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 2019

The following tables may contain computational rounding differences.

Business performance	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in € million)	Change (in %)
Cash reserve	11.6	443.4	-431.8	-97
Trading assets	138.2	191.2	-67.9	-36
Financial assets at fair value through profit or loss	822.2	1,042.3	-220.2	-21
Financial assets at fair value directly in equity	1,939.4	2,101.7	-162.3	-8
Financial assets at amortised cost	12,233.1	13,103.0	-869.8	-7
Positive fair values from hedge accounting derivatives	312.9	218.8	94.1	43
Other assets	104.2	98.9	5.2	5
Total assets	**15,561.6**	**17,199.3**	**-1,637.7**	**-10**
Trading liabilities	121.6	81.1	40.5	50
Financial liabilities at fair value through profit or loss	1,560.1	1,634.1	-74.0	-5
Financial liabilities at amortised cost	12,645.3	14,320.4	-1,675.1	-12
Negative fair values from hedge accounting derivatives	480.2	438.5	41.7	10
Provisions	11.6	9.8	1.9	19
Other liabilities	35.5	34.0	1.5	4
Reported equity	707.2	681.4	25.9	4
Total liabilities and equity	**15,561.6**	**17,199.3**	**-1,637.7**	**-10**

Earnings performance	2019 (in € thousand)	2018 (in € thousand)	Change (in € thousand)	Change (in %)
Net interest income	120,923	113,904	7,020	6
Net commission income	-53,127	-41,170	-11,957	29
Profit/loss from fair value measurement	-10,010	-25,120	15,110	-60
Net valuation allowance from financial instruments not measured at fair value through profit or loss	2,627	5,529	-2,903	-52
Modification profit/loss	-163	0	-163	-100
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	736	0	736	100
Profit/loss from hedge accounting	6,654	-7,628	14,283	< -100
Profit/loss from foreign exchange	-275	493	-769	< -100
Profit/loss from shares in companies	64	0	64	100
Administrative expenses	-30,535	-38,442	7,906	-21
Current amortisation and depreciation	-4,784	-2,783	-2,001	72
Other operating profit/loss	-7,542	-3,826	-3,715	97
Income taxes	-6,021	136	-6,157	< -100
Earnings after taxes	**18,548**	**1,092**	**17,455**	**> 100**

Key regulatory indicators	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in € million)	Change (in %)
Total risk exposure amount	3,567.0	4,443.1	-876.1	-20
Tier 1 capital	646.5	613.1	32.2	5
Own funds	648.7	613.3	32.0	6
Common equity tier 1 capital ratio	18.1%	13.8%	-	31
Total capital ratio	18.2%	13.8%	-	31

Key performance indicators	31.12.2019	31.12.2018	Change (in %)
Cost/income ratio in % *	61.6 %	112.5 %	-45
RoRaC** in %	7.2%	0.3%	> 100

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

Overview of key data

Contents

Loan portfolio

Creation of a cover pool for a Lettres de Gage énergies renouvelables

Increase in the portfolio of loans eligible for cover funds by around € 1 billion (Lettres de Gage publiques and Lettres de Gage énergies renouvelables)

Long-term funding:

Issue of € 500 million Lettres de Gage with an order book of almost € 1.5 billion

Sales

250 European, institutional customers in 29 countries

Factoring

Programme limits of € 2.3 billion (up 6 per cent) spread over 60 transactions

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,

2019 marks the end of an eventful year for NORD/LB Luxembourg S.A. Covered Bond Bank.

Capital market yields in 2019 moved down surprisingly sharply. In Europe, yields plummeted to record low levels. At the end of the year the yield on government bonds recovered somewhat. Capital market returns were driven firstly by geopolitical issues (such as Brexit and trade wars) and secondly by monetary policy. The European Central Bank, for example, lowered the rate for the deposit facility and started fresh purchases of € 20 billion in the autumn. The first stage or phase of an agreement on trading arrangements between the United States and China and the wide margin of victory for the Conservative party in the election contributed to a significant easing of the situation on the capital markets.

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, which plots the course for yields and risk premiums for European covered bonds. NORD/LB Luxembourg S.A. Covered Bond Bank's Lettres de Gage publiques were also unable to escape the overarching trend on the international market for covered bank bonds.

Sales of covered bonds in general continued to be held back by the renewed record low yields in 2019, as covered bonds now almost all show negative yields due to their comparatively narrow spreads.

Even so, in the past year 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. As part of this, the Bank underwent assessment by the sustainability agency ISS-oekom and was rewarded with a very good corporate rating of C+ Prime.

All the groundwork had now been laid for the issue of the world's first green covered bond under Luxembourg law and at the end of January 2020 the time had come: NORD/LB Luxembourg S.A. Covered Bond Bank successfully placed a Lettres de Gage énergies renouvelables on the capital market. This is a new covered bond category where the cover pool only includes renewable energy projects.

The comprehensive concept for reinforcing the capital position and repositioning of the Bank adopted by NORD/LB and its owners at the beginning of April 2019 and submitted to the European Commission in the summer of 2019 was approved and implemented in December 2019. The Bank is therefore prepared for steadily rising regulatory requirements and has permanently strengthened its crisis resilience and competitiveness. We make an active contribution to these change processes within the NORD/LB Group.

2020 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.

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 2023.

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 joined the former Norddeutsche Landesbank Luxembourg S.A. in 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 Client Services Inhouse.

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 resulted in a substantial loss for NORD/LB in 2018.

On 2 February 2019 the owners and the Managing Board of NORD/LB resolved to transfer a significant proportion of the NORD/LB ship financing portfolio with a volume of approximately € 2.6 billion to an external investor in a portfolio transaction. A corresponding purchase and assignment agreement for the portfolio, which consisted entirely of non-performing shipping loans, was signed on 4 February 2019. The creation of an in-house workout unit was examined as the leading option for a further ship financing portfolio with an exposure of € 3.8 billion. On this basis the Managing Board decided to recognise extensive additional risk provisions for the transaction portfolio and the whole of the rest of the NPL portfolio in 2018 to ensure complete protection against credit risk. Risk provisioning was mainly measured on the basis of portfolio transactions and estimated market values. Overall, this led to a loss of € 2.4 billion in the consolidated financial statements as at 31 December 2018 and a significant shortfall against the regulatory minimum capital requirements.

To reduce non-performing shipping loan portfolios and lay the groundwork for measures to strengthen the capital ratios, in a notarised basic agreement on 21 June 2019 NORD/LB, its owners and Deutscher Sparkassen- und Giroverband e. V. (DSGV) agreed to take action to strengthen the capital position and realign the Bank. The cornerstones of this agreement were a capital increase of € 2.8 billion against cash contribution and capital substitution measures with a CET1 equivalent in the amount of € 0.8 billion. This is aimed at preparing NORD/LB for further increases in regulatory requirements and permanently strengthening its crisis resilience and competitiveness. In addition to reducing distressed loan portfolios, 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.

On 29 November 2019 NORD/LB received confirmation from the relevant bank supervisory authorities that the capital instruments met the requirements for common equity tier 1 capital and permission from the relevant bank supervisory authorities to classify these capital instruments as common equity tier 1.

Once the final package of documentation (the support agreement including annexes and explanatory documents on the business plan and guarantee agreements) had been submitted on 14 November 2019, on 5 December 2019 the European Commission also confirmed that the measures in the support agreement complied with the state aid rules.

On 6 December 2019 the Stakeholders' Meeting of NORD/LB approved the capital measures, which had already been passed by the Managing Board on 19 November 2019. Subsequently in December, all final board resolutions by the owners on executing the capital measures were passed. The parliaments of Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania also approved the state treaty.

The final arrangements were laid down in the support agreement, which was executed between the parties on 17 December 2019. The support agreement includes significant regulations on corporate governance at NORD/LB, the distribution of dividends, reinforcing the capital position through a combination of a capital increase for cash and measures to reduce risk, the information and monitoring rights of the DSGV, the restructuring and reorganisation of NORD/LB and the termination of support measures once specified target values have been achieved.

After approval from the Managing Board, the owners and the parliaments in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania, the cash contributions were received in the NORD/LB account on 23 December 2019, whereupon the capital measures were completed and the Articles of Association came into effect. With the payment of the capital and recognition by the supervisory authority, the material conditions for leaving the reorganisation phase have been met. On the recommendation of the Recovery Plan Committee, the NORD/LB Managing Board therefore resolved on 21 January 2020 to move from the restructuring phase to the early warning phase.

In this context, the going concern assumption now seems appropriate when drawing up the financial statements of NORD/LB CBB and NORD/LB.

International economic developments

Economic environment

General economic development

The global economy perceptibly lost growth momentum in 2019. As expected, economic performance and the capital markets were dominated by trade wars and Brexit. The first agreement between China and the USA on a trade agreement (“Phase I”) and the outcome of the elections in the United Kingdom contributed to an easing of tension on the financial markets at the end of the year.

Economic momentum in the Eurozone remained weak in 2019. Real gross domestic product (GDP) expanded at a quarterly growth rate of only 0.1 per cent in the fourth quarter, resulting in an annual rate of change of 1.2 per cent for real GDP in 2019 as a whole. The domestic economy was a reliable pillar of growth in the Eurozone. The steady, albeit slower, decline in unemployment and the associated growth in employment, had a positive impact. The unemployment rate fell to 7.6 per cent at mid-year. The very low consumer price inflation of only slightly above 1.0 per cent p.a. also supported the expansion in real disposable incomes. Adjusted for special effects, investment increased only moderately, but this was to be expected in view of the various political risks.

The German economy experienced a clear slowdown in 2019. Real GDP increased by only 0.6 per cent annually year on year in the first half. In view of the available indicators, this is likely to result in a growth rate of 0.5 per cent for the year as a whole. The industrial sector in particular was under pressure in the second half. The industrial recession has not yet spread to the services and construction sectors. Employment remains high and is supporting domestic consumption. Net exports, on the other hand, made a negative contribution to growth.

Capital market yields in 2019 moved downwards, sometimes surprisingly sharply. At the beginning of September, 10-year German Bunds set a new all-time low of almost -0.75 per cent. Yields in the rest of Europe also tumbled to record lows. At the end of the year the yield on government bonds recovered somewhat. Capital market returns were driven firstly by geopolitical issues (such as Brexit and trade wars) and secondly by monetary policy. The European Central Bank lowered the rate for the deposit facility and started new purchases of € 20 billion in autumn 2019. The first stage or phase of an agreement on trading arrangements between the United States and China and the wide margin of victory for the Conservative party in the election contributed to a significant easing of the situation on the capital markets. On the one hand, this boosted share prices – for example the DAX closed the year at 13,249, a rise of 25 per cent over the year as a whole. Government bond yields increased, with the yield on the German 10-year government bond rising to -0.19 per cent and that on a 10-year US Treasury bond to 1.92 per cent. The dollar benefited from the geopolitical uncertainties and the robust economic health of the USA and ended the year at EUR/USD 1.12. The EUR/USD basis swap spread narrowed over the year for all maturities to –10 to –15 basis points.

Global economic outlook

Global economic forecasts for 2020 are subject to a high degree of uncertainty. For example, it is not clear at this stage what concrete effects the coronavirus (SARS-CoV-2) will have. Numerous geopolitical trouble spots such as Brexit and trade conflicts remain.

We do not expect any major escalation in these issues in the NORD/LB core scenario, but we do expect them to have a braking effect. The trend in real economic output in the Federal Republic of Germany is likely to be modest overall. NORD/LB does not expect a prolonged recession. Our house forecast is that it will become increasingly difficult for the United States to maintain its current momentum. NORD/LB takes the view that the expansionary stance of central banks is likely to persist in the challenging economic environment, as too will the very low interest rates - which are negative in the Eurozone.

Financial sector
European banks will therefore face the following challenges in the future:
Advancing digitisation is increasing competition (from other market players such as fintechs and mobile payment services), forcing incumbent banks to invest heavily and thus increasing cost pressure.
There are also political risks (Brexit, governments critical of the EU, global trade conflicts and protectionist tendencies) posing uncertainties for banks. Economic performance may be negatively affected, which would put a stop to the positive trend in earnings and credit quality.
High competition, declining interest margins and a weakening economy are increasing pressure on earnings and forcing banks to engage in further cooperation and mergers (the total number of institutions in Europe is already declining).
Business models also need to be adjusted (moving away from interest income towards commission income), and an even stronger focus is needed on cost management.
At the time the financial statements were being prepared, the spread of the coronavirus was clearly having a significant impact on economic activity in many markets. The concrete effects on the economy, individual markets and sectors cannot be conclusively assessed at this time. In view of the unfolding dynamics, forecasts are highly uncertain.

Covered bond markets and Lettres de Gage publiques
The performance of the covered bond market segment in 2019 was mainly influenced by familiar issues. On the geopolitical front, the implementation of Brexit was again the subject of contention, while in Italy a new government coalition managed to calm the previously tense situation. By contrast, the escalating tariff conflict between the USA and China repeatedly caused headlines and nervousness on the markets. Fiscal policy issues once again focused on the European Central Bank, which, with its decision to resume net purchases and improve the terms of TLTRO III, caught the market expectations of a planned ECB change of course still prevailing at the beginning of the year off guard and repeatedly had a major impact on issuing behaviour and movement in the spreads on covered bonds. The sustained ultra-expansive monetary policy in the Eurosystem led to record low euro yields in August 2019, with the result that almost 96% of all covered bonds in the iBoxx were showing negative yields and new issues were almost only possible with negative yields. In terms of product-specific topics, the covered bond market once again demonstrated its adaptability to new requirements and new formats. The continuing momentum in social and green issues met with lively and growing investor interest, which will continue to influence the market in the future. With some new additions to the EUR benchmark segment, the growth trend remained unbroken even in the special conditions. Finally, the package of measures for the harmonisation of the European covered bond market was passed by the EU Parliament in 2019 and a significant milestone in terms of harmonisation was reached with the setting of the implementation dates and deadlines.
In detail, the volume of new issues of euro-denominated benchmark covered bond at the end of 2019 reached approximately € 136 billion, almost the same level as in 2018 and slightly exceeding general market expectations. The largest shares were accounted for by Germany (20.6 per cent or € 28.2 billion), France (19.1 per cent or € 26.2 billion), Canada (8.4 per cent or € 11.5 billion) and the Netherlands (7.7 per cent or € 10.5 billion). In terms of breakdown of primary market volume

by issuer origin, the majority of placements originated in the core Eurozone in 2019, as in previous years. This region accounts for € 80 billion or 59 per cent of primary market volume. The “Other Europe” region accounted for 17 per cent, which represents a slight increase on the previous year. Issuers from Australia, Japan, Canada, New Zealand, Singapore and South Korea (“Overseas & Others”) were somewhat more restrained than in 2019, accounting for € 19 billion or 14 per cent. New issues from the euro periphery represented a share of 11 per cent with a volume of € 15 billion.
In terms of breakdown by the largest groups of investors, commercial banks again increased their average share to 44.4 per cent, as did asset managers & funds to 31.2 per cent. By contrast, the share of the Central Banks/Supra Sovereign Agencies (SSAs) declined to 16.5 per cent due to the Eurosystem’s reduced purchasing. However, when interpreting the figures it should be borne in mind that the ECB’s decision in September 2019 has already led to a new reversal of the trend in the ECB’s share and thus in the share of the category Central Banks/SSAs in 2019. Since the start of the renewed net investment phase, the primary market has recorded 17 new issues, of which Central Banks/SSAs have been allocated an average of 26.6 per cent of the issue volume.
The changes in spreads on covered bonds were uneven: At the end of 2018 the market was still expecting spreads to widen significantly and they reached a provisional peak in January 2019, but then narrowed again as the year progressed due to the deterioration in the economic outlook and the renewed net purchases by the ECB. Overall, the change in spread volatility in the secondary market and new issue premiums was moderate. Spreads for NORD/LB CBB’s Lettres de Gage publiques were stable and moved in line with the overall market trend.

Lettres de Gage énergies renouvelables

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. 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 Lettres de Gage Renewable Energy, provided that more than 50 per cent is effectively used with renewable energies. The issue proceeds from Lettres de Gage énergies renouvelables 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.
This new field of activity offers great opportunities for NORD/LB CBB, especially in cooperation with NORD/LB.

Development of the business segments

Financial Markets & Loans

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

ALM/Treasury

ALM/Treasury, a part of the Financial Markets & Loans 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. The focus of issuing activities in the capital market, which uses 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.

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 duties such as long-term compliance and cost-optimised monitoring of regulatory indicators.

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.

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

Performance in Financial Markets & Loans

Following on from the regular Lettres de Gage issues that were already issued in recent years, in February 2019 NORD/LB CBB again placed a euro-denominated benchmark issue for its public cover pool.

The Lettres de Gages publiques issue in the amount of € 500 million with a term of five years enjoyed great interest from investors, which was reflected in an order book volume of almost € 1.5 billion from roughly 90 different investors from about 20 countries.

After the final allocation, the largest proportion of investors were fund and asset managers at 42 per cent, followed by banks at 38 per cent, central banks and public institutions at 16 per cent and insurers at 4 per cent. The breakdown by investors' region of origin shows a very well diversified picture internationally, and a further widening of the investor base as a result. The largest proportion of buyers was from Germany (40 per cent), followed by BeNeLux (13 per cent), Austria/Switzerland (12 per cent), Scandinavia (9 per cent), Eastern Europe (8 per cent), Asia (8 per cent), United Kingdom/Ireland (5 per cent) and Others (5 per cent).

As a supplement to the benchmark issue, private placements were also issued in the course of the year. As at 31 December 2019 the nominal over-collateralisation for Lettres de Gage publiques including derivatives was 25.9 per cent, or 36.5 per cent on a net present value basis. As a result, the statutory (2 per cent) and voluntary (22 per cent commitment) requirements were comfortably met. The origin of cover assets reflects the successful implementation of the business strategy, with 79.4 per cent coming from Europe (43.1 per cent from Germany).

As at 31 December 2019, the Lettres de Gage énergies renouvelables have 100 per cent surplus cover due to their initial issue in January 2020.

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 lending transactions that qualify for Lettres de Gage publiques. This is why lending business across the Group eligible for cover pooling in Luxembourg is booked through NORD/LB CBB. New business trends were encouraging again, leading to an increase in the lending portfolio eligible for cover pooling with these areas.

PPP (public private partnership) business 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 new business is on the core European states, plus selected new business from Asia. These loans serve as a cover pool for issuing Lettres de Gage publiques.

In addition to lending transactions that qualify for Lettres de Gage publiques, loans to finance renewable energies (solar and wind power) have also been booked through NORD/LB CBB since 2018. These loans serve as a cover pool for issuing Lettres de Gage énergies renouvelables.

Factoring

Alongside traditional lending business, the Bank specialises in factoring (individual and pool acquisitions). The factoring business of NORD/LB is a tailored solution for the respective customers involved. Within the NORD/LB Group this business is mainly handled by NORD/LB CBB. This line of business represents an important and strategically significant growth area of NORD/LB and NORD/LB CBB, and is operated in close cooperation with the Group. Factoring is considered an important anchor product, which remains in high demand from customers. 2019 went well and growth was again recorded. Agreed programme limits were increased by about 6 per cent this year. To strengthen and expand this segment, NORD/LB CBB is also working on initiatives to digitalise the business segment. Internal processes are being steadily driven ahead with the help of innovative software solutions, and work is under way to expand an existing cooperation with a fintech company.

Client Services Inhouse

The Client Services Inhouse segment uses the Bank's high-quality IT infrastructure and expertise and the existing internal service range to provide services to third parties within the NORD/LB Group. The goal is to makes optimal use of the Bank's resources and expertise within the Group.

Outlook

General:

NORD/LB CBB, as a wholly-owned subsidiary of NORD/LB, already agreed on optimisation measures as part of the predecessor "One Bank" initiative running out to 2021. Both operating costs and the number of employees were reduced in the past financial year. 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.

In the NORD/LB 2024 programme, NORD/LB CBB is represented in the "Foreign branches/subsidiaries" module. In principle, NORD/LB CBB will initially continue to operate its current business segments. In close cooperation with the other modules and the programme management, however, work is being done on possible models for further cross-location optimisation. Due to the strong dependency on fundamental decisions in the other modules of the programme, a strategic review of the NORD/LB CBB business model is currently planned for the second half of 2020. The specific planning for the following years will be based on these findings.

Covered bond markets:

Activities at European level to harmonise the covered bond markets have been completed – at least as far as the European legislative process is concerned.

Publication of the Covered Bond Directive and the amendments to the CRR in the Official Journal of the European Union on 18 December 2019 marked the successful completion of a process lasting several years.

The core of the package of laws harmonising the European covered bond markets is the Covered Bond Directive, which forms the basis for transposition into national law. The Directive contains both optional and mandatory requirements.

There is a tight timetable for transposition into national law. The legislation entered into force 20 days after publication, on 8 January 2020. The period for transposing the Directive into national law is 18 months, and must therefore be completed by 8 July 2021 – with application by 8 July 2022 at the latest. On this date the Regulation (amending the CRR) will also enter into force.

This means that all European legislators are currently reviewing their covered bond legislation and are making or planning appropriate changes/additions. This applies to Luxembourg too. As the EU Directive contains both optional and mandatory provisions, it is not possible at this stage to make a final statement on the nature and extent of possible effects on the Lettres de Gage business.

Nevertheless, a grandfathering clause applies to Lettres de Gage issued before the new rules become mandatory in Luxembourg (by 8 July 2022 at the latest). These will be deemed compliant with EU directives until their due date.

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 financing of renewable energies. This new field of activity offers great opportunities for NORD/LB CBB, especially in cooperation with NORD/LB.

Financial Markets, Sales, Loans, Factoring:
The Financial Markets Division continues to act as a service provider for the refinancing of asset portfolios, with a strong focus on active cover pool management. The covered refinancing is carried out via issues both of private placements and in benchmark size. The performance of new business is still deemed positive. The streamlined business model of NORD/LB CBB will continue to focus on refinancing credit transactions that qualify for Lettres 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 2019, 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**
Lettres de Gage énergies renouvelables	-	(P)Aa3**[2]

* Rating Watch Negative
** Review for Upgrade

NORD/LB CBB began 2019 with a long-term Issuer Rating of "Baa3" ("review direction uncertain") and a short-term Issuer Rating of "P-2" (review for downgrade) from ratings agency Moody's Investors Service (Moody's), plus a long-term Issuer Default Rating (IDR) of "A-" ("Rating Watch Negative") and a short-term Issuer Default Rating of "F1" from Fitch Ratings (Fitch). On 14 February 2019, Moody's changed the outlook of the long-term Issuer Rating to "review for upgrade". The review was extended on 30 August 2019.

Lettres de gage publiques

The Moody's rating for Luxembourg Pfandbrief Lettres de Gage publiques at the start of 2019 was "Aa3" ("review direction uncertain"). On 18 February 2019 Moody's changed the outlook for the long-term Issuer Rating to "review for upgrade".
The Bank starts 2020 with a Fitch rating of "AAA" (Rating Watch Negative) for Lettres de Gage publiques.

Lettres de gage énergies renouvelables

On 16 October 2019 Moody's assigned a rating of "(P)Aa3" to Lettres de Gage énergies renouvelables.

After the reporting date of 31 December 2019 Moody's Investors Service and FitchRatings changed the ratings as follows:
On 9 January 2020 Moody's raised the long-term Issuer Rating of NORD/LB CBB by 2 notches to A3 (outlook stable) from Baa2. On 13 January 2020 Moody's raised the Lettres de Gage publiques rating to Aa2 from Aa3 and the Lettres de Gage énergies renouvelables rating to P(Aa2) from P(Aa3).

[1] For more information and the current ratings, see www.nordlb.lu/Rating
[2] Provisional (P), for further information see www.nordlb.lu/Rating (Moody's Pre-Sale Report Renewable Energy Covered Bonds)

Earnings

The financial statements of NORD/LB CBB dated 31 December 2019 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 performed as follows in 2019 and 2018:

	2019 (in € thousand)	2018 (in € thousand)	Change ** (in € thousand)
Net interest income	120,923	113,904	7,020
Net commission income	-53,127	-41,170	-11,957
Profit/loss from fair value measurement	-10,010	-25,120	15,110
Net valuation allowance from financial instruments not measured at fair value through profit or loss*	2,627	5,529	-2,903
Modification profit/loss	-163	0	-163
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	736	0	736
Profit/loss from hedge accounting	6,654	-7,628	14,283
Profit/loss from foreign exchange	-275	493	-769
Profit/loss from shares in companies	64	0	64
Administrative expenses	-30,535	-38,442	7,906
Current amortisation and depreciation	-4,784	-2,783	-2,001
Other operating profit/loss*	-7,542	-3,826	-3,715
Earnings before income taxes	**24,568**	**956**	**23,612**
Income taxes	-6,021	136	-6,157
Net profit	**18,548**	**1,092**	**17,455**

*) The previous year's figures are adjusted values. See Note ((2) Restatement of previous-year figures)
**) The sign in the change column indicates the impact on earnings.

The breakdown of earnings components is as follows:

Net interest income

	2019 (in € thousand)	2018 (in € thousand)	Change * (in € thousand)
Interest income	474,447	463,769	10,678
Interest expenses	-362,655	-358,106	-4,549
Interest rate anomalies	9,132	8,241	891
Net interest income	**120,923**	**113,904**	**7,020**

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

Net interest income amounted to € 120,923 thousand as at 31 December 2019, an improvement of € 7,020 thousand. This marks an improvement of 6.2 per cent in 2019, following an increase of 4.6 per cent in the previous year.

The main effects were the increases in interest income from the expanded lending business. This was offset by the reduction in interest income from debt securities and other fixed-interest securities owing to the declining volume of securities in the Bank's portfolio.

Interest expenses increased slightly overall. Within interest expenses, there were compensating effects from the decline in interest expenses from financial liabilities measured at amortised cost and the increase in interest expenses from derivatives and financial liabilities designated at fair value through profit or loss.

For further explanations please refer to Note (18) Net interest income and current income.

Net commission income

	2019 (in € thousand)	2018 (in € thousand)	Change * (in € thousand)
Commission income	12,311	12,658	-347
Commission expenses	-65,438	-53,828	-11,610
Net commission income	**-53,127**	**-41,170**	**-11,957**

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

Net commission income deteriorated year on year by € 11,957 thousand to € -53,127 thousand. Commission income was generated principally in lending and guarantee business (€ 6,048 thousand, previous year: € 6,392 thousand) and the securities and custody business (€ 5,918 thousand, previous year: € 5,860 thousand). Other commission income (€ 346 thousand, previous year: € 405 thousand) arose mainly from account management and services.

Commission expenses are mainly attributable to profit-sharing (transfer price model) from business in partnership with other NORD/LB Group units (€ -43,755 thousand; previous year: € -37,933 thousand) and from lending and guarantee business (€ -19,050 thousand; previous year: € -12,995 thousand), which also take into account the costs of hedging credit risks. In addition, commission expenses also arise primarily from securities and custody business (€ -952 thousand; previous year: € -979 thousand).

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

	2019 (in € thousand)	2018 (in € thousand)	Change * (in € thousand)
Trading profit/loss	508	-8,705	9,213
Profit/loss from financial assets mandatorily at fair value through profit or loss	6,691	-7,502	14,193
Profit/loss from securitised liabilities designated at fair value through profit or loss	-17,210	-8,913	-8,296
Profit/loss from fair value measurement	**-10,010**	**-25,120**	**15,110**

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

Profit/loss from financial instruments at fair value through profit or loss (€ -10,010 thousand, previous year: € -25,120 thousand) shows the trading profit/loss proper and the profit/loss from financial instruments mandatorily or voluntarily measured at fair value.

The balanced trading profit/loss is mainly the result of negative temporary measurement effects of € 9,028 thousand (previous year: € 10,243), which are chiefly attributable to basis spread effects on cross currency swaps. This was offset by a valuation gain of € 15,206 thousand (previous year: € 0 thousand) from the credit derivative from the financial guarantees received from the State of Lower Saxony to hedge the risk of losses on certain ship and aircraft financing portfolios. The other effects were primarily market-induced.

The significant improvement in financial assets at fair value through profit or loss is due to positive trends in interest rates and credit spreads. Of the € 6,691 thousand, € 4,049 thousand is mainly attributable to interest effects and € 2,655 thousand to an improvement in credit rating.

Profit/loss from securitised liabilities designated at fair value through profit or loss is mainly attributable to interest rate effects.

Net valuation allowance from financial instruments not measured at fair value through profit or loss including modification profit/loss

	2019 (in € thousand)	2018 (in € thousand)	Change * (in € thousand)
Loan loss provisions for financial assets at fair value directly in equity	15	-31	45
Loan loss provisions from financial assets at amortised cost	5,221	5,184	37
Allocations to and reversals of provisions in the lending business	-2,609	376	-2,985
Modification profit/loss	-163	0	-163
Net valuation allowance from financial instruments not measured at fair value through profit or loss including modification profit/loss	**2,464**	**5,529**	**-3,065**

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

Changes in loan loss provisions resulted in income of € 2,627 thousand (previous year: € 5,529 thousand). As last year, this resulted essentially from a reduction in the impairment from lower default risks in accordance with the classification to provisioning levels 1 and 2. The figure also includes a receipt on a receivable written off amounting to € 1,791 thousand.

The loss on allocations to and reversals of provisions in the lending business mainly resulted from a deterioration in the credit quality of two exposures in the shipping segment, where an allocation of € 3,301 thousand was recognised. This was offset by minor releases from improved credit quality of € 691 thousand.

The overall modification profit/loss results from receivables measured at amortised cost: € -163 thousand of this relates to modifications of financial instruments where the risk provision was determined on the basis of a lifetime expected credit loss. The corresponding amortised costs before modification totalled € 22.5 million.

Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss

	2019 (in € thousand)	2018 (in € thousand)	Change * (in € thousand)
Financial assets at fair value directly in equity	0	0	0
Financial assets at amortised cost	736	0	736
Financial liabilities at amortised cost	0	0	0
Other profit/loss on disposal	0	0	0
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	**736**	**0**	**736**

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

In 2019, a profit of € 736 thousand (previous year: € 0 thousand) was generated from the disposal of financial assets. The sales came solely from disposals made as a result of reductions in risk-weighted assets in connection with a Group-wide redimensioning. The gross carrying amount of disposals was € 212.5 million (previous year: € 0.0 million) from securities and € 30.0 million from receivables (previous year: € 0.0 million).

Profit/loss from hedge accounting

	2019 (in € thousand)	2018 (in € thousand)	Change * (in € thousand)
Profit/loss from hedged underlying transactions	-14,413	-58,421	44,008
Profit/loss from derivatives employed as hedging instruments	21,067	50,793	-29,726
Profit/loss from hedge accounting	**6,654**	**-7,628**	**14,283**

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

The changes in **profit/loss from hedge accounting** (€ 6,654 thousand; previous year: € -7,628 thousand) are the result of market interest rate fluctuations as well as OIS and CVA/DVA effects. These two effects occur in isolation in hedging transactions, thereby resulting in minor 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.

Profit/loss from foreign exchange

	2019 (in € thousand)	2018 (in € thousand)	Change * (in € thousand)
Profit/loss from foreign exchange	**-275**	**493**	**-769**

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

The **profit/loss from foreign exchange** is generally balanced, as currency risks are essentially eliminated. Temporary and minor inefficiencies in this process result in a low profit/loss from foreign exchange.

Administrative expenses

	2019 (in € thousand)	2018 (in € thousand)	Change * (in € thousand)
Staff expenses	**-17,231**	**-19,662**	**2,431**
- Wages and salaries	-14,678	-16,916	2,238
- Social insurance contributions and pension expenses	-2,553	-2,746	194
Other administrative expenses	**-13,304**	**-18,779**	**5,475**
Administrative expenses	**-30,535**	**-38,442**	**7,906**

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

Administrative expenses fell by € 7,906 thousand from the previous year. This was partly due to the reduction in personnel expenses and other administrative expenses as a result of the multi-stage restructuring process currently being implemented. Within other administrative expenses the main reductions were IT and communication costs (€ -7,977 thousand; previous year: € -9,977 thousand) and legal, auditing, expert and consulting fees (€ -1,823 thousand; previous year: € -4,759 thousand).

Current amortisation and depreciation
Straight-line amortisation and depreciation on property and equipment and intangible assets rose by € 2,001 thousand to € -4,784 thousand. The increase over the previous year is due to the first-time application of IFRS 16 and the associated depreciation of right of use assets under leases and the first-time amortisation of intangible assets resulting from a Group-wide IT project at the core bank. No extraordinary depreciation was recognised.

Other operating profit/loss

	2019 (in € thousand)	2018 (in € thousand)	Change * (in € thousand)
Other operating income	5,822	5,132	690
Other operating expenses	-13,364	-8,958	-4,406
Other operating profit/loss	**-7,542**	**-3,826**	**-3,715**

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

Other operating profit/loss deteriorated year on year by € -3,715 thousand to € -7,542 thousand.

Other operating income results primarily from charging for services for a major Group project (€ 5,053 thousand, previous year: € 2,003 thousand) and rental income (€ 755 thousand, previous year: € 721 thousand). Unlike the previous year (€ 2,880 thousand), no income was generated from VAT refunds relating to other periods.

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)) (€ 6,137 thousand; previous year: € 5,390 thousand), and expenses for service charging with the Group (€ 4,548 thousand; previous year: € 3,289 thousand).

Income taxes

	2019 (in € thousand)	2018 (in € thousand)	Change * (in € thousand)
Current taxes	-6,021	-226	-5,794
Deferred taxes	0	362	-362
Income taxes	**-6,021**	**136**	**-6,157**

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

Current taxes are calculated based on the tax rate applicable for the 2019 financial year.

Net assets and financial position

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in € million)
Cash reserve	11.6	443.4	-431.8
Trading assets	138.2	191.2	-52.9
Financial assets at fair value through profit or loss	822.2	1,042.3	-220.2
Financial assets at fair value directly in equity	1,939.4	2,101.7	-162.3
Financial assets at amortised cost	12,233.1	13,103.0	-869.8
Positive fair values from hedge accounting derivatives	312.9	218.8	94.1
Other assets	104.2	98.9	5.2
Total assets	**15,561.6**	**17,199.3**	**-1,637.7**
Trading liabilities	121.6	81.1	40.5
Financial liabilities designated at fair value through profit or loss	1,560.1	1,634.1	-74.0
Financial liabilities at amortised cost	12,645.3	14,320.4	-1,675.1
Negative fair values from hedge accounting derivatives	480.2	438.5	41.7
Provisions	11.6	9.8	1.9
Other liabilities	35.5	34.0	1.5
Reported equity	707.2	681.4	25.9
Total liabilities and equity	**15,561.6**	**17,199.3**	**-1,637.7**

Total assets fell by € -1,637.7 million compared with 31 December 2018, from € 17,199.3 million to € 15,561.6 million.

The **cash reserve** includes balances with central banks and was significantly lower at the end of the year, partly due to a reduction in minimum reserves.

Trading assets largely consist of derivatives that do not qualify for hedge accounting but are in economic hedges (€ 138.2 million, previous year: € 191.2 million).

Financial assets at fair value through profit or loss (€ 822.2 million, previous year: € 1,042.3 million) as at 31 December 2019 consisted primarily of financial assets mandatorily at fair value through profit or loss from the allocation of the “other” portfolio (€ 815.3 million) and receivables that do not meet the SPPI criterion (€ 6.9 million). The reduction is due to maturing assets in the “other” portfolio with a nominal value of € 223.6 million, whereas no new business was allocated to this portfolio.

Financial assets at fair value directly in equity consist solely of debt securities and other fixed-interest securities (€ 1,939.4 million, previous year: € 2,101.7 million). The decline was largely due to maturities and repayments that were not fully made up by new business.

Financial assets at amortised cost comprise loans and advances to customers (€ 9,953.6 million, previous year: € 9,370.8 million), debt securities and other fixed-interest securities (€ 1,547.5 million, previous year: € 1,765.8 million) and loans and advances to banks (€ 732.1 million, previous year: € 1,966.4 million). The increase in loans and advances to customers is due to growth in new lending in 2019. The decline in debt securities and other fixed-interest securities at amortised cost is mostly due to maturities and repayments and individual sales transactions that were likewise not fully made up by new business. The reduction in loans and advances to banks is mainly based on the repayment of short-term borrowings on the interbank market.

The largest items under **other assets** (€ 104.2 million, previous year: € 98.9 million) are property and equipment including investment property (€ 64.6 million, previous year: € 64.2 million) and intangible assets (€ 30.2 million, previous year: € 27.0 million). There were no major changes in this item during 2019.

Trading liabilities largely include derivatives, most of which are in economic hedges (€ 121.6 million, previous year: € 81.1 million).

Financial liabilities designated at fair value through profit or loss (€ 1,560.1 million) consist solely of own issues designated at fair value due to an accounting mismatch (previous year: € 1,634.1 million). No Lettres de Gage were issued in the year that are allocated to this measurement category.

Financial liabilities at amortised cost (€ 12,645.3 million, previous year: € 14,320.4 million) consist of liabilities to banks (€ 6,105.9 million, previous year: €5,942.4 million), liabilities to customers (€ 2,631.7 million, previous year: €4,549.1 million) and securitised liabilities (€ 3,907.8 million, previous year: € 3,828.9 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. During the financial year, Lettres de Gage were issued in the amount of € 500.0 million.
The planned growth in Lettres de Gage purchased by institutional investors was continued in 2019 (€ 1,794.4 million, previous year: € 1,519.6 million). The maturity dates for these are between 2020 and 2048. Securitised liabilities (€ 3,907.8 million, previous year: € 3,828.9 million) were almost unchanged.
In addition to restructuring provisions (€ 3.7 million, previous year: € 4.6 million), provisions primarily include provisions for pensions and similar obligations (€ 3.9 million, previous year: € 3.3 million) and provisions for risk provisions for loan commitments, financial guarantees and other off-balance sheet obligations (€ 3.5 million, previous year: € 1.1 million). The reduction in the restructuring provision is mainly due to utilisation over the course of the Bank’s multi-stage restructuring process currently being implemented.

Other liabilities mainly include income tax liabilities (€ 19.1 million, previous year: € 20.4 million).

The Bank’s **reported equity** stood at

€ 707.2 million as at 31 December 2019 (previous year: € 681.4 million). The rise is mainly due to the reduction in credit risk on financial assets at fair value directly in equity and the resulting increase in the revaluation reserve. The increase in the profit for the financial year is also reflected in reported equity. No dividends were paid during the year.

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 2019 was prepared in accordance with IFRS 7.

The Bank does not accept significant risks from derivatives with complex structures.

With due consideration to the applicable requirements in accordance with “BCBS 239 – Principles for 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.

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.

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.

In the first half of 2019, the focus was on implementing the requirements of BCBS 239 for the effective aggregation of risk data and risk reporting. In this context, as at 31 March 2019 the Risk Control & Strategy department introduced a new overall risk report that covers different types of risk. This includes information about all key figures that the Bank's Managing Board considers relevant to management. The overall risk report comprises information that was previously distributed over several reports about risk types that are classified as material and the associated risk concentrations, the respective limit utilisations and stress-test results and the risk-bearing capacity.

In addition, the risk-bearing capacity model and reporting thereof were adapted in several steps in 2019 to the requirements of the ECB's Guideline on the internal process for assessing capital adequacy (the "ICAAP Guidelines"[3]) of November 2018.

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). Under the ECB's ICAAP guidelines, the RTF model is based on the going concern assumption. The going concern principle is ensured, among other things, by excluding additional tier 1 capital and tier 2 capital from economic risk capital. The normative perspective is managed with the aim of ensuring that all internal and external capital requirements are met over a three-year time horizon. Potential economic risks are incorporated into this objective via a projection of the SREP[4] capital requirement.

The internal requirements of the risk strategy regarding risk appetite and the allocation of risk capital are operationalised and monitored within RBC reporting in the form of traffic light signals. The operational management and limitation of risks takes place within a quantitative limit system.

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.

[3] ICAAP - Internal Capital Adequacy Assessment Process
[4] SREP – Supervisory Review and Evaluation Process

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 & Loans
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 fully meets the requirements under ICAAP, 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 Head of Risk Control & Strategy. 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 internal regulations 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 Group-wide risk-bearing capacity model is the methodological basis for monitoring compliance with the NORD/LB CBB risk strategy. This monitoring is handled by the Risk Control & Strategy department at the Bank.
The risk-bearing capacity model, which is known as RACE (Risk Appetite Control Engine), is based on regular quantitative comparison of

- capital ratios on the reporting date with the required target capital ratios (under the normative perspective) and
- risk potential from material risks with the capital available for risk coverage (under the economic perspective).

This reconciliation involves not only an aggregate risk analysis but also monitoring the risk strategy requirements through the use of limits for the respective material risk types.
The continuous ICAAP is geared towards safeguarding the permanent survival of the Bank and the NORD/LB Group. The aim is qualitative and quantitative assessment and ensuring the provision of capital adequacy using comprehensive short and medium-term assessments based on different perspectives.
The RBC model and related reporting were adapted in several stages during the year to meet the requirements of the ECB's ICAAP guidelines. In the first quarter the previous presentations of primary and secondary criteria were transformed into normative (previously "regulatory") and economic (previously "business case") perspectives. The risk potentials in the economic perspective were calculated unchanged in line with modelling in the business case at a confidence level of 99.9 per cent and with a holding period of one year, while common equity tier 1 less hidden liabilities was introduced as the upper limit for calculating risk capital. Since then, this upper limit has also been applied to the limit capital used for monitoring the risk-strategic allocation (previously the "secondary criterion"), as the reference value against which the risk potential is compared under the economic perspective. Three additional plan years were included in the reporting as a way of facing the future. There were initially no changes to the resolution perspective.
Finally, as at 31 December 2019, the RBC model was further adjusted under the economic perspective to focus the risk calculation on economic value.

At risk type level, this means the following:

Economic perspective		Economic perspective
previously		**Implementation as at 31 December 2019**
Business case	**Resolution case**	
Counterparty risk: IFRS view	**Counterparty risk:** Fair value view	**Counterparty risk:** Fair value view
→ not applicable	→ *adopted*	
Market price risk: a) Income-based risk measurement for banking book positions b) Valuation risks from positions measured at fair value under IFRS	**Market price risk:** Full net present value measurement including all credit spread risks on tradable positions	**Market price risk:** Full net present value measurement including all credit spread risks on tradable positions
→ not applicable	→ *adopted*	
Liquidity risk: Liquidity maturity schedule over the entire term	**Liquidity risk:** Liquidity progress schedule for 1 year	**Liquidity risk:** Liquidity maturity schedule over the entire term
→ *adopted*	→ not applicable	
Operational risk: Loss distribution approach		**Operational risk:** Loss distribution approach
→ adopted		

Consequently, the resolution perspective has been discontinued since 31 December 2019.

The guiding principle of the normative and economic perspective in the RBC model is the ability to continue as a going concern on the basis of the existing business model while complying with both external and internal requirements and continuously covering economic risks. Direct management impetus stems both from the normative and economic perspective of the risk-bearing capacity model.

From a normative perspective, the regulatory capital requirements under Article 92 CRR plus the SREP capital requirement and regulatory and internal capital buffers act as ICAAP early warning thresholds for the capital ratios. Under the economic perspective, risk capital is calculated on the basis of a maximum calculation with subsidiary conditions. The subsidiary conditions are expressed in concrete terms both in external capital requirements (minimum regulatory requirements including SREP premium plus buffer) and internal requirements (a management buffer). In order to determine the available risk cover, the economic risk potential is gradually increased in a simulation on the basis of the maximum calculation. This increase implies a reduction in the capital ratios via the feedback loop with the regulatory risk potential. The calculation is completed when a predefined minimum threshold (risk appetite) for the common equity tier 1 ratio is reached. This minimum threshold consists of the prudential requirements under Article 92 CRR plus the SREP capital requirement, the latter being zero in the NORD/LB CBB.

Based on the risk capital under the economic perspective, the limit capital is defined; this is allocated to the individual risk types via the risk strategy specifications. At NORD/LB CBB the limit capital is set at 90 per cent of risk capital in accordance with a resolution of the Managing Board. 10 per cent of the risk capital serves as a reserve to cover other risks.

The results of the RBC model calculated by Risk Control & Strategy are included in the monthly overall risk report. This serves as the central instrument for risk reporting at the overall bank level to the Managing Board and the supervisory bodies. 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 overall risk reports 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 sub-category 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 - changes in 2019

The table below shows the risk-bearing capacity of NORD/LB CBB under the normative and economic perspective as at 31 December 2019 and 31 December 2018:

Risk-bearing capacity	31.12.2019	31.12.2018[1)]
Normative perspective		
CET1 capital (in € million)	646.5	613.1
Regulatory risk potenial (in € million)	285.4	355.4
CET 1 capital ratio (in %)	18.1%	13.8%
Tier 1 capital ratio (in %)	18.1%	13.8%
Total capital ratio (in %)	18.2%	13.8%
Economic perspective		
Total risk potential (in € million)	**355.0**	**278.3**
Credit risk	82.3	123.3
Market price risk	176.6	88.3
Liquidity risk	80.4	50.2
Operational risk	15.7	16.5
Risk capital (in € million)	**476.0**	**577.7**
Utilisation (in %)	**74.6%**	**48.2%**

[1)]The comparative figures have not been recalculated retroactively, but are based on the business case methodology used in the previous year.

The Bank's risk-bearing capacity was well assured at 31 December 2019, as it was throughout the year.

The common equity tier 1 ratio improved by 4.3 percentage points compared with 31 December 2018 to 18.1 per cent. In addition to the increase in common equity tier 1 due to positive effects in other comprehensive income ("OCI") and lower deductions, lower regulatory risk potential also contributed to this.

From the economic perspective the utilisation rate increased considerably (+ 26.4 percentage points), largely due to the methodological adjustments. The latter are reflected mainly in market price risk, which is now measured in full in terms of net present value, taking into account all credit spread risks on tradable securities. Risk capital has also been reduced by € 102 million as a result of the introduction of the upper limit in the amount of common equity tier 1 less hidden liabilities. The increase in liquidity risks, on the other hand, is not due to methodological reasons, but to new lending business as part of building up the cover pool for Lettres de Gage énergies renouvelables.

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 2019.

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, 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.
Financial Markets & Loans conducts its operational financing business for customers, assets and projects, both domestically and internationally, under 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. Monitoring is carried out by the Finance unit.

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 at 31 December 2019, the exposure limit for shadow banking entities using the principal approach was increased by € 11.0 million to € 355.0 million. A limit of € 7.0 million applies at the individual borrower level.

The utilisation of limits for shadow banking entities is monitored and reported by the Risk Control & Strategy unit in the quarterly overall risk report. As at 31 December 2019, the Bank complied with all limits for shadow banking entities.

Securitisation

Until 30 June 2019 NORD/LB CBB provided 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. This transaction was derecognised in July 2019, so the Bank no longer has any securitisations in its portfolio as at the reporting date. As before, securitisation transactions are not a strategic focus of NORD/LB CBB.

Investments

Since 1 March 2018 NORD/LB CBB has no longer held any investments, as the only investment had been Galimondo S.à.r.l, Luxembourg, which was liquidated with effect from 28 February 2018.

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 overall risk 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 implementation of any necessary measures. The overall risk reports are also discussed in meetings of the Supervisory Board.
Essentially, the overall risk 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 2019
The maximum default risk exposure for balance-sheet and off-balance-sheet financial instruments came to € 16.9 billion as at the reporting date, a decrease of 10.6 per cent or € 2.0 billion over 2019. The decline is mainly due to a lower volume of money market business (loans and advances to banks) and maturities or sales of securities (financial assets). Lending to customers, however, rose by 6 per cent.

Risk-bearing financial instruments in € million	Maximum default risk exposure 31.12.2019	31.12.2018
Loans and advances to banks	732.1	1,966.4
Loans and advances to customers	9,953.6	9,370.8
Financial assets at fair value through profit or loss	960.4	1,233.5
Positive fair values from hedge accounting	312.9	218.8
Financial assets	3,486.9	3867.5
Subtotal	**15,445.8**	**16,656.9**
Warranties for third-party accounts	54.8	151.2
Irrevocable credit committments	1,393.4	2,088.8
Total	**16,894.1**	**18,897.0**

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 33.7 per cent (previous year: 35.0 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 2019 was € 17.0 billion. The hefty € 2.1 billion fall from the previous year was mainly the result of lower volumes in overnight and term deposits, and also maturities and sales of securities.

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 2018:

Rating structure [1) 2)]	**Loans**[3)]	**Securities** [4)]	**Derivatives** [5)]	**Other** [6)]	**Total exposure**	
in € million	31.12.2019				31.12.2019	31.12.2018
very good to good	9,633.6	3,992.3	283.4	660.2	**14,569.6**	**16,345.6**
good / satisfactory	1,015.6	285.5	0.0	95.7	**1,396.9**	**2,010.2**
reasonable / satisfactory	538.9	7.2	0.0	38.4	**584.5**	**331.2**
increased risk	323.3	27.4	0.0	30.4	**381.0**	**356.3**
high risk	31.2	0.0	0.0	0.0	**31.2**	**42.6**
very high risk	11.7	0.0	0.0	0.0	**11.7**	**34.8**
default (=NPL)	33.2	0.0	0.0	0.0	**33.2**	**11.1**
Total	**11,587.5**	**4,312.5**	**283.4**	**824.7**	**17,008.1**	**19,131.7**

1) Allocation according to IFD rating class.
2) Differences in totals are rounding differences.
3) Includes loans taken up, loan commitments, sureties, guarantees and other non-derivative off-balance-sheet assets, whereby 44.9% of the irrevocable and revocable credit commitments are included, as in the internal reporting.
4) Includes the securities holdings of third-party issues (only banking book).
5) Includes derivative financial instruments such as finance swaps, options, futures, forward rate agreements and currency transactions.
6) Includes other products such as transmitted and administrative loans.

Most of the total exposure (85.7 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.

A reconciliation of the rating structure to the IFRS 9 classifications is shown in Note ((50) Loan loss provisions and gross carrying amount).

The total credit exposure by sector breaks down as follows:

Sectors [1) 2)] in € million	**Loans**[3)]	**Securities** [4)]	**Derivatives** [5)]	**Other** [6)]	**Total exposure**	
	31.12.2019				31.12.2019	31.12.2018
Financing institutions / insurance companies	2,552.2	2,204.3	281.8	29.1	**5,067.3**	**5,940.4**
Service industries / other	3,358.3	1,878.9	1.2	182.4	**5,420.8**	**5,679.0**
- of which land and housing	156.9	0.0	0.0	18.0	**174.9**	**195.0**
- of which public administration	61.7	1,854.6	0.0	2.4	**1,918.7**	**2,122.0**
Transport / communications	924.4	13.9	0.4	78.3	**1,017.0**	**1,019.4**
- of which shipping	129.0	0.0	0.0	0.0	**129.0**	**94.1**
- of which aviation	29.3	0.0	0.0	0.0	**29.3**	**46.2**
Manufacturing industry	1,553.1	0.0	0.0	97.8	**1,650.9**	**1,873.9**
Energy, water, mining	2,058.5	215.4	0.1	412.4	**2,686.3**	**2,433.5**
Trade, maintenance, repairs	772.1	0.0	0.0	22.8	**794.9**	**819.8**
Agriculture, forestry, fishing	0.0	0.0	0.0	0.0	**0.0**	**8.5**
Construction	368.8	0.0	0.0	2.0	**370.9**	**289.1**
Others	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total	**11,587.5**	**4,312.5**	**283.4**	**824.7**	**17,008.1**	**19,131.7**

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

Due to the decline in overnight and term deposits and securities maturities, the share of business with financing institutions and insurers has fallen to 30.0 per cent of total exposure. Including public administration, this still accounts for a significant share of total exposure at 41.1 per cent. Due to the further expansion of allied lending business with NORD/LB, the share of the energy, water supply and mining industries has risen to 15.8 per cent and that of services/other (excluding public administration) to 20.6 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 exposure**	
	31.12.2019				31.12.2019	31.12.2018
Euro countries	8,393.0	1,973.7	265.1	810.2	**11,442.0**	**12,931.5**
- *of which Germany*	6,849.9	914.5	238.5	787.9	**8,790.8**	**9,724.9**
Other Europe	2,052.9	566.8	17.6	14.5	**2,651.8**	**3,226.1**
North America	970.9	1,336.4	0.7	0.0	**2,308.1**	**2,436.5**
Central and South America	108.4	0.0	0.0	0.0	**108.4**	**103.7**
Middle East / Africa	1.8	0.0	0.0	0.0	**1.8**	**2.0**
Asia/Australia	60.5	435.6	0.0	0.0	**496.0**	**431.9**
Other	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total	**11,587.5**	**4,312.5**	**283.4**	**824.7**	**17,008.1**	**19,131.7**

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

The Bank invests almost exclusively in regions with strong economies. This means that country ratings are good too, which tends to make country risk less important. The Eurozone accounts for a high 67.3 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 exposure	
		31.12.2019		31.12.2019	31.12.2018
Uncovered	9,577.6			**9,577.6**	**12,640.8**
very good to good	9,090.6			9,090.6	11,570.4
good / satisfactory	399.0			399.0	992.7
reasonable / satisfactory	15.0			15.0	25.2
increased risk	72.4			72.4	27.3
high risk	0.0			0.0	20.9
very high risk	0.0			0.0	3.2
default (=NPL)	0.5			0.5	1.2
Covered		1,533.1	5,877.4	**7,430.5**	**6,490.9**
Total				**17,008.1**	**19,131.7**

1) Assignment analogous to internal reporting according to economic criteria
2) see the previous table on the rating structure
3) including Repo-Business

NORD/LB continues to be the largest provider of collateral, securing an exposure of € 5.6 billion (previous year: € 4.9 billion) with guarantees as at 31 December 2019.

Non-performing loans („NPL“)

Due to the failure of two borrowers guaranteed by NORD/LB, the portfolio of non-performing loans increased by € 22.1 million during the course of the year and comprised exposure of € 33.2 million as at 31 December 2019. The exposure is largely attributable to three borrowers from the service industry (€ 32.7 million), which are fully guaranteed by NORD/LB. The remaining € 0.5 million is spread over four customers in different industries.

The Bank’s risk provisions (including loan loss provisions), which are calculated in accordance with IFRS 9, fell by € 0.9 million over the course of the year to € 10.7 million as at 31 December 2019.

For further information please refer to Note (50) Loan loss provisions and gross carrying amount.

Credit risk – outlook

Measures to further optimise the models for quantifying and controlling credit risks are planned for 2020. 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 rate basis spreads, changes in yield curves 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 and in asset/liability management. The trading book of NORD/LB CBB no longer has any holdings and permission for trading activities in the trading book has been withdrawn in accordance with a resolution of the Managing Board.
The activities in Financial Markets & Loans associated with market-price risk 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: 47 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 carries out dedicated measurements, monitoring and limitation of market price risk on a daily basis.
Interest risk mainly stems from orders from balance sheet management and/or interest rate management in ALM/Treasury. 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.

Risk Control & Strategy, which in accordance with national regulations and German MaRisk operates independently in terms of both function and organisation from 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 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 economic perspective in the risk-bearing capacity model 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 & Loans and Finance, Risk & Operations are responsible for the breakdown of the portfolios. 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. The Bank also employs a one-sided confidence level of 99 per cent and, up to 15 November 2019, a holding period of one trading day, or 250 days in the case of credit spread value at risk (CSVaR). Since 15 November 2019, an integrated calculation of value-at-risk has been carried out with a holding period of 250 days, taking into account all credit spread risk irrespective of the classification in the balance sheet. 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, 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 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.

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 (+/- 200 bp) on the interest-rate risk in the banking book are also analysed monthly from a net present value perspective in accordance with the requirements set out in CSSF Circular 16/642. These are 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 & Loans 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 & Loans 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 & Loans as part of IRRBB (interest rate risk in the banking book) reporting.

The Managing Board receives thorough information in daily risk reports on market-price risks and the earnings situation. Reporting also takes place through the monthly overall risk report.

Market-price risk – development in 2019

On 13 May 2019 the limit loan for hard syndications on the part of NORD/LB, which had been in place since 17 December 2018, was repaid. As a result, the operating market price risk limit for the value-at-risk (confidence level 99.9 percent, one-day holding period) fell from € 8.6 million to € 7.1 million. Due to a new hard syndication and the limit loan of € 0.5 million that became necessary as a result, the limit increased to € 7.6 million on 20 May 2019. This limit loan was repaid on 22 July 2019 and the operating market price risk limit at the level of the whole bank was € 7.1 million from then on.

In order to adjust management at an early stage to the changes to the RBC model as at 31 December 2019, since 15 November 2019 market price risk potential has been calculated as full net present value measurement including the credit spread risks of all tradable positions. From that date on, the holding period has no longer been 1 day, but

250 days. The operational market price risk limit for the value-at-risk at overall bank level derived from the economic perspective of the RBC model amounted to € 300.0 million.
The following chart shows the development of the utilisation of the value-at-risk limit for the overall Bank:

As at 31 December 2019, utilisation totalled € 176.6 million or 58.9 per cent (utilisation the previous year: 49.2 per cent). The securities held for interest rate and liquidity management purposes create a focus on credit-spread risks. Interest-rate risks are primarily due to transactions in € and GBP.
Utilisation of the VaR limit at the overall bank level averaged 46.7 per cent over the year (previous year: 51.5 percent); the maximum utilisation was 62.8 per cent (63.9 percent) and the minimum was 37.3 per cent (24.9 percent).
As at 31 December 2019, measurements showed interest-rate risks of € 100.8 million, foreign currency risks of € 62.7 million, volatility risks of € 0.1 million and credit-spread risks of € 161.2 million. The Bank calculated these risks at a confidence level of 99.9 per cent and with a holding period of 250 days.
The earnings-at-risk (confidence level: 99.9 per cent; holding period: one year) were € 7.8 million as at 31 December 2019. The limit of € 20.0 million therefore had a utilisation of 38.8 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 credit valuation adjustment (“CVA”), an equity requirement of € 0.6 million (previous year: € 0.9 million) was calculated for the market price risk on 31 December 2019.

Market-price risk – outlook

NORD/LB CBB does not expect any significant increase in market-price risk in 2020. The Bank expects its credit-spread risk will drift sideways going forward. Based on the monetary policy decisions of central banks as well as the geopolitical environment, phases of increased volatility may nevertheless arise in the markets. This may, in turn, impact the risk situation. However, the Bank is well prepared even for turbulent market phases thanks to its risk policy, the gradual enhancement of the risk models and risk management process, as well as its focused trading strategy.

Liquidity risk

Liquidity risk encompasses risks which may arise from disruptions in the liquidity of individual market segments, unexpected events in the lending, deposits or issues business, or 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 sub-strategy 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 through NORD/LB 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 & Loans division. It also manages the regulatory liquidity indicators, particularly the liquidity coverage ratio (LCR). The ALM/Treasury unit 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 at 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 ABACUS reporting software to calculate the required regulatory liquidity indicators under the CRR (LCR, net stable funding ratio (NSFR), asset encumbrance) for NORD/LB CBB in line with 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 & Loans 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 Financial Markets & Loans of the amount of free assets (highly liquid, unencumbered assets) which are available as over-collateralisation / liquidity buffer over a period of seven 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.

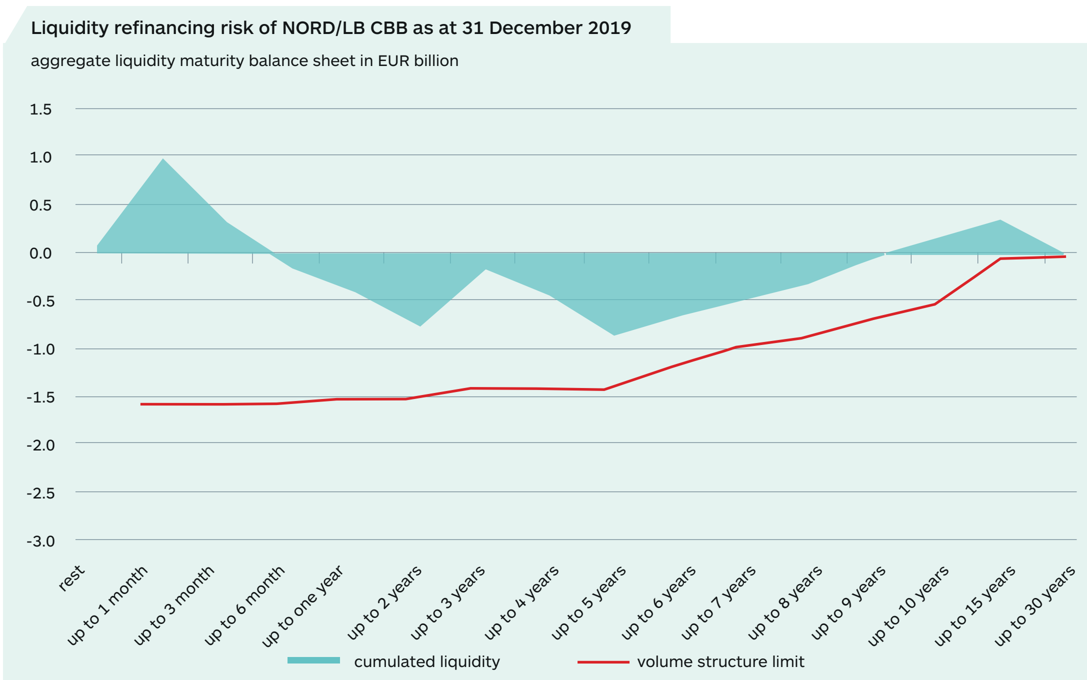
The daily LCR reporting includes daily reporting on collateral usage in the execution of collateralised capital market transactions and in the Bank's participation in the central bank's open market transactions. It also demonstrates the available collateral holdings. ALM/Treasury monitors the collateral values within the framework of cover pool management in conjunction with the Reporting and Cover Pool Support unit.

Liquidity risk – development in 2019

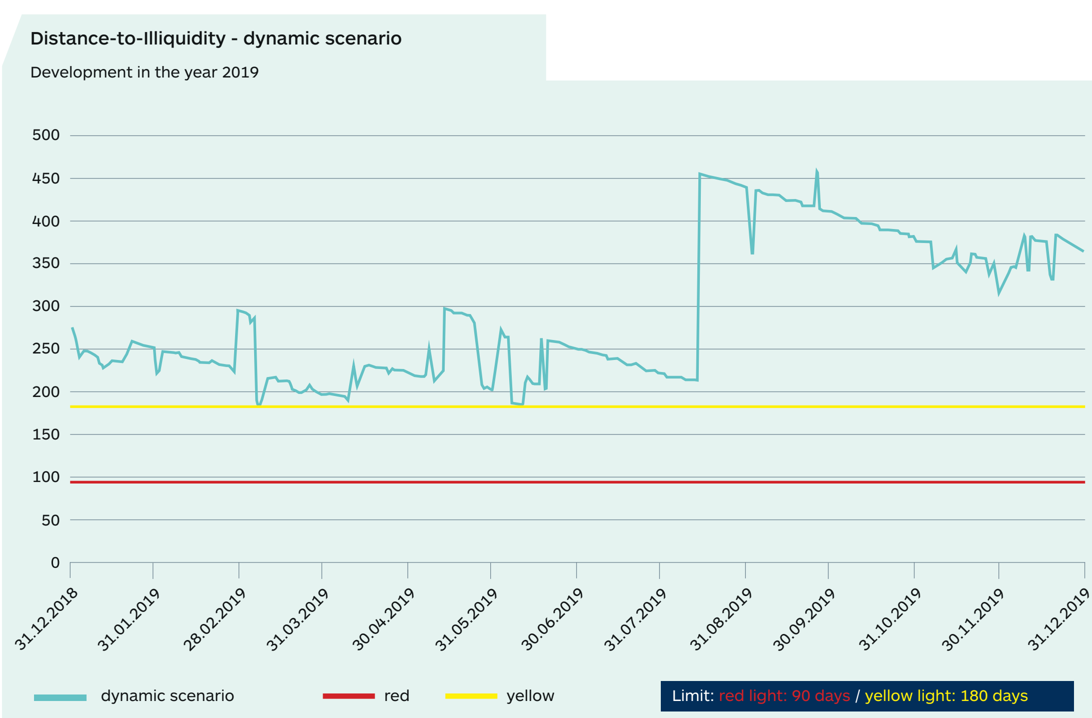
Despite the persistent extremely low level of interest rates, sufficient liquidity was obtained on the market at all times, irrespective of the news situation.

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:

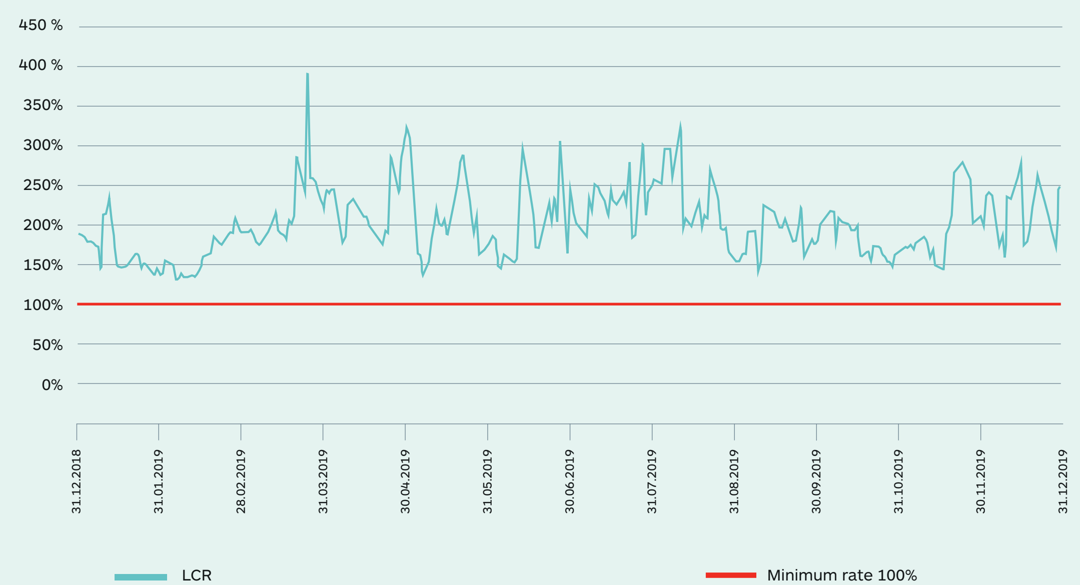


DTI in the dynamic scenario that is relevant for daily operational liquidity management was easily in the GREEN zone as at 31 December 2019 at 370 days. No AMBER phase occurred during the entire year.

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 the year 2019



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 2019, the asset encumbrance ratio for NORD/LB CBB stood at 60.1 per cent (previous year: 50.5 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 2020 due to the planned lending business. The methods to measure risks and the reporting processes are being continuously enhanced. The primary focus 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 ABACUS 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, data privacy 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 and communication technology risks (ICT risks) are a subset of IT risks. ICT risk is the risk that loss events occur as a result of the inappropriateness or failure of an institution's information and communication 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, transfer or mitigation, where economically prudent from a risk perspective. This is evidenced by the low capital allocation to operational risks in the economic perspective (strategy stipulation: 4.5 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 loss event database. A minimum limit of € 5,000 applies. NORD/LB CBB is included in these loss event records. The data from the loss event 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 loss event 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 loss events database, 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 loss events, 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. loss events, 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.

A proactive and ongoing (process-oriented) information security management system (ISMS) is in place in the Bank to protect information. In order to provide support in dealing with risks appropriately, the ISMS comprises clear organisational structures and supporting processes, for example to raise security awareness or permanently review the appropriateness and effectiveness of information security rules and measures. Appropriate review processes and controls ensure that the ISMS is developed, implemented, maintained and continuously improved.

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. In addition, a process has been put in place to assess service providers with regard to their materiality from a risk perspective. 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 loss events 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 loss events 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 2019

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

One loss event greater than € 5 thousand was reported for NORD/LB CBB in the reporting year. In the previous year, no loss event with a loss amount greater than € 5 thousand was recorded.

As at 31 December 2019, the risk exposure for operational risk came to € 15.7 million according to the internal model (confidence level: 99.9 per cent; holding period: one year).

The capital requirement according to the standard approach was € 11.1 million as at the reporting date.

Operational risk – outlook

The Bank will collaborate closely with NORD/LB in 2020 to roll out a software solution designed to drive forward integrated OpRisk management. The implementation of integrated OpRisk management helps to further increase transparency with regard to operational risk and enables targeted management. The early identification of risks is supported by an extensive system of indicators.

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 strategic risk, reputational risk, real estate risk and pension risk.
Business and strategic risk refers to the risk of financial loss due to 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 launch 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 a possible cause of reputational risk. This refers to 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 that support exceeds an existing contractual obligation. The main reason for this support is to avoid possible damage to the company's reputation. The resulting liquidity requirement is taken into account in the liquidity risk.
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). Impairment risks from external causes are covered by insurance contracts as part of the conditions or are taken into account in operational risk using scenario analysis.
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 retirement pay 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 2019.

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 2020 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	31.12.2019	31.12.2018	Change (absolute)	Change (in %)
Employees	155	173	-18	-10

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.

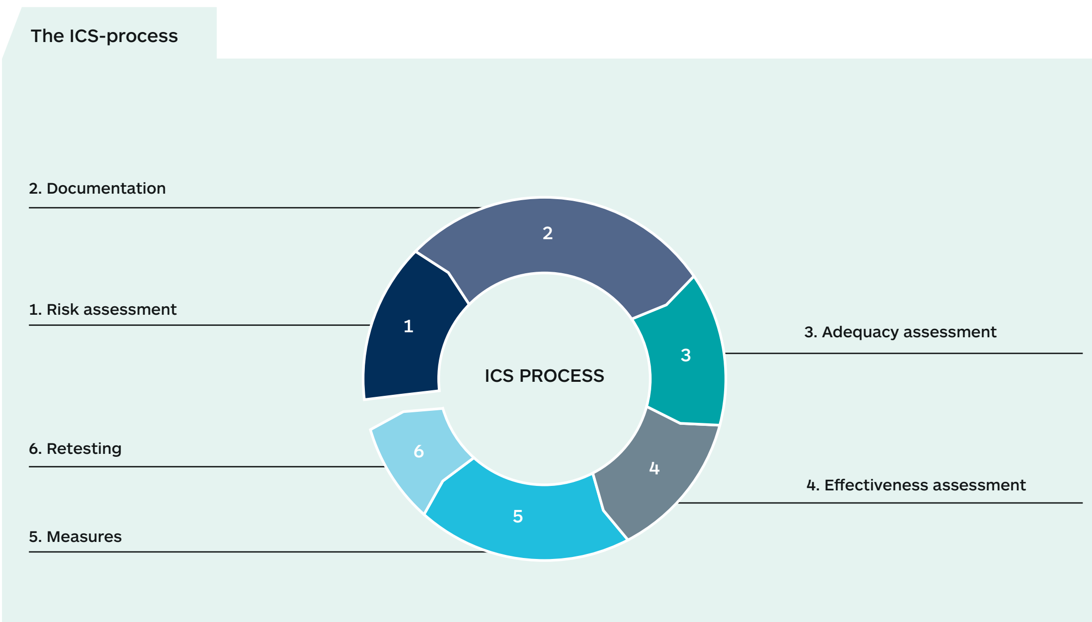
Risks for financial reporting may arise from errors in business processes. Fraudulent behaviour can also lead to misstatements. The Bank must therefore ensure that risks are minimised regarding misstatements, erroneous measurement or incorrect presentation of information in financial reporting.

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 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 a 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 mandatory

documents are summarised in the Bank's organisational handbook and are accessible to all staff members via the Bank's intranet.
Material transactions are processed according to the principle of dual control. Business processes ensure the necessary separation of functions and IT systems. The personnel and technical resources allocated to a process are adjusted to suit the corresponding scope and nature of the business activity.
In individual cases, risks are deliberately taken as part of the risk strategy, e.g. on the basis of cost/benefit considerations. For risks that do not result from original business practices, the Bank has implemented a procedure for assuming these risks. The risks to be assumed must be assessed and approved by the appropriate authorities.

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”.

Outbreak and spread of coronavirus

NORD/LB CBB too is facing the consequences of the worldwide outbreak of the coronavirus. First and foremost, the Bank has taken appropriate measures to protect staff and maintain operations. To this end, the Bank has split its organisation and most staff are working from home. This will ensure operations remain stable.

It is not possible to make any final statement on the financial impact due to the speed with which events are moving. Negative effects may arise in particular on net interest income, profit/loss on fair value measurement and loan loss provisions, with corresponding consequences for regulatory ratios. In addition, possible effects in individual sectors will only become apparent with a time lag. Please refer to the risk report for the sector breakdown of the Bank’s lending.

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, 19 March 2020

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

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

Financial statements

Financial statements

The following tables may contain computational rounding differences.

Income statement

of NORD/LB CBB for the reporting period from 1 January to 31 December 2019 compared with the financial year from 1 January to 31 December 2018:

	Notes	2019 (€ thousand)	2018 (€ thousand)	Change (in %)
Net interest income	**(18)**	**120,923**	**113,904**	**6**
Interest income from assets		474,447	463,769	2
Interest expenses from assets		-8,959	-7,604	18
Interest expenses from liabilities		-362,655	-358,106	1
Interest income from liabilities		18,091	15,845	14
Net commission income	**(19)**	**-53,127**	**-41,170**	**29**
Commission income		12,311	12,658	**-3**
Commission expenses		-65,438	-53,828	22
Profit/loss from financial instruments		**-367**	**-26,726**	-99
Trading profit/loss	(20)	508	-8,705	< -100
Profit/loss from financial assets mandatorily at fair value through profit or loss	(20)	6,691	-7,502	< -100
Profit/loss from financial instruments designated at fair value through profit or loss	(20)	-17,210	-8,913	93
Modification profit/loss	(21)	-163	0	> 100
Net valuation allowance from financial instruments not measured at fair value through profit or loss*	(21)	2,627	5,529	-53
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	(22)	736	0	> 100
Profit/loss from hedge accounting	(23)	6,654	-7,628	< -100
Profit/loss from foreign exchange	(24)	-275	493	< -100
Profit/loss from shares in companies		64	0	> 100
Administrative expenses	**(25)**	**-30,535**	**-38,442**	**-21**
Current amortisation and depreciation	**(26)**	**-4,784**	**-2,783**	**72**
Other operating profit/loss*	**(27)**	**-7,542**	**-3,826**	**97**
Earnings before taxes		**24,568**	**956**	**> 100**
Income taxes	**(28)**	**-6,021**	**136**	**< -100**
Earnings after taxes		**18,548**	**1,092**	**> 100**

*) The previous year's figures are adjusted values. See Note (2) Restatement of previous-year figures)

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

Statement of comprehensive income

NORD/LB CBB's comprehensive income for 2019 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 2018 to 31 December 2018 as follows:

	2019 (€ thousand)	2018 (€ thousand)	Change (in %)
Earnings after taxes	**18,548**	**1,092**	**> 100**
Other comprehensive income that will not be reclassified to the income statement in subsequent periods	**1,341**	**-1,226**	**< -100**
Change in financial liabilities designated at fair value through profit or loss that are attributable to the change in credit risk	2,248	-2,239	< -100
Revaluation of net liability from defined benefit plans	-363	582	< -100
Deferred taxes	-544	431	< -100
Other comprehensive income that will be reclassified to the income statement in subsequent periods	**5,971**	**-6,933**	**< -100**
Changes from financial instruments at fair value directly in equity	7,455	-9,371	< -100
Unrealised profit/losses	7,455	-9,371	< -100
Deferred taxes	-1,484	2,437	< -100
Other profit/loss	**7,312**	**-8,160**	**< -100**
Comprehensive income for the year	**25,860**	**-7,067**	**< -100**

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

For further information on the statement of comprehensive income, refer to Note ((46) Notes to the statement of comprehensive income).

Balance sheet

of NORD/LB CBB as at 31 December 2019 compared to 31 December 2018:

Assets	Notes	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Cash reserve	**(29)**	**11.6**	**443.4**	**-97**
Trading assets	**(30)**	**138.2**	**191.2**	**-28**
Of which: Loans and advances to banks		0.0	0.0	-
Of which: Loans and advances to customers		4.2	53.7	-92
Financial assets mandatorily at fair value through profit or loss	**(30)**	**822.2**	**1,042.3**	**-21**
Of which: Loans and advances to banks		6.9	12.4	-45
Of which: Loans and advances to customers		0.0	0.0	-
Financial assets at fair value directly in equity	**(31)**	**1,939.4**	**2,101.7**	**-8**
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	**(32)**	**12,233.1**	**13,103.0**	**-7**
Of which: Loans and advances to banks		732.1	1,966.4	-63
Of which: Loans and advances to customers		9,953.6	9,370.8	6
Positive fair values from hedge accounting derivatives	**(33)**	**312.9**	**218.8**	**43**
Property and equipment	**(34)**	**45.0**	**64.2**	**-30**
Investment property	**(35)**	**19.6**	**0.0**	**> 100**
Intangible assets	**(36)**	**30.2**	**27.0**	**12**
Current income tax assets	**(37)**	**3.0**	**3.0**	**0**
Deferred income tax assets	**(37)**	**1.3**	**1.8**	**-30**
Other assets	**(38)**	**5.1**	**3.0**	**67**
Total assets		**15,561.6**	**17,199.3**	**-10**

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

Liabilities	Notes	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Trading liabilities	**(39)**	**121.6**	**81.1**	**50**
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)**	**1,560.1**	**1,634.1**	**-5**
Of which: Liabilities to banks		0.0	0.0	-
Of which: Liabilities to customers		0.0	0.0	-
Of which: Securitised liabilities		1,560.1	1,634.1	-5
Of which: Subordinated liabilities		0.0	0.0	-
Financial liabilities at amortised cost	**(40)**	**12,645.3**	**14,320.4**	**-12**
Of which: Liabilities to banks		6,105.8	5,942.4	3
Of which: Liabilities to customers		2,631.7	4,549.1	-42
Of which: Securitised liabilities		3,907.8	3,828.9	2
Of which: Subordinated liabilities		0.0	0.0	-
Negative fair values from hedge accounting derivatives	**(41)**	**480.2**	**438.5**	**10**
Provisions	**(42)**	**11.6**	**9.8**	**19**
Current income tax liabilities	**(43)**	**8.5**	**11.2**	**-25**
Deferred income tax liabilities	**(43)**	**10.6**	**9.1**	**16**
Other liabilities	**(44)**	**16.4**	**13.6**	**20**
Equity	**(45)**	**707.2**	**681.4**	**4**
Of which: Issued capital		205.0	205.0	0
Of which: Retained earnings		474.1	455.5	4
Of which: Other comprehensive income (OCI)		28.2	20.8	35
Total liabilities and equity		**15,561.6**	**17,199.3**	**-10**

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 2019 compared with the financial year from 1 January to 31 December 2018:

	2019 (in € million)	2018 (in € million)	Change (in %)
Net profit	**24.6**	**1.0**	**> 100**
Adjustment for non-cash items			
Depreciation, impairment and write-ups	4.8	2.8	71
Increase/decrease in provisions	1.1	-2.5	< -100
Loan loss provisions	-0.8	-4.3	-81
Increase/decrease in other non-cash items	3.3	26.5	-88
Net interest income	-120.9	-113.9	6
Other adjustments (net)	0.0	0.2	< -100
Subtotal	**-88.1**	**-90.2**	**-2**
Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items			
Financial assets at amortised cost	945.4	-1,785.9	< -100
Trading assets, trading liabilities and hedge accounting derivatives	74.5	-86.7	< -100
Financial assets mandatorily at fair value through profit or loss Assets	227.0	-105.1	< -100
Financial assets at fair value directly in equity	161.6	83.1	94
Other assets from operating activities	-2.0	0.8	< -100
Financial liabilities at amortised cost	-1,762.6	1,345.5	< -100
Financial liabilities designated at fair value through profit or loss	-89.1	566.9	< -100
Other liabilities from operating activities	5.8	-5.1	< -100
Interest received			
Interest income from assets	459.5	591.2	-22
Interest income from financial liabilities	18.1	15.8	15
Interest paid			
Interest expenses from liabilities	-357.0	-479.3	-26
Interest expenses from assets	-9.0	-7.6	18
Income tax payments	-8.8	-11.9	-26
Cash flow from operating activities	**-424.8**	**31.6**	**< -100**

	2019 (in € million)	2018 (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, investment property and intangible assets	-5.9	-6.5	-9
Cash flow from investing activities	**-5.9**	**-6.5**	**-9**
Increase/decrease in funds from other capital (including subordinated capital)	0.0	0.0	-
Interest paid on other capital (including subordinated capital)	0.0	0.0	-
Dividends paid	0.0	-30.0	-100
Payments under lease liabilities	-1.0	0.0	> 100
Cash flow from financing activities	**-1.0**	**-30.0**	**-97**
Cash and cash equivalents as at 01.01.	**443.4**	**448.3**	**-1**
Cash flow from operating activities	-424.8	31.6	< -100
Cash flow from investing activities	-5.9	-6.5	-9
Cash flow from financing activities	-1.0	-30.0	-97
Total cash flow	**-431.8**	**-4.9**	**> 100**
Effects of changes in exchange rates	0.0	0.0	-
Cash and cash equivalents as at 31.12.	**11.6**	**443.4**	**-97**

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

For further information about the cash flow statement, refer to Note (48) Notes to the cash flow statement.

Statement of changes in equity

NORD/LB CBB for the reporting period from 1 January to 31 December 2019:

			Other comprehensive income (OCI)			
			Other comprehensive income that will be reclassified to the income statement in subsequent periods	Other comprehensive income that will not be reclassified to the income statement in subsequent periods		
(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 01.01.2019	**205.0**	**455.5**	**26.0**	**-3.5**	**-1.6**	**681.4**
Distribution	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.0	18.5	0.0	0.0	0.0	18.5
Changes in financial assets at fair value directly in equity	0.0	0.0	7.5	0.0	0.0	7.5
Changes in financial liabilities designated at fair value through profit or loss that are attributable to the changes 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	-0.4	-0.4
Deferred taxes	0.0	0.0	-1.5	-0.6	0.1	-2.0
Comprehensive income for the year	**0.0**	**18.5**	**6.0**	**1.6**	**-0.3**	**25.9**
Equity as at 31.12.2019	**205.0**	**474.1**	**31.9**	**-1.9**	**-1.9**	**707.2**

			Other comprehensive income (OCI)			
			Other comprehensive income that will be reclassified to the income statement in subsequent periods	Other comprehensive income that will not be reclassified to the income statement in subsequent periods		
(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
Changes in financial liabilities designated at fair value through profit or loss that are attributable to the changes 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 year	**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**

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

Notes

Notes

Accounting policies

(1) Principles for the preparation of the financial statements

The financial statements of NORD/LB CBB as at 31 December 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB). The standards applied were those which had been published when the financial statements were prepared and that have been accepted by the European Union (Note (3) Applicable IFRS).

The financial statements as at 31 December 2019 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 2019 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. This does not apply to financial instruments 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.

These financial statements were signed by the Managing Board on 19 March 2020 and approved for submission to the Supervisory Board.

(2) Restatement of previous-year figures

The following previous-year comparison figures in these financial statements have been restated in accordance with IAS 8.42:

The disclosures on related parties in the financial statements as at 31 December 2018 showed incorrect guarantees and sureties received in respect of the parent company. This restatement has no impact on the figures in the balance sheet, income statement, cash flow statement or statement of changes in equity as at 31 December 2018.

The restatements were presented as follows and implemented in Note (70) Related parties).

31.12.2018 (in € million)	Guarantees/sureties received before correction	Guarantees/sureties received after correction
Parent company and businesses under common control or significant influence	4,104.4	4,941.1

In addition, on 31 December 2019 € 0.3 million of changes in lending provisions was moved from other operating profit/loss as at 31 December 2018 to net valuation allowance from financial instruments not measured at fair value through profit or loss. With the exception of the effects described above, there are no effects on the presentation of the values in the balance sheet, income statement, cash flow statement or statement of changes in equity as at 31 December 2018.

See also Note (21) Impairment loss on financial instruments not measured at fair value through profit or loss and modification profit/loss) and ((27) Other operating profit/loss).

2018 (in € million)	Total before restatement	Total after restatement
Other operating profit/loss	-3.5	-3.8
Net valuation allowance from financial instruments not measured at fair value through profit or loss and modification profit/loss	5.2	5.5

(3) Applicable IFRS

All IFRS standards, 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 2019 reporting period.

The following amendments to the standards requiring application as at 1 January 2019 were applied by NORD/LB CBB for the first time during the reporting period:

IFRS 16 – Leasing

On 1 January 2019 IFRS 16 superseded the regulations on accounting for leases contained in IAS 17 in conjunction with IFRIC 4, SIC-15 and SIC-27 and created a uniform accounting model for lessees in which – with certain exceptions for short-term leases and low-value leased assets – right of use assets and lease liabilities under leases have to be recognised.

NORD/LB CBB has applied the provisions of IFRS 16 to all leases identified under IAS 17, retrospectively modified. The previous year's figures have therefore not been restated. Instead, the cumulative effects of the first-time application of IFRS 16 have been recognised in the opening balance of retained earnings as at 1 January 2019. There were no such effects on retained earnings for operating leases at the transition to the introduction of IFRS 16, as the right of use assets and lease liabilities were equal at that time.

As lessee the Bank has exercised the right not to recognise right of use assets or lease liabilities for short-term leases or low-value leased assets. Instead the expense for these leases has been recognised in the income statement in the period in which they were incurred. Leases that expired in 2019 were also treated as short-term leases. NORD/LB CBB also exercised the option under IFRS 16 not to recognise leases of intangibles.

The main impact on the net assets and financial position of NORD/LB CBB as lessee came from an increase in the balance sheet as a result of the requirement to recognise right of use assets and liabilities for leases which had previously been classed as operating leases under IAS 17 and therefore not been recognised on the balance sheet. As at 1 January 2019, € 2.8 million of right of use assets were recognised for the first time, together with an equivalent amount of lease liabilities.

The amount of lease liabilities recognised as at 1 January 2019 was derived from the minimum future lease payments shown as follows (in € thousands):

Undiscounted minimum future lease payments under operating leases as per IAS 17 as at 31 December 2018	**1,013**
Discounted minimum future lease payments under operating leases as per IAS 17 as at 31 December 2018	**980**
Not recognised as lease liability under IFRS 16 (deduction)	
Short-term leases	**0**
Low-value leased assets	**-80**
Lease ends in 2019	**-35**
Discounted minimum future lease payments from finance leases in accordance with IAS 17	**1,912**
Lease liability under IFRS 16 on 1 January 2019	**2,777**

In order to identify the relevant contracts, the Bank screened its contract database.

In addition, owing to the breakdown of lease expenses previous included under administrative expenses into a depreciation component and an interest component using the effective interest rate method, from 2019 onwards the pattern of expenses will show a declining trend, with expense being brought forward into the earlier periods in the term of a lease. The only differences for NORD/LB CBB as a lessor as a result of IFRS 16 relate to changes in disclosures.

For further information , please refer to Notes ((10) Leases) and ((61) Leases).

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

In October 2017, the IASB published narrow-scope amendments to IFRS 9. These amendments clarified or adjusted the existing rules 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 amendment has no impact on the annual report of NORD/LB CBB.

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

The amendment published in February 2018 relates to the use of updated assumptions to determine current service costs and the net interest income 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. These amendments clarified 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. There are no resultant changes to the financial statements.

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 previous procedure in the NORD/LB Group. There was no impact on the annual report of the Bank from the clarification of IAS 23 on borrowing costs.

There was also no impact on NORD/LB CBB from the application of IFRIC 23 on uncertainty over income tax treatments.

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 2019.

Amendments to IAS 1 and IAS 8 – Definition of materiality

The changes to IAS 1 and IAS 8 published at the end of October 2018 are intended to tighten up the definition of materiality by harmonising the definition in all IFRS and the conceptual framework, and clarifying the definition of material and the issue of concealing material and non-material 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.

In addition, no impact on the annual report is expected from the overall change in the adaptation of the references to the conceptual framework of the IFRS to be applied from 1 January 2020.

The following standards and amendments to standards had not yet been endorsed by the European Commission at the time the financial statements were drawn up:

IFRS 17 – Insurance contracts

In May 2017 the IASB published the new IFRS 17 on accounting for insurance contracts, which will replace the previous 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 2022. This standard will have no impact on 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 will currently have no impact on NORD/LB CBB.

Amendments to IFRS 9, IAS 39 and IFRS 7 – IBOR reform

In September 2019, the IASB published amendments to IFRS 9, IAS 39 and IFRS 7 in order to respond to possible effects on financial reporting as a result of the revision of reference interest rates (IBOR reform). For the transitional period of the IBOR reform, hedge accounting relief will be granted so hedging relationships can be continued. Application of the changes is mandatory for financial years starting on or after 1 January 2020. At the time of writing, the Bank's relevant project team was in the analysis phase to determine the specific impact. NORD/LB CBB will probably make use of the relief in order to be able to continue hedging relationships.

The first-time application of the standards and standard amendments to be implemented by the Bank after 31 December 2019 is scheduled for the respective first-time application dates.

(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.
For further information see Notes ((7) Financial instruments) and ((49) Fair-value hierarchy).

b) Risk provisions

Under IFRS 9, risk provisions include expected credit rating-related losses on a financial asset on initial measurement at recognition on the basis of an expected loss model. Within the determination process, parameter-based calculations are used based on expected cash flows, probabilities of default, loss ratios and the potential amount of the receivable in the event of default, among other things. Changes in the input parameters can lead to an increase or decrease in risk provisions.
For more information see Note ((8) Loan loss provisions).

c) 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.
For more information see Note ((13) Provisions for pensions and similar obligations) and Note ((42) Provisions).

(5) 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 2019. 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.

(6) Interest and commission

Income is recognised if it is sufficiently probable 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.

Income is recognised in accordance with the relevant accounting standards. In the case of interest income and expenses for financial assets and liabilities within NORD/LB CBB, IFRS 9 is particularly relevant.

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. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability by spreading interest income or interest expense over the relevant period using expected future cash flows. The cash flows used to calculate the effective interest rate take into account all contractual agreements relating to the asset or liability as well as fees and transaction costs, premiums and discounts.

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).

IFRS 15 is also the accounting standard applied within the Bank for recognising commissions. IFRS 15 provides for a new principle-based five-step model for the accounting and recognition of revenue. This states that commission income must be 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 reporting date. The requirements of the standard to be applied from 1 January 2018 have an impact on the amount and timing of revenue recognition and the allocation of income in the Bank's income statement. IFRS 15 must be applied to all agreements with customers of NORD/LB CBB; however, in many cases it is not relevant for the Bank because much of the income in the statement of comprehensive income is governed by rules in other standards. So far as the business model of NORD/LB CBB is concerned, IFRS 15 applies only to the recognition of commission income (see Note (19) Net commission income), i.e. to the Bank's service business.

(7) Financial instruments

A financial instrument is defined as a contract which leads to a financial asset for one company and either a financial commitment or an equity instrument for another company. NORD/LB CBB's financial instruments are recognised accordingly in the balance sheet and are accounted for in accordance with the principles of IFRS 9.

a) Recognition and derecognition 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 trade date and settlement date for regular spot purchases or sales of financial assets differ. For such regular spot purchases or sales there is an option to use either trade date accounting or settlement date accounting. The Bank applies trade date accounting for all financial assets on recognition and derecognition.

The rules on derecognition are based on the idea of risks and rewards and control. When evaluating derecognition, the measurement of risks and rewards arising from ownership takes precedence over the assessment 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 matches its 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 liability (or a part of one) is derecognised if it has lapsed, i.e. when the liabilities stated in the contract have been settled, cancelled or expired. The repurchase of own debt instruments also comes under derecognition of financial liabilities. Differences 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.

Under IFRS 9, financial assets and liabilities are initially measured at fair value on initial recognition. 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. 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 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.

b) Classification and measurement of financial assets

Classification under IFRS 9 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).

ba) 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, selling 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. Please refer to Note ((22) Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss) and Note ((32) Financial assets at amortised cost) for information on sales made.

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.

bb) Cash flow criterion
With regard to the cash flow criterion (the SPPI criterion), 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 2019, 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:

bc) 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.

bd) 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.

be) 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 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.

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.

c) 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 profit/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. With regard to the modification profit/loss in the year under review, see Note ((21) Net valuation allowance from financial instruments not measured at fair value through profit or loss and modification profit/loss).

d) Classification and measurement of financial liabilities

da) 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.

db) 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 and commissions are recognised under interest expenses or interest income from financial liabilities and within net commission.

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. All fair value changes in liabilities held for trading are recorded in the income statement under profit or loss from fair value measurement.

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 adjustments) under other comprehensive income (OCI). On derecognition these fair value changes are reclassified to retained earnings. Other fair value changes and all fair value changes in liabilities held for trading are recorded in the income statement under profit or loss from fair value measurement.

e) 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.

f) 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 CBB 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.

The Level 3 method is used to value portfolios of interest-bearing securities and derivatives for which the market is classified as inactive or for which no significant valuation parameters are observable. This essentially includes:

- Equity-linked structures where valuation takes into account historical volatilities,
- Equity index options, provided that no dividend expectations are observable in the market for the relevant term,
- CMS spread options, as the correlation input is not directly observable, and
- own and third-party issues and forward transactions in such issues, if the credit spread/funding spread is not observable in the market.

At NORD/LB CBB the portfolio guarantees of the State of Lower Saxony reported as credit derivatives are allocated to Level 3. There were no Level 3 securities in the Bank's portfolio as at 31 December 2019.

In addition, all loans measured at fair value and credit commitments intended for syndication which are shown as derivatives are regularly allocated 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.

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. This is performed by means of an add-on process. NORD/LB CBB 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 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.

g) Structured products

Structured products comprise two components – one or more embedded derivatives (e.g. swaps, futures, caps) and a host contract (e.g. securities). 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.

Under IFRS 9, in the case of hybrid financial instruments the host contract and the derivative are classified together, not separately. Financial liabilities that must be separated - unless they are designated as financial liabilities at fair value through profit or loss - are measured and reported separately. 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.

h) Hedge accounting

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.

NORD/LB CBB applies hedge accounting in accordance with IFRS 9.

The Bank's hedge policy follows risk management procedures. 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 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 prospective effectiveness of the economic hedge can be assumed in principle based on "critical terms matching". In order to allow for default risk, appropriate risk treatment is applied to both the hedging transaction and the underlying transaction. The hedging transaction is hedged with cash-margin derivatives. The underlying transactions are monitored annually or as required by the Credit Risk Management unit. If there is a significant deterioration in the credit rating of the counterparty that could possibly result in the change in the fair value of the underlying transaction being dominated by the counterparty, the hedge is analysed to determine whether it needs to be terminated. This occurs if a deterioration in credit rating results in the corresponding underlying asset transaction being classified in stage two under IFRS 9 and the ratio of the risk provision to the gross carrying amount exceeds five per cent.

The Bank also measures and monitors retrospective effectiveness. Please refer to Note ((23) Profit/loss from hedge accounting) for possible reasons for ineffectiveness.

NORD/LB CBB does not use macro hedge

accounting.

For further information on hedge accounting, see also Note ((23) Profit/loss from hedge accounting), Note ((33) Positive fair values from hedge accounting derivatives) and Note ((41) Negative fair values from hedge accounting).

i) Securities repurchase and lending transactions

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 2019.

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. Genuine securities repurchase agreements and securities lending do not qualify as derecognition events under IFRS 9 and are therefore permitted, without breaching the criteria of the "Hold" business model.

Please refer to Note ((57) Offsetting of financial assets and financial liabilities) for the scope and volume of securities repurchase and lending transactions.

j) Loan commitments and financial guarantees

Loan commitments are only recognised at fair value if they are designated accordingly or can be settled in cash or by delivering other financial instruments. However, loan commitments are not recognised. In cases where they are, a provision is taken to allow for the expected credit loss.

Financial guarantees received are generally taken into account as collateral when assessing the risk of the related assets if recoverable.

As part of the three guarantee agreements, the State of Lower Saxony has assumed the unconditional, irrevocable and non-subordinated guarantee in favour of NORD/LB and NORD/LB CBB from 23 December 2019 to hedge against the risk of loss in certain ship and aircraft financing portfolios.

The guarantee agreements cover one reference portfolio each from the shipping/maritime industry customers and aircraft customers segments with shipping and aircraft loans including the related customer derivatives and a number of loan commitments, guarantees and overdrafts. The total amount up to which payment obligations are guaranteed by the State of Lower Saxony is determined individually for each contract. As at 23 December 2019 the guaranteed shipping/maritime industry customers non-performing loans (NPL) portfolio comprised transactions with a hedged net carrying amount of € 0.9 billion. The guarantee for the performing loan portfolio relates to a reference portfolio with a gross carrying amount of € 1.3 billion plus contingent liabilities of € 0.3 billion as at the reporting date. The guarantee contract to hedge a sub-portfolio of the aircraft customers segment relates to an initial gross carrying amount of € 1.6 billion.

As at 31 December 2019 NORD/LB CBB had exposures in the performing loan portfolio of the maritime industry segment and in the sub-portfolio of the aircraft customers segment.

The guarantee agreements give rise to payment claims against the State of Lower Saxony in the amount of the expected loss if one or more guarantee events occur. Guarantee events include the following:

- deficit arising from amounts not paid in full or in part on the due date,
- capital reduction by contractually reducing the nominal amount owed with no corresponding compensation payment and/or
- loss from early redemption of principal or negative fair value on early disposal of a customer derivative.

In the annual financial statements of NORD/LB CBB, the guarantee agreements are reported as credit derivatives and measured at fair value because, individually, they do not meet the requirements in the applicable accounting standards for the existence of a financial guarantee. These derivatives cannot be recognised as collateral for the transactions in the hedged portfolios that reduce the need for risk provisions, due to the principle of individual valuation. For this reason, all transactions in the guarantee portfolios are still subject to risk provisioning and/or ongoing fair value measurement even after the guarantee contracts have been executed. The hedging effect of the derivatives impacts the income statement of NORD/LB CBB by way of compensatory recognition of the opposing valuation effects (risk provision and fair value changes) of the guarantee portfolios and the change in value of the derivatives resulting from the hedged risks.

In consideration for the guarantees NORD/LB CBB pays a commission to the State of Lower Saxony. In the case of the guarantee for the NPL portfolio this is a variable sum determined as a percentage of the guaranteed amount; it reduces as the portfolio shrinks and is calculated monthly. For the other guarantees a fixed fee is set in each case, payable in set quarterly instalments.

The guarantee agreements end at the earliest either when the respective guarantee portfolio has been fully wound up and all outstanding payment obligations been settled (variable end date) or on 31 December 2024 (fixed end date; this does not apply to the NPL portfolio guarantee). The earlier date applies for each guarantee contract. The fixed end date may be extended by a further year within the first ten business days of each year if there are mismatches between the remaining term of the guarantee contracts and the receivables secured. The extension option was exercised for the first time in 2020.

Please refer to Note ((49) Fair-value hierarchy) for the exposures held by the Bank and further information.

(8) Loan loss provisions

Under the three-stage model in IFRS 9, credit-related losses on financial assets are not recognised only when there is objective evidence of impairment, but on initial measurement at recognition based on an expected loss model. The model is applied across all products to all debt instruments 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. This involves calculating the expected losses by multiplying the exposure by the percentage probability of default within the next 12 months (based on the internal rating) and the loss given default. 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 simplified approach may be applied to trade receivables, lease receivables and certain assets under IFRS 15. Under this simplified approach, a blanket allocation to Level 2 is made on initial recognition, irrespective of the change in the asset’s credit quality. The simplified approach is also not used within NORD/LB CBB.

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. These also include macroeconomic parameters that contain forward-looking information in order to incorporate this into the calculation of expected credit loss. It includes, for example, the unemployment rate, real gross domestic product, yield curves (both short-term and long-term) and key stock indices from the relevant world economies. The forecast horizon extends to two years in order not to increase the uncertainty factor too much. The forecast data is mapped in scenarios on a quarterly basis and these are provided with corresponding probabilities of occurrence. The results are in turn recorded in the corresponding PD profiles.

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

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

FXR = € exchange rate against loan currency at time of calculation.

In the event of a currency mismatch between the loan 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. For this 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 change in revenues, costs and debt servicing over the project term. The rating information is kept up-to-date by means of regular annual and ad-hoc re-ratings.

No changes were made by the Bank during the financial year to the above calculation methods and parameters used.

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

(9) 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.

The income capitalisation method using market data is applied to determine the fair value of properties. Valuation is carried out by an independent expert with appropriate qualifications and current experience. A valuation of the building is carried out on an occasional basis or at least every three years. For further information on the valuation methodology, please refer to Note ((11) Investment property).

(10) Leases

IAS 17 stipulated that leases had to be classified as either a finance lease or an operating lease at the inception of the lease. If significant risks and rewards associated with ownership were transferred to the lessee, the lease had to be classified as a finance lease; the leased asset was then recognised in the balance sheet of the lessee. If significant risks and rewards associated with ownership were not transferred to the lessee, the lease had to be classified as an operating lease; the leased asset was then recognised in the balance sheet of the lessor.

Since 2019, IFRS 16 has provided a single recognition model for lessees whereby a right of use asset and lease liabilities under leases have to be recognised. This essentially applies to all agreements transferring the right to use or control an asset for a set period in exchange for consideration.

New agreements are checked at the Bank for leasing issues. A distinction is made between operating lease and finance leases based on the contractual documents.

At the inception of the lease the Bank as lessee recognises a lease liability in the amount of the discounted lease payments not yet made over the contractually agreed term of the lease under other liabilities. For this the underlying interest rate on the lease or the marginal borrowing rate for funding in the respective contractual currency is applied, which reflects the term of the lease and the credit rating of the counterparty. Any embedded options to extend, terminate or buy are taken into account if exercise is highly probable. The Bank will then take this into account in its future cash flow planning. This would result in a corresponding increase in the liabilities recognised and the rights of use recognised. A marginal borrowing rate of 0.00 per cent was used to calculate the lease liabilities. To determine the marginal lending rate, the Bank used its refinancing costs from the corresponding maturity bands of the agreements. As these were in negative territory, the Bank decided to leave the interest rate at 0.00 per cent. Subsequently the lease liability is increased by the expense of compounding and reduced by the lease payments made. The lease payments are defined according to the contractual cash flows.

At the inception of the lease NORD/LB CBB as lessee also records a right of use in the amount of the lease liability under property and equipment. Initial directly attributable costs are capitalised together with the asset. Subsequently the right of use is measured at amortised cost. The straight-line depreciation attributable to this is recognised in administrative expenses, and impairments and reversals are recognised in other operating profit/loss. For subsequent measurement of the lease, the lease liability is carried forward using discounting similar to the provisions of IAS 17 for finance leases, while the right of use is depreciated on a scheduled basis. As lessee, NORD/LB CBB makes use of the option not to recognise rights of use or lease liabilities for short-term leases and low-value leased assets. Instead the expense for these leases are recognised as administrative expenses in the income statement in the period in which they were incurred. Leases are classified as short-term if they have an expected term of a maximum of 12 months. Leased items are considered to be of low value if their value when new does not exceed € 5 thousand.

In the event of changes to leases recognised, the lease liability and the corresponding right of use are revalued.

For NORD/LB CBB as a lessor there are no changes to accounting policies as a result of IFRS 16. Lease must be classified as either a finance lease or an operating lease at the inception of the lease. If substantially all risks and rewards incidental to ownership are transferred to the lessee, the lease is classified as a finance lease. If substantially all the risks and rewards incidental to ownership are not transferred to the lessee, the lease is classified as an operating lease.

Please refer to Note ((3) Applicable IFRS) and Note ((61) Leases) for the presentation of the effects.

(11) Investment property

IAS 40 Investment Property defines investment property as land or a building (including part of a building) or both that is held to earn rentals or for capital appreciation. For properties where third-parties use more than 20 per cent of the space rented, an investigation is made as to whether the part used by third parties can be separated. If this is not the case, the entire property is recognised under property and equipment.

Investment property is recognised at cost at the time of acquisition; transaction costs are included in the initial measurement. Subsequent acquisition or production costs are capitalised if they result in a material improvement to the asset and increase the future economic benefit of the asset.

Straight-line depreciation is taken into account in the subsequent measurement of investment property. Impairments are recognised for 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. If the reasons for an impairment no longer apply, a write-up is made up to a maximum of the amortised cost of acquisition or production. Depreciation is recognised under administrative expenses, and impairments and reversals under other operating profit/loss. Investment property is depreciated over 50 years.

Valuation is carried out by an independent expert with appropriate qualifications and current experience. The income capitalisation method using market data is used to determine the fair value of investment property. The income capitalisation method is based on a period of ten years and assumes a sale in the eleventh year. The market value represents an amount determined on the basis of the current market environment at which two willing parties would be prepared to buy or sell the building. The market price and the income capitalisation method are mainly based on valuations and rental and sales transactions of similar buildings or land in comparable geographical locations, primarily in the Luxembourg real estate sector. Further criteria used for the calculation are the age and the condition of the property.

In addition to a risk-free interest rate matching the maturity of the income capitalisation method, the discount rate essentially includes various risk premiums for the property class, the location and condition of the property.

A valuation of the building is carried out on an occasional basis or at least every three years.

Rental income and directly attributable expenses are shown in other operating profit/loss.

NORD/LB CBB has been applying IAS 40 for the first time since 1 July 2019 due to the expansion of rented office space. According to the NORD/LB CBB area usage plan, as at 31 December 2019 51.9% of the building was used by third parties

(12) Intangible assets

Intangible assets acquired by NORD/LB CBB are recognised 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.

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

Under IAS 37, other provisions are recognised for uncertain liabilities to third parties and imminent losses from pending transactions if a present obligation (legal or constructive) has arisen as a result of a past event, payment is probable and the amount can be estimated reliably. 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 NORD/LB.

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.

Please refer to Note ((47) Notes to the statement of changes in equity) for information on wealth tax reserves.

Segment reporting

Segment reporting by business segment

Segment reporting is in accordance with IFRS 8 and seeks 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) Segmentation of NORD/LB CBB by business segment

	Segments				
In € thousand (01.01.2019 - 31.12.2019 / 01.01.2018 - 31.12.2018)	Financial Markets & Sales	Loans	Group Service B2Bs	Bank Management & Other	Total
Net interest income	**20,240**	**95,187**	**929**	**4,567**	**120,923**
Ditto Previous year	21,182	87,343	1,198	4,180	113,904
Net commission income	**2,968**	**-55,545**	**-548**	**-2**	**-53,127**
Ditto Previous year	3,098	-43,757	-506	-5	-41,170
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	**509**	**227**	**0**	**0**	**736**
Ditto Previous year	0	0	0	0	0
Profit/loss from financial instruments at fair value through profit or loss Financial instruments	**-9,988**	**15,206**	**0**	**-15,228**	**-10,010**
Ditto Previous year	-14,877	0	0	-10,243	-25,120
Profit/loss from hedge accounting	**0**	**0**	**0**	**6,654**	**6,654**
Ditto Previous year	0	0	0	-7,628	-7,628
Profit/loss from foreign exchange	**-275**	**0**	**0**	**0**	**-275**
Ditto Previous year	493	0	0	0	493
Other operating profit/loss	**-2,869**	**-260**	**5,700**	**-10,113**	**-7,542**
Ditto Previous year	-2,490	-333	2,716	-3,719	-3,826
Administrative expenses	**-9,114**	**-8,980**	**-4,264**	**-8,176**	**-30,535**
Ditto Previous year	-11,187	-11,187	-5,264	-10,803	-38,442
Amortisation and depreciation	**-1,073**	**-1,057**	**-1,691**	**-962**	**-4,784**
Ditto Previous year	-907	-907	-176	-792	-2,783
Modification profit/loss	**0**	**-163**	**0**	**0**	**-163**
Ditto Previous year	0	0	0	0	0
Profit/loss from lending provisions	**1**	**-2,628**	**17**	**0**	**-2,609**
Ditto Previous year	5	351	20	0	376
Profit/loss from loan loss provisions – not measured at fair value through profit or loss	**3,005**	**2,230**	**1**	**0**	**5,236**
Ditto Previous year	4,034	1,089	30	0	5,153
Profit/loss from shares in companies	**0**	**0**	**0**	**64**	**64**
Ditto Previous year	0	0	0	0	0
Earnings before taxes	**3,405**	**44,216**	**208**	**-23,260**	**24,569**
Ditto Previous year	-650	32,598	-1,982	-29,010	956
Taxes				**-6,021**	**-6,021**
Ditto Previous year				136	136
Net profit/loss for the financial year	**3,405**	**44,216**	**208**	**-29,281**	**18,548**
Ditto Previous year	-650	32,598	-1,982	-28,874	1,092

Segmente					
in € millions (01.01.2019 - 31.12.2019 / 01.01.2018 - 31.12.2018)	Financial Markets & Sales	Loans	Group Service B2Bs	Bank Management & Other	Total
Segment assets	**5,505**	**9,924**	**29**	**104**	**15,562**
Ditto Previous year	7,670	9,391	39	99	17,199
Segment liabilities (including equity)	**14,582**	**175**	**62**	**742**	**15,562**
Ditto Previous year	14,509	1,848	123	719	17,199
Risk assets (annual average figures)	**1,092**	**2,885**	**32**	**71**	**4,081**
Ditto Previous year (annual average figures)	1,053	3,044	34	95	4,226
Capital commitment (annual average figures)	**87.4**	**230.8**	**2.6**	**5.7**	**326.5**
Ditto Previous year (annual average figures)	84.3	243.5	2.7	7.6	338.1
CIR*	**96.2%**	**18.3%**	**97.9%**	**-64.7%**	**61.6%**
Ditto Previous year	111.3%	27.7%	158.7%	-66.6%	111.3%
**RoRaC ** **	**2.7%**	**19.2%**	**5.9%**	**-286.6%**	**7.2%**
Ditto Previous year	0.3%	13.4%	-72.4%	-381.9%	0.3%

*) 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.)

<u>Supplementary information pursuant to CSSF Circular 16/636:</u>

The **“cost/income ratio”** is a metric used for measuring efficiency.
As at 31 December 2019 the cost/income ratio was calculated by dividing administrative expenses, including depreciation and amortisation, by the sum of net interest income, net commission income, profit/loss from financial instruments measured at fair value, profit/loss from foreign exchange, profit/loss from hedge accounting, profit/loss on disposal of financial instruments not measured at fair value through profit or loss and other operating profit/loss. As a result of the restatement made as at 31 December 2019 in the reporting of profit/loss from lending provisions which moved € 0.3 m from other operating profit/loss as at 31 December 2018 to the net valuation allowance from financial instruments not measured at fair value through profit or loss, see also ((21) Net valuation allowance from financial instruments not measured at fair value through profit or loss and modification profit/loss), the cost/income ratio as at 31 December 2018 changed from 111.3% to 112.5%.

	31.12.2019	31.12.2018
Cost/income ratio (in € million)	61.6 %	112.5 %
Administrative expenses including amortisation and depreciation	-35.3	-41.2
Net interest income	120.9	113.9
Net commission income	-53.1	-41.2
Profit/loss from financial instruments at fair value	-10.0	-25.1
Profit/loss from foreign exchange	-0.3	0.5
Profit/loss from hedge accounting	6.7	-7.6
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	0.7	0.0
Other operating profit/loss	-7.5	-3.8

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:

	31.12.2019	31.12.2018
RoRaC (in € million)	7.2 %	0.3 %
Earnings before taxes	24.6	1.0
Limit for committed capital	341.8	357.2
Committed capital	326.5	338.1

RoA (return on assets) is a key figure for measuring profitability. It is calculated by dividing earnings after taxes by total assets:

	31.12.2019	31.12.2018
RoA (in € million)	0.1 %	0.0 %
Earnings after taxes	18.5	1.1
Total assets	15,561.6	17,199.3

Further segment information					
in € million	Financial Markets & Sales	Loans	Group Service B2B	Bank Management & Other	Summe
Property and equipment including investment property, net	**0.0**	**0.0**	**0.0**	**64.6**	**64.6**
Ditto Previous year	0.0	0.0	0.0	64.2	64.2
Depreciation on property and equipment including investment property, current year	**0.0**	**0.0**	**0.0**	**-2.7**	**-2.7**
Ditto Previous year	0.0	0.0	0.0	-1.6	-1.6
Intangible assets, net	**0.0**	**0.0**	**0.0**	**30.2**	**30.2**
Ditto Previous year	0.0	0.0	0.0	27.0	27.0
Amortisation on intangible assets, current year	**0.0**	**0.0**	**0.0**	**-2.1**	**-2.1**
Ditto Previous year	0.0	0.0	0.0	-1.1	-1.1
Valuation allowances on financial assets, current year	**3.0**	**0.0**	**0.0**	**0.0**	**3.0**
Ditto Previous year	2.8	0.0	0.0	0.0	2.8

(17) Geographic segmentation of NORD/LB CBB

	Segments							
in € million	Germany	Luxem-bourg	Switzer-land	Other Europe	USA	Other America	Other coun-tries	Total
Earnings before taxes	**11.6**	**0.7**	**0.3**	**7.4**	**2.8**	**1.0**	**0.8**	**24.6**
Ditto Previous year	1.2	-1.4	0.1	0.7	0.3	0.1	0.1	1.0
Segment assets	**7,344.8**	**443.2**	**198.0**	**4,688.3**	**1,798.6**	**586.0**	**502.8**	**15,561.6**
Ditto Previous year	8,158.6	907.6	668.4	4,516.5	1,784.0	720.5	443.5	17,199.3
Segment liabilities (incl. equity)	**9,948.6**	**4,613.1**	**419.6**	**538.2**	**19.7**	**0.0**	**22.3**	**15,561.6**
Ditto Previous year	11,537.0	4,360.4	523.8	691.8	20.7	5.5	60.1	17,199.3
Property and equipment including investment property	**0.0**	**64.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**64.6**
Ditto Previous year	0.0	64.2	0.0	0.0	0.0	0.0	0.0	64.2
Intangible assets	**0.0**	**30.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**30.2**
Ditto Previous year	0.0	27.0	0.0	0.0	0.0	0.0	0.0	27.0
Risk assets (annual average figures)	**1,924.0**	**116.3**	**52.0**	**1,230.6**	**472.1**	**153.8**	**132.0**	**4,080.8**
Ditto Previous year (annual average figures)	2,004.6	223.2	164.2	1,109.8	438.4	177.0	109.0	4,226.2
Capital commitment (based on average annual figures)	**153.9**	**9.3**	**4.2**	**98.4**	**37.8**	**12.3**	**10.6**	**326.5**
Ditto Previous year (based on average annual figures)	160.4	17.9	13.1	88.8	35.1	14.2	8.7	338.1

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.

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Interest income from assets	**465,487**	**456,165**	**2**
Interest income from financial assets at fair value through profit or loss	**54,542**	**50,432**	**8**
Interest income from trading assets	47,074	41,502	13
Interest income from trading derivatives	46,633	41,024	14
Interest income from loans and advances	441	478	-8
Interest income from financial instruments mandatorily at fair value	7,468	8,930	-16
Interest income from debt securities and other fixed-interest securities	6,918	8,435	-18
Interest income from loans and advances	550	495	11
Interest income from financial assets at fair value directly in equity	**18,461**	**21,908**	**-16**
Interest income from debt securities and other fixed-interest securities	18,461	21,908	-16
Interest income from financial assets at amortised cost	**287,434**	**271,917**	**6**
Interest income from debt securities and other fixed-interest securities	62,559	66,191	-5
Interest income from loans and advances	224,875	205,715	9
Interest income from impaired debt securities and other fixed-interest securities as well as loans and advances	0	11	-100
Interest income from hedging derivatives	**113,941**	**119,403**	**-5**
Other interest income and similar income	**69**	**109**	**-37**
Interest expenses from assets	**-8,959**	**-7,604**	**18**

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Interest expenses from liabilities	**-344,564**	**-342,261**	**1**
Interest expenses from financial liabilities at fair value through profit or loss	**-101,850**	**-85,822**	**19**
Interest expenses from trading liabilities	-80,418	-66,764	20
Interest expenses from trading derivatives	-80,418	-66,764	20
Interest expenses from financial liabilities designated at fair value through profit or loss	-21,433	-19,058	12
Interest expenses from securitised liabilities	-21,433	-19,058	12
Interest expenses from financial liabilities at amortised cost	**-152,877**	**-155,697**	**-2**
Interest expenses from deposits	-126,641	-129,972	-3
Interest expenses from securitised liabilities	-26,236	-25,725	2
Interest expenses from hedging derivatives	**-107,788**	**-116,438**	**-7**
Other interest expenses and similar expenses	**-140**	**-150**	**-7**
Interest income from financial liabilities	**18,091**	**15,845**	**14**
Total	**120,923**	**113,904**	**6**

Net interest income rose by € 7,020 thousand to € 120,923 thousand compared to the previous year, which is largely due to the increase in interest-bearing assets in the form of loans. A further € 2,028 thousand (previous year: € 3,567 thousand) was generated as at the reporting date from special ECB monetary policy measures (“Targeted longer-term refinancing operations II”). The interest expenses from lease liabilities are included under other interest expenses and similar expenses.

The main effects here are the increases in interest income from the expanded lending business within receivables from financial assets at amortised cost of € 19,160 thousand. This was offset in the amount of € -8,606 thousand by the reduction in interest income from debt securities and other fixed-interest securities owing to the declining volume of securities in the Bank’s portfolio. Interest income from derivatives and other interest income remained constant.
Total interest expenses increased slightly by € -2,912 thousand. Within interest expenses, compensating effects can be observed from the decrease in interest expenses from financial liabilities at amortised cost of € 2,820 thousand, the increase in interest expenses from derivatives of € -4,824 thousand and from financial liabilities designated at fair value through profit or loss of € -2,375 thousand.

No interest is recognised within NORD/LB CBB that is not consistent with the effective interest method outlined in Note ((6) Interest and commission). 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

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.

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.

The commission expenses incurred on a pro rata basis stem predominantly from the brokerage business with NORD/LB. The transaction-dependent commissions are primarily derived from own payment transactions and securities commission transactions of the Bank.

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Commission income	**12,311**	**12,658**	**-3**
Lending and guarantee business	6,048	6,392	-5
Account management and payment transactions	106	160	-34
Security transactions and custody service	5,918	5,860	1
Other commission income	240	245	-2
Commission expenses	**-65,438**	**-53,828**	**22**
Lending and guarantee business	-19,050	-12,955	47
Account management and payment transactions	-169	-156	8
Security transactions and custody service	-952	-979	-3
Brokerage business	-43,755	-37,933	15
Other commission expenses	-1,513	-1,805	-16
Total	**-53,127**	**-41,170**	**29**

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.

The increase in commission expenses in the lending and guarantee business and the brokerage business results from the expansion of lending business and additional risk hedging by NORD/LB. All of the commission income and expenses stem from financial instruments not measured at fair value.

Commission income is presented and explained by Bank segment in more detail below:

2019 in € million	Financial Markets & Sales	Loans	Group Service & B2B	Bank Management & Other	Total profit/ loss
Commission income	5.6	5.7	1.0	0.0	12.3

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

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.

Within commission income, IFRS 15 had an impact on income from agency fees and income from a servicing fee for factoring. For 2019 the impact was € 355 thousand, equivalent to 2.9 per cent of commission income. The previous year the impact was € 323 thousand, equivalent to 2.5 per cent of commission income. Due to the minor impact on the presentation of net assets 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).

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Trading profit/loss	**508**	**-8,705**	**< -100**
Profit/loss from derivatives	492	-8,693	< -100
- Interest-rate risks	377	-327	< -100
- Currency risks	-15,091	-8,366	80
- Credit derivatives	15,206	0	> 100
Profit/loss from loans and advances held for trading	16	-12	< -100
Profit/loss from financial assets mandatorily at fair value through profit or loss	**6,691**	**-7,502**	**< -100**
Profit/loss from debt securities and other fixed-interest securities	7,212	-6,441	< -100
Profit/loss from loans and advances	-520	-1,061	-51
Profit/loss from financial instruments designated at fair value through profit or loss	**-17,210**	**-8,913**	**93**
Profit/loss from securitised liabilities	-17,210	-8,913	93
Total	**-10,010**	**-25,120**	**-60**

Overall, the profit/loss from fair value measurement improved significantly in 2019.

The balanced trading profit/loss is mainly the result of negative temporary measurement effects of € 9,028 thousand (previous year: € 10,243), which are chiefly attributable to basis spread effects on cross currency swaps. This was offset by a valuation gain of € 15,206 thousand (previous year: € 0 thousand) from the credit derivative from the financial guarantees received from the State of Lower Saxony to hedge the risk of loss on certain ship and aircraft financing portfolios. The other effects are mainly based on valuation changes from euro and GBP market interest rates and a weaker GBP exchange rate in 2019.

The profit/loss from securitised liabilities designated at fair value through profit or loss is mainly due to significantly lower interest rates in EUR and USD compared with the previous year.

(21) Net valuation allowance from financial instruments not measured at fair value through profit or loss and modification profit/loss

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Loan loss provisions for financial assets at fair value directly in equity	**15**	**-31**	**< -100**
Income from reversal of loan loss provisions for			
Debt securities and other fixed-interest securities	21	7	> 100
Expenses from allocations of loan loss provisions for			
Debt securities and other fixed-interest securities	-6	-38	-83
Loan loss provisions from financial assets at amortised cost	**3,430**	**3,944**	**-13**
Income from reversal of loan loss provisions for			
Debt securities and other fixed-interest securities	2,993	3,452	-13
Loans and advances	2,093	2,334	-10
Expenses from allocations of loan loss provisions for			
Debt securities and other fixed-interest securities	-4	-616	-99
Loans and advances	-1,652	-1,226	35
Allocations to and reversals of provisions in the lending business	**-2,609**	**376**	**< -100**
Additions to receivables written off	**1,791**	**1,239**	**45**
Modification profit/loss	**-163**	**0**	**> 100**
Total	**2,464**	**5,529**	**-55**

Changes in loan loss provisions resulted in income of € 2,627 thousand (previous year: € 5,529 thousand). This is mainly due to reduced default risks on US municipal bonds (€ 2,128 thousand) and sales in the securities portfolio (€ 694 thousand). The figure also includes a receipt on a receivable written off amounting to € 1,791 thousand.

Allocations to and reversals of provisions in the lending business include provisions for loan commitments, financial guarantees and other off-balance sheet obligations. The negative figure mainly resulted from a deterioration in the credit quality of two exposures in the shipping segment, to which € 3,301 thousand was allocated. This was offset by minor reversals of € 691 thousand due to improved credit quality. With regard to the restatement of the previous year's figures, see also Note ((2) Restatement of previous-year figures).
For further information on the changes in loan loss provisions, please refer to Note ((50) Loan loss provisions and gross carrying amount).

The overall modification profit/loss results from receivables measured at amortised cost: € -163 thousand of this relates to modifications of financial instruments where the risk provision was determined on the basis of a lifetime expected credit loss. The corresponding amortised costs before modification totalled € 22.5 million.
The previous year six loans and advances were modified, one of which would have resulted in a modification profit/loss under IFRS 9.

The borrower concerned settled the receivable in full and on time so there was no modification gain or loss.

(22) Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Profit/loss from the disposal of financial assets at amortised cost	**736**	**0**	**> 100**
Profit/loss from the disposal of			
Loans and advances	227	0	> 100
debt securities and other fixed-interest securities	509	0	> 100
Total	**736**	**0**	**> 100**

In the year under review, a profit of € 736 thousand (previous year € 0 thousand) was generated from the disposal of financial assets. The sales resulted exclusively from disposals, which were made due to a Group-wide redimensioning. The gross carrying amount of disposals was € 212.5 million (previous year: € 0.0 million). The profit is due to the sale of several tranches of securities (€ 509 thousand). The income from receivables (€ 227 thousand) results from the sale of a credit tranche with a nominal value of € 30.0 million.

(23) 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. On the implementation of hedge accounting, please refer to Note ((7) Financial instruments). Hedged underlying transactions include loans and advances or liabilities to banks and customers, financial assets and own issues.

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Hedgeergebnis im Rahmen von Micro Fair Value-Hedges	**6,654**	**-7,628**	**< -100**
aus gesicherten Grundgeschäften	-14,413	-58,421	-75
aus derivativen Sicherungsinstrumenten	21,067	50,793	-59
Total	**6,654**	**-7,628**	**< -100**

The profit/loss from hedge accounting is up on the previous year.

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) 31.12.2019	Average interest rates (in %) 31.12.2019	Nominal amount (in € million) 31.12.2018	Average interest rates (in %) 31.12.2018
Financial assets at fair value directly in equity				
Underlying transactions	505.0	1.18	551.5	1.65
Hedging investments	505.0	1.18	551.5	1.65
Financial assets at amortised cost				
Underlying transactions	1,323.6	5.37	1,438.4	5.42
Hedging investments	1,337.2	5.35	1,386.4	5.39
Financial liabilities at amortised cost				
Underlying transactions	1,984.7	1.96	2,049.7	2.06
Hedging investments	1,984.7	1.96	1,996.9	1.98

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) 31.12.2019	Average interest rates (in %) 31.12.2019	Nominal amount (in € million) 31.12.2018	Average interest rates (in %) 31.12.2018
Financial assets at fair value directly in equity				
Underlying transactions	51.6	2.01	67.4	2.14
Hedging investments	51.6	2.01	67.4	2.14
Financial assets at amortised cost				
Underlying transactions	334.0	3.80	330.6	3.75
Hedging investments	334.0	3.57	330.6	3.51
Financial liabilities at amortised cost				
Underlying transactions	208.3	4.96	205.2	4.97
Hedging investments	208.3	4.96	205.2	4.97

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

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

	2019 (in € million)	2018 (in € million)	Change (in %)
Financial assets at fair value directly in equity	**-0.2**	**-0.1**	**> 100**
Underlying transactions	10.3	13.0	1
Hedging investments	-10.5	-13.1	5
Financial assets at amortised cost	**-4.8**	**-3.1**	**41**
Underlying transactions	303.3	248.7	21
Hedging investments	-308.0	-251.8	21
Financial liabilities at amortised cost	**10.6**	**4.2**	**> 100**
Underlying transactions	-313.9	-206.2	52
Hedging investments	324.5	210.4	54
Total	**5.7**	**1.0**	**> 100**

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.

(24) Profit/loss from foreign exchange

Profit/loss from foreign exchange fell by € 769 thousand to € -275 thousand.

(25) Administrative expenses

Administrative expenses comprise staff expenses and other administrative expenses:

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Staff expenses	**-17,231**	**-19,662**	**-12**
Wages and salaries	-14,678	-16,916	-13
Social insurance contributions	-1,397	-1,571	-11
Expenditure on pension schemes and other benefits	-1,021	-1,000	2
Other staff expenses	-135	-176	-23
Other administrative expenses	**-13,304**	**-18,779**	**-29**
Costs for IT and communications	-7,977	-9,977	-20
Building occupancy costs	-677	-754	-10
Expenses for marketing, communications and entertainment	-165	-158	5
Personnel-related material expenses	-282	-627	-55
Costs for legal, auditing, appraisal and consulting services	-1,823	-4,759	-62
Levies and contributions	-521	-516	1
Expenses for operating and office equipment	-71	-32	> 100
Other administrative expenses	-1,788	-1,957	-9
Total	**-30,535**	**-38,442**	**-21**

(26) Current amortisation and depreciation

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Property and equipment	-2,493	-1,647	51
Intangible assets	-2,136	-1,135	88
Investment property	-154	0	> 100
Total	**-4,784**	**-2,783**	**72**

All the above items result from ordinary depreciation. In reporting year 2019, as in the previous year, there were no impairments on property and equipment or intangible assets. No signs were identified for a reversal of previous write-downs either.

The increase compared with the previous year is mainly due to the first-time application of IFRS 16 and the related depreciation of right of use assets under leases of € 1,034 thousand and the first-time depreciation of intangible assets resulting from a Group-wide core bank IT project of € 721 thousand. In addition, a separate impairment loss of € 154 thousand was recognised for the first time during the year on investment property.

Please refer to Notes ((34) Property and equipment), ((35) Investment property) and ((36) Intangible assets) for further information.

(27) Other operating profit/loss

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Other operating income	**5,822**	**5,132**	**13**
Rental income	755	721	5
Income from intra-Group service charging	5,053	2,003	> 100
Other operating income	14	2,408	-99
Other operating expenses	**-13,364**	**-8,958**	**49**
Expenses from the bank levy	-6,137	-5,390	14
Other taxes	-2,156	-58	> 100
Expenses from intra-Group service charging	-4,548	-3,289	38
Other operating expenses	-523	-220	> 100
Total	**-7,542**	**-3,826**	**97**

In view of the first-time application of IAS 40 as at 1 July 2019, see also Note ((11) Investment property), rental income in 2019 includes investment property of € 378 thousand. This is offset by directly attributable operating costs of € 94 thousand in the past financial year, which are subsumed under other operating expenses.

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

Unlike the previous year (€ 2,880 thousand), no other operating income was generated from VAT refunds relating to other periods.

Allocations to and reversals of provisions in the lending business include provisions for loan commitments, financial guarantees and other off-balance sheet obligations are reported differently to last year in Note ((21) Net valuation allowance from financial instruments not measured at fair value through profit or loss and modification profit/loss). See also Note ((2) Restatement of previous-year figures).

(28) Income taxes

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Current taxes on income and earnings	-6,021	-226	> 100
Deferred taxes	0	362	-100
Total	**-6,021**	**136**	**< -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:

(in € thousand)	2019		2018	
IFRS earnings before taxes		**24,568**		**956**
Anticipated income tax expenditure	24.94%	-6,127	26.01%	-249
Effects of reconciliation:				
Taxes from previous years reported in the reporting period	-2.93%	379	-6.07%	58
Non-deductible operational expenditure	4.16%	-539	3.03%	-29
Effects of tax-free earnings	-0.05%	6	-1.99%	19
Adjustments from foreign imputable withholding tax	-2.00%	260	-35.25%	337
Reported net income tax	**24.12%**	**-6,021**	**-14.26%**	**136**

The anticipated income tax expenditure in the tax reconciliation statement is calculated based on the corporation and commercial tax rate at 24.94 per cent (previous year: 26.01 per cent) applicable in Luxembourg in 2019.

Notes to the balance sheet

(29) Cash reserve

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Balances with the central banks	11.6	443.4	-97
Total	**11.6**	**443.4**	**-97**

Balances with central banks totalled € 2.5 million (previous year: € 419.3 million) at the Swiss National Bank and € 9.0 million (previous year: € 24.1 million) at the Luxembourg Central Bank; € 9.0 million of this amount (previous year: € 24.1 million) relates to the minimum reserve requirement.

(30) 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.

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Trading assets	**138.2**	**191.2**	**-28**
Positive fair values from derivatives			
Interest-rate risks	61.2	35.6	72
Currency risks	57.9	101.8	-43
Credit risk	14.9	0.0	> 100
Loans and advances to customers	4.2	53.7	-92
Financial assets mandatorily at fair value through profit or loss	**822.2**	**1,042.3**	**-21**
Debt securities and other fixed-interest securities	815.3	1,029.9	-21
Loans and advances to banks	6.9	12.4	-45
Total	**960.4**	**1,233.5**	**-22**

As at 31 December 2019, the Bank had no equity instruments or any assets designated at fair value through profit or loss. € 815.3 million of the debt securities and other fixed-interest securities at fair value through profit or loss (previous year: € 1,029.9 million) are listed. The reduction is due to assets with a nominal value of € 223.6 million maturing in the “other” portfolio; no new business was allocated to this portfolio.

There were no reclassifications to financial assets at fair value through profit or loss. Please refer to Note ((60) Longer-term assets and liabilities) for the maturity of assets.

The positive fair value from credit risks resulted from the financial guarantees received from the state of Lower Saxony to hedge the risk of loss in certain ship and aircraft financing portfolios. For further detailed information please refer to Note ((49) Fair-value hierarchy).

(31) Financial assets at fair value directly in equity

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Debt securities and other fixed-interest securities	1,939.4	2,101.7	-8
Total	**1,939.4**	**2,101.7**	**-8**

The decline in financial assets at fair value directly in equity was largely due to maturities and repayments that were not fully made up by new business.
Of bonds and other financial securities, € 1,939.4 million (previous year: € 2,101.7 million) are listed. Please refer to Note ((60) Longer-term assets and liabilities) for the maturity of assets.

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.

(32) Financial assets at amortised cost

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Debt securities and other fixed-interest securities	1,547.5	1,765.8	-12
Loans and advances to banks	732.1	1,966.4	-63
Loans and advances to customers	9,953.6	9,370.8	6
Total	**12,233.1**	**13,103.0**	**-7**

The decline in debt securities and other fixed-interest securities at amortised cost is mostly due to sales made as part of a Group-wide redimensioning. As explained in Note ((7) Financial instruments), the transactions are material in scale but very irregular, so the sales are consistent with the corresponding "hold" business model. The gross carrying amount of disposals was € 212.5 million (previous year: € 0.0 million).

The reduction in loans and advances to banks is mainly based on the repayment of short-term borrowings on the interbank market.

The increase in loans and advances to customers is due to growth in new lending in 2019, as was also the case the previous year. Of bonds and other financial securities, € 1,547.5 million (previous year: € 1,765.5 million) are listed. Please refer to Note ((60) Longer-term assets and liabilities) for the maturity of assets.

Note (50) Loan loss provisions and gross carrying amount presents the changes to loan loss provisions in this item. No reclassifications were made in the reporting year.
Following the first-time application of IFRS 9, debt securities fulfilling the cash flow criterion and allocated to a portfolio under the "hold" business model are now measured at amortised cost and no longer at fair value directly in equity. No such reclassifications were made during the reporting year.

The following table shows the fair values of these financial assets as at 31 December 2019 and the fair value profit/loss that would have been recognised in other comprehensive income (OCI) in the reporting period if no reclassification had taken place:

Under IFRS 9 as at 31.12.2019 (in € million)	Fair value as at 31.12.2019	Fair value as at 31.12.2018	Fair value profit/loss that would have been in other comprehensive income (OCI) in 2019	Fair value profit/loss that would have been in other comprehensive income (OCI) in 2018
Financial assets at amortised cost	**88.7**	**92.4**	**-5.1**	**-4.8**
Debt securities	88.7	92.4	-5.1	-4.8
Total	**88.7**	**92.4**	**-5.1**	**-4.8**

(33) 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.

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Derivatives under micro fair value hedges	312.9	218.8	43
Of which: derivatives under micro fair value hedges of interest-rate risks	288.8	197.4	46
Of which: derivatives under micro fair value hedges of interest-rate/currency risks	24.1	21.4	12
Total	**312.9**	**218.8**	**43**

Maturities of assets are shown in Note (60) Longer-term assets and liabilities).

Please refer to Note (23) Profit/loss from hedge accounting) for further details on hedge accounting and the profit/loss from hedge accounting.

(34) Property and equipment

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Land and buildings	41.2	61.3	-33
Operating and office equipment	2.1	2.8	-26
Right of use assets from leasing	1.8	0.0	> 100
Total	**45.0**	**64.2**	**-30**

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 equip-ment	Right of use assets from leasing	Total	Invest-ment property
Cost as at 01.01.2018	**66.6**	**11.1**	**0.0**	**77.6**	**0.0**
Additions	0.0	0.5	0.0	0.5	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.0	0.0	0.0	0.0	0.0
Totals 31.12.2018	**66.6**	**11.6**	**0.0**	**78.1**	**0.0**
Accumulated amortisation as at 01.01.2018	**-4.9**	**-7.5**	**0.0**	**-12.3**	**0.0**
Amortisation	-0.6	-1.1	0.0	-1.6	0.0
Reclassifications	0.2	-0.2	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Totals 31.12.2018	**-5.2**	**-8.8**	**0.0**	**-14.0**	**0.0**
Effects of first-time application of IFRS 16	**0.0**	**0.0**	**2.8**	**2.8**	**0.0**
Cost as at 01.01.2019	**66.6**	**11.6**	**2.8**	**81.0**	**0.0**
Additions	**0.0**	**0.3**	**0.0**	**0.3**	**0.0**
Disposals	0.0	-1.9	0.0	-1.9	0.0
Reclassifications	-22.6	0.0	0.0	-22.6	22.6
Totals 31.12.2019	**43.9**	**10.0**	**2.8**	**56.7**	**22.6**
Accumulated depreciation/amortisation as at 01.01.2019	**-5.2**	**-8.8**	**0.0**	**-14.0**	**0.0**
Amortisation	-0.4	-1.0	-1.0	-2.5	-0.2
Impairments (non-scheduled)	0.0	0.0	0.0	0.0	0.0
Reclassifications	2.9	0.0	0.0	2.9	-2.9
Disposals	0.0	1.9	0.0	1.9	0.0
Totals 31.12.2019	**-2.8**	**-7.9**	**-1.0**	**-11.7**	**-3.0**
Closing balance as at 31.12.2019	**41.2**	**2.1**	**1.8**	**45.0**	**19.6**

The building and land owned by NORD/LB CBB has a market value of € 64.7 million, which includes the part of the building used by third parties and the part used by the Bank itself, including the land. The market value was determined based on valuations and transactions of similar buildings and land in comparable geographical locations and is fully attributable to Level 2 of the fair value hierarchy under IFRS 13.
The market value includes the portions of the building used by third parties and by the Bank itself, including the land. The owner-occupied portion accounts for € 42.9 million, which includes € 22.7 million for the land. Accordingly, the portion used by third parties has a market value of € 21.8 million.

(35) Investment property

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Investment property	19.6	0.0	> 100
Total	**19.6**	**0.0**	**100**

NORD/LB CBB is reporting investment property for the first time as at 31 December 2019. Please refer to Note ((34) Property and equipment) for information on initial recognition and changes in costs and depreciation. Information on market value is also provided in this Note.

The profit/loss on investment property is as follows:

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Rental income	378	0	> 100
Direct operating expenses	-94	0	-100

(36) Intangible assets

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Software	25.6	11.1	> 100
Purchased	25.6	11.1	> 100
Payments on account and intangible assets under development	4.6	15.9	-71
Total	**30.2**	**27.0**	**12**

NORD/LB CBB continues to use software that has been fully amortised. The Group project under which NORD/LB CBB acts as a future system provider for other Group units was completed during the financial year, so as at 31 December 2019 this was recognised within software acquired for consideration and, unlike the previous year, no intangible assets in development have been recognised. The asset underwent impairment testing pursuant to IAS 36 and was found to be recoverable.

The development of intangible assets is as follows:

in € million	Software		Payments on account and intangible assets under development	Other	Total
	Purchased	Internally developed			
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**
Cost as at 01.01.2019	**31.8**	**0.0**	**15.9**	**0.0**	**47.7**
Additions	0.4	0.0	5.2	0.0	5.6
Disposals	-3.7	0.0	-0.2	0.0	-3.9
Reclassifications	16.3	0.0	-16.3	0.0	0.0
Totals 31.12.2019	**44.8**	**0.0**	**4.6**	**0.0**	**49.4**
Accumulated depreciation/amortisation as at 01.01.2019	**-20.7**	**0.0**	**0.0**	**0.0**	**-20.7**
Amortisation	-2.1	0.0	0.0	0.0	-2.1
Impairments (non-scheduled)	0.0	0.0	0.0	0.0	0.0
Disposals	3.7	0.0	0.0	0.0	3.7
Totals 31.12.2019	**-19.2**	**0.0**	**0.0**	**0.0**	**-19.2**
Closing balance as at 31.12.2019	**25.6**	**0.0**	**4.6**	**0.0**	**30.2**

As in the previous year, no impairment losses were recognised in 2019. Expected cash flows remained constant during 2019, so there was neither any impairment nor any increase in value in use that would result in an additional impairment loss or a reversal of an impairment loss.

As at 31 December 2019, intangible assets included € 3.6 million for Avaloq and € 3.7 million for FINCUBE. The planned residual useful life depends on the modules capitalised and varies between 4 and 15 years. The core IT project "Helios" accounted for € 13.7 million at the reporting date.

(37) Income tax assets

The income tax assets are broken down as follows:

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Current income tax assets	3.0	3.0	0
Deferred tax assets	1.3	1.8	-30
Total	**4.2**	**4.8**	**-11**

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:

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Assets	**0.0**	**0.0**	**-**
Liabilities	**1.3**	**1.8**	**-30**
Provisions	0.6	0.6	12
Financial liabilities designated at fair value through profit or loss	0.6	1.2	-49
Total	**1.3**	**1.8**	**-30**

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

(38) Other assets

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Tax assets from other taxes	0.2	0.0	> 100
Deferred income	0.6	0.9	-34
Receivables from intra-Group service charging	4.3	2.0	> 100
Other assets	0.0	0.1	-62
Total	**5.1**	**3.0**	**67**

(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.

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Trading liabilities	**121.6**	**81.1**	**50**
Negative fair values from derivatives			
Interest-rate risks	62.8	53.2	18
Currency risks	58.4	27.9	> 100
Credit risk	0.4	0.0	> 100
Financial liabilities designated at fair value through profit or loss	**1,560.1**	**1,634.1**	**-5**
Securitised liabilities	1,560.1	1,634.1	-5
Total	**1,681.7**	**1,715.2**	**-2**

Please refer to Notes ((55) Remaining terms of financial assets and liabilities) and ((60) Longer-term assets and liabilities) for information on the maturities of liabilities.

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. The change in fair value attributable to changes in the own credit risk of financial liabilities designated at fair value through profit or loss is reported in other comprehensive income (OCI). Please refer to Note ((46) Notes to the statement of comprehensive income).
The aforementioned values were not transferred within the equity items.
Furthermore, there was no derecognition of any financial liability designated at fair value through profit or loss in the reporting year.

The carrying amount of the financial liability at fair value through profit or loss is € 15.5 million (previous year: € 16.4 million) higher than the amount that the company would contractually have to pay to the creditor of the liability on maturity.

(40) Financial liabilities at amortised cost

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Deposits	**8,737.5**	**10,491.5**	**-17**
Deposits of banks	6,105.8	5,942.4	3
Deposits of customers	2,631.7	4,549.1	-42
Securitised liabilities	**3,907.8**	**3,828.9**	**2**
Pfandbriefe	1,794.4	1,343.5	34
Other securitised liabilities	2,113.4	2,485.4	-15
Total	**12,645.3**	**14,320.4**	**-12**

The increase within Pfandbriefs results from an issue of a Lettres de Gage of € 500.0 million in the first quarter of 2019.

The reduction in deposits from customers is due in particular to short-term deposits and counterbalances the issue.

Please refer to Notes ((55) Remaining terms of financial assets and liabilities) and ((60) Longer-term assets and liabilities) for information on the maturities of liabilities.

(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.

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Derivatives under micro fair value hedges	480.2	438.5	10
Of which: derivatives under micro fair value hedges of interest-rate risks	383.3	365.7	5
Of which: derivatives under micro fair value hedges of interest-rate/currency risks	97.0	72.9	33
Total	**480.2**	**438.5**	**10**

The maturities of the liabilities are shown in Notes ((55) Remaining terms of financial assets and liabilities) and ((60) Longer-term assets and liabilities). Please refer to Note (23) Profit/loss from hedge accounting) for further details on hedge accounting and the profit/loss from hedge accounting.

(42) Provisions

Provisions are broken down as follows:

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Provisions for pensions and similar obligations	**3.9**	**3.3**	**16**
Other provisions	**7.8**	**6.4**	**21**
Provisions for staff	0.5	0.8	-38
Provisions in lending business	3.5	1.1	> 100
Provisions for reorganisation measures	3.7	4.6	-20
Other provisions	0.1	0.0	> 100
Total	**11.6**	**9.8**	**19**

Provisions for reorganisation measures mainly relate to obligations towards employees in connection with a current multi-stage restructuring project. Payment obligations were met in 2019 and are expected to continue until 2023. 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 developed as follows during the reporting period:

in € million	Pensions and other defined benefit obligations after termination of employment	Other long-term employee benefits	Reorganisation measures	Commitments and guarantees given	Other provisions
Opening balance as at 01.01.2019	**3.3**	**0.8**	**4.6**	**1.1**	**0.0**
Additional provisions, including increase of existing provisions	0.6	0.2	0.0	3.3	0.1
(-) amounts used	0.0	-0.4	-0.7	-0.1	0.0
(-) amounts not used which were reversed during the reporting period	0.0	0.0	0.0	-0.7	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	-0.3	0.0	0.0
Closing balance as at 31.12.2019	**3.9**	**0.5**	**3.7**	**3.5**	**0.1**

Provisions for reorganisation measures mainly result from transformation programmes within the NORD/LB Group. They relate to personnel measures concerning the exploitation of synergies within NORD/LB CBB and the redimensioning of the Group as part of the implementation of the new business model. The provisions are expected to be fully utilised between 2020 and 2023. Due to the large number of individual contractual agreements expected in the future, it was not possible to make a definitive forecast of the amount of the utilisation of the provisions at the time they were recognised.

Utilisation of provisions for pensions and other defined benefit obligations after ending of employment cannot be predicted definitively due to the variability of retirement age. An approximation is provided in the explanation on provisions for pensions and similar obligations.

The remaining provisions are mainly of a long-term nature.

Provisions for pensions and similar obligations

The calculation is based on the following actuarial assumptions:

Actuarial assumptions	**31.12.2019 (in %)**	**31.12.2018 (in %)**	**Change (in %)**
Annual salary development	1.0	1.0	0.0
Annual inflation rate	2.5	2.5	0.0
Annual increase in the BBG (cost-of-living index included)	3.2	3.2	0.6
Discount rate	1.5	2.2	-31.8
Mortality table: statistical values published in the Grand Duchy regulation dated 15 January 2001, which governs the minimal funding of company retirement benefit plans.			
Expected return on plan assets	1.5	2.2	-31.8
Turnover rate	2.0	2.0	0.0

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

	31.12.2019 (in € million)	**31.12.2018 (in € million)**	**Change (in %)**
Present value of the defined benefit obligation	6.6	6.0	9
Less fair value of plan assets	-3.4	-3.3	3
Other amounts recognised in the balance sheet (flat-rate tax)	0.7	0.6	16
Negative balance (net indebtedness)	**3.9**	**3.3**	**16**

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:

	2019 (in € million)	**2018 (in € million)**	**Change (in %)**
Opening balance 01.01.	**6.0**	**6.2**	**-3**
Current service cost	0.3	0.3	-8
Interest expense	0.1	0.1	-33
Actuarial gains/losses from the liability	0.3	-0.4	> 100
Retirement benefits paid	-0.1	-0.3	-54
Closing balance 31.12.	**6.6**	**6.0**	**9**

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 changes in plan liabilities and plan assets amount to € -291 thousand (previous year: € -483 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:

	2019 (in € million)	2018 (in € million)	Change (in %)
Opening balance	**3.3**	**3.2**	**2**
Expected return on plan assets	0.0	0.1	-50
Actuarial gains/losses on plan assets	0.0	0.1	-92
Employer contributions	0.2	0.2	13
Retirement benefits paid	-0.1	-0.3	-54
Closing balance	**3.4**	**3.3**	**3**

The fair value of plan assets comprises the following:

	31.12.2019 (in %)	31.12.2018 (in %)	Change (in %)
Equity instruments	**2.6**	**2.3**	**15**
Of which: active market	2.6	2.3	15
Of which: non-active market	0	0	0
Debt instruments	**87.1**	**88.6**	**-2**
Of which: active market	87.1	88.6	-2
Of which: non-active market	0	0	0
Real estate	**4.6**	**4.7**	**-2**
Of which: active market	4.6	4.7	-2
Of which: non-active market	0	0	0
Other assets	**5.7**	**4.5**	**29**
Of which: active market	0	0	0
Of which: non-active market	5.7	4.5	29

The fair value of plan assets includes equity instruments amounting to € 87 thousand (previous year: € 74 thousand), debt instruments amounting to € 2,936 thousand (previous year: € 2,899 thousand), real estate amounting to € 155 thousand (previous year: € 155 thousand) and other assets amounting to € 193 thousand (previous year: € 145 thousand). Other assets mainly consist of senior secured receivables and bank balances.
The total anticipated return of 1.5 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 € 53 thousand (previous year: € 77 thousand).

The pension expense is as follows:

	2019 (in € thousand)	2018 (in € thousand)	Change (in %)
Current service cost	**305**	332	**-8**
Interest expense	95	143	-33
Expected return on plan assets	-53	-77	-32
Employer contributions to plan assets	-178	-158	13
Actuarial effects not recognised in profit or loss	271	-522	> 100
Total	**440**	**-283**	**> 100**

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

	31.12.2019 (in € million)	31.12.2018 (in € million)
Defined benefit obligation (DBO)	6.6	6.0
Plan assets	-3.4	-3.3
Deficit	3.2	2.7
Actuarial gains/losses	0.3	-0.5
Adjustments made on the basis of experience to:		
Defined benefit obligations (DBO) and plan assets	-0.3	-0.5

(43) Income tax liabilities

The income tax liabilities are broken down as follows:

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Current income tax liabilities	8.5	11.2	-25
Deferred income tax liabilities	10.6	9.1	16
Total	**19.1**	**20.4**	**-6**

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 securities at fair value directly in equity. Please refer to Note (28) Income taxes for further information.

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

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Assets	**10.6**	**9.1**	**16**
Financial assets at fair value directly in equity	10.6	9.1	16
Liabilities	**0.0**	**0.0**	**-**
Total	**10.6**	**9.1**	**16**

(44) Other liabilities

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Liabilities from short-term employee remuneration	1.3	1.6	-20
Liabilities from accruals and other provisions	3.9	5.0	-22
Liabilities from payable taxes and social insurance contributions	7.1	3.7	91
Deferred income	1.2	1.6	-20
Liabilities from leases	1.8	0.0	> 100
Other liabilities	1.1	1.8	-38
Total	**16.4**	**13.6**	**20**

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

(45) Equity

Breakdown of equity:

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Issued capital	**205.0**	**205.0**	**0**
Retained earnings	**474.1**	**455.5**	**4**
Other comprehensive income (OCI)	**28.2**	**20.9**	**35**
Of which: Other comprehensive income that will be reclassified to the income statement in subsequent periods			
assets at fair value directly in equity	31.9	26.0	23
Of which: Other comprehensive income that will not be reclassified to the income statement in subsequent periods			
own credit-risk adjustment (OCA)	-1.9	-3.5	-46
revaluation of net liability from pensions	-1.9	-1.6	18
Total	**707.2**	**681.4**	**4**

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 2019	Income tax effect 2019	Amount after taxes 2019	Amount before taxes 2018	Income tax effect 2018	Amount after taxes 2018
Other comprehensive income that will be reclassified to the income statement in subsequent periods						
Changes in financial assets at fair value directly in equity	-7,455	1,484	-5,971	-9,371	2,437	-6,933
Other comprehensive income that will not be reclassified to the income statement in subsequent periods						
Change in financial liabilities designated at fair value through profit or loss that are attributable to the change in own credit risk	-2,248	612	-1,636	-2,239	582	-1,657
Actuarial gains (+) / losses (-) from defined benefit pension provisions	363	-67	296	582	-151	430
Profit/loss recognised directly in equity	**-9,340**	**2,028**	**-7,312**	**-11,028**	**2,868**	**-8,160**

(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 2019, 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 2018 and 2019 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 (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 2019. With a corporate tax expense of € 0.5 million for 2018, only the sum of € 2.8 million was allocated to the capital reserve.

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

Wealth tax for the year	Wealth tax in € million	Formation of reserves (= five times the credited wealth tax) in € million	Added during the year	Committed until
2014	2.7	15.3	2015	31.12.2019
2015	3.3	16.3	2015	31.12.2019
2016	2.6	12.9	2016	31.12.2020
2017	2.6	13.0	2017	31.12.2021
2018	2.6	12.9	2018	31.12.2022
2019	0.5	2.8	2019	31.12.2023
Total	**14.3**	**73.2**		

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.

(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.

In line with the recommendations of the IASB, payments from loans and advances, securities in the trading portfolio and liabilities are shown under cash flow from operating activities.

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

Cash flow from investing activities comprises payments from the disposal and acquisition of property and equipment, investment property, 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 2019.

There were also no new requirements under IAS 7 in reporting year 2019.

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

IAS 7.44A requires further disclosures on financing activity. Only minor leasing payments were made in 2019, so further explanation of financing activities in table form is no longer provided. The only change relevant to payments in 2018 was a dividend to NORD/LB.

Notes to financial instruments

(49) Fair-value hierarchy

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

in € million	Level 1	Level 2	Level 3	Fair value total	Carrying amount	Difference
	31.12.2019					
Assets						
Cash reserve	**11.6**	**0.0**	**0.0**	**11.6**	**11.6**	**0.0**
Trading assets	**0.0**	**123.3**	**14.9**	**138.2**	**138.2**	**0.0**
Positive fair values from derivatives	0.0	119.1	14.9	134.0	134.0	0.0
Interest-rate risks	0.0	61.2	0.0	61.2	61.2	0.0
Currency risks	0.0	57.9	0.0	57.9	57.9	0.0
Credit risk	0.0	0.0	14.9	14.9	14.9	0.0
Loans and advances	0,0	4,2	0,0	4,2	4,2	0,0
Financial assets mandatorily at fair value through profit or loss	**794.1**	**28.0**	**0.0**	**822.2**	**822.2**	**0.0**
Debt securities and other fixed-interest securities	794.1	21.1	0.0	815.3	815.3	0.0
Loans and advances	0.0	6.9	0.0	6.9	6.9	0.0
Financial assets at fair value directly in equity	**1,745.8**	**193.6**	**0.0**	**1,939.4**	**1,939.4**	**0.0**
Debt securities and other fixed-interest securities	1,745.8	193.6	0.0	1,939.4	1,939.4	0.0
Financial assets at amortised cost	**485.1**	**1,319.5**	**10,504.9**	**12,309.6**	**12,233.1**	**76.5**
Debt securities and other fixed-interest securities	89.8	1,316.4	0.0	1,406.2	1,547.5	-141.3
Loans and advances	395.3	3.1	10,504.9	10,903.3	10,685.6	217.7
Positive fair values from hedge accounting derivatives	**0.0**	**312.9**	**0.0**	**312.9**	**312.9**	**0.0**
Interest-rate risks	0.0	288.8	0.0	288.8	288.8	0.0
Currency risks	0.0	24.1	0.0	24.1	24.1	0.0
Total	**3,036.6**	**1,977.4**	**10,519.9**	**15,533.9**	**15,457.4**	**76.5**

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 € 141.3 million, down on the previous year (€ 150.0 million) by € 8.7 million.

	31.12.2018					
in € million	**Level 1**	**Level 2**	**Level 3**	**Fair value total**	**Carrying amount**	**Diffe-rence**
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
Credit risk	0.0	0.0	0.0	0.0	0.0	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**

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

in € million	31.12.2019 Level 1	Level 2	Level 3	Fair value total	Carrying amount	Difference
Liabilities						
Trading liabilities	**0.0**	**121.2**	**0.4**	**121.6**	**121.6**	**0.0**
Negative fair values from derivatives	**0.0**	**121.2**	**0.4**	**121.6**	**121.6**	**0.0**
Interest-rate risks	0.0	62.8	0.0	62.8	62.8	0.0
Currency risks	0.0	58.4	0.0	58.4	58.4	0.0
Credit derivatives	0.0	0.0	0.4	0.4	0.4	0.0
Financial liabilities designated at fair value through profit or loss	**1,106.9**	**453.2**	**0.0**	**1,560.1**	**1,560.1**	**0.0**
Securitised liabilities	1,106.9	453.2	0.0	1,560.1	1,560.1	0.0
Financial liabilities at amortised cost	**2,114.8**	**4,046.3**	**6,719.9**	**12,881.0**	**12,645.3**	**235.7**
Deposits	599.4	1,649.3	6,719.9	8,968.5	8,737.5	231.0
Securitised liabilities	1,515.4	2,397.0	0.0	3,912.5	3,907.8	4.7
Negative fair values from hedge accounting derivatives	**0.0**	**480.2**	**0.0**	**480.2**	**480.2**	**0.0**
Interest-rate risks	0.0	383.3	0.0	383.3	383.3	0.0
Currency risks	0.0	97.0	0.0	97.0	97.0	0.0
Total	**3,221.7**	**5,100.9**	**6,720.3**	**15,042.9**	**14,807.2**	**235.7**

in € million	31.12.2018 Level 1	Level 2	Level 3	Fair value total	Carrying amount	Difference
Liabilities						
Trading liabilities	**0.0**	**81.1**	**0.0**	**81.1**	**81.1**	**0.0**
Negative Fair Values aus Derivaten	**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
Credit derivative	0.0	0.0	0.0	0.0	0.0	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**

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.
Financial liabilities at amortised cost currently have a hidden liability of € 235.7 m. The increase of € 51.3 million in hidden liabilities on the liabilities side results from changes in market interest rates and changes in the Bank’s credit spread. Changes in market interest rates have a counteracting effect on the assets side, although the effects do not fully offset each other.
The transfers within the fair value hierarchy are summarised as follows:

01.01.2019 - 31.12.2019 (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**	**303.7**	**0.0**	**0.0**	**0.0**
Debt securities and other fixed-interest securities	0.0	0.0	303.7	0.0	0.0	0.0

Nine 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 9 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:

01.01.2018 - 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

The changes in financial assets in Level 3 of the fair-value hierarchy were as follows:

	Trading assets	
	Fair values from credit derivatives	
	2019 (in € million)	2018 (in € million)
1 January 2019	**0.0**	**0.0**
Effect in the income statement	0.0	0.0
Effect in other comprehensive income (OCI)	0.0	0.0
Addition on purchase or issue	15.2	0.0
Disposal on sale	0.0	0.0
Redemption/exercise	0.0	0.0
Addition from Levels 1 and 2	0.0	0.0
Disposal to Levels 1 and 2	0.0	0.0
Change from currency translation	0.0	0.0
31.12.2019	**15.2**	**0.0**

The figures in the table above refer to pure changes in fair value, without taking commission expenses into account.

In the NORD/LB CBB annual report, the guarantee agreements are reported as credit derivatives and measured at fair value in Level 3. The following significant unobservable input data were used for the fair value measurement of financial instruments classified in Level 3:

Product	Fair value 31.12.2019 (in € million)	Significant inputs not observable on the market used for fair value calculation	Range of inputs used that are not observable on the market	Weighted average
Derivative assets	14.9	Rating	Rating classes (DSGV scale of 27) 4 - 19	9
Derivative liabilities	0.4	Rating	Rating classes (DSGV scale of 27) 10	10

The ratings used are significant input data not observable on the market for the fair value measurement of derivative assets and liabilities. Significant changes to this input data result in a significantly higher or lower fair value. As part of a sensitivity analysis, the ratings were changed by one notch up or down and the effects on fair value and the corresponding effect on the income statement were calculated. These are shown below:

Portfolio	Change in fair value in € million for rating upgrade of one notch	Change in fair value in € million for rating downgrade of one notch
Shipping/maritime industry customers	-24.6	44.6
Aircraft customers	0.0	0.0

The fair values of the derivatives shown in the table reflect expected and actual guarantee payments made by the guarantor and future guarantee commission payments. The fair value of derivatives includes all valuation-relevant changes attributable to the risks hedged.

As at 31 December 2019, the measurement of the guarantees shows a clearly positive value, due to the mismatch arising from the modelling/calculation between the risks hedged and the guarantee commissions to be paid in the future.

The total fair value of derivatives of € 14.5 million is also influenced by deferred commission expenses totalling € 0.7 million as at the reporting date.

The following tables contain the respective NORD/LB CBB portfolios at the reporting date broken down by balance sheet item and measurement approach, as well as off-balance sheet transactions and IFRS 9 loan loss provisions recognised for the portfolios by impairment level:

in € million	31.12.2019 Shipping/maritime industry customers (hedging gross carrying amount)	Aircraft customers (hedging gross carrying amount)	Total
Assets			
Trading assets - loans and advances to customers	0.0	0.0	0.0
Trading assets - positive fair values from derivatives	0.0	0.0	0.0
Financial assets mandatorily at fair value through profit or loss - loans and advances to customers	0.0	0.0	0.0
Financial assets measured at amortised cost - gross carrying amount of loans and advances to customers	104.4	7.9	112.3
Loan loss provisions - Level 1	-0.2	0.0	-0.2
Loan loss provisions - Level 2	0.0	0.0	0.0
Loan loss provisions - Level 3	0.0	0.0	0.0
Total	**104.2**	**7.9**	**112.1**

in € million	31.12.2019 Shipping/maritime industry customers (hedging gross carrying amount)	Aircraft customers (hedging gross carrying amount)	Total
Liabilities			
Trading liabilities - negative fair values from derivatives	0.0	0.0	0.0
Financial liabilities measured at amortised - liabilities to customers	0.0	0.0	0.0
Provisions in the lending business - Level 1	0.0	0.0	0.0
Provisions in the lending business - Level 2	0.0	0.0	0.0
Provisions in the lending business - Level 3	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**

in € million	31.12.2019 Shipping/maritime industry customers (hedging gross carrying amount)	Aircraft customers (hedging gross carrying amount)	Total
Contingent liabilities			
Loan commitments	72.6	0.0	72.6
Financial guarantees	0.0	0.0	0.0
Other off-balance sheet commitments	0.0	0.0	0.0
Total	**72.6**	**0.0**	**72.6**
Value of the hedged portfolio	**176.8**	**7.9**	**184.7**
Hedging derivatives	**14.9**	**-0.4**	**14.5**

(50) Loan loss provisions and gross carrying amount

The three-stage model under IFRS 9 for measuring loan loss provisions is structured as follows:

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).

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 the loan loss provisions and carrying amounts are presented aggregated at the levels defined in IFRS 9. This is followed by details on the classification methodology and level allocations:

in € million	Loan loss provisions 31.12.2019	Loan loss provisions 31.12.2018
For financial assets		
Level 1	2.1	3.4
Level 2	4.9	6.8
Level 3	0.2	0.4
For loan commitments, financial guarantees and other off-balance sheet obligations		
Level 1	0.2	0.3
Level 2	3.3	0.4
Level 3	0.1	0.4
Total	**10.7**	**11.6**

in € million	Gross carrying amount 31.12.2019	Gross carrying amount 31.12.2018
For financial assets		
Level 1	13,643.2	15,028.1
Level 2	515.0	619.9
Level 3	33.1	10.7
Loan commitments, financial guarantees and other off-balance sheet obligations		
Level 1	1,339.3	2,192.1
Level 2	108.9	47.6
Level 3	0.1	0.4
Total	**15,639.5**	**17,898.7**

in € million	Opening balance as at 01.01.2019	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 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: Modifica-tions to assets	Other changes: Unwinding	Other changes: Model and parameter changes	Other changes: Currency conversions	Other changes: Other changes	Closing balance as at 31.12.2019
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 increa-se 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 01.01.2019	Transfer			Allocation		Reversal		
		to Level 1	to Level 2	to Level 3	Allocation due to credit ratings	Additions to assets	Reversals due to credit ratings	Use	Disposals from assets
Loan loss provisions for financial assets at amortised cost									
Assets with no significant increase in credit risk (Level 1)	**3.4**	**0.6**	**-0.2**	**0.0**	**0.3**	**0.4**	**2.1**	**0.0**	**0.5**
Debt securities and other fixed-interest securities	0.2	0.6	0.0	0.0	0.0	0.0	0.8	0.0	0.0
Loans and advances	3.1	0.0	-0.2	0.0	0.3	0.4	1.4	0.0	0.5
Assets with significant increase in credit risk, not impaired (Level 2)	**6.8**	**-0.6**	**0.2**	**0.0**	**0.0**	**0.9**	**1.6**	**0.0**	**0.7**
Debt securities and other fixed-interest securities	6.7	-0.6	0.0	0.0	0.0	0.0	1.5	0.0	0.7
Loans and advances	0.1	0.0	0.2	0.0	0.0	0.9	0.1	0.0	0.0
Assets with significant increase in credit risk, impaired (Level 3)	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**0.1**
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	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1
Total	**10.5**	**0.0**	**0.0**	**0.0**	**0.3**	**1.3**	**3.8**	**0.2**	**1.3**

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 31.12.2019
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**	**2.0**
Debt securities and other fixed-interest securities	0.0	0.0	0.0	0.1	0.0	0.2
Loans and advances	0.0	0.0	0.0	0.0	0.0	1.8
Assets with significant increase in credit risk, not impaired (Level 2)	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**4.9**
Debt securities and other fixed-interest securities	0.0	0.0	0.0	0.1	0.0	3.9
Loans and advances	0.0	0.0	0.0	0.0	0.0	1.0
Assets with significant increase in credit risk, impaired (Level 3)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**
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	0.2
Total	**0.0**	**0.0**	**0.0**	**0.2**	**0.0**	**7.1**

in € million	Opening balance as at 01.01.2019	Transfer			Allocation		Reversal		
		to Level 1	to Level 2	to Level 3	Allocation due to credit ratings	Additions to assets	Reversals due to credit ratings	Use	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)	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**	**0.0**	**0.1**
Loan commitments	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1
Financial guarantees	0.1	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, not impaired (Level 2)	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**3.2**	**0.3**	**0.0**	**0.0**
Loan commitments	0.1	0.0	0.0	0.0	0.0	3.2	0.2	0.0	0.0
Financial guarantees	0.2	0.0	0.0	0.0	0.0	0.0	0.2	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**	**0.1**	**0.2**
Financial guarantees	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2
Total	**1.1**	**0.0**	**0.0**	**0.0**	**0.0**	**3.3**	**0.4**	**0.1**	**0.3**

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 31.12.2019
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**	**0.0**	**0.0**	**0.2**
Loan commitments	0.0	0.0	0.0	0.0	0.0	0.2
Financial guarantees	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)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.3**
Loan commitments	0.0	0.0	0.0	0.0	0.0	3.2
Financial guarantees	0.0	0.0	0.0	0.0	0.0	0.0
Off-balance sheet items with significant increase in credit risk, impaired (Level 3)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**
Financial guarantees	0.0	0.0	0.0	0.0	0.0	0.1
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.5**

The following table shows the changes to gross carrying amounts in the reporting period for financial assets at fair value directly in equity, financial assets at amortised cost and loan commitments, financial guarantees and other off-balance sheet obligations:

in € million	Opening balance as at 01.01.2019	Transfer to Level 1	Transfer to Level 2	Transfer to Level 3	Additions to assets	Disposals from assets	Direct writedowns of assets
Gross carrying amount for financial assets at fair value directly in equity							
Assets with no significant increase in credit risk (Level 1)	**2,101.8**	**0.0**	**0.0**	**0.0**	**178.7**	**344.4**	**0.0**
Debt securities and other fixed-interest securities	2,101.8	0.0	0.0	0.0	178.7	344.4	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	**2,101.8**	**0.0**	**0.0**	**0.0**	**178.7**	**344.4**	**0.0**
Gross carrying amount for financial assets at amortised cost							
Assets with no significant increase in credit risk (Level 1)	**12,926.3**	**91.6**	**-126.1**	**-30.5**	**3,860.1**	**5,157.7**	**0.0**
Debt securities and other fixed-interest securities	1,255.6	59.6	0.5	0.0	43.8	142.8	0.0
Loans and advances	11,227.3	32.0	-126.6	-30.5	3,816.3	4,567.1	0.0
Cash reserve	443.4	0.0	0.0	0.0	0.0	447.8	0.0
Assets with significant increase in credit risk, not impaired (Level 2)	**619.9**	**-91.6**	**126.1**	**0.0**	**49.5**	**195.6**	**0.0**
Debt securities and other fixed-interest securities	517.1	-59.6	-0.5	0.0	13.2	168.4	0.0
Loans and advances	102.7	-32.0	126.6	0.0	36.3	27.2	0.0
Assets with significant increase in credit risk, impaired (Level 3)	**10.7**	**0.0**	**0.0**	**30.5**	**0.0**	**8.1**	**0.0**
Loans and advances	10.7	0.0	0.0	30.5	0.0	8.1	0.0
Total	**13,556.8**	**0.0**	**0.0**	**0.0**	**3,909.7**	**5,361.5**	**0.0**
Total	**15,658.6**	**0.0**	**0.0**	**0.0**	**4,088.4**	**5,705.8**	**0.0**

in € million	Other changes			
	Modifications to assets	Currency conversions	Other changes	Closing balance as at 31.12.2019
Gross carrying amount for financial assets at fair value directly in equity				
Assets with no significant increase in credit risk (Level 1)	**0.0**	**3.4**	**0.0**	**1,939.5**
Debt securities and other fixed-interest securities	0.0	3.4	0.0	1,939.5
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**	**3.4**	**0.0**	**1,939.5**
Gross carrying amount for financial assets at amortised cost				
Assets with no significant increase in credit risk (Level 1)	**0.0**	**140.0**	**0.0**	**11,703.7**
Debt securities and other fixed-interest securities	0.0	27.4	0.0	1,244.2
Loans and advances	0.0	96.5	0.0	10,447.9
Cash reserve	0.0	16.0	0.0	11.6
Assets with significant increase in credit risk, not impaired (Level 2)	**-0.1**	**6.7**	**0.0**	**515.0**
Debt securities and other fixed-interest securities	0.0	5.5	0.0	307.4
Loans and advances	-0.1	1.1	0.0	207.5
Assets with significant increase in credit risk, impaired (Level 3)	**-0.1**	**0.1**	**0.0**	**33.1**
Loans and advances	-0.1	0.1	0.0	33.1
Total	**-0.2**	**146.8**	**0.0**	**12,251.8**
Total	**-0.2**	**150.2**	**0.0**	**14,191.3**

in € million	Opening balance as at 01.01.2019	Transfer to Level 1	Transfer to Level 2	Transfer to Level 3	Additions to assets	Disposals from assets	Direct writedowns of assets
Gross carrying amount for loan commitments, financial guarantees and other off-balance sheet obligations							
Off-balance sheet items with no significant increase in credit risk (Level 1)	**2,192.1**	**0.3**	**-141.5**	**0.0**	**302.9**	**-1,027.4**	**0.0**
Loan commitments	2,053.3	0.3	-141.5	0.0	285.7	-917.7	0.0
Financial guarantees	138.8	0.0	0.0	0.0	17.2	-109.7	0.0
Off-balance sheet items with significant increase in credit risk, not impaired (Level 2)	**47.6**	**-0.3**	**141.5**	**0.0**	**9.3**	**-90.6**	**0.0**
Loan commitments	35.5	-0.3	141.5	0.0	9.3	-87.1	0.0
Financial guarantees	12.0	0.0	0.0	0.0	0.0	-3.5	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**	**-0.3**	**0.0**
Loan commitments	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	-0.3	0.0
Total	**2,240.1**	**0.0**	**0.0**	**0.0**	**312.2**	**-1,118.2**	**0.0**

in € million	Other changes Modifications to assets	 Currency conversions	 Other changes	Closing balance as at 31.12.2019
Gross carrying amount for loan commitments, financial guarantees and other off-balance sheet obligations				
Off-balance sheet items with no significant increase in credit risk (Level 1)	**0.0**	**12.8**	**0.0**	**1,339.3**
Loan commitments	0.0	12.9	0.0	1,293.1
Financial guarantees	0.0	-0.1	0.0	46.2
Off-balance sheet items with significant increase in credit risk, not impaired (Level 2)	**0.0**	**1.4**	**0.0**	**108.9**
Loan commitments	0.0	1.4	0.0	100.4
Financial guarantees	0.0	0.0	0.0	8.5
Off-balance sheet items with significant increase in credit risk, impaired (Level 3)	**0.0**	**0.0**	**0.0**	**0.1**
Loan commitments	0.0	0.0	0.0	0.0
Financial guarantees	0.0	0.0	0.0	0.1
Total	**0.0**	**14.2**	**0.0**	**1,448.3**

Further detailed information on risk concentrations in connection with default risk rating classes is provided below. This information should be considered in addition to the section on credit risk in the risk report.

31.12.2019 in € million	Range 12-month probability of default in %	Assets with no significant increase in credit risk (Level 1)	Assets with significant increase in credit risk, not impaired (Level 2)	Assets with significant increase in credit risk, impaired (Level 3)	Assets impaired on recognition (POCI)	Total
Debt securities and other fixed-interest securities at fair value directly in equity						
very good to good	0 - 0.39	1,939.5	0.0	0.0	0.0	**1,939.5**
Good/satisfactory	0.4 - 0.88	0.0	0.0	0.0	0.0	**0.0**
reasonable / satisfactory	0.89 -1.98	0.0	0.0	0.0	0.0	**0.0**
increased risk	1.99 - 4.44	0.0	0.0	0.0	0.0	**0.0**
high risk	4.45 - 10.0	0.0	0.0	0.0	0.0	**0.0**
very high risk	10.1 - 99.99	0.0	0.0	0.0	0.0	**0.0**
default (=NPL)	100.0	0.0	0.0	0.0	0.0	**0.0**
Total before deduction of loan loss provisions		**1,939.5**	**0.0**	**0.0**	**0.0**	**1,939.5**
Loan loss provisions		**-0.1**	**0.0**	**0.0**	**0.0**	**-0.1**
Total after loan loss provisions		**1,939.4**	**0.0**	**0.0**	**0.0**	**1,939.4**

31.12.2019 in € million	Range 12-month probability of default in %	Assets with no significant increase in credit risk (Level 1)	Assets with significant increase in credit risk, not impaired (Level 2)	Assets with significant increase in credit risk, impaired (Level 3)	Assets impaired on recognition (POCI)	Total
Debt securities and other fixed-income securities measured at amortised cost						
very good to good	0 - 0.39	1,244.2	285.6	0.0	0.0	**1,529.7**
Good/satisfactory	0.4 - 0.88	0.0	7.2	0.0	0.0	**7.2**
reasonable / satisfactory	0.89 -1.98	0.0	14.7	0.0	0.0	**14.7**
increased risk	1.99 - 4.44	0.0	0.0	0.0	0.0	**0.0**
high risk	4.45 - 10.0	0.0	0.0	0.0	0.0	**0.0**
very high risk	10.1 - 99.99	0.0	0.0	0.0	0.0	**0.0**
Default (=NPL)	100.0	0.0	0.0	0.0	0.0	**0.0**
Total before deduction of loan loss provisions		**1,244.2**	**307.4**	**0.0**	**0.0**	**1,551.6**
Loan loss provisions		**-0.2**	**-3.9**	**0.0**	**0.0**	**-4.1**
Total after loan loss provisions		**1,243.9**	**303.5**	**0.0**	**0.0**	**1,547.5**

31.12.2019 in € million	Range 12-month proba-bility of default in %	Assets with no significant in-crease in credit risk (Level 1)	Assets with sig-nificant increa-se in credit risk, not impaired (Level 2)	Assets with significant in-crease in credit risk, impaired (Level 3)	Assets impaired on recognition (POCI)	Total
Financial receivables measured at amortised cost						
very good to good	0 – 0.39	9,283.2	0.0	0.0	0.0	**9,283.2**
Good/satisfactory	0.4 - 0.88	784.7	17.1	0.0	0.0	**801.8**
reasonable / satisfactory	0.89 -1.98	339.4	123.9	0.0	0.0	**463.3**
increased risk	1.99 - 4.44	45.8	44.6	0.0	0.0	**90.3**
high risk	4.45 - 10.0	3.8	13.4	0.0	0.0	**17.2**
very high risk	10.1 - 99.99	2.7	8.6	0.0	0.0	**11.3**
Default (=NPL)	100.0	0.0	0.0	33.1	0.0	**33.1**
Total before deduction of loan loss provisions		**10,459.5**	**207.5**	**33.1**	**0.0**	**10,700.2**
Loan loss provisions		**-1.8**	**-1.0**	**-0.2**	**0.0**	**-3.0**
Total after loan loss provisions		**10,457.7**	**206.5**	**33.0**	**0.0**	**10,697.2**

In addition, the effects on loan loss provisions due to potential economic factors are shown below with the help of rating downgrades. The current ratings of the borrowers and the collateral providers are each increased by one and two notches. In addition, the distribution of the portfolio is shown based on gross carrying amounts including the respective stage allocation.

	Gross carrying amount as at 31.12.2019 in € million	Of which in Stage 2 (%)	Of which in Stage 3 (%)	Risk provisions in € million	Rating downgrade by one notch			Rating downgrade by two notches		
					Risk provisions in € million	Exposure in Stage 2 (%)	Exposure in Stage 3 (%)	Risk provisions in € million	Exposure in Stage 2 (%)	Exposure in Stage 3 (%)
Debt securities and other fixed-interest securities at fair value directly in equity	1,939.5	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.4	1.8	0.0
Debt securities and other fixed-income securities measured at amortised cost	1,551.6	19.8	0.0	-4.1	-5.1	19.8	0.0	-8.4	26.1	0.0
Financial receivables measured at amortised cost	10,700.2	1.8	0.3	-3.0	-4.3	3.9	0.4	-6.9	18.5	0.4
Loan commitments, financial guarantees and other off-balance sheet obligations	1,448.3	7.5	0.0	-3.5	-3.6	10.5	0.0	-3.8	8.8	0.0
Total	**15,639.5**			**-10.7**	**-13.0**			**-19.4**		

(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.

In 2019 financial assets measured at amortised cost generated both a modification profit/loss and a disposal profit/loss, which are shown in Note ((21) Net valuation allowance from financial instruments not measured at fair value through profit or loss and modification profit/loss) and Note ((22) Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss).

None of these profits/losses were generated for financial assets at fair value directly in equity. Please refer to Note ((50) Loan loss provisions and gross carrying amount for loan loss provisions).

Changes to the fair value measurement on 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.

	31.12.2019		31.12.2018	
	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	**374.1**	**374.1**	**447.8**	**448.8**
Debt securities and other fixed-interest securities	0.0	0.0	447.8	448.8
Financial assets at fair value directly in equity	**812.0**	**812.0**	**645.6**	**647.1**
Debt securities and other fixed-interest securities	0.0	0.0	645.6	647.1
Financial assets at amortised cost	**671.1**	**494.4**	**624.4**	**622.2**
Debt securities and other fixed-interest securities	0.0	0.0	123.6	123.9
Loans and advances	671.1	494.4	500.8	498.3
Total	**1,857.1**	**1,680.5**	**1,717.9**	**1,718.1**

(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 31.12.2019	Nominal values on 31.12.2018	Positive market values on 31.12.2019	Positive market values on 31.12.2018	Negative market values on 31.12.2019	Negative market values on 31.12.2018
Interest-rate risks	**6,248.8**	**6,825.1**	**350.0**	**233.0**	**446.1**	**418.8**
Interest rate swaps	6,159.8	6,733.6	350.0	233.0	446.1	418.8
Caps, floors	0.0	0.0	0.0	0.0	0.0	0.0
Exchange-traded contracts	89.0	91.5	0.0	0.0	0.0	0.0
Currency risks	**3,701.7**	**4,069.1**	**82.0**	**123.2**	**155.4**	**100.7**
Forward exchange transactions	1,238.2	1,779.1	2.1	4.4	8.4	6.9
Currency swaps/interest rate (cross-)currency swaps	2,463.5	2,290.0	79.9	118.8	147.0	93.8
Credit derivatives	**121.9**	**0.0**	**14.9**	**0.0**	**0.4**	**0.0**
Credit default swap	121.9	0.0	14.9	0.0	0.4	0.0
Total	**10,072.4**	**10,894.2**	**446.9**	**356.2**	**601.8**	**519.6**

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. 2019	31.12. 2018	31.12. 2019	31.12. 2018	31.12. 2019	31.12. 2018	31.12. 2019	31.12. 2018
Remaining terms to maturity								
Up to 3 months	276.3	140.7	1,238.6	1,687.2	0.0	0.0	0.0	0.0
More than 3 months & up to 1 year	461.9	611.0	63.1	109.6	0.0	0.0	0.0	0.0
More than 1 year & up to 5 years	2,590.0	2,955.6	460.9	488.5	0.0	0.0	0.0	0.0
More than 5 years	2,920.6	3,117.8	1,939.0	1,783.8	0.0	0.0	121.9	0.0
Total	**6,248.8**	**6,825.1**	**3,701.7**	**4,069.1**	**0.0**	**0.0**	**121.9**	**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:

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Assets			
Financial assets at fair value directly in equity	577.5	646.9	-11
Financial assets at amortised cost	1,970.4	2,056.9	-4
Total	**2,547.9**	**2,703.8**	**-6**
Liabilities			
Financial liabilities at amortised cost	2,453.7	2,428.0	1
Total	**2,453.7**	**2,428.0**	**1**

Please also see Note (7) Financial instruments) and Note (23) Profit/loss from hedge accounting) for further information on hedge accounting.

(55) Remaining terms of financial assets and liabilities

The remaining terms of financial assets and liabilities are shown below.

Financial assets consist solely of loans and advance to banks and customers. Financial assets do not include any loan loss provisions.

31.12.2019 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 assets	**0.0**	**0.0**	**0.0**	**0.0**	**4.2**	**4.2**
Of which: Loans and advances to banks	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Loans and advances to customers	0.0	0.0	0.0	0.0	4.2	4.2
Financial assets mandatorily at fair value through profit or loss	**0.0**	**4.0**	**0.0**	**2.9**	**0.0**	**6.9**
Of which: Loans and advances to banks	0.0	4.0	0.0	2.9	0.0	6.9
Of which: Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at amortised cost	**2,459.2**	**215.0**	**515.1**	**3,381.6**	**4,117.7**	**10,688.6**
Of which: Loans and advances to banks	732.1	0.0	0.0	0.0	0.0	732.1
Of which: Loans and advances to customers	1,727.1	215.0	515.1	3,381.6	4,117.7	9,956.5
Total	**2,459.2**	**219.0**	**515.1**	**3,384.5**	**4,121.9**	**10,699.7**

Within loans and advances to customers, there are no items with an indefinite maturity.

31.12.2019 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	**7.7**	**0.6**	**0.7**	**8.7**	**103.8**	**121.6**
Derivatives	7.7	0.6	0.7	8.7	103.8	121.6
Financial liabilities designated at fair value through profit or loss	**0.0**	**0.0**	**150.0**	**1,410.1**	**0.0**	**1,560.1**
Securitised liabilities	0.0	0.0	150.0	1,410.1	0.0	1,560.1
Financial liabilities at amortised cost	**2,021.2**	**2,126.3**	**1,408.8**	**4,299.7**	**2,789.2**	**12,645.3**
Deposits	2,021.2	1,524.7	1,147.8	1,771.6	2,272.1	8,737.5
Securitised liabilities	0.0	601.6	261.1	2,528.1	517.1	3,907.8
Negative fair values from hedge accounting derivatives	**0.6**	**4.3**	**3.3**	**75.7**	**396.4**	**480.2**
Issued loan commitments	**16.6**	**18.0**	**61.1**	**858.9**	**438.9**	**1,393.4**
Issued financial guarantees	**0.0**	**1.9**	**2.6**	**12.5**	**37.9**	**54.8**
Total	**2,046.2**	**2,151.1**	**1,626.5**	**6,665.6**	**3,766.2**	**16,255.5**

31.12.2018 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 assets	**0.0**	**0.0**	**0.0**	**0.0**	**53.7**	**53.7**
Of which: Loans and advances to banks	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Loans and advances to customers	0.0	0.0	0.0	0.0	53.7	53.7
Financial assets mandatorily at fair value through profit or loss	**0.0**	**0.0**	**5.2**	**7.2**	**0.0**	**12.4**
Of which: Loans and advances to banks	0.0	0.0	5.2	7.2	0.0	12.4
Of which: Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at amortised cost	**3,000.1**	**401.6**	**257.3**	**3,580.8**	**4,101.0**	**11,340.7**
Of which: Loans and advances to banks	1,566.2	0.2	0.0	400.0	0.0	1,966.4
Of which: Loans and advances to customers	1,433.9	401.4	257.3	3,180.8	4,101.0	9,374.3
Total	**3,000.1**	**401.6**	**262.5**	**3,587.9**	**4,154.6**	**11,406.8**

Within loans and advances to customers, there are no items with an indefinite maturity.

31.12.2018 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**

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

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

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Financial assets mandatorily at fair value	432.3	514.2	-16
Financial assets at fair value directly in equity	838.3	674.0	24
Financial assets at amortised cost	987.7	949.5	4
Total	**2,258.3**	**2,137.8**	**6**

Financial assets were provided as collateral for borrowings under genuine repos with a maximum remaining term of six months. The Bank is still entitled to the expenses and income from pledged securities.

Collateral was provided in the form of deposits at financial institutions at standard market interest rates. This collateral is used primarily for security against changes in the value of derivative transactions. The remaining terms are shown in Note ((53) Derivative financial instruments).

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

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Financial assets at amortised cost	563.1	586.1	-4
Total	**563.1**	**586.1**	**-4**

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 2019 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 2019 reporting period and at 31 December 2018 are shown in the following tables:

31.12.2019 (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	**530.6**	**0.0**	**530.6**	**-386.7**	**0.0**	**-143.9**	**0.0**
Derivatives	430.6	0.0	430.6	-286.7	0.0	-143.9	0.0
Securities lending and repurchase transactions	100.0	0.0	100.0	-100.0	0.0	0.0	0.0
Liabilities	**1,793.4**	**0.0**	**1,793.4**	**-386.7**	**-1,090.4**	**-309.7**	**6.5**
Derivatives	601.0	0.0	601.0	-286.7	0.0	-309.7	4.5
Securities lending and repurchase transactions	1,192.5	0.0	1,192.5	-100.0	-1,090.4	0.0	2.0

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

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. 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.

	31.12.2019 (in € million)	31.12.2018 (in € million)
Total risk exposure amount	**3,567.0**	**4,443.1**
Capital requirements for credit risk	273.7	340.5
Capital requirements for operational risks	11.1	14.1
Capital requirements for market risks	0.0	0.0
Capital requirements for loan amount adjustments	0.6	0.9
Capital requirements	**285.4**	**355.4**

Regulatory capital

	31.12.2019 (in € million)	31.12.2018 (in € million)
Issued capital	205.0	205.0
Other reserves	451.8	454.4
Other components of CET 1 capital	28.2	-5.1
- Deductible items	-38.5	-41.3
Common Equity Tier 1 capital	**646.5**	**613.1**
Components of additional Tier 1 capital	0.0	0.0
Additional Tier 1 capital	**0.0**	**0.0**
Tier 1 capital	**646.5**	**613.1**
Paid-up instruments of Tier 2 capital	0.0	0.0
Eligible provisions in excess of expected losses under the IRB approach	2.3	0.3
Tier 2 capital	**2.3**	**0.3**
Own funds	**648.7**	**613.3**

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 2019 and 2018. The Bank had the following ratios at the end of the respective year:

	2019 (in %)	2018 (in %)
Common equity tier 1 capital ratio	18.1	13.8
Tier 1 capital ratio	18.1	13.8
Total capital ratio	18.2	13.8

The common equity tier 1 capital ratio of NORD/LB CBB totalled 18.1 per cent, which is above the regulatory requirement, just like the total capital ratio of 18.2 per cent. The ECB did not impose any stricter requirements on the Bank for 2019 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 2019. Taking into account the capital conservation buffer of 2.5 per cent and an anti-cyclical capital buffer of 0.20 per cent, the Overall Capital Requirement (“OCR”) as at 31 December 2019 is at least 7.2 per cent for the common equity tier 1 capital ratio, at least 8.7 per cent for the Tier 1 capital ratio and at least 10.7 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 2019 and 31 December 2018:

in € million	USD	JPY	CHF	GBP	Other	Total 31.12.2019	Total 31.12.2018
Assets							
Cash reserve	0.0	0.0	2.5	0.0	0.0	**2.5**	**419.3**
Trading assets	38.4	0.0	0.4	30.0	1.0	**69.8**	**138.5**
Financial assets mandatorily at fair value through profit or loss	4.6	0.0	0.0	0.0	0.0	**4.6**	**5.7**
Financial assets at fair value directly in equity	0.0	41.4	56.3	0.0	0.0	**97.7**	**128.4**
Financial assets at amortised cost	2,404.4	122.8	24.0	1,453.6	157.2	**4,162.0**	**3,868.8**
Positive fair values from hedge accounting derivatives	0.5	0.0	24.1	0.0	0.0	**24.5**	**22.4**
Total	**2,447.9**	**164.2**	**107.3**	**1,483.5**	**158.2**	**4,361.1**	**4,583.0**
Liabilities							
Trading liabilities	24.7	0.3	0.0	27.6	0.4	**53.0**	**17.5**
Financial liabilities designated at fair value through profit or loss	598.4	0.0	0.0	0.0	0.0	**598.4**	**579.2**
Financial liabilities at amortised cost	1,650.4	0.7	120.4	60.6	214.3	**2.046.3**	**2,071.8**
Negative fair values from hedge accounting derivatives	306.5	30.0	4.8	3.0	52.1	**396.3**	**322.1**
Other liabilities	0.2	0.0	0.0	0.6	0.1	**0.9**	**1.2**
Total	**2,580.3**	**30.9**	**125.2**	**91.8**	**266.9**	**3,095.0**	**2,991.8**

(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.

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Assets			
Trading assets	135.3	184.4	-27
Derivatives	131.1	130.7	0
Loans and advances	4.2	53.7	-92
Financial assets mandatorily at fair value through profit or loss	745.6	816.8	-9
Debt securities and other fixed-interest securities	742.7	809.6	-8
Loans and advances	2.9	7.2	-60
Financial assets at fair value directly in equity	1,579.3	1,769.6	-11
Debt securities and other fixed-interest securities	1,579.3	1,769.6	-11
Financial assets at amortised cost	8,989.3	9,343.8	-4
Debt securities and other fixed-interest securities	1,492.3	1,665.0	-10
Loans and advances	7,497.0	7,678.8	-2
Positive fair values from hedge accounting derivatives	311.6	214.9	45
Other assets	0.0	0.5	-100
Total	**11,761.1**	**12,330.0**	**-5**
Liabilities			
Trading liabilities	112.5	71.0	58
Derivatives	112.5	71.0	58
Financial liabilities designated at fair value through profit or loss	1,410.1	1,533.9	-8
Securitised liabilities	1,410.1	1,533.9	-8
Financial liabilities at amortised cost	7,088.9	7,274.3	-3
Deposits	4,043.8	4,017.8	1
Securitised liabilities	3,045.1	3,256.5	-6
Negative fair values from hedge accounting derivatives	472.1	431.7	9
Provisions	3.4	0.6	> 100
Other liabilities	0.4	0.4	-3
Total	**9,087.5**	**9,312.0**	**-2**

(61) Leases

NORD/LB CBB acted both as a lessor and as a lessee under operating and finance leases as defined in IFRS 16 in 2019. The Bank acts as a lessor of real estate and as a lessee of IT hardware and vehicles.

The following income and expenses were incurred by NORD/LB CBB as a lessee:

	2019 (in € thousand)	Item in the profit and loss account
Interest expenses from lease liabilities	37	Interest expenses from liabilities
Expenses from short-term leases	38	Administrative expenses
Expenses from low-value leases	33	Administrative expenses
Expenses from additional variable lease payments	0	Administrative expenses
Income from subleases	0	Other operating profit/loss
Total	**109**	

NORD/LB CBB as a lessee had no leasing obligations from short-term leases at the end of the reporting period.
The cash outflows for leases in the reporting period are shown in the cash flow statement and in Note ((48) Notes to the cash flow statement).
Changes in rights of use under leases, including additions, are shown under Note ((34) Property and equipment).
The following table shows the carrying amounts and depreciation amounts of the rights of use under leases, broken down by class:

	31.12.2019 Carrying amount (in € million)	31.12.2019 Depreciation (in € million)
Real estate	0.0	0.0
Vehicles	0.1	0.1
Hardware	1.1	0.8
Other rights of use	0.5	0.1
Total	**1.8**	**1.0**

The following table shows the remaining terms of the undiscounted financial obligations from leases with their contractual end date. This is defined as the remaining time from the reporting date to the contractual due date.

31.12.2019 (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
Liabilities from leases	**0.0**	**0.0**	**0.0**	**1.8**	**0.0**	**1.8**

In 2019 the Bank acted as a lessor of real estate under operating leases as defined in IFRS 16.
Lease income from operating leases is recognised in other operating profit/loss.

	2019 (in € million)
Leasing income from investment property	0.4
Of which: Income from variable lease payments not dependent on an index or interest rate	0.0
Total	**0.4**

The following table shows the total undiscounted future lease payments under operating leases to which the Bank is entitled:

	31.12.2019 (in € million)
Future lease payments up to 1 year	0.7
Future lease payments 1 year to 2 years	0.5
Future lease payments 2 years to 3 years	0.4
Future lease payments 3 years to 4 years	0.3
Future lease payments 4 years to 5 years	0.3
Future lease payments over 5 years	0.0
Total undiscounted future lease payments	**2.2**

NORD/LB CBB does not act as a lessor under finance leases as defined in IFRS 16.

IAS 17 disclosures – leasing for the year 2018

NORD/LB CBB acted as a lessee under operating leases in 2018.

Service agreements for IT infrastructure services and vehicles contained operating leases within them. The minimum lease payments as at 31 December 2018 shown below also correspond to the total of the Bank's non-cancellable operating leases. Operating leases include motor vehicles and the usage right for an emergency centre.

	31.12.2018 (in € million)	31.12.2017 (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**

With regard to finance leases, the minimum lease payments as at 31 December 2018 are shown below:

	31.12.2018 (in € million)	31.12.2017 (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 minimum lease payments shown also correspond to the total of the Bank's non-cancellable finance leases. The finance leases include rented IT hardware and software components.

(62) Contingent liabilities and other obligations

	31.12.2019 (in € million)	31.12.2018 (in € million)	Change (in %)
Contingent liabilities	54.8	151.2	-64
Liabilities arising from guarantees and indemnity agreements	54.8	151.2	-64
Other liabilities	1,393.4	2,088.8	-33
Irrevocable loan commitments	1,393.4	2,088.8	-33
Total	**1,448.3**	**2,240.1**	**-35**

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) Events after the reporting date

On 24 February 2020 a customer in the Factoring segment filed for insolvency under its own administration. The customer's purchasing line for receivables amounts to € 20 million and was fully utilised at the reporting date. The Bank considers this to be a clarification of the circumstances on the reporting date and has therefore migrated the exposure to provisioning level 3. The information in Note ((50) Loan loss provisions and gross carrying amount) represents the current state of knowledge. Since the credit risk is fully guaranteed by NORD/LB, no changes were necessary in terms of the loan loss provisions to be set aside.

An estimate of the financial impact due to the outbreak and spread of coronavirus in early 2020 in China and other countries cannot be made at this stage. Negative effects may arise in particular on net interest income, profit/loss on fair value measurement and loan loss provisions, with corresponding consequences for regulatory ratios.

There were no other significant events between the reporting date on 31 December 2019 and the preparation of the financial statements by the Managing Board on 19 March 2020.

(64) Auditor fee

(in € thousand)	2019	2018
Auditor fee for:		
Auditing	615	867
Other certification services	55	126
Tax advisory services	0	0
Other services	0	0

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 179 (1) of the Law, of the relevant financial institutions. This target amount had to be achieved by the end of 2018. The contributions 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 breakdown of the cover pool

Lettres de Gage publiques

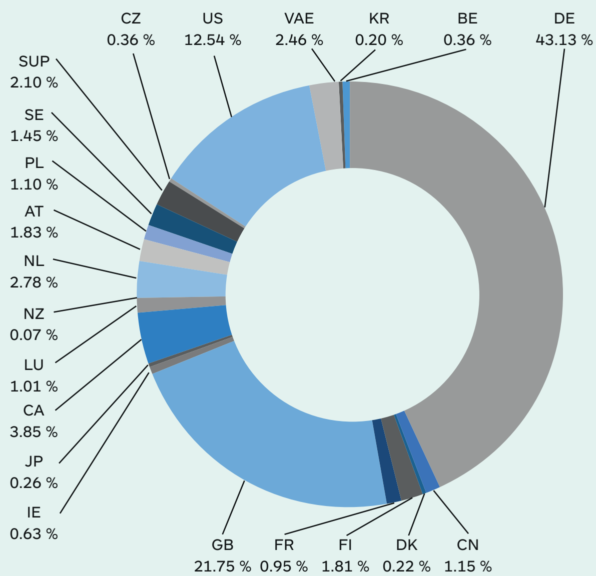
As a rule, the Luxembourg Pfandbrief legislation allows the coverage of loans and advances from countries which belong to the OECD, the European Union or the EEA, or countries with a (very) good rating from approved rating agencies.

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 20 (previous year: 19) different countries and one international organisation:

As at 31 December 2019:

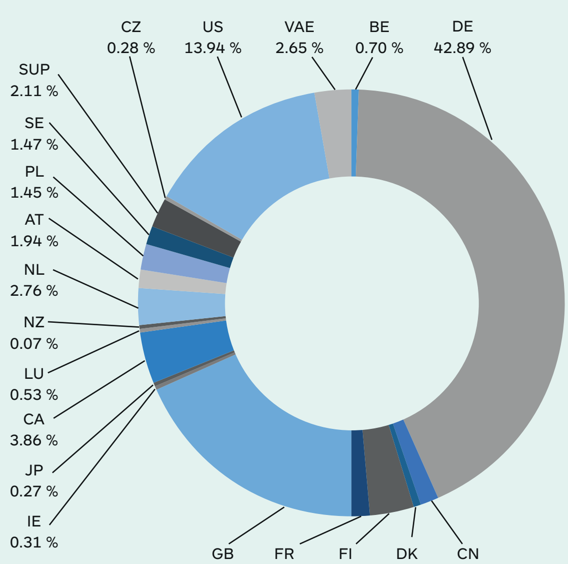
Geographical distribution



Region	in %
Europe	79.4
North America	16.4
Asia	4.1
Others	0.1

As at 31 December 2018:

Geographical distribution



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

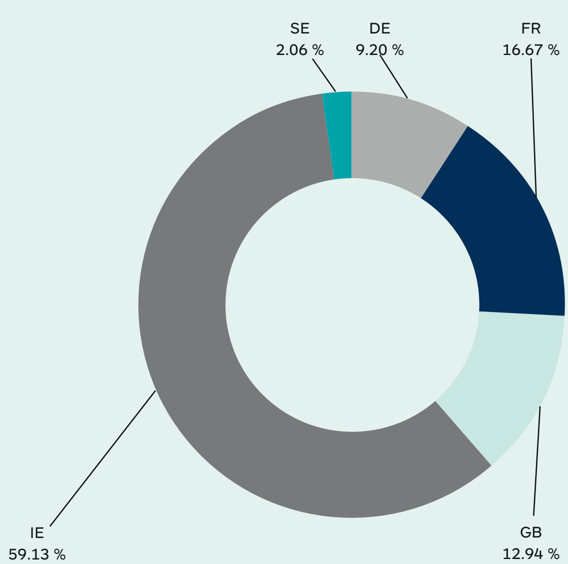
Lettres de Gage énergies renouvelables
On 22 June 2018, the amendment to the law of 5 April 1993 on the financial sector entered into force with regard to the introduction of Lettres de Gage énergies renouvelables.

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.

In geographical terms the NORD/LB CBB cover pool which is being set up in this respect as at 31 December 2019 is diversified across five countries:

As at 31 December 2019:

Geographical distribution



Region	in %
Europe	100.0
North America	0.0
Asia	0.0
Others	0.0

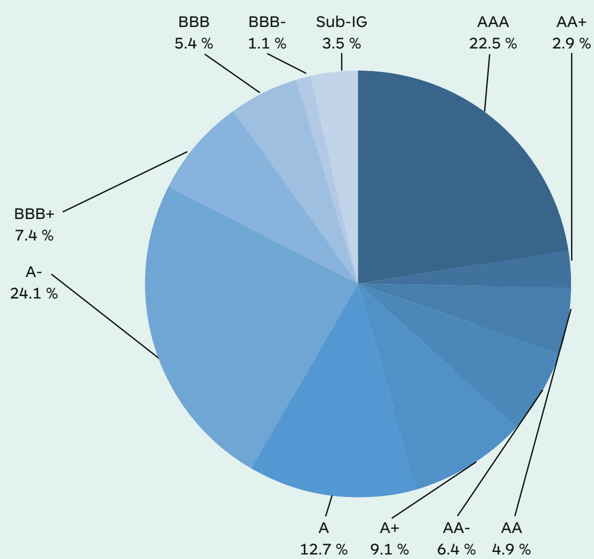
(67) Credit rating structure of the cover pool

The credit rating structure of the cover pool is as follows:

Lettres de Gage publiques

As at 31 December 2019:

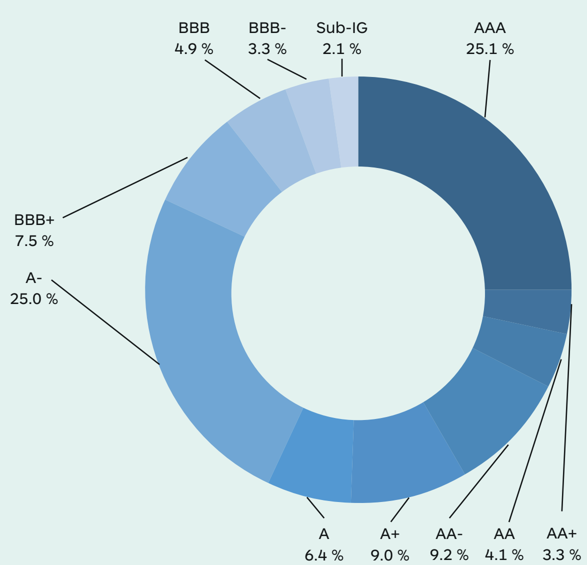
Credit rating structure



Rating	in %	in %	in %
AAA	22.5		36.6
AA	14.1	82.5	
A	45.9		
BBB	14.0		
Sub-IG Division	3.5		

As at 31 December 2018:

Credit rating structure

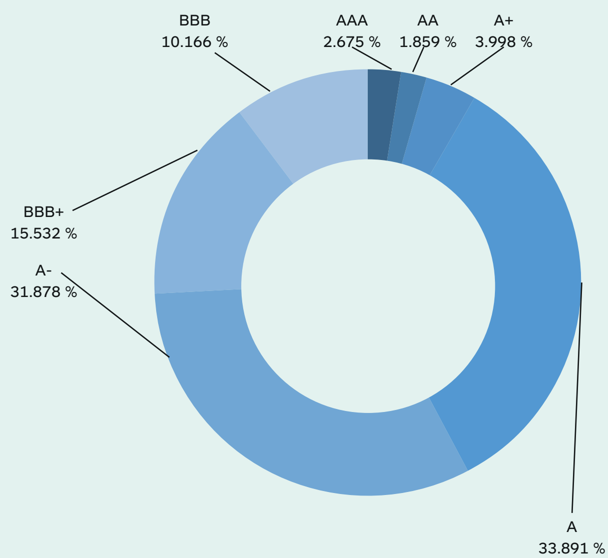


Rating	in %	in %	in %
AAA	25.1		41.8
AA	16.6	82.2	
A	40.4		
BBB	15.7		
Sub-IG Division	2.1		

Lettres de Gage énergies renouvelables

As at 31 December 2019:

Credit rating structure



<table>
<tr><th>Rating</th><th>in %</th><th>in %</th><th>in %</th></tr>
<tr><td>AAA</td><td>2.7</td><td rowspan="3">74.3</td><td rowspan="2">4.5</td></tr>
<tr><td>AA</td><td>1.9</td></tr>
<tr><td>A</td><td>69.8</td><td></td></tr>
<tr><td>BBB</td><td>25.7</td><td></td><td></td></tr>
<tr><td>Sub-IG segment</td><td>0.0</td><td></td><td></td></tr>
</table>

(68) Cover ratio

The cover ratio in the cover calculation as at 31 December 2019 was follows:

Lettres de Gage publiques:

Cover calculation	Cover holdings (in € million)		Issues * (in € million)		Shortfall (-) / Over-collateralisation (+) (in € million)	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Nominal without derivatives	5,535.4	5,428.2	4,357.6	4,057.8	+1,177.8	+1,370.4
Present value without derivatives	6,381.1	5,868.0	4,811.1	4,365.8	+1,570.0	+1,502.2

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

The interest surplus cover as at 31 December 2019 amounted to € 627.0 million (previous year: € 681.0 million).

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.

Lettres de Gage érergies renouvelables:

Cover calculation	Cover holdings (in € million)		Issues * (in € million)		Shortfall (-) / Over-collateralisation (+) (in € million)	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Nominal ohne Derivate	373.8	-	-	-	373.8	-
Barwert ohne Derivate	416.9	-	-	-	416.9	-

*) Amount of covered issues in circulation including own holdings

The first issue was made in January 2020.

The cover pool has been built up since October 2019. Therefore no figures for the previous year are available.

(69) Number of employees

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

	Male 2019	Male 2018	Female 2019	Female 2018	Total 2019	Total 2018
NORD/LB CBB	114.6	121.7	50.4	58.0	165.0	179.7

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.

The nature of the transactions with related parties are within the scope of the ordinary business activities of a bank. These include, in particular, refinancing, raising liquidity through and to the parent company and taking up collateral. All business activities are conducted on an arm's length basis. 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. "Helios" was implemented on 1 July 2019.

Information on the volume of transactions with related parties in 2018 and 2019 can be found below. Expenses for governing bodies are shown separately in Note ((72)). Changes in the group of related parties lead to restatements of the previous year's figures where necessary. Please refer to Note ((2) Restatement of previous-year figures) as regards restatements.

As at 31 December 2019:

31.12.2019 (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	**73.8**	**0.0**	**0.0**	**14.5**
Derivatives	73.8	0.0	0.0	14.5
Financial assets mandatorily designated at fair value through profit or loss	**0.0**	**0.0**	**0.0**	**0.0**
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	**0.0**	**0.0**	**0.0**	**0.0**
Financial assets at amortised cost	**0.6**	**0.0**	**25.1**	**0.0**
Loans and advances	0.6	0.0	25.1	0.0
Positive fair values from hedge accounting derivatives	**302.5**	**0.0**	**0.0**	**0.0**
Other assets	**4.2**	**0.0**	**0.0**	**0.0**
Total	**381.1**	**0.0**	**25.1**	**14.5**

31.12.2019 (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 Bank or parent company
Liabilities				
Trading liabilities	**100.2**	**0.0**	**0.0**	**0.0**
Derivatives	100.2	0.0	0.0	0.0
Financial liabilities designated at fair value through profit or loss	**453.2**	**0.0**	**0.0**	**0.0**
Securitised liabilities	453.2	0.0	0.0	0.0
Financial liabilities at amortised cost	**4,611.8**	**10.1**	**0.0**	**0.0**
Deposits	2,495.0	0.0	0.0	0.0
Securitised liabilities	2,116.8	10.1	0.0	0.0
Negative fair values from hedge accounting derivatives	**164.5**	**0.0**	**0.0**	**0.0**
Other liabilities	**0.1**	**0.0**	**0.0**	**1.9**
Total	**5,329.8**	**10.1**	**0.0**	**1.9**
Guarantees/sureties received	5,621.4	0.0	0.0	185.0
Guarantees/sureties granted	0.0	0.0	0.0	0.0

01.01 - 31.12.2019 (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 Bank or parent company
Interest income	75,804	0	609	-31
Interest expenses	156,795	27	0	0
Commission income	5,298	0	0	0
Commission expenses	61,171	0	0	689
Other income and expenses	-37,261	-2	0	15,124
Total	**-176,390**	**-29**	**609**	**14,404**

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	4,941.1	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
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**

(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)

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

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

Members of the Managing Board

Thorsten Schmidt, Irrel
Member of the Managing Board

Manfred Borchardt, Trier
Member of the Managing Board

Mandates

No other mandates were held by the members of the Managing Board of NORD/LB Luxembourg S.A. Covered Bond Bank in 2019.

(72) Remuneration of and loans to governing bodies

	2019 (in € thousand)	2018 (in € thousand)
Salaries of active board members	**1,686**	**1,968**
Extended Managing Board *	1,702	1,898
Short-term employee benefits	1,484	1,595
Post-employment benefits	143	154
Other long-term benefits	75	149
Benefits upon termination of employment	0	0
Supervisory Board	59	70

*) relates to the Managing Board and management employees

As at the reporting date on 31 December 2019, 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 2019 and were unchanged at € 0 thousand with respect to the Supervisory Board.

(73) Disclosures on shares in companies

Non-consolidated structured entities

NORD/LB CBB owns holdings in structured entities that are not included as subsidiaries in the financial statements of NORD/LB CBB or the consolidated financial statements of NORD/LB. Structured entities are entities which are designed in such a way that voting or similar rights are not the dominant factor in determining who controls these entities. This is the case, for example, when voting rights relate only to administrative tasks and the relevant activities are controlled by contractual agreements.

The Bank has structured entities in the form of securitisation companies, asset leasing companies and other debt-financed asset and project companies.

Securitisation companies

Securitisation companies invest financial resources in diversified pools of assets. These include fixed-income securities, corporate loans, commercial and residential real estate loans and credit card receivables. The securitisation vehicles finance these purchases by issuing various tranches of debt and equity securities, whose repayment is linked to the performance of the assets of the vehicles.

Asset leasing companies

NORD/LB CBB acts as a lender to companies established solely for the purpose of acquiring or developing various commercial properties, generally through leasing companies. The financing is secured by the property financed. The asset leasing companies are typically in the legal form of a GmbH & Co. KG. Due to existing contractual agreements, these are often controlled by the respective lessee. Financing of asset leasing companies also takes place in project financing and in aircraft commitments.

Asset and project financing

The Bank provides funding to structured entities, which typically each hold one asset, such as a property or an aircraft. In many cases, these structured entities have the legal form of a partnership. The equity of these companies is very low compared to the debt financing provided.

Shares in structured entities

The shares owned by NORD/LB CBB in non-consolidated structured entities consist of contractual or non-contractual exposures to these entities which expose the Bank to variable returns from the performance of the structured entities. Examples of shares in non-consolidated structured entities include debt or equity instruments, liquidity facilities, guarantees and various derivative instruments through which NORD/LB CBB absorbs risks from structured entities.

Shares in non-consolidated structured entities do not contain any instruments through which the Bank solely transfers risks to the structured entity. When the Bank purchases credit default swaps from non-consolidated structured entities whose purpose is to transfer credit risk to an investor, the Bank transfers this risk to the structured entity and no longer bears it itself. Such a credit default swap therefore does not constitute an interest in a structured entity.

Income from shares in structured entities

NORD/LB CBB generates interest income from financing structured entities.

Size of structured units

The size of a structured company is determined by the nature of the structured entity's business activities. It may therefore have to be determined differently from company to company. The Bank considers the following ratios to be appropriate indicators of the size of the structured enterprises:

- Securitisation companies: current total volume of tranches issued
- Asset (leasing) companies: total assets of the asset (leasing) company

Maximum risk of loss

The maximum potential loss risk is the maximum loss that the Bank might have to recognise in the income statement and the statement of comprehensive income from its exposure to non-consolidated structured entities. Collateral and hedges are not taken into account in the calculation, nor is the probability of a loss. The maximum possible risk of loss does not therefore have to correspond to the economic risk.

The maximum possible risk of loss is determined by the type of exposure to a structured entity. The maximum possible risk of loss on receivables from lending transactions, including bonds, is reflected in the carrying value shown in the balance sheet. The maximum possible loss from off-balance sheet transactions, such as guarantees and loan commitments, is their nominal value. For derivatives, nominal value again represents the maximum possible risk of loss.

The following table shows by type of non-consolidated structured entity the carrying amounts of the Bank's shares recognised in the balance sheet of NORD/LB CBB and the maximum possible loss that could result from these shares. It also gives an indication of the size of the non-consolidated structured entities. The figures do not reflect the Bank's economic risk arising from these investments, as they do not take account of collateral or hedges.

31.12.2019 (in € million)	Securitisa-tion companies	Asset leasing companies	Asset and project financing	Other	Total
Size of the non-consolidated structured entity	**990.8**	**129.1**	**-**	**-**	**1,119.8**
Financial assets mandatorily at fair value through profit or loss	16.6	-	-	-	16.6
Financial assets at amortised cost	-	74.9	-	-	74.9
Assets recognised in the balance sheet of NORD/LB CBB	**16.6**	**74.9**	**-**	**-**	**91.4**
Financial liabilities at amortised cost	-	-	-	-	-
Liabilities recognised in the balance sheet of NORD/LB CBB	-	-	-	-	-
Maximum risk of loss	16.6	74.9			**91.4**
Losses incurred in the financial year	-	-	-	-	-

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, 19 March 2020
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

To the shareholders of
NORD/LB Luxembourg S.A. Covered Bond Bank
7, rue Lou Hemmer
L-1748 Luxemburg-Findel

Report of the réviseur d'entreprises agréé

Report on the annual audit

Audit opinion

We have audited the financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank ("the Bank") ,which consist of the balance sheet as at 31 December 2019, 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 2019, 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those that, in our professional judgement, were of most significance in the 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:
develop and apply criteria to identify financial instruments with a significant increase in default risk. Please refer to Note (8) Loan loss provisions in the notes to the annual financial statements for the accounting and measurement methods applied by the Bank. Disclosures on the loan loss provisions recorded in the 2019 financial year and the loan loss provisions as at the reporting date can be found in Note (21) 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, loan commitments, financial guarantees and other off-balance sheet obligations. These represent the management's best estimate of the expected credit losses sustained in the loan and securities portfolio as at the reporting date. Under IFRS 9, loan loss provisions are determined using a level system. This involves determining the expected 12-month credit losses for financial assets measured at amortised cost or at fair value directly in equity upon initial recognition (Level 1). The Level 2 loan loss provision 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, 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 to 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, including loan commitments, financial guarantees and other off-balance sheet obligations totalled € 15,639.5 million (previous year: € 17,898.7 million) before loan loss provisions. The Bank allocated financial assets with a gross carrying amount of € 623.9 million (4.0%; previous year: € 667.5 million, 3.7%) to the provisioning category of "significant increase in default risk", and financial assets with a carrying amount of € 33.2 million(0.2%; previous year: € 11.1 million, 0.1%) to the "credit impaired" provisioning category. As at the reporting date, the Bank had taken account of credit risk by setting up loan loss provisions of € 7.2 million and provisions of € 3.5 million. The net release of loan loss provisions in 2019 amounts to €0.8 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. 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 controls 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 involvement 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 application of IFRS 9.

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 controls 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 a 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 controls.
- 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 controls.
- 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 30 April 2019, and the duration of our uninterrupted engagement, including previous renewals and reappointments, is nine 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 1992as 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, 19 March 2020

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

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