **Assets with no significant increase in credit risk (Level 1)** | **11,263.90** | **3.80** | **-98.40** | **-6.80** | **5,694.90** | **4,024.40** | **0.00** |
| Debt securities and other fixed-interest securities | 1,503.8 | 0.0 | -53.0 | 0.0 | 1.3 | 235.8 | 0.0 |
| Loans and advances | 9,311.8 | 3.8 | -45.4 | -6.8 | 5,680.5 | 3,753.9 | 0.0 |
| Cash reserve | 448.3 | 0.0 | 0.0 | 0.0 | 13.0 | 34.7 | 0.0 |
| **Assets with significant increase in credit risk, not impaired (Level 2)** | **529.6** | **-3.8** | **98.4** | **-0.8** | **36.5** | **57.1** | **0.0** |
| Debt securities and other fixed-interest securities | 473.6 | 0.0 | 53.0 | 0.0 | 0.2 | 26.8 | 0.0 |
| Loans and advances | 56.0 | -3.8 | 45.4 | -0.8 | 36.3 | 30.3 | 0.0 |
| **Assets with significant increase in credit risk, impaired (Level 3)** | **24.1** | **0.0** | **0.0** | **7.6** | **3.2** | **24.3** | **0.0** |
| Loans and advances | 24.1 | 0.0 | 0.0 | 7.6 | 3.2 | 24.3 | 0.0 |
| **Total** | **11,817.6** | **0.0** | **0.0** | **0.0** | **5,734.5** | **4,105.8** | **0.0** |
| **Total** | **14,017.4** | **0.0** | **0.0** | **0.0** | **5,948.6** | **4,424.1** | **0.0** |

| in € million | Other changes: Modifica-tions to assets | Other changes: Currency conversions | Other changes: Other changes | Closing balance as at 31.12.2018 |
|---|---|---|---|---|
| **Gross carrying amount for financial assets at fair value directly in equity** | | | | |
| **Assets with no significant increase in credit risk (Level 1)** | **0.0** | **6.2** | **0.0** | **2,101.8** |
| Debt securities and other fixed-interest securities | 0.0 | 6.2 | 0.0 | 2,101.8 |
| **Assets with significant increase in credit risk, not impaired (Level 2)** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Assets with significant increase in credit risk, impaired (Level 3)** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Total** | **0.0** | **6.2** | **0.0** | **2,101.8** |
| **Gross carrying amount for financial assets at amortised cost** | | | | |
| **Assets with no significant increase in credit risk (Level 1)** | **0.00** | **93.40** | **0.00** | **12,926.30** |
| Debt securities and other fixed-interest securities | 0.0 | 39.3 | 0.0 | 1,255.6 |
| Loans and advances | 0.0 | 37.3 | 0.0 | 11,227.3 |
| Cash reserve | 0.0 | 16.8 | 0.0 | 443.4 |
| **Assets with significant increase in credit risk, not impaired (Level 2)** | **0.0** | **17.1** | **0.0** | **619.9** |
| Debt securities and other fixed-interest securities | 0.0 | 17.1 | 0.0 | 517.1 |
| Loans and advances | 0.0 | 0.0 | 0.0 | 102.7 |
| **Assets with significant increase in credit risk, impaired (Level 3)** | **0.0** | **0.0** | **0.0** | **10.7** |
| Loans and advances | 0.0 | 0.0 | 0.0 | 10.7 |
| **Total** | **0.0** | **110.5** | **0.0** | **13,556.8** |
| **Total** | **0.0** | **116.7** | **0.0** | **15,658.6** |

**(51) Net gain or loss by measurement category**

The net gain or loss in the income statement from financial assets at fair value directly in equity and from financial assets at amortised cost comprises loan loss provisions, the modification gain or loss and the disposal gain or loss. The net gain or loss in other comprehensive income (OCI) under equity from financial assets at fair value directly in equity comprises changes from fair value measurement, loan loss provisions and the disposal gain or loss.

The net gain or loss from financial liabilities at amortised cost corresponds to the disposal gain or loss.

There was neither any modification gain or loss nor any disposal gain or loss generated for any of the above valuation categories. Please refer to Note (50) Loan loss provisions and gross carrying amount for loan loss provisions.

Changes to the fair value measurement from financial assets measured at fair value directly in equity are presented in Note (45) Equity.

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.

**(52) 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.

| | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| | 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 |
| **Financial assets mandatorily at fair value through profit or loss** | **447.8** | **448.8** | **0.0** | **0.0** |
| Debt securities and other fixed-interest securities | 447.8 | 448.8 | 0.0 | 0.0 |
| **Financial assets at fair value through profit or loss** | **0.0** | **0.0** | **323.1** | **323.6** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 323.1 | 323.6 |
| **Financial assets at fair value directly in equity** | **645.6** | **647.1** | **630.4** | **631.4** |
| Debt securities and other fixed-interest securities | 645.6 | 647.1 | 630.4 | 631.4 |
| **Financial assets at amortised cost** | **624.4** | **622.2** | **629.3** | **624.8** |
| Debt securities and other fixed-interest securities | 123.6 | 123.9 | 124.6 | 124.8 |
| Loans and advances | 500.8 | 498.3 | 504.7 | 500.0 |
| **Total** | **1,717.9** | **1,718.1** | **1,582.8** | **1,579.9** |

**(53) 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 31.12.2018 | Nominal values on 31.12.2017 | Positive market values on 31.12.2018 | Positive market values on 31.12.2017 | Negative market values on 31.12.2018 | Negative market values on 31.12.2017 |
|---|---|---|---|---|---|---|
| **Interest-rate risks** | **6,825.1** | **6,745.4** | **233.0** | **222.9** | **418.8** | **505.7** |
| Interest rate swaps | 6,733.6 | 6,500.4 | 233.0 | 222.9 | 418.8 | 505.7 |
| Caps, floors | **0.0** | **20.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Exchange-traded contracts | 91.5 | 225.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Currency risks** | **4,069.1** | **3,441.6** | **123.2** | **124.1** | **100.7** | **86.9** |
| Forward exchange transactions | 1,779.1 | 1,575.0 | 4.4 | 0.9 | 6.9 | 9.0 |
| Currency swaps/interest rate (cross-) currency swaps | 2,290.0 | 1,866.5 | 118.8 | 123.1 | 93.8 | 77.9 |
| **Total** | **10,894.2** | **10,186.9** | **356.2** | **346.9** | **519.6** | **592.6** |

Stock exchange contracts are futures that are subject to clearing on a daily basis. This is why the Bank does not disclose market values beside the nominal values.

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. 2018 | 31.12. 2017 | 31.12. 2018 | 31.12. 2017 | 31.12. 2018 | 31.12. 2017 | 31.12. 2018 | 31.12. 2017 |
| **Remaining terms to maturity** | | | | | | | | |
| Up to 3 months | 140.7 | 600.5 | 1,687.2 | 1,561.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| More than 3 months & up to 1 year | 611.0 | 503.6 | 109.6 | 75.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| More than 1 year & up to 5 years | 2,955.6 | 2,598.8 | 488.5 | 419.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| More than 5 years | 3,117.8 | 3,042.5 | 1,783.8 | 1,385.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **6,825.1** | **6,745.4** | **4,069.1** | **3,441.6** | **0.0** | **0.0** | **0.0** | **0.0** |

The residual term is defined as the period between the reporting date and the contractual maturity.

### (54) Underlying transactions in effective hedges

Financial assets and liabilities which are the underlying transactions in a hedging transaction in accordance with IFRS 9 are still 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 is corrected, however, to include the change in fair value attributable to the hedged risk.

Financial instruments in the category of financial assets at fair value directly in equity are still recognised at their full fair value.

Generally speaking, the hedged risk is recognised in the income statement in the profit/loss from hedge accounting. Please note that for financial instruments in the category of financial assets at fair value directly in equity, the unhedged risk is recognised in other comprehensive income (OCI).

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

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Financial assets at fair value directly in equity | 646.9 | 931.5 | -31 |
| Financial assets at amortised cost | 2,056.9 | 2,295.1 | -10 |
| **Total** | **2,703.8** | **3,226.7** | **-16** |
| **Liabilities** | | | |
| Financial liabilities at amortised cost | 2,428.0 | 2,380.0 | 2 |
| **Total** | **2,428.0** | **2,380.0** | **2** |

Please also see Note (8) Financial instruments and Note (24) Profit/loss from hedge accounting for further information on hedge accounting.

### (55) Residual terms of financial liabilities

| 31.12.2018<br>in € million | Up to 1 month | More than 1 month & up to 3 months | More than 3 months & up to 1 year | More than 1 year & up to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **Trading liabilities** | **6.2** | **0.1** | **3.7** | **9.6** | **61.5** | **81.1** |
| Derivatives | 6.2 | 0.1 | 3.7 | 9.6 | 61.5 | 81.1 |
| **Financial liabilities designated at fair value through profit or loss** | **0.0** | **100.2** | **0.0** | **1,533.9** | **0.0** | **1,634.1** |
| Securitised liabilities | 0.0 | 100.2 | 0.0 | 1,533.9 | 0.0 | 1,634.1 |
| **Financial liabilities at amortised cost** | **4,132.0** | **1,388.9** | **1,525.3** | **3,827.1** | **3,447.2** | **14,320.4** |
| Deposits | 4,132.0 | 1,263.3 | 1,078.4 | 1,187.3 | 2,830.5 | 10,491.5 |
| Securitised liabilities | 0.0 | 125.6 | 446.8 | 2,639.8 | 616.7 | 3,828.9 |
| **Negative fair values from hedge accounting derivatives** | **0.0** | **0.5** | **6.3** | **58.9** | **372.8** | **438.5** |
| **Issued loan commitments** | **88.2** | **54.0** | **244.0** | **1,597.7** | **104.9** | **2,088.8** |
| **Issued financial guarantees** | **0.0** | **22.5** | **6.3** | **69.4** | **53.0** | **151.2** |
| **Total** | **4,226.4** | **1,566.2** | **1,758.6** | **7,096.7** | **4,039.4** | **18,714.2** |

| 31.12.2017<br>in € million | Up to 1 month | More than 1 month & up to 3 months | More than 3 months & up to 1 year | More than 1 year & up to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **Trading liabilities** | **7.2** | **3.5** | **2.1** | **14.3** | **47.8** | **74.9** |
| Derivatives | 7.2 | 3.5 | 2.1 | 14.3 | 47.8 | 74.9 |
| **Financial liabilities designated at fair value through profit or loss** | **0.0** | **0.0** | **0.0** | **397.4** | **645.9** | **1,043.3** |
| Securitised liabilities | 0.0 | 0.0 | 0.0 | 397.4 | 645.9 | 1,043.3 |
| **Financial liabilities at amortised cost** | **3,087.5** | **1,060.6** | **2,037.1** | **3,730.3** | **3,056.2** | **12,971.7** |
| Deposits | 3,087.5 | 1,060.6 | 1,471.1 | 1,013.5 | 2,589.1 | 9,221.8 |
| Securitised liabilities | 0.0 | 0.0 | 566.0 | 2,716.8 | 467.1 | 3,750.0 |
| **Negative fair values from hedge accounting derivatives** | **3.0** | **4.6** | **22.2** | **69.6** | **418.3** | **517.7** |
| **Issued loan commitments** | **65.2** | **17.8** | **188.6** | **1,409.2** | **60.7** | **1,741.6** |
| **Issued financial guarantees** | **0.0** | **25.4** | **0.2** | **66.4** | **35.0** | **127.1** |
| **Total** | **3,163.0** | **1,111.9** | **2,250.2** | **5,687.2** | **4,264.1** | **16,476.3** |

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

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

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Financial assets mandatorily at fair value | 514.2 | 0.0 | 100 |
| Financial assets at fair value through profit or loss | 0.0 | 421.6 | -100 |
| Financial assets at fair value directly in equity | 674.0 | 703.4 | -4 |
| Financial assets at amortised cost | 949.5 | 1,023.8 | -7 |
| **Total** | **2,137.8** | **2,148.8** | **-1** |

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 (53) Derivative financial instruments.

The following collateral was transferred to the Bank for loans and advances in the values indicated:

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) | Change (in %) |
|---|---|---|---|
| Financial assets at amortised cost | 586.1 | 549.9 | 7 |
| **Total** | **586.1** | **549.9** | **7** |

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 2018 reporting period or in the previous year.
Securities repurchase agreements and lending transactions are monitored daily by means of a valuation for collateral purposes. In the event of a negative balance, the collateral taker may require the collateral provider to provide additional collateral to increase the cover amount if a certain threshold defined in the contract is exceeded. If the collateral provider has provided collateral and the market situation changes to such an extent that overcollateralisation occurs, it is entitled to demand that the collateral taker release collateral if a certain threshold defined in the contract is exceeded. The collateral provided is subject to the transfer of full rights, i.e. the collateral taker can essentially act in the same way as an owner and, in particular, use the collateral for transfers of ownership or pledges. In the case of securities collateral, securities of the same type and quality must be returned or delivered unencumbered. The collateral provided may not be returned in the form of liquid funds without the consent of the collateral provider when securities collateral is furnished.

**(57) 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 2018 reporting period and at 31 December 2017 are shown in the following tables:

| 31.12.2018 (in € million) | Gross amount before offsetting | Amount of offsetting | Net amount after offsetting | Master netting arrangements and similar arrangements without offsetting | | | Net amount |
|---|---|---|---|---|---|---|---|
| | | | | Of which: financial instruments | Collateral | | |
| | | | | | Securities as collateral | Cash collateral | |
| **Assets** | **603.8** | **0.0** | **603.8** | **-439.3** | **0.0** | **-164.2** | **0.3** |
| Derivatives | 353.8 | 0.0 | 353.8 | -189.3 | 0.0 | -164.2 | 0.3 |
| Securities lending and repurchase transactions | 250.0 | 0.0 | 250.0 | -250.0 | 0.0 | 0.0 | 0.0 |
| **Liabilities** | **1,738.5** | **0.0** | **1,738.5** | **-439.3** | **-967.1** | **-323.2** | **8.9** |
| Derivatives | 518.7 | 0.0 | 518.7 | -189.3 | 0.0 | -323.2 | 6.2 |
| Securities lending and repurchase transactions | 1,219.8 | 0.0 | 1,219.8 | -250.0 | -967.1 | 0.0 | 2.7 |

| 31.12.2017 (in € million) | Gross amount before offsetting | Amount of offsetting | Net amount after offsetting | Master netting arrangements and similar arrangements without offsetting | | | Net amount |
|---|---|---|---|---|---|---|---|
| | | | | Of which: financial instruments | Collateral | | |
| | | | | | Securities as collateral | Cash collateral | |
| **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 |

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.

# Additional information

### (58) Regulatory information

Regulatory capital and the capital requirements are based on IFRS and have been calculated in accordance with CRR rules since the 2014 financial year. 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.

| | 31.12.2018 (in € million) | 31.12.2017 (in € million) |
|---|---|---|
| **Total risk exposure amount** | **4,443.1** | **4,244.4** |
| Capital requirements for credit risk | 340.5 | 325.4 |
| Capital requirements for operational risks | 14.1 | 13.5 |
| Capital requirements for market risks | 0.0 | 0.0 |
| Capital requirements for loan amount adjustments | 0.9 | 0.7 |
| **Capital requirements** | **355.4** | **339.5** |

*Regulatory capital*

| | 2018 (in € million) | 2017 (in € million) |
|---|---|---|
| Issued capital | 205.0 | 205.0 |
| Other reserves | 449.3 | 445.7 |
| - Deductible items | -41.3 | -26.0 |
| **Common Equity Tier 1 capital** | **613.1** | **624.8** |
| Components of additional Tier 1 capital | 0.0 | 0.0 |
| **Additional Tier 1 capital** | **0.0** | **0.0** |
| **Tier 1 capital** | **613.1** | **624.8** |
| Paid-up instruments of Tier 2 capital | 0.0 | 0.0 |
| Eligible provisions in excess of expected losses under the IRB approach | 0.3 | 2.5 |
| **Tier 2 capital** | **0.3** | **2.5** |
| **Own funds** | **613.3** | **627.3** |

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 2018 and 2017. The Bank had the following ratios at the end of the respective year:

| | 2018 (in %) | 2017 (in %) |
|---|---|---|
| Common equity tier 1 capital ratio | 13.8 | 14.7 |
| Tier 1 capital ratio | 13.8 | 14.7 |
| Total capital ratio | 13.8 | 14.8 |

The common equity tier 1 capital ratio of NORD/LB CBB totalled 13.8 per cent, which is above the regulatory requirement, just like the total capital ratio of 13.8 per cent. The ECB did not impose any stricter requirements on the Bank for 2018 at the individual institution level than those required by the CRR and national legislation implementing the CRD IV. NORD/LB CBB therefore did not have to comply with any Pillar 2 Requirement („P2R“) provisions in 2018 (previous year: 0.5 per cent). Taking into account the capital conservation buffer of 2.5 per cent and an anti-cyclical capital buffer of 0.11 per cent, the Overall Capital Requirement („OCR“) as at 31 December 2018 is at least 7.11 per cent for the common equity tier 1 capital ratio, at least 8.61 per cent for the Tier 1 capital ratio and at least 10.61 per cent for the total capital ratio.

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).

### (59) Foreign currency volume

The following assets and liabilities were denominated in foreign currency as at 31 December 2018 and 31 December 2017:

| in € million | USD | JPY | CHF | GBP | Other | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash reserve | 0.0 | 0.0 | 419.3 | 0.0 | 0.0 | 419.3 | 437.2 |
| Trading assets | 19.2 | 0.0 | 0.0 | 119.3 | 0.0 | 138.5 | 65.9 |
| Financial assets mandatorily at fair value through profit or loss | 5.7 | 0.0 | 0.0 | 0.0 | 0.0 | 5.7 | 0.0 |
| Financial assets at fair value directly in equity | 14.9 | 40.3 | 73.3 | 0.0 | 0.0 | 128.4 | 95.1 |
| Financial assets at amortised cost | 2,293.2 | 106.6 | 76.7 | 1,243.3 | 148.9 | 3,868.8 | 3,827.8 |
| Positive fair values from hedge accounting derivatives | 1.0 | 0.0 | 20.7 | 0.7 | 0.1 | 22.4 | 25.4 |
| **Total** | **2,333.9** | **146.9** | **590.0** | **1,363.2** | **149.0** | **4,583.0** | **4,451.4** |
| **Liabilities** | | | | | | | |
| Trading liabilities | 13.5 | 0.0 | 0.9 | 2.3 | 0.8 | 17.5 | 13.9 |
| Financial liabilities designated at fair value through profit or loss | 579.2 | 0.0 | 0.0 | 0.0 | 0.0 | 579.2 | 0.0 |
| Financial liabilities at amortised cost | 1,650.8 | 0.4 | 70.8 | 75.5 | 274.3 | 2,071.8 | 2,376.2 |
| Negative fair values from hedge accounting derivatives | 250.5 | 29.5 | 5.1 | 0.1 | 36.9 | 322.1 | 365.3 |
| Other liabilities | 0.2 | 0.0 | 0.0 | 1.0 | 0.1 | 1.2 | 0.4 |
| **Total** | **2,494.1** | **30.0** | **76.8** | **78.9** | **312.1** | **2,991.8** | **2,755.9** |

In the third quarter of 2018, an ad-hoc stress test was conducted at the Bank with regard to Brexit, and possible effects on the Bank were analysed.

The UK-based loan portfolio consists mainly of project financing for public institutions (including schools and hospitals) and renewable energies. Given the very good creditworthiness of the debtors at present and the fact that these are stable economic sectors in Great Britain, only minor and insignificant effects are expected on loan loss provisions and the associated creditworthiness. The same conclusion is reached by the Bank for other borrowers not domiciled in the United Kingdom. The analysis has shown that no borrower is substantially dependent on the UK economy.

Furthermore, the interest rate and currency risks within hedge accounting are hedged in these transactions, so no significant negative effects for the Bank are expected from these components either. The open GBP position as at 31 December 2018 amounts to € 228 thousand, which corresponds to GBP 204 thousand.

According to the medium-term forecast, wider spreads are expected in the event of an actual hard Brexit (short-term), which will lead to positive valuation effects but will make new business more expensive to refinance.

Depending on market fluctuations, temporary valuation effects arise from basis spreads on hedging transactions in the form of cross-currency swaps.

Overall, the economic impact of a potential (hard) Brexit is considered to be small.

**(60) Longer-term assets and liabilities**

For balance sheet items that include both current and non-current assets or liabilities, the following table shows the assets and liabilities that will be realised or settled after more than twelve months.

| | 2018 (in € million) | 2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Assets** | | | |
| Trading assets | 184.4 | 124.9 | 48 |
| Derivatives | 130.7 | 123.7 | 6 |
| Loans and advances | 53.7 | 1.2 | > 100 |
| Financial assets mandatorily at fair value through profit or loss | 816.8 | 0.0 | > 100 |
| Debt securities and other fixed-interest securities | 809.6 | 0.0 | > 100 |
| Loans and advances | 7.2 | 0.0 | > 100 |
| Financial assets at fair value through profit or loss | 0.0 | 873.0 | -100 |
| Debt securities and other fixed-interest securities | 0.0 | 873.0 | -100 |
| Financial assets at fair value directly in equity | 1,769.6 | 1,934.1 | -9 |
| Debt securities and other fixed-interest securities | 1,769.6 | 1,934.1 | -9 |
| Financial assets at amortised cost | 9,343.8 | 8,163.9 | 14 |
| Debt securities and other fixed-interest securities | 1,665.0 | 1,790.2 | -7 |
| Loans and advances | 7,678.8 | 6,373.7 | 20 |
| Positive fair values from hedge accounting derivatives | 214.9 | 217.1 | -1 |
| Other assets | 0.5 | 0.0 | > 100 |
| **Total** | **12,330.0** | **11,313.0** | **9** |

| | | | |
|---|---|---|---|
| **Liabilities** | | | |
| Trading liabilities | 71.0 | 62.2 | 14 |
| Derivatives | 71.0 | 62.2 | 14 |
| Financial liabilities designated at fair value through profit or loss | 1,533.9 | 1,043.3 | 47 |
| Securitised liabilities | 1,533.9 | 1,043.3 | 47 |
| Financial liabilities at amortised cost | 7,274.3 | 6,786.6 | 7 |
| Deposits | 4,017.8 | 3,602.6 | 12 |
| Securitised liabilities | 3,256.5 | 3,184.0 | 2 |
| Negative fair values from hedge accounting derivatives | 431.7 | 487.8 | -12 |
| Provisions | 0.6 | 0.0 | > 100 |
| Other liabilities | 0.4 | 2.8 | -85 |
| **Total** | **9,312.0** | **8,382.7** | **11** |

**(61) Lease agreements**

NORD/LB CBB acts as a lessee under operating and finance lease agreements.

The future minimum lease payments under the Bank's operating lease agreements are as follows:

| | 2018 (in € million) | 2017 (in € million) | Change (in %) |
|---|---|---|---|
| Future minimum lease payments up to 1 year | 0.2 | 0.2 | 2 |
| Future minimum lease payments 1 year to 5 years | 0.6 | 0.8 | -27 |
| Future minimum lease payments more than 5 years | 0.0 | 0.0 | - |
| **Total future minimum lease payments** | **0.9** | **1.1** | **-21** |

The amounts shown for future minimum lease payments also correspond to the total of the Bank's non-cancellable operating leases. Operating lease agreements include motor vehicles and the usage right for an emergency centre.

The future minimum lease payments under the Bank's finance lease agreements are as follows:

| | 2018 (in € million) | 2017 (in € million) | Change (in %) |
|---|---|---|---|
| Future minimum lease payments up to 1 year | 0.8 | 0.8 | -4 |
| Future minimum lease payments 1 year to 5 years | 1.1 | 0.8 | 36 |
| Future minimum lease payments more than 5 years | 0.0 | 0.0 | - |
| **Total future minimum lease payments** | **1.9** | **1.6** | **16** |

The amounts shown for future minimum lease payments also correspond to the total of the Bank's non-cancellable finance leases. The finance lease agreements include rented IT hardware and software components.

### (62) Contingent liabilities and other obligations

| | 2018 (in € million) | 2017 (in € million) | Change (in %) |
|---|---|---|---|
| **Contingent liabilities** | **151.2** | **127.1** | **19** |
| Liabilities arising from guarantees and indemnity agreements | 151.2 | 127.1 | 19 |
| **Other liabilities** | **2,088.8** | **1,741.6** | **20** |
| Irrevocable loan commitments | 2,088.8 | 1,741.6 | 20 |
| **Total** | **2,240.1** | **1,868.7** | **20** |

The liabilities from guarantees and indemnity agreements include credit guarantees, trading-related guarantees and contingent liabilities from other guarantees and indemnities.
For feasibility reasons, 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.
Given the short duration of the contingent liabilities and in connection with the generally low level of interest rates, these liabilities are not discounted.

**(63) Subsequent events**

*Strengthening the capital and realigning the business model of NORD/LB with impact on NORD/LB CBB:*

After the reporting date, NORD/LB published an ad-hoc notification on 2 February 2019, according to which a considerable net loss is expected for the 2018 financial year at the NORD/LB Group level (due in part to the additional loan loss provisions set aside for the NORD/LB NPL portfolio and corresponding portfolio transactions) and that the common equity tier 1 capital ratio will fall at times below the threshold required by the regulators. Following the ad hoc notification, the current owners of NORD/LB agreed to focus together with the previous owners and Deutsche Sparkassen- und Giroverband e.V (DSGV) in the public sector on achieving a joint solution for strengthening the capital. According to the ad hoc notification, this solution should be detailed in further talks to be held with the DSGV and must be agreed with the relevant supervisory authorities and from the perspective of government aid.

On 5 February 2019, NORD/LB entered the restructuring phase of its recovery plan due to the foreseeable negative impact on profitability and capital indicators.

Based on the measures planned to strengthen capital and its loan portfolio transactions, NORD/LB prepared a capital strategy and business plan at the request of the banking regulators, which was submitted to the regulators on 1 March 2019 and presented to them on 4 March 2019 together with the owners and DSGV.

On 3 April 2019, an updated capital strategy and business plan was presented to the banking regulators. In a joint letter from the State of Lower Saxony and DSGV on the “NORD/LB I capitalisation through the owners and Sparkasse Finance Group: basic agreement” sent to the banking regulators and NORD/LB on 8 April 2019 including the enclosed basic agreement between the owners, the DSGV and NORD/LB, written consent was given in particular to the capital measures and the realignment of the business model. NORD/LB assumes that by implementing the capital-strengthening measures contained therein and realigning the business model, this will lead to a significant increase in the capital ratios and all regulatory requirements will be met.

Furthermore, NORD/LB has decided to postpone the second ship portfolio transaction and pursue the establishment of an internal settlement unit instead.

The measures for realigning the business model of NORD/LB provide for an extensive transformation of individual business areas and subsidiaries of NORD/LB and the Group in the coming years. The measures may include a (partial) disposal or closure of NORD/LB CBB.

The capital strategy and business plan upon which the NORD/LB Managing Board’s forecast of the bank as a going concern is based take account of the capital injection described and the realignment of NORD/LB’s business model.

*Description of the impact of Brexit developments:*

Please refer to Note (59) Foreign currency volume for general information on Brexit.

In the 2019 financial year to date, the Bank has recognised temporary measurement losses of € -8.0 million from its cross-currency swaps (GBP/EUR) that hedge the loan portfolio in GBP. This led to an almost balanced result for the period as at 10 April 2019. The change in the cross-currency basis spreads was due to easing political tensions regarding Brexit. The Bank’s cross-currency swap portfolio in GBP/EUR reacts to measurement changes in the basis spread curve between GBP and EUR with a sensitivity of € 1.3 million per basis point. The Bank anticipates temporary measurement gains in the event of a hard Brexit, and temporary measurement losses if Brexit is averted.

The Bank still does not hold any significant unhedged cash or forward positions in GBP. It looks like there will be no material changes with regard to the impact on loan loss provisions described above.

## (64) Auditor fee

| | 2018 (in € thousand) | 2017 (in € thousand) |
|---|---|---|
| **Auditor fee for:** | | |
| Auditing | 867 | 523 |
| Other certification services | 126 | 282 |
| Tax advisory services | 0 | 11 |
| Other services | 0 | 15 |

No fees other than those listed in the table were paid to the auditor. The amounts quoted do not include statutory value-added tax.

## (65) 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.

**(66) Geographical distribution in the cover pool**

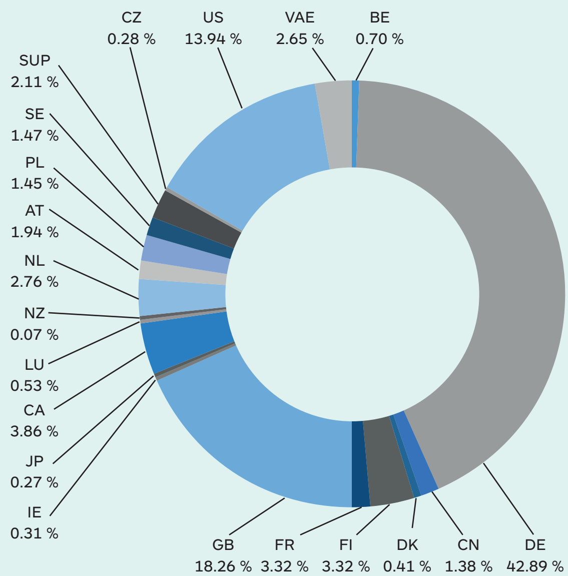
As a rule, the Luxembourg Pfandbrief legislation allows the coverage of loans and advances from countries which belong to the OECD, the European Union or the EEA, or countries with a (very) good rating from approved rating agencies.

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 some of these countries, the Bank is not planning any new commitments either.

The Bank will also not conduct any (new) business in Eastern Europe or the USA for the time being. The continuation of investments in some of 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: 19) different countries and one international organisation:

*As of the reporting date 31 December 2018:*

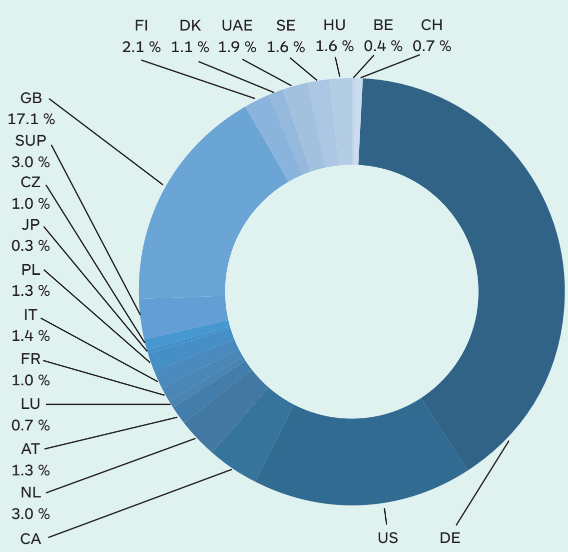
Geographical distribution




| Region | in % |
|---|---|
| Europe | 77.8 |
| North America | 17.8 |
| Asia | 4.3 |
| Others | 0.1 |

*As of the reporting date 31 December 2017:*

Geographical distribution



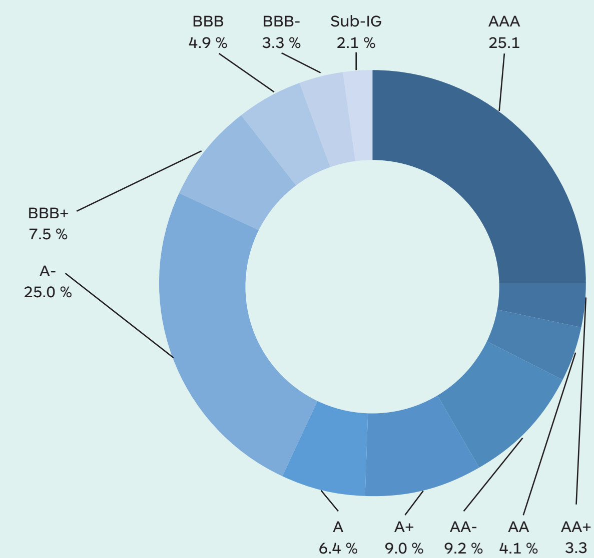

| Region | in % |
|---|---|
| Europe | 76.5 |
| North America | 20.6 |
| Asia | 2.9 |
| Others | 0.0 |

**(67) 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 2018:*

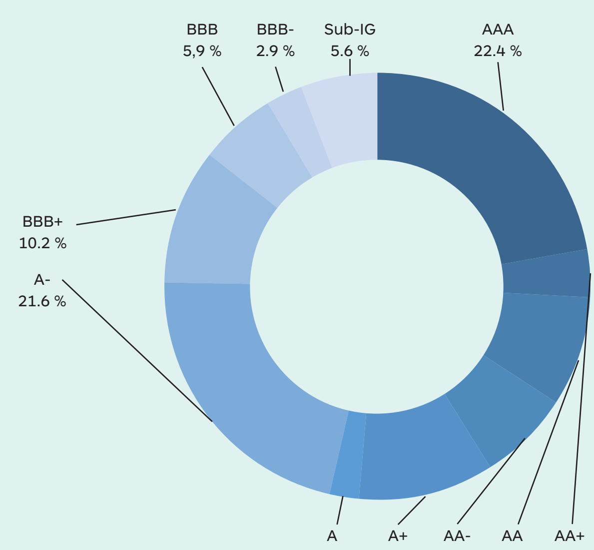
Credit rating structure




| Rating | in % | in % | in % |
|---|---|---|---|
| AAA | 25.1 | | 41.8 |
| AA | 16.6 | 82.2 | |
| A | 40.4 | | |
| BBB | 15.7 | | |
| Sub-IG Division | 2.1 | | |

*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 | 34.3 | | |
| BBB | 19.1 | | |
| Sub-IG Division | 5.6 | | |

## (68) 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) | |
|---|---|---|---|---|---|---|
| | 31.12.2018 | 31.12.2017 | 31.12.2018 | 31.12.2017 | 31.12.2018 | 31.12.2017 |
| Total | 5,428.2 | 4,930.4 | 4,057.8 | 3,971.9 | +1,370.4 | +958.5 |

*) nominal amount of covered issues in circulation including own holdings

The liquidity requirements based on the 180-day liquidity assessment pursuant to the Financial Sector Law of 5 April 1993, as amended on 22 June 2018, and as set out in Article 12-5 4bis, were complied with at all times.

## (69) Number of employees

The average number of employees in NORD/LB CBB during the reporting period is as follows:

| | Male 2018 | Male 2017 | Female 2018 | Female 2017 | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|
| NORD/LB CBB | 121.7 | 129.3 | 58.0 | 60.8 | 179.7 | 190.1 |

# Related parties

**(70) 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.

The natural persons described above (key positions at Bank) and shareholders of the parent company (key positions at parent company) are considered to be in key positions.

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.

In addition to its ordinary business activities, NORD/LB CBB also participates in projects within the Group. This mainly concerns the „Helios“ project, which deals with the core banking IT platform for individual foreign branches of NORD/LB. As a result of this project, a contract was negotiated with NORD/LB which governs the supply of services to operate the core banking software of Avaloq and the data warehouse Fincube, as well as corresponding compensation for NORD/LB CBB.

Information on the volume of transactions with related parties in 2017 and 2018 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 2018:*

| 31.12.2018 (in € million) | Parent company and businesses under common control or significant influence | Subsidiaries and other companies of the same group | Associated companies and joint ventures | Key positions at the Bank or the parent company |
|---|---|---|---|---|
| **Assets** | | | | |
| **Trading assets** | **103.3** | **0.0** | **0.0** | **0.0** |
| Derivatives | 103.3 | 0.0 | 0.0 | 0.0 |
| **Financial assets mandatorily designated at fair value through profit or loss** | **0.0** | **0.0** | **0.0** | **40.2** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 0.0 | 40.2 |
| **Financial assets at fair value through profit or loss** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Financial assets at fair value directly in equity** | **6.2** | **0.0** | **0.0** | **0.0** |
| Debt securities and other fixed-interest securities | 6.2 | 0.0 | 0.0 | 0.0 |
| **Financial assets at amortised cost** | **440.7** | **0.0** | **25.1** | **0.0** |
| Loans and advances | 440.7 | 0.0 | 25.1 | 0.0 |
| **Positive fair values from hedge accounting derivatives** | **207.8** | **0.0** | **0.0** | **0.0** |
| **Other assets** | **2.0** | **0.0** | **0.0** | **0.0** |
| **Total** | **760.0** | **0.0** | **25.1** | **40.2** |

| 31.12.2018 (in € million) | Parent company and businesses under common control or significant influence | Subsidiaries and other companies of the same group | Associated companies and joint ventures | Key positions at the Bank or the parent company |
|---|---|---|---|---|
| **Liabilities** | | | | |
| **Trading liabilities** | **59.5** | **0.0** | **0.0** | **0.0** |
| Derivatives | 59.5 | 0.0 | 0.0 | 0.0 |
| **Financial liabilities designated at fair value through profit or loss** | **552.3** | **0.0** | **0.0** | **0.0** |
| Securitised liabilities | 552.3 | 0.0 | 0.0 | 0.0 |
| **Financial liabilities at amortised cost** | **4,436.4** | **10.0** | **41.3** | **0.0** |
| Deposits | 1,954.6 | 0.0 | 41.3 | 0.0 |
| Securitised liabilities | 2,481.8 | 10.0 | 0.0 | 0.0 |
| **Negative fair values from hedge accounting derivatives** | **143.8** | **0.0** | **0.0** | **0.0** |
| **Other liabilities** | **0.4** | **0.0** | **0.0** | **1.9** |
| **Total** | **5,192.5** | **10.0** | **41.3** | **1.9** |
| Guarantees / sureties received | 4,104.4 | 0.0 | 0.0 | 0.0 |
| Guarantees / sureties granted | 0.0 | 0.0 | 0.0 | 0.0 |

| 01.01 - 31.12.2018 (in € thousand) | Parent company and businesses under common control or significant influence | Subsidiaries and other companies of the same group | Associated companies and joint ventures | Key positions at the Bank or the parent company |
|---|---|---|---|---|
| Interest income | 71,860 | 107 | 281 | 25 |
| Interest expenses | 148,773 | 56 | 642 | 0 |
| Dividend income | 0 | 0 | 0 | 0 |
| Commission income | 4,780 | 0 | 102 | 0 |
| Commission expenses | 49,204 | 0 | 906 | 0 |
| Other income and expenses | -13,409 | 0 | 344 | -114 |
| **Total** | **-134,745** | **51** | **-822** | **-89** |

*As at 31 December 2017:*

| 31.12.2017 (in € million) | Parent company and businesses under common control or significant influence | Subsidiaries and other companies of the same group | Associated companies and joint ventures | Key positions at the Bank or the parent company |
|---|---|---|---|---|
| **Assets** | | | | |
| **Trading assets** | **101.5** | **0.0** | **0.0** | **0.0** |
| Derivatives | 101.5 | 0.0 | 0.0 | 0.0 |
| Equity instruments | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financial assets mandatorily at fair value through profit or loss** | **0.0** | **0.0** | **0.0** | **0.0** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financial assets at fair value through profit or loss** | **0.0** | **0.0** | **0.0** | **40.4** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 0.0 | 40.4 |
| Loans and advances | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financial assets at fair value directly in equity** | **5.9** | **0.0** | **0.0** | **0.0** |
| Equity instruments | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt securities and other fixed-interest securities | 5.9 | 0.0 | 0.0 | 0.0 |
| Loans and advances | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financial assets at amortised cost** | **56.9** | **0.0** | **42.0** | **0.0** |
| Debt securities and other fixed-interest securities | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans and advances | 56.9 | 0.0 | 42.0 | 0.0 |
| **Positive fair values from hedge accounting derivatives** | **211.5** | **0.0** | **0.0** | **0.0** |
| **Other assets** | **0.5** | **0.0** | **0.0** | **0.0** |
| **Total** | **376.4** | **0.0** | **42.0** | **40.4** |

| 31.12.2017 (in € million) | Parent company and businesses under common control or significant influence | Subsidiaries and other companies of the same group | Associated companies and joint ventures | Key positions at the Bank or the parent company |
|---|---|---|---|---|
| **Liabilities** | | | | |
| **Trading liabilities** | **49.6** | **0.0** | **0.0** | **0.0** |
| Derivatives | 49.6 | 0.0 | 0.0 | 0.0 |
| Deposits | 0.0 | 0.0 | 0.0 | 0.0 |
| Securitised liabilities | 0.0 | 0.0 | 0.0 | 0.0 |
| Other financial liabilities | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financial liabilities designated at fair value through profit or loss** | **544.0** | **0.0** | **18.0** | **0.0** |
| Deposits | 0.0 | 0.0 | 0.0 | 0.0 |
| Securitised liabilities | 544.0 | 0.0 | 0.0 | 0.0 |
| Other financial liabilities | 0.0 | 0.0 | 18.0 | 0.0 |
| **Financial liabilities at amortised cost** | **3,485.3** | **131.9** | **0.0** | **0.0** |
| Deposits | 1,648.3 | 99.9 | 0.0 | 0.0 |
| Securitised liabilities | 1,837.0 | 32.0 | 0.0 | 0.0 |
| Other financial liabilities | 0.0 | 0.0 | 0.0 | 0.0 |
| **Negative fair values from hedge accounting derivatives** | **158.7** | **0.0** | **0.0** | **0.0** |
| **Other liabilities** | **0.0** | **0.0** | **0.0** | **1.9** |
| **Total** | **4,237.6** | **131.9** | **18.0** | **1.9** |
| Guarantees / sureties received | 3,834.8 | 0.0 | 0.0 | 0.0 |
| Guarantees / sureties granted | 0.0 | 0.0 | 0.0 | 0.0 |

| 01.01 - 31.12.2017 (in € thousand) | Parent company and businesses under common control or significant influence | Subsidiaries and other companies of the same group | Associated companies and joint ventures | Key positions at the Bank or the parent company |
|---|---|---|---|---|
| Interest income | 81,748 | 156 | 1,232 | 50 |
| Interest expenses | 147,973 | 56 | 24 | 0 |
| Dividend income | 0 | 0 | 0 | 0 |
| Commission income | 4,922 | 0 | 328 | 0 |
| Commission expenses | 50,467 | 0 | 2,142 | 0 |
| Other income and expenses | 59,220 | 3 | -296 | -69 |
| **Total** | **-52,549** | **102** | **-902** | **-19** |

**(71) 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,
Braunschweig and Magdeburg
(Chairman of the Supervisory Board)

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

*Günter Tallner,*
Member of the Managing Board
of NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover,
Braunschweig and Magdeburg
(Deputy Chair of the Supervisory Board
since 1 May 2018)

*Christoph Dieng,*
Member of the Managing Board
of NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover,
Braunschweig and Magdeburg

*Dr. Ulf Meier,*
General Representative
of NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover,
Braunschweig and Magdeburg
(until 31 August 2018)

**Members of the Managing Board**

*Thorsten Schmidt, Irrel*
Member of the Managing Board

*Manfred Borchardt, Trier*
Member of the Managing Board

**Mandates**

The following mandates were held by the members of the Managing Board of NORD/LB Luxembourg S.A. Covered Bond Bank during the 2018 financial year:

*Thorsten Schmidt*
NORD/LB G-MTN S.A.
(liquidated as at 30 June 2018),
Luxembourg, Member of the Board of Resolution

## (72) Remuneration of and loans to governing bodies

| | 2018 (in € thousand) | 2017 (in € thousand) |
|---|---|---|
| **Salaries of active board members** | **1,797** | **2,036** |
| Extended Managing Board * | 1,749 | 1,963 |
| Short-term employee benefits | 1,595 | 1,765 |
| Post-employment benefits | 154 | 199 |
| Other long-term benefits | 0 | 0 |
| Benefits upon termination of employment | 0 | 0 |
| Supervisory Board | 48 | 73 |

*) relates to the Managing Board and management employees

As at the reporting date on 31 December 2018, 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 as at the reporting date on 31 December 2018 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, 11 April 2019
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 2018, 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.

In our opinion, the attached financial statements provide a true and fair view of the financial position of the Bank as at 31 December 2018, 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.

*Material uncertainty in connection with going concern*

We refer to the comments in Note (1) „Principles for the preparation of the financial statements and statements on the going concern" in the notes to the financial statements and in the management report in the section „Dependencies of NORD/LB CBB on NORD/LB and going concern", in which the legal representatives state that the assumption made that NORD/LB CBB will continue to be a going concern is dependent on the continued existence of NORD/LB Norddeutsche Landesbank Girozentrale, Hanover, Brunswick and Magdeburg, for accounting and valuation purposes.

The continued existence of NORD/LB Norddeutsche Landesbank Girozentrale itself is subject to considerable uncertainty and is based in particular on the assumption that

- the measures pursued to strengthen capital at the level of NORD/LB Norddeutsche Landesbank Girozentrale will be implemented, completed and approved by all relevant stakeholders, in particular by the state parliaments of Lower Saxony and Saxony-Anhalt and the Deutsche Sparkassen- und Giroverband e.V.(DSGV), with the result that the capital ratios and buffers as well as the thresholds required by the regulators will be met in future,
- the banking regulators, in particular the European Central Bank, the Federal Financial Supervisory Authority and the Deutsche Bundesbank, will tolerate the failure to meet

the minimum capital ratios demanded by the regulators until the measures pursued to reinforce capital at the level of NORD/LB Norddeutsche Landesbank Girozentrale are completed,
- all official permits required to implement the plan, particularly from the European Commission and the responsible banking regulators, will be issued, and
- the realignment of the business model and the restructuring measures envisaged are put into practice on schedule.

If the planned measures to strengthen capital are not implemented as planned at the level of NORD/LB Norddeutsche Landesbank Girozentrale, NORD/LB Norddeutsche Landesbank Girozentrale could be wound up. In this case, it could also lead to the wind-up, sale or closure of NORD/LB CBB. In such a situation or in the event of a rating downgrade of NORD/LB Norddeutsche Landesbank Girozentrale or other adverse developments, the funding options available to NORD/LB CBB could also be fundamentally limited.

In addition, the corresponding acceptance at the level of the relevant stakeholders and the market is necessary to successfully implement the re-dimensioning and reorganisation of the NORD/LB Group. As explained in Note (1) „Principles for the preparation of the financial statements and statements on the going concern“ in the notes to the financial statements and in the management report in the section „Dependencies of NORD/LB CBB on NORD/LB and going concern“, this indicates the existence of a material uncertainty which may cast significant doubt on the ability of the Bank to continue its business activities. We do not modify our opinion in light of these facts.

*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 express a separate audit opinion on these matters.

The key audit matters are presented below:

*(1) Develop and apply criteria to identify financial instruments with a significant increase in default risk.*

Please refer to Note (9) Loan loss provisions in the notes to the annual financial statements for the accounting and measurement methods applied by the Bank. The quantitative effects of the transition from IAS 39 to IFRS 9 are presented in Note (3) to the annual financial statements. Disclosures on the loan loss provisions recorded in the 2018 financial year and the loan loss provisions as of the reporting date can be found in Note (22) Net valuation allowance from financial instruments not measured at fair value through profit or loss, Note (50) Loan loss provisions and gross carrying amount, and in Note (42) Provisions.

*Risk for the financial statements*

Loan loss provisions in the form of valuation allowances or provisions were recorded to take account of risks of loss in financial assets. These represent the management‘s best estimate of the expected credit losses sustained in the loan and securities portfolio as of the reporting date.

At the beginning of the 2018 financial year, the Bank applied the new accounting standard „IFRS 9 - Financial Instruments“ for the first time in accordance with requirements. One of the key innovations from IFRS 9 is the introduction of a new level system for determining loan loss provisions. This includes the so-called Level 2 loan loss provision, which comprises the expected credit loss over the (entire) term for financial assets measured at amortised cost or at fair value directly in equity where a significant increase in the default risk (transfer criterion) has occurred since their initial recognition (Level 1 - expected 12-month credit loss), without these instruments exhibiting specific default characteristics for a Level 3 loan loss provision.

If the transfer criterion is not properly designed and applied, there is a risk that the loan loss provision will only be recognised based on the expected 12-month credit loss in the event of a necessary transfer in Level 2. In the event a transfer back to Level 1 is required, then conversely there is the risk that the loan loss provision will be too high, and considered based on the expected credit loss for the (entire) term.
The carrying amount of the Bank's financial assets not measured at fair value through profit or loss totalled € 15,658.6 million on the reporting date. The Bank allocated financial assets with a gross carrying amount of € 619.9 million (4.0%) to the provisioning category of „significant increase in default risk", and financial assets with a carrying amount of € 10.7 million (0.1%) to the „credit-impaired" provisioning category.

€ +3.2 million (before taxes) or 12.9% of the transition effect in equity in the opening balance sheet as of 1 January 2018 is based on the introduction of the loan loss provisions system in accordance with IFRS 9. As of the reporting date, the Bank had taken account of credit risk by setting up loan loss provisions of € 10.6 million and provisions of € 1.1 million. The net release of loan loss provisions in the 2018 financial year amounts to € 5.2 million.
The standard predominantly uses a principle-based system to determine when there is a significant increase in default risk. In addition, the standard formulates the (rebuttable) presumption that being past due for more than 30 days is one of the signs of a significant increase in default risk. In accordance with the principles of the new standard, every reporting entity is responsible for developing quantitative and qualitative criteria for the first time, which it uses to assess whether the default risk has significantly increased (or decreased again) since the addition of a financial asset, and for applying such criteria from 1 January 2018 onwards, starting with the determination of transition effects. So it was of particular importance for our audit that these criteria were properly designed and applied for the purpose of their use in accounting under IFRS 9.

*Our approach during the audit*
Based on our risk assessment and the evaluation of the risks of error, we have based our opinion on both control-based and substantive audit procedures. Accordingly, we performed the following audit procedures among others:
Firstly, we gained comprehensive insight into the development of the credit portfolio, the associated counterparty risks and the internal control system with regard to the identification, management, monitoring and evaluation of counterparty risks in the credit portfolio. Our review included structural and function audits of the internal control system, focusing on assessing the design of the internal accounting methodology with regard to the valuation of credit-impaired loans and the number, derivation and measurement of scenarios.
We also obtained an overview of the basic procedure for the transfer logic from Level 1 to Level 2 (and vice versa), the models and the forward-looking and historical information and parameters used by the Bank to determine whether a significant increase in default risk has occurred or has regressed. Thereafter we assessed the fundamental suitability of the assessment models, information and parameters for determining a significant increase in the default risk.
Specifically, we gained comprehensive insight into the internal control system to ensure that quantitative and qualitative information and parameters are properly identified, recorded and analysed, and taken into account in the Bank's assessment models.
As part of the control-based audit procedures, we paid particular attention to process flows and the appropriateness and effectiveness of controls to ensure that the data supplied was complete, up-to-date and correct. In the case of external data we assessed whether the Bank incorporated this quality-assured and validated data into its

assessment models.

For the IT systems and individual data processing systems used, we previously checked the effectiveness of the rules and procedures that relate to a large number of IT applications and support the effectiveness of application controls, with the participation of our IT specialists.
As part of a sample of financial assets measured at amortised cost or not at fair value through profit or loss, we assessed whether the exposure data and characteristics (attributes) underlying the assessment models correspond to those in the credit files and to the data recorded in the primary IT systems, and whether the allocations to the respective provisioning levels were conducted properly based on the criteria developed by the Bank.
Furthermore, we verified the mathematical accuracy of the relevant components of the income statement and the completeness and accuracy of the disclosures prepared in connection with the first-time application.

*(2) Compliance with the cash flow criterion for debt instruments measured at amortised cost or at fair value directly in equity on the asset side of the balance sheet.*
For information on the accounting policies applied by the Bank, please refer to Note (5) Applicable IFRS, Note (8) Financial instruments, and the quantitative effects of the first-time application of IFRS 9 in Note (3) Reconciliation of categories and classes from IAS 39 to IFRS 9 in the Notes..

*Risk for the financial statements*
One of the major innovations of the new accounting standard „IFRS 9 - Financial Instruments“, which was applied by the Bank for the first time from the beginning of the 2018 financial year in accordance with requirements, is the introduction of a new classification model, which includes, in particular, extended requirements for the classification of financial assets under assets as measured “at amortised cost“ or „at fair value directly in equity“. The prerequisites for measurement at amortised cost or at fair value directly in equity include compliance with the cash flow criterion (also known as the „SPPI“ criterion), i.e. the contractual terms of the financial asset may only result in cash flows that represent solely payments of principal and interest (SPPI) on the outstanding principal amount at specified dates. If the SPPI criterion is not met, the financial asset is measured at fair value through profit or loss.
In the annual financial statements as at 31 December 2018, the Bank reports financial assets of € 15,204.7 million as measured at amortised cost or at fair value directly in equity (equivalent to 88.4% of total assets). 87.1% or € +21.7 million (both before taxes) of the IFRS 9 transition effect in equity in the opening balance sheet as at 1 January 2018 stemmed from changes in the classification of financial instruments.

The assessment of whether a loan or security agreement only results in SPPI-compliant cash flows can be complex in individual cases, and may also require the exercise of discretion. At the same time, IFRS 9 requires compliance with the SPPI criterion for each individual instrument, which can involve considerable manual effort and/or the development of standardised procedures for the reporting entity. Both approaches are associated with the risk of errors that may be caused by an incorrect classification decision, which can have a significant impact on the statement of comprehensive income. Therefore, it was important for our audit that the assessment of the SPPI criterion was based on assessment methods that fully and fairly reflected the requirements of the standard.

*Our approach during the audit*
Using our risk assessment and the evaluation of the risks of error, we have based our opinion on both control-based audit procedures and substantive audit procedures. Accordingly, we performed the following audit procedures among others:
Firstly, we obtained an overview of the Bank's

transaction types classified on an SPPI basis. Subsequently, we analysed the technical concepts and accounting instructions on which the SPPI classification of the Bank was based with regard to their completeness and conformity with IFRS 9.
In addition, we evaluated the documentation prepared by the Bank on the occasion of the first-time application to classify financial instruments into different product groups and project financing based on the degree of standardisation as well as into securities with and without special contractual components. For this purpose, we reviewed and examined the documentation of the roll-out project.
As part of the control-based audit procedures, we assessed the adequacy, implementation and effectiveness of controls established by the Bank to ensure an appropriate SPPI classification for new business and in the event of significant contract adjustments. In the case of individual project financing and securities, we focused our attention on controls to ensure proper classification based on individually agreed cash flows.
As part of our individual reviews, we used contract documents to assess whether the SPPI checks by the Bank were appropriate. In the lending business we concentrated on individual project financing with a further focus on non-recourse financing. At the time of the initial application of IFRS 9, we had the Bank's securities portfolio checked in full for compliance with the cash flow criterion with a team of specialist from the KPMG network.
Finally, we verified the mathematical accuracy of the relevant components of the income statement and the completeness and accuracy of the disclosures prepared in connection with the first-time application

*(3) Recognition and measurement of a provision for reorganisation measures*

Please refer to Note (14) Other provisions in the notes to the financial statements for the rules on accounting and measurement. Note (42) Provisions contains disclosures on the reorganisation measures and the provisions for reorganisation measures. As part of the management report, the details on the provision for reorganisation projects are contained in the section entitled Development of the business segments - “Outlook”.

*Risk for the financial statements*

As the parent company of the Bank, NORD/LB Norddeutsche Landesbank Girozentrale, Hanover, Braunschweig and Magdeburg 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 at various levels were also developed for the Bank based on the corresponding project planning in order to contribute to the cost-cutting objectives of the Group.
As at 31 December 2017, the Bank had recognised a provision for reorganisation measures of € 8.2 million on the basis of this restructuring project, of which € 3.6 million was used in the 2018 financial year as part of measures implemented; on the other hand, the implementation of the second phase of the reorganisation, which started in 2018, required a slight increase in the remaining provisions, which thus amounted to € 4.6 million as at the reporting date.
If the general and specific recognition requirements of the relevant regulations are met, appropriate provisions must be recognised for the personnel measures resulting from the reorganisation activities. From our perspective, this situation is particularly important as the recognition and measurement of provisions for uncertain liabilities in general and for reorganisation projects in particular are highly dependent on the estimates and assumptions of the Bank's Managing Board, particularly with regard to identifying the affected employment relationships and the release of employees, the structure of early retirement and severance payments as well as other costs, the estimation of the implementation progress of the planned measures and the quanti-

fication of the expenses incurred, all of which have an impact on the amount and timing of expected future expenses.
The risks for the annual financial statements lie in the fact that the prerequisites for recognising the provision for reorganisation measures are not met, or are measured based on inappropriate assumptions and estimates.

*Our approach during the audit*
First of all, we assessed the recognition criteria for the provisions for reorganisation measures based on the measures initiated as of 31 December 2017; in particular, we assessed whether there was a constructive obligation for the second phase of the restructuring as at 31 December 2018. To this end, we gained assurance that a duly updated resolution had been passed by the Managing Board on the implementation of the strategic resource planning or that a detailed, formal restructuring plan had been drawn up and that the key components of the reorganisation measures had been communicated to the works council and the employees concerned, or that implementation of the continued reorganisation measures had begun.
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 focused on the measures implemented to date, taking into account the effect of natural staff turnover with regard to estimating restructuring expenses. We reconciled the calculation of the restructuring expense with the Bank's existing obligation in the form of an updated works agreement. In conclusion, we gained assurance that contracts and agreements concluded as of the reporting date are no longer the subject of any provisioning calculation.

*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 annual 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 annual 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 laws or other regulations preclude public disclosure.

*Report on other legal and regulatory requirements*

We were appointed as “réviseur d’entreprises agréé” by the Annual General Meeting of Shareholders on 12 April 2018, and the duration of our uninterrupted engagement, including previous renewals and reappointments, is eight years.

The management report is consistent with the financial statements and was prepared in compliance with applicable legal requirements.

The Corporate Governance Statement is included in the Management Report. The information required by Article 70bis (1) c) and d) of the Act of 17 June 1992 as amended 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 remained independent of the Bank in conducting the audit.

*Other matters*

The Corporate Governance Statement includes the information required by Article 70bis (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, 11 April 2019
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 2018 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 2019 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 2018 at its meeting on 15 March 2019. 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 2018.

Luxembourg, March 2019

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

Covered Bond Bank
Luxembourg

NORD/LB Luxembourg S.A.
Covered Bond Bank
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