NORD/LB
Covered Bond Bank
Luxembourg

Rethink Covered Banking.

A bank can be so much more.

What we want is what we are.

Finanzgruppe

2020 Annual Report

The following tables may contain computational rounding differences.

Business performance	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in € million)	Change (in %)
Cash	82.3	11.6	70.7	> 100
Trading assets	170.7	123.3	47.4	38
Financial assets at fair value through profit or loss	740.0	822.2	-82.2	-10
Financial assets at fair value through other comprehensive income	1,590.0	1,939.4	-349.4	-18
Financial assets at amortised cost	9,679.8	12,233.1	-2,553.3	-21
Positive fair values from hedge accounting derivatives	370.5	312.9	57.6	18
Other assets	100.8	106.8	-6.0	-6
Total assets	**12,734.0**	**15,549.3**	**-2,815.3**	**-18**
Trading liabilities	87.7	131.6	-43.9	-33
Financial liabilities at fair value through profit or loss	1,359.6	1,560.1	-200.5	-13
Financial liabilities at amortised cost	10,078.1	12,645.3	-2,567.2	-20
Negative fair values from hedge accounting derivatives	491.0	480.2	10.8	2
Provisions	8.5	11.6	-3.2	-27
Other liabilities	30.8	31.8	-1.1	-3
Reported equity	678.3	688.5	-10.2	-1
Total liabilities	**12,734.0**	**15,549.3**	**-2,815.3**	**-18**

Earnings performance	2020 (in € thousand)	2019* (in € thousand)	Change (in € thousand)	Change (in %)
Net interest income	112,587	120,923	-8,336	-7
Net commission income	-59,159	-53,127	-6,032	11
Profit/loss from measurement at fair value	-18,450	-34,973	16,522	-47
Net valuation allowance from financial instruments not measured at fair value through profit or loss	-4,933	2,627	-7,559	< -100
Modification profit/loss	404	-163	567	< -100
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	-3,079	736	-3,815	< -100
Profit/loss from hedge accounting	1,925	6,654	-4,730	-71
Profit/loss from Foreign exchange	135	-275	411	< -100
Profit/loss from shares in companies	0	64	-64	-100
Administrative expenses	-29,312	-30,535	1,223	-4
Current amortisation and depreciation	-5,756	-4,784	-973	20
Other operating profit/loss	-3,156	-7,542	4,386	-58
Income taxes	0	231	-231	-100
Earnings after taxes	**-8,794**	**-163**	**-8,631**	**> 100**

Key regulatory indicators	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in € million)	Change (in %)
Total risk exposure amount	2,642.7	3,567.0	-924.2	-26
Tier 1 capital	645.9	646.3	-0.4	0
Own funds	654.7	648.5	6.1	1
Common equity tier 1 capital ratio	24.4 %	18.1 %	6.3 %	35
Total capital ratio	24.8 %	18.2 %	6.6 %	36

Key performance indicators	31.12.2020	31.12.2019*	Change (in %)
Cost-Income-Ratio in % **	103.5 %	109.0 %	-5
RoRaC in % **	-3.5 %	-0.1 %	> 100

*) The previous year's figures have been adjusted for individual items. See Note (2) for more information
**) For the definition of the cost/income ratio (CIR) and the RoRaC, see also Note (19

Overview of key data

Contents

Long Term Funding

Initial issue of a € 300 million Lettre de Gage énergies renouvelables – oversubscribed almost four times.

Issue of a € 500 million Lettre de Gage publique with an order book of € 1.3 billion

Sales

250 European, institutional customers in 29 countries

Factoring

Programme limits of € 1.9 billion (up 6 per cent) spread over some 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

We started 2020 full of confidence on 20 January with the very successful issue of the first green covered bond, the Lettre de Gage énergies renouvelables, which was sized at € 300 million and had a term of five years. With it, NORD/LB CBB made its début as a green Pfandbrief issuer.

The rest of our year was then dominated by the COVID-19 pandemic. This impacted activity on the market and changes in the macroeconomic environment made it difficult to implement our strategic transformation.

Above all, NORD/LB CBB has provided covered refinancing for the core business of the NORD/LB Group to date. In addition to measures aimed at boosting NORD/LB's capital, the European Commission last year also approved a comprehensive transformation of the NORD/LB Group's business model. The realignment will be bundled and managed across the Group as part of the NORD/LB 2024 programme. As a result of this transformation programme, which is already in the process of being implemented, a comprehensive redimensioning of NORD/LB CBB is envisaged. One major component of this is the substantial reduction and possibly future discontinuation of the transfer of new lending business eligible for cover pooling to NORD/LB CBB decided by the parent company. This will have a direct impact on NORD/LB CBB's future issuing activity.

The strategy horizon until at least 2024 envisages that new business will only continue in the factoring segment. With regard to the remaining portfolio business, the focus in future will be on proper administration of the transactions. Sales activities, which are carried out on the basis of a service agreement, will continue unchanged at NORD/LB CBB until at least 2024.

We would like to take this opportunity to thank our employees once again for their commitment during these special times. The enormous amount of dedication and commitment exhibited by each and every one of you was pivotal to our ability to coping with the pandemic so well last year!

While there's no denying that our job isn't getting any easier, we're still convinced that if we keep working together, we will be able to continue finding successful solutions to the complex issues that arise.

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 has been with Norddeutsche Landesbank Luxembourg S.A. since 1987. In 1996 he took on management of the Financial Markets Division. He was appointed to the Managing Board of Norddeutsche Landesbank Luxembourg S.A. in 2010 and to the Managing Board of NORD/LB Covered Finance Bank S.A. in 2012, both of which are predecessor institutions of NORD/LB Luxembourg S.A. Covered Bond Bank, which he has been leading since 2015 as a member of the Managing Board, since 2017 together with Mr Borchardt.

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

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 in-house business activities in the areas of Financial Markets, Loans and Loan Services and Client Services.

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.

Realignment of the NORD/LB Group

At the end of 2019, NORD/LB reached an agreement with the former owners and the new owners of the Savings Bank Financial Group (SFG) on the key features of a new business model. The NORD/LB 2024 transformation programme was already launched in the Group in 2019 in order to implement the associated objectives and measures. This transformation process is aimed at redimensioning and strategically realigning the NORD/LB Group, which will also affect Group subsidiaries.

The objective within the framework of the NORD/LB 2024 transformation programme is to complete the set of measures by the end of 2021 and to have implemented all of the planned measures by the end of 2023.

Effects on NORD/LB CBB

Against the background of the dependencies and interdependencies that exist between NORD/LB CBB and NORD/LB - in particular with regard to liquidity and refinancing, compliance with the Group's capital adequacy requirements, rating development and intra-Group control and organisation, bilateral service relationships and intra-Group receivables and liabilities - economic developments at NORD/LB level have major implications for the Bank.

In this context and within the scope of the NORD/LB 2024 programme, a decision was taken at NORD/LB to discontinue the active Pfandbrief business conducted by NORD/LB CBB from 2022 onward. This relates both to new issue activities via the existing Lettres de Gage products (LdG Publiques and LdG énergies renouvelables) and to the continued booking of new lending business as part of the build-up of the respective cover pools.

NORD/LB CBB still remains an integral part of the NORD/LB Group and still has a letter of comfort.

NORD/LB CBB will still be able to issue these in 2021 and private placement issues are planned. They will still aim for stable ratings. The two existing cover pools are actively managed and the assets required to monitor the cover pool come from the Bank's management portfolios.

COVID-19 pandemic

Creation of a crisis prevention management system NORD/LB CBB has an established Business Continuity Management system, which meets the requirements of both the NORD/LB Group and the Luxembourg regulators. In the course of the COVID-19 pandemic, the Bank had already formed a situation team and a crisis unit in February 2020. Both bodies comprise representatives of various departments, whose role is to continuously monitor and evaluate the situation, and to develop and implement measures. The aim is, on the one hand, to guarantee that the health of the Bank's employees is protected at all times and, on the other, to ensure that NORD/LB CBB is fully functional. On 7 March 2020, emergency operations were officially launched and the CSSF (Luxembourg banking supervisory authority) was informed accordingly. In order to protect the employees and in accordance with the requirements of the CSSF, the workplaces of around 85 per cent of all staff were moved to the home office. The main measures taken in the context of emergency management included:

- Providing home office workstations
- Ensuring communication and reporting for all relevant stakeholders
- Preparing policies governing business trips, events and meetings
- Implementing the access and hygiene concept as well as the COVID-19 occupational health and safety standard
- Developing a step-by-step restart plan

All measures are coordinated on an ongoing basis within the NORD/LB Group and NORD/LB CBB is also in regular contact with the main service providers and tenants.

NORD/LB CBB's processes were stable at all times and there were no failures.

Due to the current situation, an end to the emergency management is not yet in sight.

Impact on credit quality risk

In addition to the measures taken within the scope of crisis prevention management, several measures have also been taken to minimise or mitigate the economic effects, both within the NORD/LB Group and at NORD/LB CBB. As part of the assessment of credit quality risk, the NORD/LB Group has defined a procedure for assessing debt service capacity that takes the effect of COVID-19-related government stabilisation measures into account. Due to the persistently dynamic situation surrounding the pandemic, the Bank has factored the risks of the further course of the pandemic as well as its potential repercussions on borrowers' credit quality into the balance sheet as set out below.

Establishment of a management adjustment (MAC-19)

A fundamental pandemic-related deterioration in credit quality is prompting banks to regularly increase their risk provisioning for transactions for which the credit quality has deteriorated significantly or which have defaulted. The impact of the COVID-19 pandemic could therefore result in greater volatility in banks' risk provisioning. In application of IFRS 9, a provision for expected credit losses must be recognised in the balance sheet. Among other things, the value of loan collateral must be examined. Credit risk models and forecasts used to estimate these expected credit losses must be adapted to current developments. Due to the economic uncertainties related to COVID-19, it has become necessary for NORD/LB and hence also for the Bank to establish a management adjustment (MAC-19) that results in an increase in model-based loan loss provisions for loan receivables in impairment levels 1 and 2 in accordance with IFRS 9. The objective of MAC-19 is to enable the Bank's loan loss provisions for sectors severely affected by the pandemic to factor in the effects of COVID-19 that have not yet been realised but are expected to arise in the future and that are not reflected in the Level 1 and Level 2 modelling.

The result this produced was then limited, for the adjustment, to sectors that are particularly severely affected by the pandemic. Within NORD/LB CBB these include in particular the travel industry, the hospitality industry, logistics and air traffic as well as selected state and local authorities, which includes the US municipal portfolio. As at 31 December 2020, the resulting effect for NORD/LB CBB amounts to € 10.0 million.

Deferrals within the scope of the state moratorium and COVID-19-related forbearance measures

NORD/LB CBB did not grant any deferrals of interest and principal payments within the scope of the state-organised moratorium on consumer loan agreements. Additionally, few individual measures were agreed with regard to the adjustment of contract contents in the lending business.

Effects of credit spread changes

The COVID-19 pandemic led to a sharp increase in credit spreads in the first quarter of 2020. While the trend was still positive into February, credit spreads rose more sharply as the COVID-19 pandemic broke out in Europe in mid-March. At its peak, the year-to-date effect in the books of NORD/LB CBB amounted to € -44.8 million. This was mainly attributable to the financial assets at amortised cost (€ -30.9 million) and the financial assets at fair value through other comprehensive income (€ -10.8 million). By the end of the first half of the year, credit spreads had narrowed noticeably to € -24.5 million. The positive trend continued unabated in the second half of the year, leaving only a negative effect of € -2.4 million on the books at the end of the year.

€ -1.2 million of this was attributable to items directly reflected in the income statement, € -1.7 million to items recognised directly in equity and € 0.5 million to items recognised in hidden liabilities/reserves.

The CVA/DVA effects on the Bank's derivatives portfolio resulted in only minor fluctuations in the range of +/- € 200 thousand in the reporting year. At the end of the year, the cumulative effects amounted to € 72 thousand.

Sensitivity analyses

The effects on the Bank's loan loss provisions are presented in the annual report by means of two different sensitivity analyses. Sensitivity is calculated on the basis of potential economic factors on the one hand and further negative economic developments related to the COVID-19 pandemic on the other. Both sensitivity analyses are based on the loan loss provisions recognised in the accounts as at 31 December 2020 and therefore represent effects that could potentially exceed the loan loss provisions, so that a statement can be made about possible future effects.

The Bank presents the disclosures in Note ((53) Loan loss provisions and gross carrying amount).

Other material impacts of the COVID-19 pandemic on the balance sheet and income statement are discussed in Note ((5) Material impacts of the COVID-19 pandemic on the net assets, financial position and earnings position of NORD/LB CBB).

International economic developments

Economic environment

The global economy suffered under the effects of the COVID-19 pandemic in 2020. In the first half of the year in particular, economic activity was greatly subdued at times, initially in China and later also in Europe and North America. Despite efforts to rapidly catch up in the summer, global economic output fell by almost four per cent for the year as a whole. In Germany, real gross domestic product fell by 5.0 per cent year over year. Economic output in the Eurozone dropped even more sharply (-6.8 per cent). In the US, gross domestic product contracted by 3.5 per cent. The depth of the recession also impacted the labour market. In April, the US unemployment rate skyrocketed to 14.7 per cent. Despite having gradually fallen to 6.7 per cent by the end of the year, it did not yet return to its pre-crisis level. Employment numbers increased significantly in Germany too, but peaked at the much lower level of 6.4 per cent. A key explanation for this is the extensive use of short-time working, so that redundancies could often be prevented. The impact on overall economic development rose again along with the second wave of infections in autumn and winter. Economic sectors that rely on strong social contacts were among those that were particularly hard hit by the containment measures. This relates to large portions of the service sector, the hotel and catering industry, stationary retail and others. In the manufacturing sector, on the other hand, recovery continued until the end of the year, with the result that the overall economic burdens for Germany and the Eurozone in the fourth quarter were considerably lower than they had been in the previous spring.

A variety of supporting monetary and fiscal measures have been taken in response to the crisis in order to avert an even stronger economic contraction.

Important central banks such as the European Central Bank and the Federal Reserve have also made it very clear that key interest rates are not expected to rise in the medium term. Instead, the European Central Bank decided on a package of measures at the end of the year that once again extended the timeframe and extent of efforts to combat the crisis. Capital market yields remained anchored at a relatively low but steady level over the course of 2020. The interest rate on 10-year German Bunds has fluctuated within a relatively narrow range around the -0.50 per cent mark since the beginning of the pandemic. So far, the gradual rise in yields on ten-year US Treasuries has done nothing to change this. Global equity markets benefited from high liquidity levels worldwide and hopes of an imminent recovery in economic activity that were fuelled by the development of several different vaccines. Against this background, the German share index hit a new all-time high of around 13,790 points at the end of the year, after briefly falling below 9,000 points in March. The euro appreciated significantly over the course of the year and climbed above the USD 1.23 mark at times. Despite the crisis situation, the €/USD basis swap spread remained within a relatively narrow range in all maturities.

Report on expected developments

Global economic outlook

NORD/LB believes that the second wave of infections is likely to have had another negative impact at the beginning of 2021. Buoyed by progress in vaccinations and more favourable weather conditions, however, global economic activity is expected to start recovering in spring, with this recovery continuing throughout the remainder of the year. Growth rates in Germany, the Eurozone and the US will be in clearly positive territory for 2021 as a whole. Real gross domestic product is expected to expand by more than three per cent in Germany and the US and by a good four per cent in the Eurozone. Both monetary policy and fiscal policy will remain expansionary and support economic recovery.

The outlook for global economic development still remains marked by a particularly high degree of uncertainty, however. Downside risks for the NORD/LB baseline scenario could result primarily from a downturn in the course of the pandemic. This could conceivably be due to disappointments with respect to the vaccines, insufficient willingness to be vaccinated or mutations in the virus. Currently, however, NORD/LB believes that there is much to suggest that the pandemic will gradually become more manageable in 2021.

In NORD/LB's view, the leading global central banks are not expected to raise key interest rates in the medium term either. Correspondingly, capital market yields in the major currency areas are not expected to rise sharply. The EUR/USD exchange rate is expected to return to below the USD 1.20 mark in the baseline scenario.

Covered bond markets and Lettres de Gage publiques

While the extent of the COVID-19 crisis could not yet be predicted at the turn of the year 2019/2020 and the new year started with "business as usual" for the covered bond market, even the ECB was forced to respond to the new circumstances during the second quarter of 2020 at the latest. Its first bold intervention came in mid-March and on 12 March, it not only expanded the Asset Purchase Program (APP) by an additional € 120 billion until the end of the year, but also adjusted the TLTRO III program (Targeted Longer-Term Repurchase Operations).

The € 750 billion Pandemic Emergency Purchase Programme (PEPP) was launched in the subsequent week; while a limited volume of covered bonds was also purchased under this programme at the start, this has no longer been the case for several months now. However the most important decision for the covered bond market in 2020 is likely to have been the decision of 30 April, which involved a further adjustment of the TLTRO III programme by the ECB and a further improvement in terms and conditions. The requirements for collateral haircuts were temporarily eased at the beginning of April. Together, these measures led to a change in issuing behaviour, especially ahead of the TLTRO III.6 tender in June. Instead of publicly placed bonds, issuers increasingly turned to retained deals in order to use these as collateral in the context of raising funds via the TLTRO programme. Banks then banks borrowed € 1,300 billion in TLTRO III funds in June 2020, which certainly had a major impact on the issuance behaviour of credit institutions in relation to publicly placed covered bonds. The final act in 2020 was the ECB meeting in December, when the PEPP was increased once again (to € 1,850 billion) and extended (until at least March 2022). Another adjustment was also made to the conditions of the TLTRO III programme – both in relation to its duration and borrowing terms.

The issue volume in 2020 fell well below the level of previous years, initially due to general uncertainty and later in the year as a result of the current ECB monetary policy. Accordingly, the issue volume (excluding taps) of euro-denominated covered bond benchmarks amounted to € 92.2 billion in 2020 (2019: € 135.0 billion; 2018: € 133.2 billion). The largest shares were accounted for by France (29.7 per cent or € 27.4 billion), Germany (20.3 per cent or € 18.8 billion), Canada (9.5 per cent or € 8.8 billion) and the Netherlands (7.3 per cent or € 68 billion). A total of 110 euro benchmark bonds came from 18 jurisdictions in 2020, whereas there were 170 deals from 21 jurisdictions in 2019. From an historical point of view, the issuance volume in 2020 lags well behind the levels recorded in previous years. In this context, it should be viewed as positive that the euro benchmark market still managed to attract new issuers in 2020, who offered their investors euro-denominated benchmark bonds for the first time. By the end of the year, the market included euro benchmark bonds from 27 different jurisdictions.

As regards investors, it is hardly surprising that the last 12 months were also strongly affected by the ECB's monetary policy approach. There was a

year-on-year increase of eight percentage points to 24.5 per cent in the “Central Banks/Official Institutions” investor group, for example. Even though this means a further increase in the importance of this investor group and is likely to go hand-in-hand with a crowding-out effect in respect of real money investors, banks remain the dominant buyer group in the covered bond market and account for a virtually unchanged share of 44.8 per cent. By contrast, “Asset Managers & Funds” lost ground and on average were only involved in 24.8 per cent (2019: 30.7 per cent) of new issues. Additionally, the share of the “Insurances & Pension Funds” segment also declined from 6.8 per cent to 4.7 per cent, although issuers increasingly opted for longer-dated bonds. The average time to maturity of issues was 9.1 years in 2020, nearly one year longer than in 2019 (8.2 years) and 2018 (7.8 years). The geographic distribution proved quite robust. The proportion of investors
from the DACH region fell by 4.7 percentage points to an average of 48.9 per cent, dipping back below 50 per cent for the first time in many years.

While some spreads even tightened further right at the turn of the year, there was a massive widening of spreads in the covered bond market in March and April, triggered by pandemic-related market turbulence. Whereas spreads peaked at the end of April, there was a significant countermovement until the end of May, which may have weakened slightly after that but still continued until the end of the year due to the measures taken by the ECB and spillover effects. Looking over a 12-month horizon and especially considering the monetary policy measures taken by the ECB, it hardly comes as any surprise that spreads at the end of 2020 were trading at a nearly pre-crisis level. All in all, a reduced public supply and sustained high demand led to a marked tightening of spreads from mid-May onwards.
In line with the market as a whole, the market for Lettres de Gage was also affected by the interim spread widening. However, consistent with the overall trend, it also recovered and spreads are now trading close to pre-crisis levels again. The unchanged high level of investor confidence in Lettres de Gage was reflected in two very successful new issues, both in Lettres de Gage publiques and in the world’s first genuine green covered bond, Lettres de Gage énergies renouvelables.

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.

Development of the business segments

Financial markets

The core activities of Financial Markets at NORD/LB CBB are funding, bank management and sales.

ALM/Treasury

ALM/Treasury, a part of the Financial Markets 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 Relationship Management & Sales Europe

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

The objective in the standardised product segment ("flow products") is to support primary market activities, increase the turnover rate of the Group's trading book and 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

Following on from the regular Lettres de Gage that were already issued in recent years, NORD/LB CBB placed two benchmarks in the first half of 2020. The first green Pfandbrief, the Lettres de Gage énergies renouvelables, was very successfully placed with international investors on 20 January. The € 300 million issue, with a five-year term, not only achieved an order book of € 1.1 billion, which is the highest bid-to-cover ratio of the Lettres de Gage issued by NORD/LB CBB to date.

At 83, the number of investors, some of whom were buying a Lettre de Gage for the first time, as well as the very granular order book in terms of investor groups and country distribution of investors, also made this transaction a resounding success.

This is certainly due the uniqueness of this product innovation: It is the world's first separate legal framework for a covered bond product, which explicitly lays down strict criteria for the use of financing in renewable energies as a cover asset and thus meets investors' wishes, especially in green and sustainable products.

On 3 June, a benchmark issue was also successfully placed in the already established Lettres de Gage publiques. This involved an issue in the amount of € 500 million with a term of seven years. The granular order book and the fast and smooth execution of the transaction also stand out in this issue.

As at 31 December 2020, the nominal over-collateralisation for Lettres de Gage publiques including derivatives was 22.8 per cent, or 32.0 per cent on a net present value basis. The legal requirement (2 per cent) was thus comfortably met.

The origin of cover assets reflects the successful implementation of the business strategy, with 79.6 per cent coming from Europe (41.7 per cent from Germany).

As at 31 December 2020, the Lettres de Gage énergies renouvelables have a nominal over-collateralisation of 24.0 per cent and 35.0 per cent on a net present value basis, respectively. The cover assets originate exclusively from Europe, with the focus on wind (89 per cent) and solar (11 per cent).

Loans & Loan Services

The allied lending business concentrated on the cooperation between NORD/LB CBB and partners from the Corporate Customer, and Structured Finance divisions of NORD/LB, and is the core business of NORD/LB CBB.

As part of a strategic realignment, the focus is on financing credit transactions that qualify for the Luxembourg Pfandbrief, the Lettre de Gage. New business development in 2020 was up against a challenging business environment, with the result that the credit portfolio eligible for cover pooling declined slightly respectively moved sideways. As scheduled, there was a significant decline in the development of the loan portfolio, which is no longer a strategic focus.

PPP (public private partnership) transactions that quality for the Lettre de Gage publique 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 business from Asia. These loans serve as a cover pool for issuing Lettres de Gage publiques.

In addition to lending transactions that qualify for the Lettre de Gage publique, loans to finance projects in the area of renewable energies (solar and wind power) have also been booked through NORD/LB CBB. These loans qualify as a cover pool for the Pfandbrief class Lettre de Gage énergies renouvelables, which was newly developed in 2018 and is unique worldwide. The geographical focus of these businesses is also on the core European countries.

Factoring

Alongside traditional lending business, the Bank specialises in factoring (mainly individual and pool acquisitions). The factoring business of NORD/LB is a tailored solution for the respective customers involved. This business is mainly handled by NORD/LB CBB within the NORD/LB Group. This line of business represents an important and strategically significant business segment of NORD/LB and NORD/LBB CBB, and is operated in close cooperation with the Group. Factoring is considered an important anchor product, which remains in high demand from customers. Some transactions were not prolonged as usual in 2020 due to the change in business strategy and the associated redefinition of target customers and pricing. At the same time, however, existing transactions were also increased and new customers acquired. Overall, however, there is a slight decrease for the 2020 financial year.

The initiatives launched and implemented in recent years to digitalise the business segment, which included both the improvement of internal processes with the help of innovative software solutions and the expansion of an existing cooperation with a FinTech company, were stabilised and further established in the financial year.

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

Realignment of the NORD/LB Group

Developments at the level of the NORD/LB Group

At the beginning of 2019 the owners took critical steps for the future of the NORD/LB Group, which will result in its redimensioning and a realignment of the Group's business model. In principle, the Stakeholders' Meeting of NORD/LB GZ in February 2019 recommended that a capital strengthening of NORD/LB with Deutscher Sparkassen- und Giroverband e.V. (DSGV) be pursued as a priority. On 29 November 2019 NORD/LB GZ received confirmation from the relevant bank supervisory authorities that the capital instruments met the requirements for common equity tier 1 capital and permission to classify these capital instruments as Common Equity Tier 1 instruments. Once the European Commission had declared NORD/LB's planned capital-boosting measures as free of state aid on 5 December 2019 and several different requisite resolutions had been passed by the board and Parliament, the measures could be implemented by the end of December 2019.

Achieving the 2024 target for the NORD/LB Group, which has also been agreed with the owners and the supervisory authorities, requires both a far-reaching and comprehensive transformation as well as greater simplification in the Group's processes and structures. Against this background, it was decided to reorganise the Bank's main projects. The two programmes, which focused on recapitalisation and the NORD/LB business model, were transferred to a joint new project structure ("NORD/LB 2024") along with additional transformation-related content. The new business model will be implemented gradually. The realignment will be accompanied by a substantial reduction in the size of the NORD/LB Group. As things stand at present, the target number of employees in 2024 based on the new model is 2,800 to 3,000 full-time positions. Administrative costs are to be reduced from around € 1 billion to € 625.0 million in 2024. As part of the redimensioning process, total assets will be reduced to approximately € 95 billion by 2024 (as at 31 December 2019: € 139.6 billion).

Effects on NORD/LB CBB

Against the background of the dependencies and interdependencies that exist between NORD/LB CBB and NORD/LB GZ - in particular with regard to liquidity and refinancing, compliance with the Group's capital adequacy requirements, rating development and intra-Group control and organisation, bilateral service relationships and intra-Group receivables and liabilities - economic developments at NORD/LB level have major implications for the Bank.

NORD/LB CBB, as a wholly-owned subsidiary of NORD/LB, already agreed on optimisation measures as part of the Group-wide predecessor initiative, which will extend to 2021.

Both operating costs and the number of employees were reduced further in the past financial year. An appropriate provision for reorganisation measures was recognised in 2018 and also in 2020 to cover the financial expense associated with planned restructuring measures or measures that have already been initiated.

The company agreement ("Betriebsvereinbarung") negotiated with the employee representatives in 2018 to balance the interests of the employees affected has been extended until 31 December 2024.

At the beginning of the 2020 financial year it was already becoming apparent that the business activities of NORD/LB CBB would be gradually scaled back as part of the “NORD/LB 2024” transformation programme. Based on internal decision-making, this focus has since resulted in the discontinuation of the Lettre de Gage.

NORD/LB CBB’s 2020 business strategy was then approved by the Managing Board.

In summary, it contains the following statements regarding the Bank’s future business activities:

Lettres de Gage business:

- New business eligible for cover pooling can still be booked in 2021 under special conditions.
- No new issues of Lettres de Gage products are planned from the 2022 financial year onward, nor is any new business eligible for cover pooling.

Loans & Loan Services:

- A transfer of new business is planned in the factoring segment until at least 2024.

Fixed Income Relationship Management & Sales Europe:

- The Sales service is expected to operate at least through 2024.

In the future, one major focus of the activities of NORD/LB CBB will therefore be on the administrative processes of existing portfolios and cover pools and on ensuring operational stability.

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 Capital Requirements Regulation (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 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.

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

As at 31 December 2020, NORD/LB CBB's ratings were as follows[1] :

	MOODY'S
NORD/LB Luxembourg Covered Bond Bank	A3*/P-2
Long-term / short-term	A3*/P-2
Lettres de Gage publiques	Aa2
Lettres de Gage énergies renouvelables	Aa2[2]

* with stable outlook

On 9 January 2020, Moody's raised the long-term issuer rating of NORD/LB CBB by two notches from Baa2 to A3 (outlook stable). 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). Following the first issue of Lettre de Gage énergies renouvelables, the rating of Aa2 for Lettre de Gage énergies renouvelables was confirmed.
On 3 January 2020, Fitch Ratings (Fitch) gave the Bank's long-term issuer rating (IDR) a stable outlook of A-. On 6 April 2020, the outlook was changed to negative due to possible effects of the global COVID-19 pandemic. On 23 April 2020, the Bank's long-term issuer rating (IDR) was affirmed at A- and the long-term rating for senior preferred debt was upgraded to A.
In the fourth quarter of 2020, the Managing Board took the decision to terminate the business relationship with the Fitch ratings agency at the end of the year for reasons related to business policy. The decision was communicated to Fitch and the rating for Lettre de Gages publiques was withdrawn with effect from 1 December 2020.

With effect from 17 December 2020, Fitch's remaining ratings for NORD/LB CBB were also withdrawn.

[1]For further 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 position

The financial statements of NORD/LB CBB dated 31 December 2020 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 items of the income statement performed as follows in 2020 and 2019:

	2020 (in € thousand)	2019* (in € thousand)	Change ** (in € thousand)
Net interest income	112,587	120,923	-8,336
Net commission income	-59,159	-53,127	-6,032
Profit/loss from measurement at fair value	-18,450	-34,973	16,522
Net valuation allowance from financial instruments not measured at fair value through profit or loss	-4,933	2,627	-7,559
Modification profit/loss	404	-163	567
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	-3,079	736	-3,815
Profit/loss from hedge accounting	1,925	6,654	-4,730
Profit/loss from foreign exchange	135	-275	411
Profit/loss from shares in companies	0	64	-64
Administrative expenses	-29,312	-30,535	1,223
Current amortisation and depreciation	-5,756	-4,784	-973
Other operating profit/loss	-3,156	-7,542	4,386
Earnings before income taxes	**-8,794**	**-394**	**-8,400**
Income taxes	0	231	-231
Net profit	**-8,794**	**-163**	**-8,631**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.
**) The sign in the change column indicates the impact on earnings.

The breakdown of earnings components is as follows:

Net interest income

	2020 (in € thousand)	2019 (in € thousand)	Change ** (in € thousand)
Interest income	360,034	474,447	-114,413
Interest expenses	-257,011	-362,655	105,645
Interest rate anomalies	9,564	9,132	432
Net interest income	**112,587**	**120,923**	**-8,336**

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

Net interest income amounted to € 112,587 thousand in 2020, a decrease of € 8,336 thousand. This amounts to a decline of –6.9 per cent in the financial year 2020, following an increase of 6.2 per cent in the previous year.

In addition to interest income from hedging derivatives, significant effects within interest income resulted from declining interest income in the category of financial assets at amortised cost, within which interest income from debt securities and other fixed-income securities fell by 16 per cent and by 17 per cent from loans and advances to customers. The reductions within debt securities and other fixed-income securities are mainly based on declining volume of the Bank's portfolios, while the low interest rate environment is a burden within loans and advances to customers and the restructuring process at Group level is showing initial effects due to the reduction in new lending business eligible for cover pooling.

Interest expenses also declined significantly overall. Interest expense mainly includes expenses from financial liabilities at amortised cost and interest expenses from financial liabilities at fair value through profit or loss, which is driven by the lower volume of interest-bearing assets and the associated decrease in refinancing and derivative hedging volumes on the capital market as well as the declining interest rate level.

For further explanations please refer to Note ((21) Net interest income and current income).

Net commission income

	2020 (in € thousand)	2019 (in € thousand)	Change * (in € thousand)
Commission income	6,913	12,311	-5,398
Commission expenses	-66,072	-65,438	-634
Net commission income	**-59,159**	**-53,127**	**-6,032**

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

Net commission income deteriorated year on year by € 6,032 thousand to € -59,159 thousand.
Commission income was generated principally in lending and guarantee business (€ 5,449 thousand, previous year: € 6,048 thousand) and the securities and custody business (€ 1,244 thousand, previous year: € 5,918 thousand) and continues to decline, particularly as a result of significantly less intensive cooperation with Nordlux Vermögensmanagement S.A. Other commission income (€ 220 thousand, previous year: € 346 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 (€ -38,729 thousand; previous year: € -43,755 thousand) where the reduction is linked to a decrease in the business volume and a decline in new lending transactions, as well as from lending and guarantee business (€ -25,997 thousand; previous year: € -19,050 thousand), which also take into account the costs of hedging credit risks – the main drivers behind this increase.
In addition, commission expenses also arise primarily from securities and custody business (€ -719 thousand; previous year: € -952 thousand).

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

	2020 (in € thousand)	2019** (in € thousand)	Change *) (in € thousand)
Trading profit/loss	-15,515	-24,454	8,939
Profit/loss from financial assets mandatorily at fair value through profit or loss	-2,454	6,691	-9,145
Profit/loss from securitised liabilities designated at fair value through profit or loss	-481	-17,210	16,729
Profit/loss from measurement at fair value	**-18,450**	**-34,973**	**16,522**

*) The sign in the change column indicates the impact on earnings.
**) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

Profit/loss from financial instruments at fair value through profit or loss (€ -18,450 thousand, previous year € -34,973 thousand) shows the trading profit/loss proper and the profit/loss from financial instruments mandatorily or voluntarily measured at fair value.

The quite negative trading profit/loss is mainly the result of negative temporary measurement effects of € 17,957 thousand (previous year: € 9,028 thousand), which are chiefly attributable to basis spread effects on cross currency swaps.

This was partially offset by a valuation result of € 4,307 thousand (previous year: € -9,756 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 positive valuation result is mainly attributable to a deterioration in credit ratings as well as a pandemic-driven widening of general credit spreads and the associated increase in credit default risk.

For further explanations, please refer to the Notes ((3) Explanation of the balance sheet effects of the guarantee contracts from the support contract of the NORD/LB Group) and ((4) Development of the guarantee portfolio as at 31 December 2020).

Please also refer to Note ((2) Adjustment of the previous year's figures).

The other effects were primarily market-induced.

The negative result from financial assets mandatorily 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

	2020 (in € thousand)	2019 (in € thousand)	Change * (in € thousand)
Loan loss provisions for financial assets at fair through other comprehensive income	-56	15	-71
Loan loss provisions from financial assets at amortised cost	-8,129	5,221	-13,350
Allocations to and reversals of provisions for lending business including additions to receivables written off	3,253	-2,609	5,862
Modification profit/loss	404	-163	567
Net valuation allowance from financial instruments not measured at fair value through profit or loss and modification	**-4,529**	**2,464**	**-6,992**

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

Changes in loan loss provisions resulted in a negative valuation allowance of € -4,933 thousand (previous year: € 2,627 thousand).

This was mainly because of COVID-19-related increases in loan loss provisions in the amount of € 9,968 thousand on exposures to particularly hard-hit industries, sectors and countries as part of the management adjustment (MAC-19). In particular, these include companies in the logistics sector in the field of port and airport operations, the hotel industry as well as government bonds and local authorities. Offsetting effects mainly resulted from the reversal of a provision in lending business in the amount of € 3,041 thousand due to the disposal of the corresponding financial asset as well as the change in the accounting method attributable to the first-time inclusion of corresponding real collateral in the hotel and shipping industry.

The net modification gain or loss results from receivables measured at amortised cost and amounts to € 404 thousand (previous year: € -163 thousand); 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 € 43.3 million (previous year: € 22.5 million).

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

	2020 (in € thousand)	2019** (in € thousand)	Change *) (in € thousand)
Financial assets at fair value through other comprehensive income	0	0	0
Financial assets at amortised cost	-3,079	736	-3,815
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	**-3,079**	**736**	**-3,815**

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

In 2020, a loss of € -3,079 thousand (previous year: profit of € 736 thousand) was generated from the disposal of financial assets. The result came solely from the disposal of a debt security made as a result of reductions in risk-weighted assets in connection with a Group-wide redimensioning. The associated gross carrying amount of disposals was € 40.0 million (previous year: € 212.5 million).

Profit/loss from hedge accounting

	2020 (in € thousand)	2019 (in € thousand)	Change * (in € thousand)
Profit/loss from hedged underlying transactions	-25,704	-14,413	-11,291
Profit/loss from derivatives employed as hedging instruments	27,629	21,067	6,562
Profit/loss from hedge accounting	**1,925**	**6,654**	**-4,730**

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

The changes in the **profit/loss from hedge accounting** (€ 1,925 thousand; previous year: € 6,654 thousand) were the result of market interest fluctuations as well as OIS and CVA/DVA effects. These two effects occur isolated 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 result

	2020 (in € thousand)	2019 (in € thousand)	Change *) (in € thousand)
Profit/loss from foreign exchange	**135**	**-275**	**411**

*) 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

	2020 (in € thousand)	2019 (in € thousand)	Change *) (in € thousand)
Staff expenses	**-18,864**	**-17,231**	**-1,634**
- Wages and salaries	-13,183	-14,678	1,495
- Social insurance contributions and pension expenses	-2,421	-2,418	-3
- Other staff expenses	-3,260	-135	-3,125
Other administrative expenses	**-10,447**	**-13,304**	**2,857**
Administrative expenses	**-29,312**	**-30,535**	**1,223**

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

Administrative expenses fell by € 1,223 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 (€ -6,082 thousand; previous year: € -7,977 thousand) and legal, auditing, expert and consulting fees (€ -1,581 thousand; previous year: € -1,823 thousand).

Other staff expenses consist almost entirely of a provision in the amount of € 3.2 million resulting from the multi-stage restructuring process currently being implemented.

Current amortisation and depreciation

Straight-line amortisation and depreciation on property and equipment and intangible assets rose by € 973 thousand to € -5,756 thousand.

The year-on-year increase is due to the depreciation of right-of-use assets under leases in accordance with IFRS 16 and the amortisation of intangible assets in connection with a Group-wide IT project at the core bank.

No extraordinary depreciation was recognised.

Other operating profit/loss

	2020 (in € thousand)	2019 (in € thousand)	Change *) (in € thousand)
Other operating income	11,483	5,822	5,661
Other operating expenses	-14,639	-13,364	-1,275
Other operating profit/loss	**-3,156**	**-7,542**	**4,386**

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

Other operating profit/loss improved year on year by € 4,386 thousand to € -3,156 thousand. Other operating income results primarily from charging for services for a major Group project (€ 5,606 thousand; previous year: € 5,053 thousand), rental income (€ 718 thousand; previous year: € 755 thousand) as well as a reimbursement of surplus expenses paid from profit-sharing from 2018 (€ 968 thousand; previous year: € 0 thousand).
Furthermore, income relating to VAT refunds from other periods, namely for 2017 and 2018, was received in the amount of € 3,918 (previous year: € 0) during the financial year.

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)) (€ 7,161 thousand; previous year: € 6,137 thousand), and expenses for service charging with the Group (€ 4,864 thousand; previous year: € 4,548 thousand). This also includes the wealth tax due for the 2020 financial year of € 2,250 thousand (previous year: € 2,130 thousand).

Income Taxes

	2020 (in € thousand)	2019**) (in € thousand)	Change *) (in € thousand)
Current taxes	0	231	-231
Deferred taxes	0	0	0
Income taxes	**0**	**231**	**-231**

*) The sign in the change column indicates the impact on earnings.
**) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

No income taxes are payable due to the net loss for the year. In accordance with IAS 12, the Bank has refrained from recognising deferred tax assets in the annual financial statements prepared in accordance with German commercial law.

Net assets and financial position

	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in € million)
Cash reserve	82.3	11.6	70.7
Trading assets	170.7	123.3	47.4
Financial assets at fair value through profit or loss	740.0	822.2	-82.2
Financial assets at fair value through other comprehensive income	1,590.0	1,939.4	-349.4
Financial assets at amortised cost	9,679.8	12,233.1	-2,553.3
Positive fair values from hedge accounting derivatives	370.5	312.9	57.6
Other assets	100.8	106.8	-6.0
Total assets	**12,734.0**	**15,549.3**	**-2,815.3**
Trading liabilities	87.7	131.6	-43.9
Financial liabilities designated at fair value through profit or loss	1,359.6	1,560.1	-200.5
Financial liabilities at amortised cost	10,078.1	12,645.3	-2,567.2
Negative fair values from hedge accounting derivatives	491.0	480.2	10.8
Provisions	8.5	11.6	-3.2
Other liabilities	30.8	31.8	-1.1
Reported equity	678.3	688.5	-10.2
Total liabilities and equity	**12,734.0**	**15,549.3**	**-2,815.3**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more nformation.

Total assets fell by € -2,815.3 million compared with 31 December 2019, from € 15,549.3 million to € 12,734.0 million. **Trading assets** largely consist of derivatives that do not qualify for hedge accounting but are in economic hedges (€ 170.7 million, previous year: € 119.1 million).

Financial assets at fair value through profit or loss (€ 740.0 million, previous year: € 822.2 million) as at 31 December 2020 consisted primarily of financial assets mandatorily at fair value through profit or loss from the allocation of the "other" portfolio (€ 737.2 million) and receivables that do not meet the SPPI criterion (€ 2.8 million).

The reduction is due to maturing assets in the "other" portfolio with a nominal value of € 76.0 million, whereas no new business was allocated to this portfolio.

Financial assets at fair value through profit or loss consist solely of debt securities and other fixed-interest securities (€ 1,590.0 million, previous year: € 1,939.4 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 (€ 7,996.3 million, previous year: € 9,953.6 million), debt securities and other fixed-interest securities (€ 1,345.0 million, previous year: € 1,547.5 million) and loans and advances to banks (€ 338.5 million, previous year: € 732.1 million).

Loans and advances to customers consist largely of loan receivables in the amount of

€ 7,991.4 million (previous year € 9,953.6 million). During the 2020 financial year, the lending business not eligible for cover pooling declined by € -2,033.7 million, which also includes a € -348.5 million reduction in the volume of receivables purchased. Business eligible for cover pooling remained at a largely constant level. The decline in the portfolio is due to the current restructuring process at Group level as well as the ongoing COVID-19 pandemic and the associated decline in new lending.

The decline in debt securities and other fixed-interest securities at amortised cost is mostly due to maturities and repayments and one sales transaction that was likewise not fully made up by new business.

The largest items under **other assets** (€ 100.8 million, previous year: € 106.8 million) are property and equipment including investment property (€ 63.1 million, previous year: € 64.6 million) and intangible assets (€ 27.4 million, previous year: € 30.2 million). There were no major changes in this item during 2020.

Trading liabilities largely include derivatives, most of which are in economic hedges (€ 87.7 million, previous year: € 121.6 million).

This item also includes the hedging transaction with the State of Lower Saxony in the form of a credit derivative (€ 6.7 million). Financial liabilities designated at fair value through profit or loss (€ 1,359.6 million) consist solely of own issues designated at fair value due to an accounting mismatch (previous year: € 1,560.1 million). No Lettres de Gage were issued in the year that are allocated to this measurement category.

Financial liabilities at amortised cost (€ 10,078.1 million, previous year: € 12,645.3 million) consist of liabilities to banks (€ 3,490.7 million, previous year: € 6,105.8 million), liabilities to customers (€ 2,614.3 million, previous year: € 2,631.7 million) and securitised liabilities (€ 3,973.1 million, previous year: € 3,907.8 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 in the categories Lettres de Gage publique of € 500.0 million and Lettres de Gage énergies renouvelables of € 300.0 million were issued.

The planned growth in Lettres de Gage purchased by institutional investors was continued in 2020 (€ 2,093.3 million, previous year: € 1,794.4 million). The maturity dates for these are between 2021 and 2048. The total amount of securitised liabilities (€ 3,973.1 million, previous year: € 3,907.8 million) was nearly unchanged.

In addition to restructuring provisions (€ 4.0 million, previous year: € 3.7 million), **provisions** primarily include provisions for pensions and similar obligations (€ 3.8 million, previous year: € 3.9 million) and provisions for risk provisions for loan commitments, financial guarantees and other off-balance sheet obligations (€ 0.3 million, previous year: € 3.5 million). The increase in the restructuring provision is mainly due to future obligations over the course of the Bank's multi-stage restructuring process currently being implemented.

Other liabilities mainly include income tax liabilities (€ 14.7 million, previous year: € 15.5 million).

The Bank's reported **equity** stood at € 678.3 million as at 31 December 2020 (previous year: € 688.5 million). The net loss for 2020 is clearly reflected in equity, in particular. Furthermore, the reduction essentially reflects the decline in the credit risk of financial assets at fair value through profit or loss and the associated decline in the revaluation reserve. Equity of the previous year reflects the decrease in retained earnings that resulted from the adjustment of the previous year's figures, as presented in Note ((2) Adjustment of the previous year's figures).

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 2020 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), AT 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, the earnings position, 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 also still material: counterparty risk, market-price risk, liquidity risk and operational risk. In addition, the business and strategic risks are now also classified as material due to the significant impact of the NORD/LB 2024 transformation programme on NORD/LB CBB. The following risks are considered relevant: reputational risk, real estate risk and pension risk.

In 2020, risk management focused on managing the impact of the COVID-19 pandemic. The strong and volatile market movements in the first quarter of 2020, in particular, led to increased market-price risks and a rise in hidden liabilities, and therefore to high utilisation levels in risk-bearing capacity overall. Against this background, a daily forecast of the risk capacity situation was meanwhile prepared for the Bank's Managing Board, and formed the basis for several measures that were initiated in close cooperation with the parent company to strengthen the risk-bearing capacity and were concluded in full in the second quarter.

Risk management – strategy

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 3SREP – Supervisory Review and Evaluation Process 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). In accordance with paragraph 39 of the ECB guideline for ICAAP (Internal Capital Adequacy Assessment Process), the RBC 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 SREP3 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.

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,

[3] SREP – Supervisory Review and Evaluation Process

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 and since 1 January 2021 in CSSF Circular 20/759. The role of the ICS officer is handled by the HR & Organisation group.

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 Risk Control & Strategy unit within the Bank is responsible for the implementation of the RBC model applicable within NORD/LB, continuous monitoring of compliance and regular monitoring of the risk strategy.

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

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

The Bank's Compliance department is responsible for identifying and evaluating the compliance risks within the Bank. It is responsible for ensuring that the Bank 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.

Riskmanagement: 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 unit 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)[4].

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 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.

[4]Except business risk: monitoring based on selected items from the income statement

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 subcategory of counterparty risks) and can emerge at borrower, country and industry level.

The Bank uses various limit models and stress tests to identify and monitor risk concentrations. The stress test scenarios generally take place across risk types and therefore include assumptions about diversification and concentration within (intra-risk-specific) and between (inter-risk-specific) the material risk types examined. Aside from the RBC perspective an analysis is performed of the effects of stress scenarios on the income statement, the distance to illiquidity and the regulatory capital ratios.

Both MaRisk requirements (AT 4.3.3) and the requirements of the now modified CSSF Circular 11/506 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 the overall risk report.

Risk management - changes in 2020

The table below shows the risk-bearing capacity of NORD/LB CBB under the normative and economic perspective as at 31 December 2020 and 31 December 2019:

Risk-bearing capacity	**31.12.2020**	**31.12.2019[1)]**
Normative perspective		
Common equity Tier 1 capital (in € million)	645.9	646.3
Regulatory risk potential (in € million)	211.4	285.4
Common equity Tier 1 capital ratio (in %)	24.4%	18.1%
Tier 1 capital ratio (in %)	24.4%	18.1%
Total capital ratio (in %)	24.8%	18.2%
Economic perspective		
Risk potential (in € million)	**223.4**	**355.0**
Counterparty risk	49.3	82.3
Market-price risk	143.7	176.6
Liquidity risk	14.3	80.4
Operational risk	16.0	15.7
Risk capital (in € million)	**524.0**	**474.8**
Risk capital utilisation (in %)	**42.6%**	**74.8%**

[1)] The comparative figures were recalculated retrospectively, see Note ((2) Adjustment of the previous year' figures).

The Bank's risk-bearing capacity as at 31 December 2020 as well as during the entire year was assured, despite temporarily higher capacity utilisation levels as a result of the COVID-19 pandemic. Thanks to further risk-minimising measures such as the extensive guarantee of the corporate customer loan portfolio and the raising of long-term unsecured liquidity and a benchmark issue (Lettres de Gage publique) in June 2020, the utilisation rate in the economic perspective fell by 32.2 percentage points to 42.6 per cent compared with 31 December 2019.

The common equity tier 1 ratio improved by 6.3 percentage points compared with 31 December 2019 to 24.4 per cent. This is due to the substantial reduction in regulatory risk potential, in particular as a result of the guarantee measure mentioned above.

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 2020.

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. Credit risk also includes wrong-way risk, which results from a positive correlation between the counterparty's probability of default and the risk of the financial instrument concerned. 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. The focus is on lending and portfolio management of assets eligible for cover pooling in Luxembourg, so in particular assets which qualify for the cover pool of a "Lettre de Gage publique" as well as a "Lettre de Gage énergies renouvelables" but which are not eligible for cover pooling in Germany under German law.

Lending business is largely carried out in cooperation with NORD/LB based on a long-term, successful and mutually beneficial partnership. To complement the business of the German Pfandbrief issuers in the NORD/LB Group, the exposures from the NORD/LB Group that are eligible for cover pooling in accordance with the Luxembourg criteria have been pooled in NORD/LB CBB to date. 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. Just like capital market business, new lending business focuses on borrowers or counterparties with good credit ratings.

Alongside traditional lending business, the Bank specialises in particular on factoring (individual and pool acquisitions). This business segment will continue to be serviced in future, while the transfer of new lending business eligible for cover pooling to NORD/LB CBB will be discontinued by NORD/LB in future as a result of the NORD/LB 2024 transformation programme, which is already being implemented.

Credit risk – structure and organisation

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

The front-office division (comprising the Financial Markets unit and the Loans unit) 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 the Credit Risk & Business Data Management unit. 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 Credit Risk & Business Data Management and Risk Control & Strategy back-office units at NORD/LB CBB are is responsible for independent monitoring of portfolios with regard to strategic and operational requirements.

The management of the loan portfolio is based on risk. In order to identify crisis situations early, the risk management process uses structured procedures and processes for 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 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. In 2020, the exposure limit for shadow banking entities under the principal approach at NORD/LB CBB was € 354.8 million. A limit of € 7.1 million applied 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 2020, the Bank had no eligible exposure to shadow banking entities.

Securitisation

NORD/LB CBB did not enter into any risks from securitisations in 2020. The conclusion of securitisation transactions is still 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 still 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 & Business Data 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 NORD/LB to use its rating system and to apply credit risk reduction techniques.

Credit risk – reporting

As part of the management information system, the 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 & Business Data Management unit 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 2020

The maximum default risk exposure for balance-sheet and off-balance-sheet financial instruments came to € 13.6 billion as at the reporting date, a decrease of 19.2 per cent or € 3.2 billion over 2020. The decline is mainly due to a lower volume of money market business (loans and advances to customers) and maturities or sales of securities (financial assets).

Risk-bearing financial instruments in € million	Maximum default risk exposure	
	31.12.2020	31.12.2019
Loans and advances to banks	338.5	732.1
Loans and advances to customers	7,996.3	9,953.6
Financial assets at fair value through profit or loss	910.6	945.5
Positive fair values from hedge accounting	370.5	312.9
financial assets	2,935.0	3,486.9
Subtotal	**12,550.9**	**15,430.9**
Liabilities arising from guarantees and indemnity agreements	30.0	54.8
Irrevocable loan commitments	1,051.3	1,393.4
Total	**13,632.2**	**16,879.2**

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 41.2 per cent (previous year: 33.7 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 2020 was € 13.4 billion. The hefty € 3.6 billion fall from 31 December 2019 was due in particular to a decline in the lending business and a lower repo volume.

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

The following table shows the rating structure for the total credit exposure – broken down by product type and with the total compared to the structure as at 31 December 2019:

Rating structure [1) 2)] in € million	**Loans**[3)]	**Securities** [4)]	**Derivative** [5)]	**Other** [6)]	**Total**	
	31.12.2020				**31.12.2020**	**31.12.2019**
very good to good	6,447.1	3,178.2	458.8	538.8	**10,622.7**	**14,569.6**
good / satisfactory	1,196.3	465.4	0.4	96.0	**1,758.1**	**1,396.9**
reasonable / satisfactory	373.7	11.5	0.0	31.9	**417.1**	**584.5**
Increased risk	281.6	27.0	0.0	20.0	**328.7**	**381.0**
high risk	108.9	0.0	0.0	3.3	**112.2**	**31.2**
Very high risk	124.7	0.0	0.0	10.0	**134.7**	**11.7**
Default (=NPL)	21.8	0.0	0.0	0.0	**21.8**	**33.2**
Total	**8,544.1**	**3,682.1**	**459.0**	**700.0**	**13,395.2**	**17,008.1**

1) Allocation according to IFD rating class.
2) Differences in totals are rounding differences
3) Contained in entitlements and/or committed loans, sureties, guarantees and other non-derivative off-balance-sheet assets and, just as with internal reporting, including unconditional loan commitments and conditional ones at 41.2%.
4) Includes the securities holdings of third-party issuers (only investment book)
5) Includes derivative financial instruments such as finance swaps, options, futures, forward rate agreements and currency transactions
6) Includes other products such as pass-through and administrative loans

Most of the total exposure (79.3 per cent) is rated as "very good to good", which is in line with the Bank's risk-strategic orientation. Although an increase in the shares in the rating classes with high and very high risks can be observed, it should be noted that a large part of the risks is backed by guarantees.

Further detailed information on risk concentrations in connection with IFRS 9 allocations based on the balance sheet exposures as at 31 December 2020 and 2019 are shown below:

31.12.2020	Range 12- month probability of default in %	Assets without significant Assets increase in credit risk (Level 1) in € million	Assets with significant increase in credit risk with not impaired (Level 2) in € million	Assets with significant increase in credit risk with impaired (Level 2) in € million	Total in € million
Debt securities and other fixed-interest securities at fair value directly in equity					
very good to good	0 - 0.39	1,590.1	0.0	0.0	**1,590.1**
good / satisfactory	0.4 - 0.88	0.0	0.0	0.0	**0.0**
reasonable / satisfactory	0.89 -1.98	0.0	0.0	0.0	**0.0**
Increased risk	1.99 - 4.44	0.0	0.0	0.0	**0.0**
high risk	4.45 - 10.0	0.0	0.0	0.0	**0.0**
Very high risk	10.1 - 99.99	0.0	0.0	0.0	**0.0**
Default (=NPL)	100.0	0.0	0.0	0.0	**0.0**
Total before deduction of loan loss provisions		**1,590.1**	**0.0**	**0.0**	**1,590.1**
Loan loss provisions		**-0.1**	**0.0**	**0.0**	**-0.1**
Total after loan loss provisions		**1,590.0**	**0.0**	**0.0**	**1,590.0**

31.12.2019	Range 12- month probability of default in %	Assets without significant Assets increase in credit risk (Level 1) in € million	Assets with significant increase in credit risk with not impaired (Level 2) in € million	Assets with significant increase in credit risk with impaired (Level 2) in € million	Total in € million
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	**1,939.5**
good / satisfactory	0.4 - 0.88	0.0	0.0	0.0	**0.0**
reasonable / satisfactory	0.89 -1.98	0.0	0.0	0.0	**0.0**
Increased risk	1.99 - 4.44	0.0	0.0	0.0	**0.0**
high risk	4.45 - 10.0	0.0	0.0	0.0	**0.0**
Very high risk	10.1 - 99.99	0.0	0.0	0.0	**0.0**
Default (=NPL)	100.0	0.0	0.0	0.0	**0.0**
Total before deduction of loan loss provisions		**1,939.5**	**0.0**	**0.0**	**1,939.5**
Loan loss provisions		**-0.1**	**0.0**	**0.0**	**-0.1**
Total after loan loss provisions		**1,939.4**	**0.0**	**0.0**	**1,939.4**

31.12.2020	Range 12- month probability of default in %	Assets without significant Assets increase in credit risk (Level 1) in € million	Assets with significant increase in credit risk with not impaired (Level 2) in € million	Assets with significant increase in credit risk with impaired (Level 2) in € million	Total in € million
Debt securities and other fixed-interest securities measured at amortised cost					
very good to good	0 - 0.39	1,023.3	218.4	0.0	**1,241.7**
good / satisfactory	0.4 - 0.88	83.3	0.0	0.0	**83.3**
reasonable / satisfactory	0.89 -1.98	1.6	26.0	0.0	**27.7**
Increased risk	1.99 - 4.44	0.0	0.0	0.0	**0.0**
high risk	4.45 - 10.0	0.0	0.0	0.0	**0.0**
Very high risk	10.1 - 99.99	0.0	0.0	0.0	**0.0**
Default (=NPL)	100.0	0.0	0.0	0.0	**0.0**
Total before deduction of loan loss provisions		**1,108.2**	**244.4**	**0.0**	**1,352.6**
Loan loss provisions		**-4.9**	**-2.7**	**0.0**	**-7.6**
Total after loan loss provisions		**1,103.3**	**241.8**	**0.0**	**1,345.0**

31.12.2019	Range 12- month probability of default in %	Assets without significant Assets increase in credit risk (Level 1) in € million	Assets with significant increase in credit risk with not impaired (Level 2) in € million	Assets with significant increase in credit risk with impaired (Level 2) in € million	Total in € million
Debt securities and other fixed-interest securities measured at amortised cost					
very good to good	0 - 0.39	1,244.2	285.6	0.0	**1,529.7**
good / satisfactory	0.4 - 0.88	0.0	7.2	0.0	**7.2**
reasonable / satisfactory	0.89 -1.98	0.0	14.7	0.0	**14.7**
Increased risk	1.99 - 4.44	0.0	0.0	0.0	**0.0**
high risk	4.45 - 10.0	0.0	0.0	0.0	**0.0**
Very high risk	10.1 - 99.99	0.0	0.0	0.0	**0.0**
Default (=NPL)	100.0	0.0	0.0	0.0	**0.0**
Total before deduction of loan loss provisions		**1,244.2**	**307.4**	**0.0**	**1,551.6**
Loan loss provisions		**-0.2**	**-3.9**	**0.0**	**-4.1**
Total after loan loss provisions		**1,243.9**	**303.5**	**0.0**	**1,547.5**

31.12.2020	Range 12- month probability of default in %	Assets without significant Assets increase in credit risk (Level 1) in € million	Assets with significant increase in credit risk with not impaired (Level 2) in € million	Assets with significant increase in credit risk with impaired (Level 2) in € million	Total in € million
Financial assets at amortised cost (incl. cash reserve)					
very good to good	0 - 0.39	7,194.3	95.5	0.0	**7,289.8**
good / satisfactory	0.4 - 0.88	330.6	11.5	0.0	**342.1**
reasonable / satisfactory	0.89 -1.98	288.6	147.5	0.0	**436.2**
Increased risk	1.99 - 4.44	29.1	80.2	0.0	**109.3**
high risk	4.45 - 10.0	28.6	134.5	0.0	**163.1**
Very high risk	10.1 - 99.99	0.0	62.0	0.0	**62.0**
Default (=NPL)	100.0	0.0	0.0	21.7	**21.7**
Total before deduction of loan loss provisions		**7,871.2**	**531.2**	**21.7**	**8,424.1**
Loan loss provisions		**-2.2**	**-4.7**	**-0.1**	**-7.0**
Total after loan loss provisions		**7,869.0**	**526.4**	**21.6**	**8,417.0**

31.12.2019	Range 12- month probability of default in %	Assets without significant Assets increase in credit risk (Level 1) in € million	Assets with significant increase in credit risk with not impaired (Level 2) in € million	Assets with significant increase in credit risk with impaired (Level 2) in € million	Total in € million
Financial assets at amortised cost (incl. cash reserve)					
very good to good	0 - 0.39	9,283.2	0.0	0.0	**9,283.2**
good / satisfactory	0.4 - 0.88	784.7	17.1	0.0	**801.8**
reasonable / satisfactory	0.89 -1.98	339.4	123.9	0.0	**463.3**
Increased risk	1.99 - 4.44	45.8	44.6	0.0	**90.3**
high risk	4.45 - 10.0	3.8	13.4	0.0	**17.2**
Very high risk	10.1 - 99.99	2.7	8.6	0.0	**11.3**
Default (=NPL)	100.0	0.0	0.0	33.1	**33.1**
Total before deduction of loan loss provisions		**10,459.5**	**207.5**	**33.1**	**10,700.2**
Loan loss provisions		**-1.8**	**-1.0**	**-0.2**	**-3.0**
Total after loan loss provisions		**10,457.7**	**206.5**	**33.0**	**10,697.2**

31.12.2020	Range 12- month probability of default in %	Assets without significant Assets increase in credit risk (Level 1) in € million	Assets with significant increase in credit risk with not impaired (Level 2) in € million	Assets with significant increase in credit risk with impaired (Level 2) in € million	Total in € million
Loan commitments, financial guarantees and other off-balance sheet obligations					
very good to good	0 - 0.39	949.7	3.1	0.0	**952.8**
good / satisfactory	0.4 - 0.88	14.5	0.0	0.0	**14.5**
reasonable / satisfactory	0.89 -1.98	85.2	26.5	0.0	**111.7**
Increased risk	1.99 - 4.44	0.0	0.8	0.0	**0.8**
high risk	4.45 - 10.0	0.0	0.0	0.0	**0.0**
Very high risk	10.1 - 99.99	0.0	1.3	0.0	**1.3**
Default (=NPL)	100.0	0.0	0.0	0.1	**0.1**
Total before deduction of loan loss provisions		**1,049.4**	**31.8**	**0.1**	**1,081.3**
Loan loss provisions		**0.0**	**-0.1**	**-0.1**	**-0.2**
Total after loan loss provisions		**1,049.4**	**31.7**	**0.0**	**1,081.1**

31.12.2019	Range 12- month probability of default in %	Assets without significant Assets increase in credit risk (Level 1) in € million	Assets with significant increase in credit risk with not impaired (Level 2) in € million	Assets with significant increase in credit risk with impaired (Level 2) in € million	Total in € million
Loan commitments, financial guarantees and other off-balance sheet obligations					
very good to good	0 - 0.39	1,154.9	13.2	0.0	**1,168.1**
good / satisfactory	0.4 - 0.88	45.6	43.0	0.0	**88.6**
reasonable / satisfactory	0.89 -1.98	117.5	31.2	0.0	**148.7**
Increased risk	1.99 - 4.44	0.0	0.0	0.0	**0.0**
high risk	4.45 - 10.0	0.0	41.4	0.0	**41.4**
Very high risk	10.1 - 99.99	0.0	1.3	0.0	**1.3**
Default (=NPL)	100.0	0.0	0.0	0.1	**0.1**
Total before deduction of loan loss provisions		**1,318.0**	**130.1**	**0.1**	**1,448.3**
Loan loss provisions		**-0.2**	**-3.3**	**-0.1**	**-3.6**
Total after loan loss provisions		**1,317.8**	**126.8**	**0.0**	**1,444.7**

The total credit exposure by sector breaks down as follows:

Industries [1) 2)] in € million	**Loans**[3)]	**Securities** [4)]	**Derivative** [5)]	**Other** [6)]	**Total**	
		31.12.2020			**31.12.2020**	**31.12.2019**
Financing institutions / insurance companies	1,361.4	1,727.1	458.2	15.7	**3,562.4**	**5,067.3**
Service industries / other	2,707.9	1,753.3	0.5	153.1	**4,614.7**	**5,420.8**
Of which real estate and housing	*108.1*	*0.0*	*0.0*	*16.9*	***125.0***	***174.9***
Of which: Public administration	*77.4*	*1,730.6*	*0.0*	*2.3*	***1,810.4***	***1,918.7***
Transportation / communications	787.9	14.4	0.3	73.5	**876.1**	**1,017.0**
Of which: Shipping	*70.3*	*0.0*	*0.0*	*0.0*	***70.3***	***129.0***
Of which: Aviation	*25.1*	*0.0*	*0.0*	*0.0*	***25.1***	***29.3***
Manufacturing	1,135.6	0.0	0.0	92.5	**1,228.1**	**1,650.9**
Energy, water and mining	1,663.0	187.4	0.1	343.5	**2,193.9**	**2,686.3**
Trade, maintenance, repairs	554.1	0.0	0.0	20.7	**574.8**	**794.9**
Agriculture, forestry and fishing	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Construction	344.3	0.0	0.0	1.0	**345.3**	**370.9**
Other	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total	**8,554.1**	**3,682.1**	**459.0**	**700.00**	13,395.2	17,008.1

[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 the repo volume and securities maturities, the share of business with financing institutions and insurers has fallen to 26.7 per cent of total exposure. Including public administration, this still accounts for a significant share of total exposure at 40.1 per cent. The shares of the energy, water supply, mining and service industries / other sectors (excluding public administration) are slightly higher compared to 31 December 2019, at 16.4 per cent and 20.9 per cent, respectively.

The total credit exposure by region breaks down as follows:

Regions [1] [2] in € million	Loans[3]	Securities [4]	Derivative [5]	Other [6]	Total	
	31.12.2020				**31.12.2020**	**31.12.2019**
Euro countries	6,042.5	1,558.5	439.5	685.5	**8,726.0**	**11,442.0**
Of which: Germany	*4,685.2*	*707.6*	*420.2*	*663.4*	*6,476.4*	*8,790.8*
Other Europe	1,742.2	529.8	18.8	14.5	**2,305.4**	**2,651.8**
North America	650.6	1,180.0	0.6	0.0	**1,831.1**	**2,308.1**
Middle and South America	90.7	0.0	0.0	0.0	**90.7**	**108.4**
Middle East / Africa	1.5	0.0	0.0	0.0	**1.5**	**1.8**
Asia / Australia	26.6	413.9	0.0	0.0	**440.4**	**496.0**
Other	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total	**8,554.1**	**3,682.1**	**459.0**	**700.0**	**13,395.2**	**17,008.1**

[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 65.1 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:

Collateral structure by rating classes [1) 2)] in € million	without	Financial collateral[3)]	Guarantees	Total 31.12.2020	Total 31.12.2019
	31.12.2020	31.12.2020	31.12.2020	31.12.2020	31.12.2019
Unsecured	**6,031.9**			**6,031.9**	**9,577.6**
very good to good	5,455.1			5,455.1	9,090.6
good / satisfactory	493.8			493.8	399.0
reasonable / satisfactory	21.0			21.0	15.0
Increased risk	41.1			41.1	72.4
high risk	20.0			20.0	0.0
Very high risk	0.4			0.4	0.0
Default (=NPL)	0.4			0.4	0.5
Secured		**805.0**	**6,558.3**	**7,363.3**	**7,430.5**
Total				**13,395.2**	**17,008.1**

NORD/LB continues to be the largest provider of collateral, securing an exposure of € 6.5 billion (previous year: € 5.6 billion) with guarantees as at 31 December 2020.

Non-Performing Loans („NPL“)

The portfolio of non-performing loans was reduced considerably over the course of the year and comprises an exposure of € 21.8 million as at 31 December 2020 (previous year € 33.2 million).

The exposure is largely attributable to two borrowers from the service industry (€ 12.3 million) and one borrower from the manufacturing industry (€ 9.0 million), which are, however, fully guaranteed by NORD/LB. The remaining € 0.5 million is spread over three customers in different industries. The Bank's risk provisions (including credit risk provisions), which are calculated in accordance with IFRS 9, rose by € 4.3 million over the course of the year to € 15.0 million as at 31 December 2020.

For further information please refer to Note ((53) 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 2021. 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 gradually decrease in the medium term due to the planned reduction in total assets and decreasing credit exposure.

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.

An interest risk exists whenever the value of a position or a portfolio responds to changes in one or more interest rates and/or changes in entire yield curves which may result in a reduction in the value of the position (present-value approach) or a reduction in 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 and behaviour-based assumptions. 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 have been withdrawn in accordance with a resolution of the Managing Board.

The activities of the Financial Markets unit 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: 58 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, the Risk Control & Strategy unit 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 Financial Markets. 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 Financial Markets 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 in conjunction with stress tests to control, monitor and limit market-price risks for all portfolios of NORD/LB CBB. As part of this, the market price risk potential is calculated as a full net present value measurement and includes the credit spread risks of all tradable positions. The Bank also implemented a Group-wide method of using a stress test to monitor interest-rate risks in the banking book from an earnings-based perspective. 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 head of the Financial Markets unit as well as Risk Control & Strategy are responsible for the breakdown of the portfolios. No correlation effects are taken into account when allocating the overall limit to sub-limits. One risk monitoring objective to highlight here is the early identification of risks. The daily profit and loss 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 employs a one-sided confidence level of 99 per cent and a holding period of 250 days. 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 four 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, interest rate 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. Additionally, monthly stress test analyses examine the impacts of extreme market changes on risk positions.

The Risk Control & Strategy unit monitors income-oriented interest rate risks in the banking book on a monthly basis. To that end, various stress scenarios for interest rate and FX trends with similar probabilities are considered uniformly throughout the Group, and the compelling scenario is mitigated by a limit. In addition, an earnings-at-risk (statistical risk measure) is quantified on a monthly basis. This calculation identifies the impact on net interest income, taking extensions and new business into consideration, for a holding period of one year and at a confidence level of 99.9 per cent. The analysis is performed based on historical changes in the risk factors since 1 January 2008.

The following 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:

- shift in yield curves by +/- 200 basis points (bp) with and without a prudential floor
- 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.

In addition, the interest rate shock scenarios are determined and reported on a monthly basis in accordance with EBA/GL/2018/02.

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 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 and the Managing Board receive monthly information on the CSSF stress test, the impact of other stress scenarios and back-testing results. Income-oriented indicators, including limit utilisation, is reported monthly to the member of the Managing Board responsible for the front office and the head of Financial Markets as part of IRRBB (interest rate risk in the banking book) reporting.

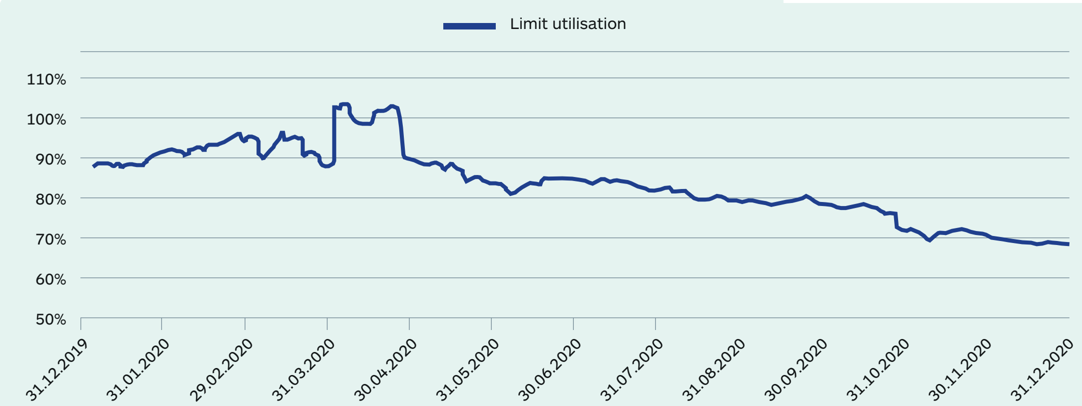
The Managing Board receives thorough information in daily risk reports on market-price risks and the earnings situation. Reporting also takes place through the monthly overall risk report.

Market-price risk – development in 2020

The markets that are relevant to the Bank were affected by the turbulence caused by the COVID-19 pandemic, particularly in the first half of 2020. In the first quarter of 2020, falling USD interest rates and rising credit spreads led to a significant increase in market-price risk. As a result of the simultaneous increase in hidden liabilities and a related reduction in risk coverage ratio and the market-price risk limit to € 185.0 million, utilisation of the operating value-at-risk limit exceeded 100 per cent at times in April. Following the implementation of capital-reinforcement measures, the original market-price risk limit of € 210.0 million was restored as at 27 April 2020, so that as the market-price risk potential continued to fall, limit utilisation remained permanently below 90 per cent again. Besides a market recovery, the sale of securities positions in particular contributed to this risk reduction.

The following chart shows the development of the utilisation of the value-at-risk limit for the overall Bank:

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



As at 31 December 2020, utilisation totalled € 144.0 million or 68.6 per cent (utilisation the previous year: 58.9 per cent). The securities held for interest rate and liquidity management purposes create a focus on credit-spread risks. Interest-rate risks are primarily due to transactions in €, USD and GBP.

The Managing Board of NORD/LB CBB resolved to reallocate the risk capital to increase the market-price risk limit by € 10 million to € 210 million with effect on 4 April 2020. Due to bottleneck management and the reduced risk cover, the operational VaR limit was temporarily at € 185.0 million between 1 April 2020 and 27 April 2020.

The average annual utilisation of the VaR limit for the overall Bank was 83.8 per cent (previous year: 46.7 per cent), with a maximum utilisation of 103.7 per cent (62.8 per cent) and a minimum utilisation of 68.6 per cent (37.3 per cent).

As at 31 December 2020, measurements showed interest-rate risks of € 94.9 million, foreign currency risks of € 56.5 million, volatility risks of € 0.3 million and credit spread risks of € 101.2 million. The Bank calculated these risks at a confidence level of 99.9 per cent and with a holding period of 250 days.

As at 31 December 2020, the compelling income-oriented scenario was € -1.1 million, so that utilisation of the € 10.0 million limit was 11.3 per cent. The earnings-at-risk (confidence level: 99.9 per cent; holding period: one year) was € 10.7 million.

The result of the standardised interest rate shock in accordance with CSSF Circular 16/642 continues to be significantly lower than the regulatory result.

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 € 0.5 million, as in the previous year, was calculated for the market-price risk on 31 December 2020.

Market-price risk – outlook

NORD/LB CBB does not expect any significant increase in market-price risk in 2021. The Bank expects its credit-spread risk will drift sideways going forward. However, due to further developments in connection with the COVID-19 pandemic, monetary policy decisions of central banks as well as the geopolitical environment, phases of increased volatility may nevertheless arise in the markets. These 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. In particular, market disruptions can mean that significant asset classes may no longer be employed as collateral. Alternatively, unexpected events in own lending, deposit or issue business may also result in liquidity shortages. The focus for the NORD/LB Group lies on the next 12 months and on the intraday risk.

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 Gage) for the core business of the NORD/LB Group. Intra-group funding concentrations on the liabilities side through NORD/LB and Lettres de Gage 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 Financial Markets unit. It also manages the regulatory liquidity indicators, particularly the liquidity coverage ratio (LCR). The Financial Markets 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 unit 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 likely crisis situation and thus the risk of a further intensification of the COVID-19 pandemic as of the reporting date. Although this is again associated with stabilising measures, it also has an adverse effect on the overall loan portfolio. There is still a risk that the rating of NORD/LB will be downgraded to the penultimate level of investment grade, but is less significant compared to the market-wide effects. 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 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 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 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.

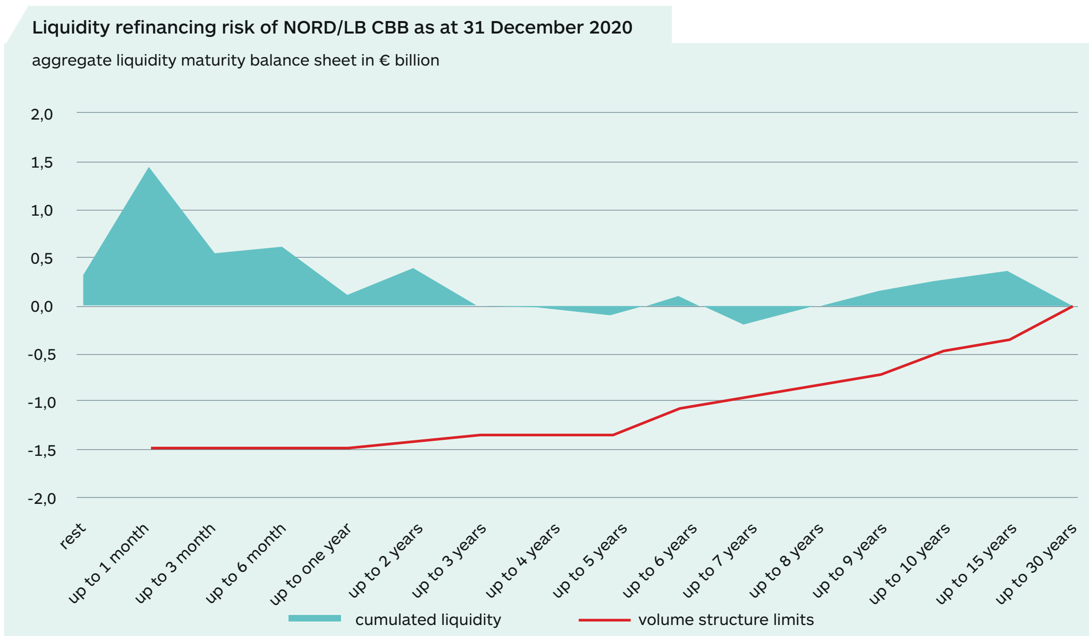
Risk Control & Strategy prepares the external reporting to the supervisory authorities (LCR, NSFR, asset encumbrance) according to the external requirements and provides it to the CSSF on a monthly and/or quarterly basis. The CSSF, in turn, forwards the reporting to the ECB. The LCR is also reported to the Financial Markets 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. The Financial Markets unit monitors the collateral values within the framework of cover pool management in conjunction with the Finance unit.

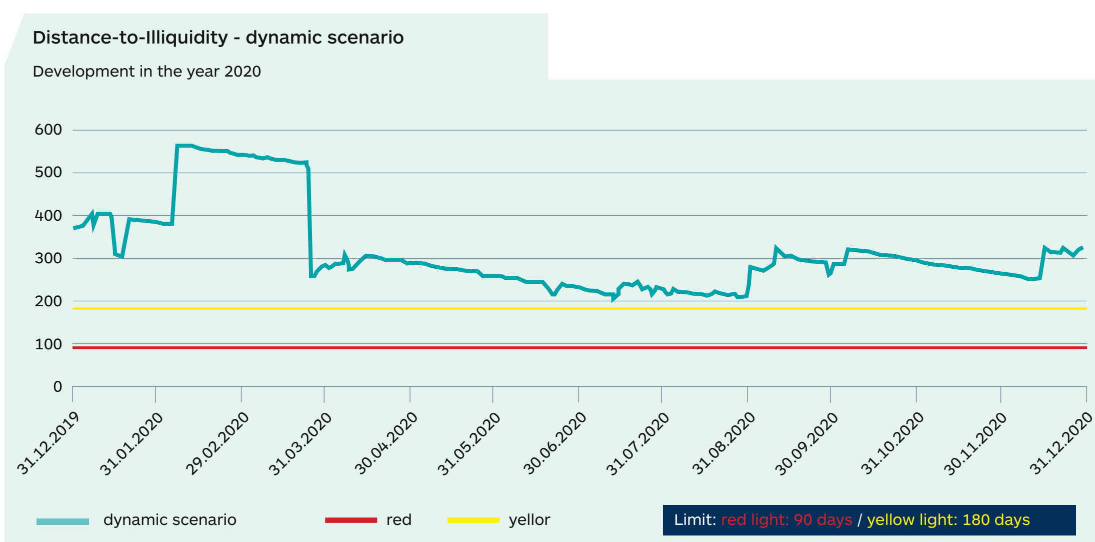
Liquidity risk – development in 2020

Despite the market turbulence that occurred in connection with COVID-19, particularly at the beginning of the year, sufficient liquidity was raised on the market at all times during the year under review, irrespective of the news situation. The Bank continues to have a relatively balanced funding mix.

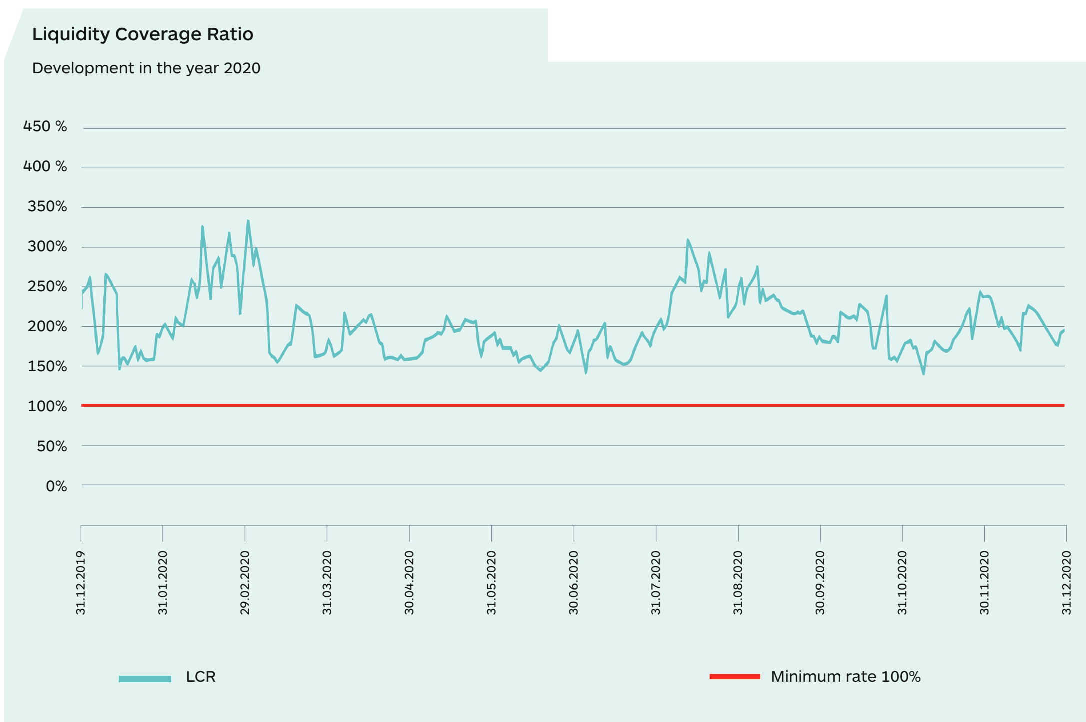
As at the reporting date, the aggregated liquidity maturity balance sheet used for internal refinancing risk management at NORD/LB CBB was as follows:



The distance-to-illiquidity (DTI) trend over one year in the dynamic scenario that is relevant for management purposes at 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 2020 at 298 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



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 2020, the asset encumbrance ratio for NORD/LB CBB stood at 63.7 per cent (previous year: 60.1 per cent).

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 significant reduction and possible discontinuation of the transfer of new lending business eligible for cover pooling to NORD/LB CBB as decided by NORD/LB will result in lower refinancing risks in the 2021 financial year, which is also reflected in the reduction of the corresponding limit.

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, as well as their integration into internal risk management processes.

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

Operational risk

Operational risks are potential events, unintended from the Bank's perspective, arising due to the inadequacy or failure of internal processes, employees or technology, or due to external causes, resulting in damage or clearly negative consequences for the Bank (e.g. violations of the law). This does not include strategic risks or business risks. According to this definition, operational risks include legal risks, legal amendment risks, compliance risks, outsourcing risks, insourcing risks, model risks, conduct risks, fraud risks, personnel risks, IT risks, information security risks and vulnerabilities related to emergency and crisis management.

- Legal risk denotes the risk of damages due to failure to comply or fully comply with the legal framework prescribed by legislation and case law.
- Legal amendment risk denotes the risk of losses due to new laws or regulations, unfavourable amendments to existing laws or regulations, and/or their interpretation or application by the courts.
- Compliance risk is the current or future income and capital risk derived from violations of or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards, and can result in fines, damages, and/or the invalidation of contracts, and impair the reputation of the institute.
- Outsourcing risk relates to the risks resulting from the outsourcing of activities and processes.
- Insourcing risk covers the risk of providing services for third parties.
- Model risk covers potential losses incurred by an institution due to decisions it makes primarily with the support of internal models that contain errors in design, execution or use.
- 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.

- Fraud risk refers to the risks that result for the Bank from other criminal acts, resulting in avoidable financial loss or reputational damage.
- 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 unit, 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 events 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 safeguard against criminal activities, money laundering, financing of terrorism and other compliance risks. These are subject to continuous verification during control and monitoring activities and 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 2020
Close collaboration continued between the Compliance, Security, ICS, Emergency Management and OpRisk Management functions.
The Group-wide roll-out of the Avedos risk2value banking application for managing operational risks as well as the change in the logic used for risk assessments – from the departmental to the process level – made it possible to further harmonise routines at Group level.
For NORD/LB CBB, two (previous year: one) claims greater than € 5 thousand were reported across all departments in the financial year, with all claims totalling € 195 thousand (previous year: € 9 thousand).

As at 31 December 2020, the risk exposure for operational risk came to € 16.0 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 € 10.0 million as at the reporting date.

Operational risk – outlook
The transitioning of the risk assessment to the process level will continue in the following scenario analyses in 2021. Integrated OpRisk management will help further increase transparency with regard to operational risks.

Business and strategic risk
Business and strategic risk refers to the risk of financial loss due to unexpected negative business developments that is not already explicitly or implicitly covered by other types of risk included in the risk-bearing capacity calculation.
This risk arises in particular as a result of changes in customer behaviour and/or competitive position, from business strategy decisions on the orientation of the Bank, including introduction of new products and entry into new markets, or from changes in the macroeconomic environment in which the institution operates (such as those caused by the COVID-19 pandemic).
This must also take sustainability risks into account.
On the one hand, this type of risk comprises possible threats that result from a negative plan variance prior to the risk. A plan variance is only assessed prior to the risk, since a negative risk-related deviation is already included in the

risk-bearing capacity. Risk-related deviations occur when the standard risk premiums and the risk provisioning expenses would not be sufficient to cover the actual losses. If the comparison between planned/actual data regularly reveals significant shortfalls, potential reasons must be identified or assessed with respect to risk. If there are deviations from the plan prior to the risk, these may result in insufficient allocations to retained earnings or to reversals of reserves due to higher costs or lower income. Risk-bearing capacity would be affected in both cases, as risk capital would be reduced or would not be able to accumulate.

This type of risk also includes risks that may arise as a result of corporate strategy decisions, in particular in connection with the development of new markets and/or products. Strategic risks only exist until the strategic implementation has been completed.

Business and strategic risk – strategy and monitoring

Due to the significant impact of the NORD/LB 2024 transformation programme on NORD/LB CBB, the business and strategic risks at NORD/LB CBB are classified as material.

The business risk is not underpinned by a capital amount. As a result, business and strategic risk are not directly included in the risk-bearing capacity calculation. Nevertheless, business risks are monitored by Risk Control & Strategy within the scope of the quarterly overall risk report.

As in the NORD/LB Group, monitoring is performed in a two-stage review process with two thresholds (escalation and early warning threshold). The level of the early warning and escalation thresholds is set as a risk strategy target, with the escalation threshold corresponding to the ICAAP materiality threshold.

If the plan variance for net interest income and administrative expenses exceeds the early warning threshold but not the escalation threshold, the Managing Board is informed and provided with an analysis of the causes, which then serves as a basis for deriving recommendations for courses of action, if needed. If the escalation threshold is exceeded, both the Managing Board and the Supervisory Board are informed and the medium-term plan or strategy is reviewed where necessary. In 2020, the plan variance remained below the early warning threshold defined.

Other risks

No other risks have been identified as material aside from the credit, market price, liquidity, operational as well as business and strategic risks mentioned above. The risks relevant to the Bank that have been identified as immaterial include reputational risk, real estate risk and pension risk.

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 old-age pension dynamics from the actual developments.

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

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

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

Summary and outlook

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

The utilisation calculated in the risk-bearing capacity model shows that risks were covered at all times throughout the financial year. 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 2020.

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	31.12.2020	31.12.2019	Change (absolute)	Change (in %)
Employees	140	155	-15	-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 – declaration

Internal controls and risk management when compiling financial data and organisation

Definition and objective

The objective of the internal control and risk management system with regard to the preparation of financial reports is that the financial statements should provide a true and fair 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.

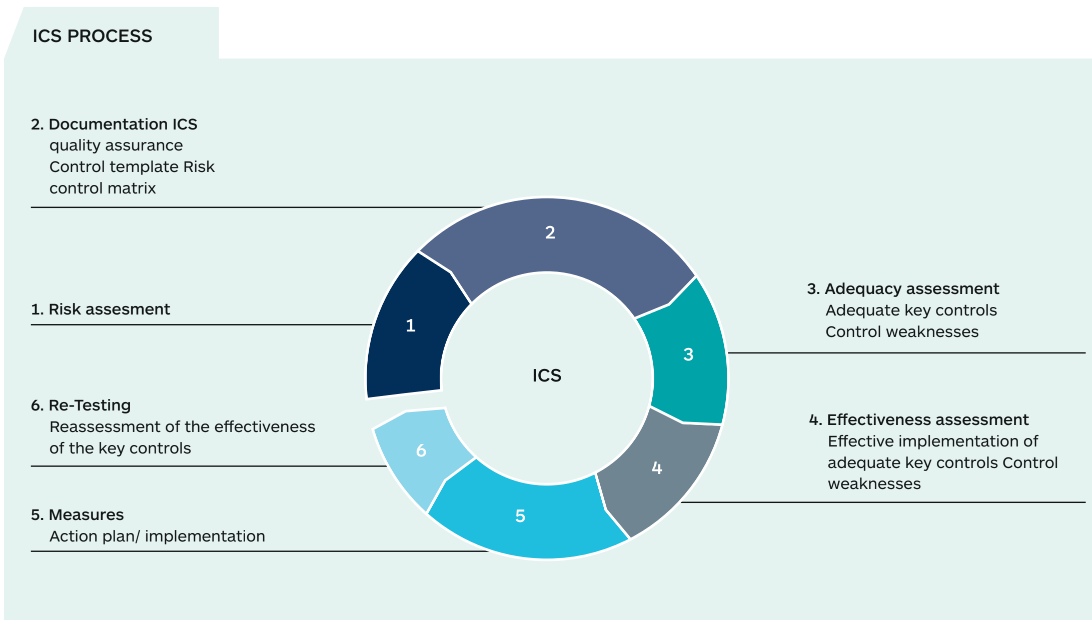
Risks for financial reporting may arise from errors in business processes. Fraudulent behaviour can also lead to misstatements. The Bank must therefore ensure that risks are minimised regarding misstatements, erroneous measurement or incorrect presentation of information in financial reporting.

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 balance sheet 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. The work performed by Sustainability Management is geared towards the requirements of the NORD/LB Group. 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 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

There were no significant events between the reporting date on 31 December 2020 and the preparation of the financial statements by the Managing Board on 24 March 2021.

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, 24 March 2021

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 2020 compared with the financial year from 1 January to 31 December 2019:

	Notes	2020 (in € thousand)	2019* (in € thousand)	Change (in %)
Net interest income	**(21)**	**112,587**	**120,923**	**-7**
Interest income from assets		360,034	474,447	-24
Interest expenses from assets		-7,652	-8,959	-15
Interest expenses from liabilities		-257,011	-362,655	-29
Interest income from liabilities		17,216	18,091	-5
Net commission income	**(22)**	**-59,159**	**-53,127**	**11**
Commission		6,913	12,311	-44
Commission expenses		-66,072	-65,438	1
Profit/loss from financial		**-23,998**	**-25,330**	**-5**
Trading profit / loss	(23)	-15,515	-24,454	-37
Profit/loss from financial assets mandatorily at fair value through profit or loss	(23)	-2,454	6,691	< -100
Profit/loss from financial instruments designated at fair value through profit or loss	(23)	-481	-17,210	-97
Modification profit/loss	(24)	404	-163	< -100
Net valuation allowance from financial instruments not measured at fair value through profit or loss	(24)	-4,933	2,627	< -100
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	(25)	-3,079	736	< -100
Profit/loss from hedge accounting	(26)	1,925	6,654	-71
Profit/loss from foreign exchange	(27)	135	-275	< -100
Profit/loss from shares in companies		0	64	-100
Administrative expenses	**(28)**	**-29,312**	**-30,535**	**-4**
Current amortisation and depreciation	**(29)**	**-5,756**	**-4,784**	**20**
Other operating profit/loss	**(30)**	**-3,156**	**-7,542**	**-58**
Earnings before taxes		**-8,794**	**-394**	**> 100**
Income taxes	**(31)**	**0**	**231**	**-100**
Earnings after taxes		**-8,794**	**-163**	**> 100**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.
The following notes are an integral part of the financial statements.

Statement of comprehensive income

NORD/LB CBB's comprehensive income for 2020 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 2019 to 31 December 2019 as follows:

	2020 (in € thousand)	2019* (in € thousand)	Change (in %)
Earnings after taxes	**-8,794**	**-163**	**> 100**
Other comprehensive income that will not be reclassified to the income statement in subsequent periods	**849**	**1,341**	**-37**
Change in financial liabilities designated at fair value through profit or loss that are attributable to the change in credit risk.	1,019	2,248	-55
Revaluation of net liability from defined benefit plans	112	-363	< -100
Deferred taxes	-282	-544	-48
Other comprehensive income that will be reclassified to the income statement in subsequent periods	**-2,251**	**5,971**	**< -100**
Changes from financial instruments at fair value directly in equity	-2,999	7,455	< -100
Unrealised profit/losses	-2,999	7,455	< -100
Deferred taxes	748	-1,484	< -100
Other profit/loss	**-1,403**	**7,312**	**< -100**
Comprehensive income for the period under review	**-10,197**	**7,149**	**< -100**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.
The following notes are an integral part of the financial statements.

For further information about the statement of comprehensive income, refer to Note (49) Notes to the statement of comprehensive income.

Balance sheet

of NORD/LB CBB as at 31 December 2020 compared to 31 December 2019:

Assets	Notes	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in %)
Cash reserve	**(32)**	**82.3**	**11.6**	**> 100**
Trading assets	**(33)**	**170.7**	**123.3**	**38**
Of which: Loans and advances to banks		0.0	0.0	-
Of which: Loans and advances to customers		0.0	4.2	-100
Financial assets mandatorily at fair value through profit or loss	**(33)**	**740.0**	**822.2**	**-10**
Of which: Loans and advances to banks		2.8	6.9	-60
Of which: Loans and advances to customers		0.0	0.0	-
Financial assets at fair value through other comprehensive income	**(34)**	**1,590.0**	**1,939.4**	**-18**
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	**(35)**	**9,679.8**	**12,233.1**	**-21**
Of which: Loans and advances to banks		338.5	732.1	-54
Of which: Loans and advances to customers		7,996.3	9,953.6	-20
Positive fair values from hedge accounting derivatives	**(36)**	**370.5**	**312.9**	**18**
Property and equipment	**(37)**	**31.9**	**33.1**	**-4**
Investment property	**(38)**	**31.2**	**31.5**	**-1**
Intangible assets	**(39)**	**27.4**	**30.2**	**-9**
Current income tax assets	**(40)**	**7.9**	**5.6**	**40**
Deferred income tax assets	**(40)**	**1.0**	**1.3**	**-22**
Other assets	**(41)**	**1.5**	**5.1**	**-70**
Total assets		**12,734.0**	**15,549.3**	**-18**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.
The following notes are an integral part of the financial statements.

Liabilities	Notes	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in %)
Trading liabilities	**(42)**	**87.7**	**131.6**	**-33**
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	**(42)**	**1,359.6**	**1,560.1**	**-13**
Of which: Liabilities to banks		0.0	0.0	-
Of which: Liabilities to customers		0.0	0.0	-
Of which: Securitised liabilities		1,359.6	1,560.1	-13
Of which: Subordinated liabilities		0.0	0.0	-
Financial liabilities at amortised cost	**(43)**	**10,078.1**	**12,645.3**	**-20**
Of which: Liabilities to banks		3,490.7	6,105.8	-43
Of which: Liabilities to customers		2,614.3	2,631.7	-1
Of which: Securitised liabilities		3,973.1	3,907.8	2
Of which: Subordinated liabilities		0.0	0.0	-
Negative fair values from hedge accounting derivatives	**(44)**	**491.0**	**480.2**	**2**
Provisions	**(45)**	**8.5**	**11.6**	**-27**
Current income tax liabilities	**(46)**	**4.8**	**4.8**	**0**
Deferred income tax liabilities	**(46)**	**9.9**	**10.6**	**-7**
Other liabilities	**(47)**	**16.1**	**16.4**	**-2**
Equity	**(48)**	**678.3**	**688.5**	**-1**
Of which: Issued capital		205.0	205.0	0
Of which: Retained		446.6	455.4	-2
Of which: Other comprehensive income		26.8	28.2	-5
Total liabilities and equity		**12,734.0**	**15,549.3**	**-18**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.
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 2020 compared with the financial year from 1 January 2019 to 31 December 2019:

	2020 (in € million)	2019* (in € million)	Change (in %)
Net profit before taxes	**-8.8**	**-0.4**	**> 100**
Adjustment for non-cash items			
Depreciation, impairment and write-ups	5.8	4.8	20
Increase / decrease in provisions excluding effects from commitments and guarantees given	3.4	1.1	> 100
Loan loss provisions	4.9	-0.8	< -100
Increase/decrease in other non-cash items	19.4	28.3	-31
Net interest income	-112.6	-120.9	-7
Other adjustments (net)	-0.3	0.0	> 100
Subtotal	**-88.2**	**-88.1**	**0**
Increase/decrease in assets and liabilities from operating activities after adjustment for non-cash items			
Financial assets at amortised cost	2,555.2	945.4	> 100
Trading assets, trading liabilities and hedge accounting derivatives	-113.0	74.5	< -100
Financial assets mandatorily at fair value through profit or loss	79.7	227.0	-65
Financial assets at fair value through other comprehensive income	340.6	161.6	> 100
Other assets from operating activities	3.6	-2.0	< -100
Financial liabilities at amortised cost	-2,603.5	-1,762.6	48
Financial liabilities designated at fair value through profit or loss	-198.3	-89.1	> 100
Other liabilities from operating activities	-8.1	5.8	< -100
Interest received			
Interest income from assets	381.0	459.5	-17
Interest income from financial liabilities	16.0	18.1	-12
Interest paid			
Interest expenses from liabilities	-282.9	-357.0	-21
Interest expenses from assets	-7.7	-9.0	-14
Income tax payments	-2.3	-8.8	-74
Cash flow from operating activities	**72.2**	**-424.8**	**< -100**

	2020 (in € million)	2019* (in € million)	Change (in %)
Cash receipts from the disposal of			
shares in companies	0.0	0.0	-
Property and equipment, investment property and intangible assets	0.0	0.0	-
Payments for acquisition of			
Property and equipment, investment property and intangible assets	-0.5	-5.9	-91
Cash flow from investing activities	**-0.5**	**-5.9**	**-91**
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	0.0	-
Payments under lease liabilities	-1.0	-1.0	-2
Cash flow from financing activities	**-1.0**	**-1.0**	**-2**
Cash and cash equivalents as at 01.01.	**11.6**	**443.4**	**-97**
Cash flow from operating activities	72.2	-424.8	< -100
Cash flow from investing activities	-0.5	-5.9	-91
Cash flow from financing activities	-1.0	-1.0	-2
Total cash flow	**70.7**	**-431.8**	**< -100**
Effects of changes in exchange rates	0.0	0.0	-
Cash and cash equivalents as at 31.12.	**82.3**	**11.6**	**> 100**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.
The following notes are an integral part of the financial statements.

For further information about the cash flow statement, refer to Note ((51) Notes to the cash flow statement).

Statement of changes in equity

of NORD/LB CBB for the reporting years from 1 January to 31 December 2020 and 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 through other comprehensive income	Own credit-risk adjustment (OCA)	Revaluation of net liability from pensions	Equity
Equity as at 01.01.2020	**205.0**	**474.1**	**31.9**	**-1.9**	**-1.9**	**707.2**
Adjustments according to IAS 8	**0.0**	**-18.7**	**0.0**	**0.0**	**0.0**	**-18.7**
Change in equity as at 01.01.2020	**205.0**	**455.4**	**31.9**	**-1.9**	**-1.9**	**688.5**
Distribution	0.0	0.0	0.0	0.0	0.0	0.0
Net profit or loss for the year	0.0	-8.8	0.0	0.0	0.0	-8.8
Changes in financial assets at fair value through other comprehensive income	0.0	0.0	-3.0	0.0	0.0	-3.0
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	1.0	0.0	1.0
Revaluation of net liability from defined benefit plans	0.0	0.0	0.0	0.0	0.1	0.1
Deferred taxes	0.0	0.0	0.7	-0.3	0.0	0.5
Comprehensive income for the year	**0.0**	**-8.8**	**-2.3**	**0.8**	**0.1**	**-10.2**
Equity as at 31.12.2020	**205.0**	**446.6**	**29.7**	**-1.1**	**-1.8**	**678.3**

*)See Note ((2) Adjustment of the previous year's figures.

			Other comprehensive income (OCI)			
			Other comprehensive income that will be reclassified to the income statement in subsequent periods	Other comprehensive income that will be reclassified to the income statement in subsequent periods		
in € million	**Issued capital**	**Retained earnings**	**Fair value changes from financial assets at fair value through other comprehensive income**	**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 or loss for the year	0.0	18.5	0.0	0.0	0.0	18.5
Changes in financial assets at fair value through other comprehensive income	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 period under review	**0.0**	**18.5**	**6.0**	**1.6**	**-0.3**	**25.9**
Equity as at 31 Dec. 2019	**205.0**	**474.1**	**31.9**	**-1.9**	**-1.9**	**707.2**

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

Notes to the consolidated financial statements

Notes to the consolidated financial statements

Accounting policies

(1) Principles for the preparation of the financial statements

The financial statements of NORD/LB CBB as at 31 December 2020 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 ((6) Applicable IFRS)).

The financial statements as at 31 December 2020 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 2020 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 24 March 2021 and approved for submission to the Supervisory Board.

(2) Adjustment of the previous year's figures

These financial statements contain adjustments made due to changes in the accounting policies applied pursuant to IAS 8.14 (Adjustment of accounting policies):

In the financial statements for the year ended 31 December 2019, an increase in the occupancy rate required that a portion of the building be accounted for as an investment property. The Bank changed its method for distinguishing between owner-occupied and investment property during the 2020 financial year and also allocates the imputed share of land used by third parties of € 11.9 million to investment property within the meaning of IAS 40 as at 31 December 2020. The adjustments are disclosed in the table at the end of the note and implemented in Note ((37) Property and equipment) and Note ((38) Investment property).

The methodology was changed with an eye to increasing the relevance of information and the level of transparency with regard to relevant facts. In addition, the following figures from the previous year were adjusted on the basis of IAS 8.42 (Restatement) to correct an error:

As described in Note ((3) Explanation of the balance sheet effects of the guarantee contracts from the support contract of the NORD/LB Group), guarantee contracts from the support contracts of the NORD/LB Group for the benefit of Norddeutsche Landesbank – Girozentrale – and NORD/LB Luxemburg S.A. Covered Bond Bank were presented in the form of a credit derivative for the first time in the annual report as at 31 December 2019. Eligible external collateral in the form of credit insurance has been excluded from the valuation of the Maritime Industries credit derivative as at 31 December 2019. As a result of collateral netting, the value of the hedge on the guarantee portfolio

has fallen below the present value of the commissions payable in the future, resulting in a negative fair value and thus a trading liability as at 31 December 2019.

This results in a negative effect before taxes of € -25.0 million in trading profit / loss. The adjustment results in the recognition of a trading liability in amount of € 10.0 million for the transaction that had previously been recognised in the balance sheet as a trading asset in the amount of € -14.9 million. The credit has a negative impact of € -18.7 million on retained earnings as part of equity, which comprises the negative effect of the trading profit/loss and the corresponding tax effects.

The adjustments made in the balance sheet, income statement, statement of comprehensive income and equity as a result of the matters described above are disclosed below and implemented in Note ((19) Segmentation of NORD/LB CBB by business segment), Note ((20) Geographic segmentation of NORD/LB CBB), Note ((23) Profit/loss from measurement at fair value), Note ((31) Income taxes), Note ((33) Financial assets at fair value through profit or loss), Note ((40) Income tax assets), Note ((42) Financial liabilities at fair value through profit or loss), Note ((46) Income tax liabilities), Note ((48) Equity), Note ((52) Fair value hierarchy), ((56) Derivative financial instruments), Note ((58) Residual terms of financial assets and liabilities), Note ((63) Longer-term assets and liabilities) and Note ((73) Related parties).

Balance sheet adjustments as at 31 December 2019:

Assets (in € million)	Notes	31.12.2019 before adjustment	Adjustment of collateral netting according to IFRS 9 IAS 8.42	Adjustment of land division in accordance with IAS 40 IAS 8.14	31.12.2019 after adjustment
Trading assets	(33)	138.2	-14.9	0.0	123.3
Property and equipment	(37)	45.0	0.0	-11.9	33.1
Investment property	(38)	19.6	0.0	11.9	31.5
Current income tax assets	(40)	3.0	2.6	0.0	5.6
Total assets		**15,561.6**	**-12.3**	**0.0**	**15,549.3**

Liabilities (in € million)	Notes	31.12.2019 before adjustment	Adjustment of collateral netting according to IFRS 9 IAS 8.42	Adjustment of land division in accordance with IAS 40 IAS 8.14	31.12.2019 after adjustment
Trading liabilities	(42)	121.6	10.0	0.0	131.6
Current income tax liabilities	(46)	8.5	-3.6	0.0	4.8
Equity	(48)	707.2	-18.7	0.0	688.5
Of which: Retained earnings		474.1	-18.7	0.0	455.4
Total liabilities and equity		**15,561.6**	**-12.3**	**0.0**	**15,549.3**

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 2019.

Adjustment of net income and comprehensive income for the period from 1 January to 31 December 2019:

(in € thousand)	Notes	2019 before adjustment	Adjustment of collateral netting according to IFRS 9	Adjustment of land division in accordance with IAS 40	2019 after adjustment
Profit/loss from financial instruments		**-367**	**-24,963**	**0.0**	**-25,330**
Trading profit/loss	(23)	508	-24,963	0.0	-24,454
Earnings before taxes		**24,568**	**-24,963**	**0.0**	**-394**
Income taxes	(31)	-6,021	6,252	0.0	231
Earnings after taxes		**18,548**	**-18,710**	**0.0**	**-163**
Other profit/loss		7,312	0.0	0.0	7,312
Comprehensive income for the year		**25,860**	**-18,710**	**0.0**	**7,149**

Furthermore, the level classification of assets and liabilities was corrected during the financial year. As this merely constitutes a shift in the level allocation, no adjustments were made to the fair value or the carrying amount, meaning that the resulting hidden reserves or hidden liabilities remain unchanged. This restatement therefore 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 2019.

The adjustments are disclosed below and implemented in Note ((52) Fair value hierarchy):

(in € million)	31.12.2019 Level 1	Level 2	Level 3	Fair value total	Carrying	Diffe-rence
Assets						
Financial assets at amortised cost	**-395.3**	**-3.1**	**+398.4**	**0.0**	**0.0**	**0.0**
Debt securities and other fixed-interest securities	0.0	0.0	0.0	0.0	0.0	0.0
Receivables	-395.3	-3.1	+398.4	0.0	0.0	0.0
Total	**-395.3**	**-3.1**	**+398.4**	**0.0**	**0.0**	**0.0**

(in € million)	31.12.2019 Level 1	Level 2	Level 3	Fair value total	Carrying	Diffe-rence
Liabilities						
Financial liabilities at amortised cost	**-599.4**	**0.0**	**+599.4**	**0.0**	**0.0**	**0.0**
Deposits	-599.4	0.0	+599.4	0.0	0.0	0.0
Securitised liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total	**-599.4**	**0.0**	**+599.4**	**0.0**	**0.0**	**0.0**

(3) Explanation of the balance sheet effects of the guarantee contracts from the support contract of the NORD/LB Group

Within the framework of the three guarantee contracts, the state of Lower Saxony assumes, as of the execution date of 23 December 2019 and for the benefit of the Norddeutsche Landesbank Girozentrale and NORD/LB Luxemburg S.A. Covered Bond Bank, the unconditional, irrevocable and non-subordinate guarantee to hedge against the loss risks of certain ship and aircraft finance portfolios.

Both of the guarantees concerning NORD/LB CBB comprise specific loan portfolios from the Ship Customers / Maritime Industries Customers and Aircraft Customers segments with effect from the date of execution of the support contract. The guarantee amounts relating to the hedging of gross carrying amounts derive from the original loan amounts denominated in foreign currency, among other things. The guarantee contracts give rise to payment claims against the State of Lower Saxony in the amount of the actual loss if one or more guarantee events occur. Guarantees cover 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 balance sheet of NORD/LB CBB, the guarantee contracts 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.

This is why all transactions in the guarantee portfolios are still subject to loan loss provisions even after the guarantee contracts have been executed. The hedging effect of the derivatives impacts the income statement of the Bank 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 this context, shifts in periods as regards the compensatory effect may occur during the term of the guarantees due to methodological valuation differences. These differences are only temporary, as the market value of the derivatives over the term of the respective guarantee approaches the final settlement amount, which corresponds to the sum of the guarantor's contractual obligations to pay arising from guarantee claims. In consideration for the guarantees granted, NORD/LB CBB pays a fixed fee to the State of Lower Saxony, which is payable in set quarterly instalments. Please refer to Note ((4) Development of the guarantee portfolio as at 31 December 2020) and Note ((22) Net commission income) for further information on the effects of the guarantee contracts on the balance sheet at NORD/LB CBB and their development in 2020.

The guarantee contracts end at the earliest either when the respective guarantee portfolio has been fully wound up and all outstanding payment obligations have been settled (variable end date) or on 31 December 2024 (fixed end date).

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 for the guarantee contracts was exercised in both 2020 and 2021, so that these contracts have a term until 31 December 2026.

(4) Development of the guarantee portfolio as at 31 December 2020

The development of the hedged assets and the guarantee shown as a credit derivative in the reporting period is presented for each individual transaction. These are 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. The fair values of the derivatives shown reflect expected guarantee payments by the guarantor and future guarantee commission payments.

The positive development of the fair value is mainly attributable to a deterioration in credit ratings as well as the pandemic-driven widening of general credit spreads and the associated increase in credit default risk. Furthermore, payments made during the financial year significantly reduced future guarantee commission payments as of the balance sheet date, which had a positive effect on the valuation of the derivative. This was offset by a substantial reduction in the portfolio, particularly within open loan commitments. The decline in the portfolio was largely due to repayments and the external transfer of parts of the portfolio. The aforementioned effects relate to the Maritime Industries guarantee portfolio and are the main drivers of changes to fair value.

Other effects and the changes in the Aviation guarantee portfolio should be considered subordinate.

The fair value of derivatives as of 31 December 2020 is affected by deferred guarantee commissions totalling € 1,159 thousand (previous year: € 664 thousand) in the Maritime Industries segment and € 46 thousand (previous year: € 25 thousand) within Aviation.

Portfolio: Maritime Industries in € million	Opening balance 01.01.2020	Change in portfolio incl. loan loss provisions Consumption 01.01. - 31.12.2020	Fair value changes, loan loss provisions Income statement 01.01. - 31.12.2020	Change in deferred commissions 01.01. - 31.12.2020	Currency translation 01.01. - 31.12.2020	Closing balance 31.12.2020
Financial assets measured at amortised cost - gross carrying amount of loans and advances to customers	104.4	-27.8	0.0	0.0	-6.2	70.3
Loan loss provisions Level 1	-0.2	0.0	0.2	0.0	0.0	0.0
Loan loss provisions Level 2	0.0	0.0	-0.1	0.0	0.0	-0.1
Total assets	**104.2**	**-27.8**	**0.1**	**0.0**	**-6.2**	**70.2**
Provisions in lending business Level 1	0.0	0.1	-0.1	0.0	0.0	0.0
Provisions in lending business Level 2	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	**0.0**	**0.1**	**-0.1**	**0.0**	**0.0**	**0.0**
Loan commitments	72.6	-68.9	0.0	0.0	-3.7	0.0
Total off balance sheet	**72.6**	**-68.9**	**0.0**	**0.0**	**-3.7**	**0.0**
Volume of the hedged portfolio	**176.8**	**-96.7**	**0.1**	**0.0**	**-9.9**	**70.2**
Fair value of the credit derivative	**-10.0**	**0.0**	**4.0**	**-0.5**	**0.0**	**-6.5**

Portfolio: Aviation Industries in € million	Opening balance 01.01.2020	Change in portfolio incl. loan loss provisions Consumption 01.01. - 31.12.2020	Fair value changes, loan loss provisions Income statement 01.01. - 31.12.2020	Change in deferred commissions 01.01. - 31.12.2020	Currency translation 01.01. - 31.12.2020	Closing balance 31.12.2020
Financial assets measured at amortised cost - gross carrying amount of loans and advances to customers	7.9	-0.8	0.0	0.0	-0.6	6.5
Loan loss provisions Level 1	0.0	0.0	0.0	0.0	0.0	0.0
Loan loss provisions Level 2	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	**7.9**	**-0.8**	**0.0**	**0.0**	**-0.6**	**6.5**
Provisions in lending business Level 1	0.0	0.0	0.0	0.0	0.0	0.0
Provisions in lending business Level 2	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments	0.0	0.0	0.0	0.0	0.0	0.0
Total off balance sheet	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Volume of the hedged portfolio	**7.9**	**- 0.8**	**0.0**	**0.0**	**-0.6**	**6.5**
Fair value of the credit derivative	**- 0.4**	**0.0**	**0.3**	**0.0**	**0.0**	**- 0.1**

(5) Material impacts of the COVID-19 pandemic on the net assets, financial position and earnings position of NORD/LB CBB

The novel COVID-19 virus developed into a global pandemic during 2020 and is affecting the entire global economy. The Luxembourg financial centre and NORD/LB CBB are also affected by the direct and indirect effects of the pandemic, which are reflected in these financial statements.

Establishment of a management adjustment (MAC-19)

banks to increase their risk provisioning for transactions. Consequently, the COVID-19 pandemic could result in greater volatility with respect to banks' risk provisioning, which is reflected in particular in the net valuation allowance from financial assets not measured at fair value through profit or loss. In application of IFRS 9, the provision for expected credit losses must be recognised in the balance sheet. Among other things, the value of loan collateral must be examined. Credit risk models and forecasts used to estimate these expected credit losses must be adapted to current developments.

Due to the economic uncertainties related to COVID-19, it has become necessary for the NORD/LB Group to establish a management adjustment (MAC-19) that results in an increase in model-based loan loss provisions for loan receivables in impairment levels 1 and 2 in accordance with IFRS 9. The aim of MAC-19 is to factor in the effects of COVID-19 that are expected in the future but not yet realised at present and that are not reflected in the Level 1 and Level 2 modelling in the Bank's risk provisioning for sectors severely affected by the pandemic. Here the focus is on probability-weighted effects from expected rating downgrades.

The result this produced was then limited, for the adjustment, to sectors that are particularly severely affected by the pandemic.

Based on the decision of the NORD/LB Group to establish a management adjustment (MAC-19), NORD/LB CBB has also anticipated and taken into account expected but not yet realised effects from COVID-19 pandemic within loan loss provisions as at 31 December 2020.

For NORD/LB CBB, the amount posted to hedge against the expected effects of the COVID-19 pandemic amounts to € 10.0 million. The key drivers here are the real estate industry with € 2.6 million, logistics with € 1.5 million, the US-municipal portfolio with € 1.8 million and government bonds with € 3.2 million.

Deferrals within the scope of the state moratorium and COVID-19-related forbearance measures

NORD/LB CBB did not grant any deferrals of interest and principal payments within the scope of the state-organised moratorium on consumer loan agreements. Additionally, few individual measures were agreed with regard to the adjustment of contract contents in the lending business. This did not have a significant impact on the earnings position. For further information, please refer to Note ((24) Net valuation allowance from financial instruments not measured at fair value through profit or loss) and Note ((53) Loan loss provisions and gross carrying amount).

Effects of credit spread changes

The COVID-19 pandemic led to a sharp increase in credit spreads in the first quarter of 2020. While the trend was still positive into February, credit spreads rose more sharply as the COVID-19 pandemic broke out in Europe in mid-March. At its peak, the year-to-date effect in the books of NORD/LB CBB amounted to € -44.8 million. This was mainly attributable to the financial assets at amortised cost (€ -30.9 million) and the financial assets at fair value through other comprehensive income (€ -10.8 million). By the end of the first half of the year, credit spreads had narrowed noticeably to € -24.5 million. The positive trend continued unabated in the second half of the year, leaving only a negative effect of € -2.4 million on the books at the end of the year. € -1.2 million of this was attributable to items directly reflected in the income statement, € -1.7 million to items recognised directly in equity and € 0.5 million to items recognised in hidden liabilities/reserves.

The CVA/DVA effects on the Bank's derivatives portfolio resulted in only minor fluctuations in the range of +/- € 200 thousand in the reporting year. At the end of the year, the cumulative effects amounted to € 72 thousand.

Liquidity

There were no negative effects for NORD/LB CBB on funding on the money and capital markets or on its liquidity during the financial year. Both short-term and long-term funding proceeded smoothly, as was evident from the issue of a € 500.0 million 7-year Lettres des Gage publiques in June 2020. The Bank did not have any problems either with regard to the adequate procurement of funding or liquidity throughout the rest of the year.

Participation in longer-term refinancing operations of the European Central Bank

As at 31 December 2020, the liabilities to banks presented in Note ((43) Financial liabilities at amortised cost) still include € 250.0 million from the ECB's special monetary policy measures ("Targeted longer-term refinancing operations III").

With regard to the unconditional special interest rate, the Bank does not believe that this transaction constitutes liabilities with a below market-rate of interest in accordance with IAS 20, since there is no comparable basis for determining whether a transaction is not at arm's length given the specific terms and conditions of the institution-specific loans. Liabilities are therefore recognised and measured in accordance with IFRS 9. In this context, NORD/LB CBB expects that it will not be sufficiently likely to achieve the lending objectives of the TLTRO III programme linked to the additional interest rate advantage provided for above and beyond the unconditional special interest rate. The effective interest rate on liabilities is therefore determined solely according to the unconditional special interest rate and corresponds to the interest rate on variable-rate financial instruments. In the 2020 financial year, interest income from the TLTRO III programme amounted to € 0.7 million.

Effects on real estate

NORD/LB CBB does not see any sustained and significant negative effects as at 31 December 2020 arising from the real estate held for investment. Rental deferrals granted as at the balance sheet date are largely non-existent. Furthermore, no material discounts are currently being seen in the Luxembourg real estate sector, which was confirmed by the update of buildings' fair value. The Bank therefore currently sees no need for an extraordinary impairment loss on property held for investment. For further information, please refer to Note ((38) Investment property).

In addition to this note, reference is made to the disclosures provided in the COVID-19 pandemic section of the management report and in the risk report.

(6) Applicable IFRSs

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 2020 reporting period.

The following amendments to the standards requiring application as at 1 January 2020 were applied by NORD/LB CBB for the first time during the reporting period:

Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform (Phase 1)

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 reference interest rates reform (IBOR reform). Until the reform of the reference interest rates is completed, hedge accounting relief will be granted so hedging relationships do not have to be dissolved as a result of the IBOR reform. The IBOR reform is relevant for the NORD/LB Group and NORD/LB CBB as portfolios affected by the IBOR reform are included in hedge accounting. This particularly impacts NORD/LB CBB with respect to the following product classes: issues, derivatives (interest rate and currency swaps) and lending business.

Due to the reference interest rate reform resolved in the 2020 financial year, NORD/LB CBB took appropriate steps during Phase 1 of the reform to prepare for its full implementation in 2021. This is being done within the scope of an internal bank project and in line with the Group project, which is divided into two sub-projects: Derivatives and Lending Business.

The project has already made more progress with respect to the derivatives business than the lending business. According to the NORD/LB Group, any remaining uncertainties concerning the effects of the conversion of the reference interest rates on the timing and amounts of the affected interest cash flows are expected to be resolved during Phase 2 in 2021.

The Bank expects the IBOR reform to have repercussions on the operations, risk management and accounting of all divisions of NORD/LB CBB. The main risks to which the Group is exposed as a result of the IBOR reform are operational in nature, with examples including renegotiating credit agreements through bilateral negotiations with clients, updating framework agreements, updating contractual terms and conditions, updating systems that use IBOR curves and revising operational controls related to the reform. Financial risk is mainly limited to interest rate risk. If the interest rates of the floating rate transactions or underlying transactions dependent on a reference interest rate (e.g. loans or securities) and their hedging transactions are converted at different times or will in future refer to different interest rates, there is generally a basic risk that differing measurement effects, and therefore also different profit components, may be generated. However, it is expected that the different reference interest rates customary on the markets of a currency zone can be derived from one another and will not offer major arbitrage opportunities, and that valuations should therefore generally move in the same direction.

However, interest rates may be expected to diverge significantly in the short term, particularly on balance sheet dates or after certain market events (e.g. central bank decisions). A comparable interest rate level can only be achieved once the next interest rate determination of the transaction takes place with the more distant determination date. However, as the interest fixing dates are spread over the year due to the large number of hedge relationships, no major deviations are to be expected at portfolio level.

No significant challenges arose with regard to the EURIBOR interest rate. This can continue to be used for existing and new transactions after 1 January 2020 following an adjustment of the calculation methodology in 2019 and the adoption of the calculation and publication by the Belgian European Money Market Institute (EMMI). The Bank assumes that the EURIBOR will continue to exist as a benchmark interest rate in the foreseeable future.

Derivatives business

In the NORD/LB Group, the valuation of collateralised OTC derivatives was adjusted in 2020 in preparation for the replacement of the EONIA (Euro OverNight Index Average) with the €STR (Euro Short-Term Rate) planned at the end of 2021. Adjustment measures have also been introduced to replace the EFFR (Effective Federal Funds Rate) with the SOFR (Secured Overnight Financing Rate). As part of this change in valuation, the discounting of OTC derivatives with both EUR collateral and USD collateral as well as the associated collateral interest rate for the clearing houses LCH SwapClear and EUREX Clearing was adjusted from EONIA to €STR and from EFFR to SOFR, respectively. The resulting valuation adjustments were neutralised by offsetting payments at portfolio level.

Furthermore, adjustment of discounting and interest on collateral for bilateral counterparties was started. Equalisation payments were also agreed here to neutralise the valuation adjustments. The conversion of bilateral counterparties will be completed by the contractual adjustment of the bilateral contracts in 2021. The nominal values of the bilateral contracts amount to € 7.4 billion, of which € 5.6 billion have already been converted in 2020. Non-bilateral contracts have a nominal volume of € 1.9 billion and have already been fully converted. Individual contracts were already terminated in 2020 and new contracts concluded at market conditions in order to adjust these to the new interest rate standard.

The internal OTC interest rate derivatives with EUR and USD as their nominal currencies were also adjusted to the new market standard of the clearing house LCH SwapClear in 2020. Corresponding internal balancing entries were made at portfolio level to neutralise valuation adjustments.

2021 will primarily see the conversion of the variable reference interest rates in the individual transactions. This affects a number of variable reference interest rates, including GBP LIBOR, USD LIBOR, EONIA and EFFR. The Bank already began making corresponding technical and professional arrangements in 2020 to actively prepare for this conversion.

In the second half of 2020, the International Swap and Derivatives Association (ISDA) provided fallbacks for setting interest rates for all derivatives that relate to a reference interest rate to be discontinued after the originally agreed reference interest rate was discontinued. The fallbacks provide for the temporary replacement of the discontinued reference interest rate by an alternative interest rate with the same currency and maturity.

Taking the 3-month GBP LIBOR as an example,the fallback specifies that, after its discontinuation, the interest rate is determined by the 3-month SONIA (Sterling Overnight Index Average), supplemented by a corresponding spread adjustment in the amount of the median of the differences between the two interest rates over the past five years. NORD/LB CBB has agreed with the counterparties concerned on the application of the relevant ISDA fallbacks.

Hedge accounting

The adjustments to the new interest rate standard also affect hedge accounting. NORD/LB engages in micro fair value hedge accounting in EUR and USD. Since the EURIBOR will continue to exist, no adjustments will be made in EUR for the time being. In the case of USD portfolio hedges, on the other hand, the technical implementation does not yet allow transactions with a compounded overnight rate, such as the SOFR, to be taken into account. This possibility will be opened up in 2021 through the replacement of USD LIBOR by a compounded SOFR interest rate plus a premium, which is based on the ISDA IBOR fallback protocol. The Bank did not make use of the option of preventing the dissolution of hedging transactions due to ineffectiveness arising as a result of the IBOR reform, as no ineffectiveness arose in hedges in 2020 that would have resulted in the hedging transaction's mandatory dissolution. The Bank holds derivatives for trading and risk management purposes. Some derivatives held for risk-management purposes are designated in hedging transactions. The interest rate and cross-currency swaps have variable components indexed by various IBORs. In the fourth quarter of 2020, the yield curves of the derivatives were changed accordingly for the valuation to the new reference interest rates. Resulting one-off valuation effects were neutralised by corresponding compensation payments to the counterparty.

The table below shows the total amounts of adjusted bilateral and non-bilateral derivatives (by nominal volume), broken down into trading and hedging derivatives:

Nominal volume in € million	EURIBOR / EONIA		USD LIBOR		GBP LIBOR		JPY LIBOR	
	Volume of contracts converted	Volume with possible “fallback clause"	Volume of contracts converted	Volume with possible “fallback clause"	Volume of contracts converted	Volume with possible “fallback clause"	Volume of contracts converted	Volume with possible “fallback clause"
Trading derivatives	**882.5**	**880,0**	**1,492.7**	**1,269.8**	**1,129.5**	**1,070.1**	**37.9**	**37.9**
Interest rate swaps	892.5	880.0	936.1	729.4	0.0	0.0	0.0	0.0
Currency swaps/interest rate (cross-) currency swaps	0.0	0.0	556.6	540.4	1,129.5	1,070.1	37.9	37.9
Hedging derivatives	**3,377.8**	**2,704.2**	**560.4**	**257.3**	**0.0**	**0.0**	**0.0**	**0.0**
Interest rate swaps	2,963.2	2,362.2	504.6	201.5	0.0	0.0	0.0	0.0
Currency swaps /interest rate (cross-) currency swaps	414.6	378.0	55.8	55.8	0.0	0.0	0.0	0.0
Total	**4,260.3**	**3,584.2**	**2,067.7**	**1,527.1**	**1,129.5**	**1,070.1**	**37.9**	**37.9**

The effects of the IBOR reform on the Bank’s hedge accounting are explained in Note ((10) Hedge accounting) and Note ((26) Profit / loss from hedge accounting). A complete overview of derivatives is presented in Note ((56) Derivative financial instruments).

Allied lending business

Under the leadership of the Group project, a comprehensive portfolio analysis was driven forward in the 2020 financial year to identify credit transactions requiring a contractual adjustment. For NORD/LB CBB, almost 100 per cent of the loans are syndicated loans for which NORD/LB is often the lead or co-lead manager. A uniform customer approach is also ensured through active coordination between the divisions concerned. The steps necessary to legally implement the reform in new lending business will be taken in corresponding contract templates.
Contracts for the existing loan transactions will be converted gradually over the course of 2021.

A total of 443 loan contracts with a carrying amount of € 4,839.8 million are expected to be affected by the conversion.

Adjustments to existing contracts that affect contractual cash flows that are made as part of the Phase 2 implementation from 2021 onward are generally modifications within the meaning of IFRS 9. With regard to the IBOR reform, the IASB has granted the accounting firms mandatory practical relief within the framework of the amendments to standards and permitted the (present value) payment flow change arising from the individual transaction to be offset in the balance sheet by a corresponding adjustment of the effective interest rate in analogous application of IFRS 9 B5.4.5. This relief is explicitly limited to modifications that are directly related to the IBOR reform and for which the change in the reference interest rate takes place on an economically equivalent basis.

Securities

NORD/LB CBB performs ongoing analyses and assessments of the exposure with regard to variable-rate securities. For the time being, there is no need for action in the area of securities issued by NORD/LB CBB. The variable-rate securities are based on EURIBOR and this will continue to be used as a reference interest rate after the calculation method has been adjusted. All variable-rate securities maturing after 2021 are denominated exclusively in EUR/EURIBOR.

With a view to new issues, all issue conditions now include detailed fallbacks, which are to be continuously adapted to the market standard.

Securities purchased by NORD/LB CBB will also be subject to regular analyses and evaluations to determine the extent to which they are affected. In these cases, NORD/LB CBB expects the issuers to communicate and convert these promptly. Due to the discontinuation of the custodian bank function for Nordlux Vermögensmanagement S.A. as of 31 December 2020, no further measures are required with regard to client portfolios.

Amendments to IFRS 16 – Rental concessions related to the COVID-19 pandemic

The IASB published amendments to IFRS 16 in May 2020. It offers lessees temporary optional relief in accounting for rental concessions granted as a direct result of the COVID-19 pandemic.

The relief allows lessees to waive the assessment of whether a lease concession granted due to the COVID-19 pandemic constitutes a contractual modification. A lessee taking advantage of this relief must recognise any change in lease payments resulting from the COVID-19-related rental concession in the same way as it would account for the change under IFRS 16 if it were not a modification to the lease agreement. There is no comparable relief for lessors.

Pursuant to the adoption into European law, the amendments are to be applied no later than 1 June 2020 for financial years beginning on or after 1 January 2020.

The changes have no effect on these financial statements, since the Bank, as the lessee, does not make use of the relief option.

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. This does not have any impact on NORD/LB CBB.

Amendments to references to the framework in IFRS standards

In line with the IASB framework that was amended in 2018, "Amendments to references to the framework in IFRS Standards", which amended the references to the conceptual framework in various standards and interpretations, were published. The amendments, which are applicable as of 1 January 2020, have not had any effect on these financial statements.

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. This does not impact NORD/LB CBB as there are currently no circumstances to which the amendments apply.

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 only after 31 December 2020.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (Phase 2)

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 published in August 2020 are the result of Phase 2 of the IASB IBOR project. The aim of these changes is to mitigate the impact of replacing existing reference interest rates with alternative reference interest rates. In particular, the regulations give practical relief in terms of changes required by the IBOR reform. In addition, balance sheet hedging transactions should be able to continue with adjusted documentation despite the replacement of the reference interest rate. The amendments must be applied to financial years starting on or after 1 January 2021; voluntary early application is permissible subject to EU endorsement.

Please refer to the explanations regarding how to handle and manage the transition to alternative interest rates that were provided in connection with Phase 1.

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

Amendments to IAS 1 – classification of debt by maturity

In January 2020, the IASB issued amendments to IAS 1 regarding the classification of debt by maturity. The mandatory initial application from 2022 was amended by a further publication of the IASB in July 2020 to financial years beginning on or after 1 January 2023. The amendments to IAS 1 clarify the criteria for classifying debt as current or long-term. No material impact on the Bank's financial statements is expected.

Amendments to IFRS 3, IAS 16, IAS 37 and annual improvements to IFRSs (2018-2020 cycle)

In May 2020, the IASB published amendments to IFRS 3, IAS 16 and IAS 37 and the annual improvements to IFRSs (2018-2020 cycle). The annual amendments to IFRSs relate to IFRS 1, IFRS 9, IFRS 16 and IAS 41. Application is mandatory for financial years beginning on or after 1 January 2022. These amendments are not expected to have a significant impact on the financial statements of NORD/LB CBB.

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 was intended to be mandatory retrospectively for financial years beginning on or after 1 January 2021.

In June 2020, the IASB issued amendments and clarifications to IFRS 17 and IFRS 4 that, among other things, defer the date of initial application of IFRS 17 (including its amendments) to financial years beginning on or after 1 January 2023. The fixed expiry date of the temporary exception to IFRS 9 in IFRS 4 was postponed accordingly to the end of the last financial year beginning before 1 January 2023. This will not have any impact on the Bank's annual report, as there are no circumstances to which the amendment applies.

(7) Discretionary decisions, estimates and assumptions

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

a) Fair value of financial instruments

If no active market quotations are available for financial assets or liabilities, the fair value is determined using valuation techniques. The parameters required for this are based as far as possible on observable market data. If such input data are not available, valuation techniques are applied which are based, among other elements, on volatility and market liquidity. Changes to the assumptions regarding these parameters could have an effect on the reported fair value of the financial instruments measured with these methods.
Further information is provided in Note ((10) Financial instruments) and Note ((52) Fair value hierarchy).

b) Loan loss provisions

Under IFRS 9, loan loss 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 ((11) 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. Further information can be found in Note ((16) Provisions for pensions and similar obligations) or Note ((45) Provisions).

(8) 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 2020. 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.

(9) 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. They are 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 ((22)) Net commission income), i.e. to the Bank's service business.

(10) 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) Addition and disposal of financial instruments

A financial asset or liability is recognised in the balance sheet when the Bank becomes a contracting party to the contractual arrangements for the financial instrument. In general the 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 commitment (or a part of one) is derecognised if it has lapsed, i.e. when the commitments stated in the contract have been met, cancelled or expired. The 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 the nominal value or at the redemption amount taking into account the allocation of premiums and discounts at a constant effective interest rate. For financial instruments 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. With regard to sales conducted, please refer to Note ((25) profit/loss on disposal of financial instruments not measured at fair value through profit or loss) and Note ((35) Financial assets at amortised cost).

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 2020, 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 through other comprehensive income
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 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. See Note ((24) Net valuation allowance from financial instruments not measured at fair value through profit or loss and modification) with regard to the modification profit/loss in the year under review.

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 valuation technique, which would be obtained on the basis of an orderly transaction, i.e. a disposal or settlement, on the principal market or the most advantageous market on the measurement date. The measurement on the measurement date is always based on a fictitious, possible market transaction. If there is a principal market, the price on that market represents the fair value regardless of whether the price can be observed directly or is determined on the basis of a valuation technique. This also applies if the price on another market is potentially more advantageous.

Financial instruments recognised at fair value on the balance sheet

NORD/LB CBB applies the three-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.

There was a change in the level allocation of assets and liabilities during the financial year. Further information can be found in Note ((2) Adjustment of the previous year's figures).

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 models 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.

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 2020.

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 mid-market price. The financial instruments particularly impacted by this include securities or liabilities whose fair values are based on prices listed on active markets as well as financial instruments, such as OTC derivatives, whose fair values are determined using a measurement method and for which the mid-market price is an observable input in the measurement method. 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 ((52) 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 the 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 ((26) 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 ((26) Profit / loss from hedge accounting) as well as Note ((36) Positive fair values from hedge accounting derivatives) and Note ((44) Negative fair values from hedge accounting). Effects on hedge accounting that are attributable to the IBOR reform are described in Note ((6) Applicable IFRSs).

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 2020.

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 ((60) Offsetting of financial assets and financial liabilities) regarding 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.

Please refer to Note ((65) Contingent liabilities and other obligations) for information about the loan commitments and financial guarantees issued by NORD/LB CBB.

The guarantees provided by the State of Lower Saxony for certain loan portfolios are not financial guarantees for accounting purposes, but credit derivatives in accordance with IFRS 9. Please refer to Note ((3) Explanation of the balance sheet effects of the guarantee contracts from the support contracts of the NORD/LB Group) and Note ((4) Development of the guarantee portfolio as at 31 December 2020) for more information.

(11) 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. 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. In this context, it is not the contractually agreed interest that is included as interest income, but rather the present value effect determined by compounding the net carrying amount (unwinding).

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.

In the NORD/LB Group, impairment-triggering events are defined based on the regulatory requirements for the definition of default in accordance with the CRR; all loan receivables that are in default accordance with the CRR are therefore allocated to Level 3.

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.

As described in Note ((5) Material impacts of the COVID-19 pandemic on the net assets, financial position and earnings position of NORD/LB CBB), a management adjustment (MAC-19) was established at the level of the NORD/LB Group and therefore also at NORD/LB CBB for performing loans in accordance with IFRS 9 to anticipate expected short- to medium-term effects on loan loss provisions in accordance with IFRS in the 2020 annual financial statements. The objective of MAC-19 is to anticipate and factor in effects of the COVID-19 pandemic that are expected in the future but have not yet arisen.

The adjustment is recognised for financial assets in Level 1 and Level 2.
The adjustment is focused on effects from expected rating downgrades. It is based on COVID-19 stress cases, which in turn are based on the economic forecasts of NORD/LB Group Research and then transformed by experts in the relevant areas of the Bank into rating and loss ratio shifts. Building on that, the NORD/LB Group performed an extensive scenario analysis over the course of the COVID-19 pandemic, which also forms the basis for MAC-19 at NORD/LB CBB.
This led to three possible stress scenarios that take into account several different macroeconomic factors of varying severity (Scenario 1, 2 and 3), which were also assigned changes to the ratings and then multiplied by probabilities of occurrence. Using the changed ratings as the basis for the increase in credit risk, effects for the ratings (in the form of rating changes) on industry levels were adjusted on the basis of the forecasts by the relevant experts at NORD/LB Group. The first scenario depicts a delayed economic recovery in the wake of the pandemic and was assigned a high probability of occurrence of 80 per cent. The second scenario assumes a deeper economic slump and the third scenario depicts the effects of a strong second wave, including a sustained burden on the economy, whereas the probabilities of occurrence were set significantly lower at a total of 20 per cent. The result this produced was then limited, for the adjustment, to sectors that are particularly severely affected by the pandemic. In the Bank, these include in particular the travel industry, the hospitality industry, logistics and air traffic as well as selected state and local authorities,which at NORD/LB CBB includes the US municipal portfolio. The adjustment was applied to the years from 2020 to 2022.

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.

If collateral exists, the PD and LGD of the relevant counterparty in the ECL calculation process will be replaced with the collateral provider's values for the collateralised portion. Possible types of collateral include guarantees (especially by NORD/LB), cash collateral and credit insurance. Real collateral is an exception in this context.

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. Different scenarios consider, for example, the timing and amount of the expected cash flows in the event of certain events (continuation of the exposure or disposal) as well as the estimated probability of occurrence.

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, broken down by Level 1, 2 or 3, and reported as a provision in the lending business.

If, as part of the restructuring or winding-up of an exposure, it is assumed on a case-by-case basis that financial assets can no longer be realised (uncollectible 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 interest income based on the net carrying amount (unwinding) to be recognised for Level 3 financial assets is reported in 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.

Apart from the first-time inclusion of corresponding real collateral in the hotel and shipping industry, no changes were made by the Bank during the financial year to the calculation methods and parameters mentioned above.

Please refer to Note ((53) Loan loss provisions and gross carrying amount) for the presentation of loan loss provisions by stage allocation.

(12) 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 is recorded under current amortisation and depreciation. 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 ((14) Investment property).

(13) Leases

IFRS 16 provides a recognition model for lessees, which requires the recognition of right of use assets and lease liabilities under leases. 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 current amortisation and depreciation, 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, 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 lessor, leases are classified as finance leases or operating leases at the start of the lease. If essentially all risks and rewards incidental to ownership are transferred to the lessee, the lease is classified as a finance lease. If essentially 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 ((64) Leases) for additional information.

(14) 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 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. 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 in current amortisation and depreciation, and impairments and reversals are recognised in 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 applied IAS 40 for the first time on 1 July 2019 due to the expansion of rented office space. According to the NORD/LB CBB area usage plan, as at 31 December 2020 51.9% of the building was used by third parties (previous year: 51.9 per cent).

For the first time on 31 December 2020, NORD/LB CBB recognised the portion of investment property on the property in addition to the portion of the building used by third parties. The allocation is performed using the same approach as used for calculating the share of the building. Please refer to Note ((2) Adjustment of the previous year's figures) for information on the related adjustment of the previous year's figures.

(15) 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. Depreciation and unscheduled amortisation are recorded under current amortisation and depreciation. 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.

(16) 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 ((45) Provisions) for information on provisions for pensions and similar obligations.

(17) 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 is made in a note ((65) 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 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 based, among other things, on assumptions regarding the expected fluctuation.

(18) Income taxes

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

Deferred tax assets and liabilities are calculated based on the difference between the carrying amount of an asset or liability on the balance sheet and the corresponding tax base. The deferred tax assets and liabilities resulting from temporary differences are likely to result in an increase or decrease in income tax expense in future periods. These items were measured based on the tax rates applicable for the period when an asset will be realised or a liability will be settled.

Deferred tax assets are recognised for unused tax losses or unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses or unused tax credits can be applied.

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.

The income tax expenses or income are documented in the profit and loss account under income taxes. The categorisation into current and deferred income tax assets and liabilities for the reporting period can be found in the notes. The current and deferred income tax assets and liabilities are recognised in the balance sheet as assets or liabilities. The carrying amount of any deferred tax assets is tested for recoverability as at every reporting date.

Please refer to Note ((31) Income taxes) for information on the recognition of current or deferred income tax assets and liabilities.

Wealth tax reserves formed are shown under Note ((50) Notes to the statement of changes in equity).

Segment reporting

(19) Segmentation of NORD/LB CBB 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

This segment primarily includes the areas commissioned with managing the Bank (liquidity supply, interest and currency management). The main focus of Financial Markets 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 & Loan Services

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").

Client Services Inhouse

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 Client Services Inhouse 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 asset or liability.

Segments					
in € thousand (01.01.2020 - 31.12.2020 / 01.01.2019 - 31.12.2019) ***	**Financial Markets**	**Loans & Loan Services**	**Client Services Inhouse**	**Bank Manage-ment & Other**	**Total**
Net interest income	**21,002**	**86,842**	**238**	**4,504**	**112,587**
Ditto previous year	*20,240*	*95,187*	*929*	*4,567*	**120,923**
Net commission income	**-1,122**	**-57,995**	**-43**	**0**	**-59,159**
Ditto previous year	*2,968*	*-55,545*	*-548*	*-2*	**-53,127**
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	**-3,031**	**-48**	**0**	**0**	**-3,079**
Ditto previous year	*509*	*227*	*0*	*0*	**736**
Profit/loss from financial instruments at fair value through profit or loss	**-8,911**	**4,307**	**0**	**-13,846**	**-18,450**
Ditto previous year	*-9,776*	*-9,969*	*0*	*-15,228*	**-34,973**
Profit/loss from hedge accounting	**0**	**0**	**0**	**1,925**	**1,925**
Ditto previous year	*0*	*0*	*0*	*6,654*	**6,654**
Profit/loss from foreign exchange	**135**	**0**	**0**	**0**	**135**
Ditto previous year	*-275*	*0*	*0*	*0*	**-275**
Other operating profit/loss	**-2,289**	**35**	**6,217**	**-7,119**	**-3,156**
Ditto previous year	*-2,869*	*-260*	*5,700*	*-10,113*	**-7,542**
Administrative expenses	**-7,640**	**-7,120**	**-4,177**	**-7,175**	**-26,112**
Ditto previous year	*-9,114*	*-8,980*	*-4,264*	*-8,176*	**-30,535**
Reorganisation expenses	**0**	**0**	**0**	**-3,200**	**-3,200**
Ditto previous year	*0*	*0*	*0*	*0*	**0**
Amortisation and depreciation	**-1,151**	**-1,151**	**-2,590**	**-863**	**-5,756**
Ditto previous year	*-1,073*	*-1,057*	*-1,691*	*-962*	**-4,784**
Modification profit/loss	**0**	**404**	**0**	**0**	**404**
Ditto previous year	*0*	*-163*	*0*	*0*	**-163**
Profit/loss from lending provisions	**0**	**3,222**	**31**	**0**	**3,253**
Ditto previous year	*1*	*-2,628*	*17*	*0*	**-2,609**
Profit/loss from loan loss provisions – not measured at fair value through profit or loss	**-3,880**	**-4,311**	**6**	**0**	**-8,185**
Ditto previous year	*3,005*	*2,230*	*1*	*0*	**5,236**
Profit/loss from shares in companies	**0**	**0**	**0**	**0**	**0**
Ditto previous year	*0*	*0*	*0*	*64*	**64**
Earnings before taxes	**-6,886**	**24,184**	**-318**	**-25,774**	**-8,794**
Ditto previous year	*3,617*	*19,041*	*208*	*-23,260*	**-394**
Taxes	**0**	**0**	**0**	**0**	**0**
Ditto previous year	*0*	*0*	*0*	*231*	**231**
Net profit/loss for the financial year	**-6,886**	**24,184**	**-318**	**-25,774**	**-8,794**
Ditto previous year	*3,617*	*19,041*	*208*	*-23,029*	**-163**

Segments					
in € million (01.01.2020 - 31.12.2020 / 01.01.2019 - 31.12.2019)	**Financial Markets**	**Loans & Loan Services**	**Client Services Inhouse**	**Bank Manage-ment & Other**	**Total**
Segment assets	**4,642**	**7,991**	**0**	**100**	**12,734**
Ditto previous year	*5,490*	*9,924*	*29*	*107*	**15,549**
Segment liabilities (including equity)	**11,483**	**537**	**3**	**711**	**12,734**
Ditto previous year	*14,592*	*175*	*62*	*720*	**15,549**
Risk assets (annual average figures)	**764**	**2,157**	**16**	**60**	**2,996**
Ditto previous year (average annual values)	*1,092*	*2,885*	*32*	*71*	**4,081**
Capital commitment (annual average figures)	**64.9**	**183.3**	**1.3**	**5.1**	**254.6**
Ditto previous year (average annual values)	*92.9*	*245.3*	*2.7*	*6.0*	**346.9**
CIR*	**152.0 %**	**25.0 %**	**105.5 %**	**-55.3 %**	**103.5 %**
Ditto previous year	*94.3 %*	*33.9 %*	*97.9 %*	*-64.7 %*	**109.0 %**
RoRaC**	**-10.6 %**	**13.2 %**	**-24.0 %**	**-506.4 %**	**-3.5 %**
Ditto previous year	*3.9 %*	*7.8 %*	*7.7 %*	*-385.8 %*	**-0.1 %**

*) The cost/income ratio (CIR) is calculated by dividing administrative expenses, including depreciation and amortisation but not including provisions for reorganisation measures, by the result of 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 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 / committed capital) (Further information on this pursuant to the requirements set out in CSSF Circular 16/636 is provided on the following page.)

***) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

Supplementary information pursuant to CSSF Circular 16/636:

The **“cost/income ratio”** is a metric used for measuring efficiency.

As at 31 December 2020 and using the same approach as in the previous year, the cost/income ratio was calculated by dividing administrative expenses, including depreciation and amortisation but not including provisions for reorganisation measures, 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.

	31.12.2020	31.12.2019*
Cost/income ratio (in € million)	103.5 %	109.0 %
Administrative expenses incl. depreciation and amortisation but excl. provisions for reorganisation measures	-31.9	-35.3
Net interest income	112.6	120.9
Net commission income	-59.2	-53.1
Profit/loss from financial instruments at fair value	-18.5	-35.0
Profit/loss from foreign exchange	0.1	-0.3
Profit/loss from hedge accounting	1.9	6.7
Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss	-3.1	0.7
Other operating profit/loss	-3.2	-7.5

*) The previous year’s figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year’s figures) for more information.

RoRaC (return on risk-adjusted capital) is a performance indicator adjusted for risk:

	31.12.2020	31.12.2019*
RoRaC	-3.5 %	-0.1 %
Earnings before taxes (in € million)	-8.8	-0.4
Gross RWA (average values) (in € million)	2,995.9	4,080.7
RWA factor in %	8.5	0.1
Committed capital (in € million)	254.6	346.9

*) The previous year’s figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year’s figures) for more information.

The method used to calculate RoRac was changed during the financial year. Under the new method, a period's earnings before tax is divided by the limit for committed capital or committed capital, whichever is higher. Prior to the switch, but taking into account adjustments of the previous year's figures in accordance with Note ((2) Adjustment of the previous year's figures), RoRaC also amounted to -0.1 per cent as at 31 December 2019.
RoA (return on assets) is a key figure for measuring profitability. It is calculated by dividing earnings after taxes by total assets:

	31.12.2020	31.12.2019*
RoA (in € million)	-0.1 %	0.1 %
Earnings after taxes	-8.8	-0.2
Total assets	12,734.0	15,549.3

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

NORD/LB CBB is refraining from making COVID-19-specific adjustments or extensions to the aforementioned indicators at this point, as the Bank does not believe that a change would help improve the informative value or relevance of the information. Please refer to Note ((5) Material impacts of the COVID-19 pandemic on the net assets, financial position and earnings position of NORD/LB CBB), which presents effects that NORD/LB CBB deems relevant.

Additional segment information

in € million	Financial Markets	Loans & Loan Services	Client Services Inhouse	Bank Management & Other	Total
Property and equipment including investment property, net	**0.0**	**0.0**	**0.0**	**63.1**	**63.1**
Ditto previous year	*0.0*	*0.0*	*0.0*	*64.6*	**64.6**
Depreciation on property and equipment including investment property, current year	**0.0**	**0.0**	**0.0**	**-2.5**	**-2.5**
Ditto previous year	*0.0*	*0.0*	*0.0*	*-2.7*	**-2.7**
Intangible assets, net	**0.0**	**0.0**	**0.0**	**27.4**	**27.4**
Ditto previous year	*0.0*	*0.0*	*0.0*	*30.2*	**30.2**
Amortisation on intangible assets, current year	**0.0**	**0.0**	**0.0**	**-3.2**	**-3.2**
Ditto previous year	*0.0*	*0.0*	*0.0*	*-2.1*	**-2.1**
Valuation allowances on financial assets, current year	**-3.9**	**0.0**	**0.0**	**0.0**	**-3.9**
Ditto previous year	*3.0*	*0.0*	*0.0*	*0.0*	**3.0**

(20) Geographic segmentation of NORD/LB CBB

in € million	Germany	Luxem-bourg	Switzer-land	Other Europe	USA	Other America Other	Other coun-tries	Total
	Segments							
Earnings before taxes	**-3.9**	**-0.2**	**-0.1**	**-2.9**	**-1.0**	**-0.3**	**-0.3**	**-8.8**
*Ditto previous year**	*-0.2*	*0.0*	*0.0*	*-0.1*	*0.0*	*0.0*	*0.0*	**-0.4**
Segment assets	**5,716.4**	**315.4**	**99.3**	**4,248.6**	**1,411.3**	**481.8**	**461.2**	**12,734.0**
*Ditto previous year**	*7,329.9*	*445.8*	*198.0*	*4,688.3*	*1,798.6*	*586.0*	*502.6*	**15,549.3**
Segment liabilities (incl. equity)	**7,030.0**	**4,944.7**	**162.3**	**533.5**	**58.5**	**0.0**	**4.9**	**12,734.0**
*Ditto previous year**	*9,958.6*	*4,590.8*	*419.7*	*538.2*	*19.7*	*0.0*	*22.3*	**15,549.3**
Property and equipment including investment property	**0.0**	**63.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**63.1**
Ditto previous year	*0.0*	*64.6*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	**64.6**
Intangible assets	**0.0**	**27.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**27.4**
Ditto previous year	*0.0*	*30.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	**30.2**
Risk-weighted assets (average annual values)	**1,344.8**	**74.2**	**23.4**	**999.5**	**332.0**	**113.4**	**108.5**	**2,995.8**
*Ditto previous year (average annual values)**	*1,923.7*	*117.0*	*52.0*	*1,230.4*	*472.0*	*153.8*	*131.9*	**4,080.7**
Capital commitment (based on average annual figures)	**114.4**	**6.3**	**2.0**	**84.9**	**28.2**	**9.6**	**9.2**	**254.6**
*Ditto previous year (based on average annual figures)**	*163.5*	*9.9*	*4.4*	*104.6*	*40.1*	*13.1*	*11.2*	**346.9**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

Notes to the income statement

(21) 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.

	2020 (in € thousand)	2019 (in € thousand)	Change in %
Interest income from assets	**360,034**	**474,447**	**-24**
Interest income from financial assets at fair value through profit or loss	**33,941**	**54,542**	**-38**
Interest income from trading assets	27,680	47,074	-41
Interest income from trading derivatives	27,669	46,633	-41
Interest income from loans and advances	11	441	-97
Interest income from financial instruments mandatorily at fair value	6,261	7,468	-16
Interest income from debt securities and other fixed-interest securities	6,108	6,918	-12
Interest income from loans and advances	153	550	-72
Interest income from financial assets at fair value through other comprehensive income	**14,210**	**18,461**	**-23**
Interest income from debt securities and other fixed-interest securities	14,210	18,461	-23
Interest income from financial assets at amortised cost	**239,914**	**287,434**	**-17**
Interest income from debt securities and other fixed-interest securities	52,644	62,559	-16
Interest income from loans and advances	187,270	224,875	-17
Interest income from hedging derivatives	**71,920**	**113,941**	**-37**
Other interest income and similar income	**47**	**69**	**-31**

	2020 (in € thousand)	2019 (in € thousand)	Change in %
Interest expenses from liabilities	**-257,011**	**-362,655**	**-29**
Interest expenses from financial liabilities at fair value through profit or loss	**-58,972**	**-101,850**	**-42**
Interest expenses from trading liabilities	-38,398	-80,418	-52
Interest expenses from trading derivatives	-38,398	-80,418	-52
Interest expenses from financial liabilities designated at fair value through profit or loss	-20,574	-21,433	-4
Interest expenses from securitised liabilities	-20,574	-21,433	-4
Interest expenses from financial liabilities at amortised cost	**-114,194**	**-152,877**	**-25**
Interest expenses from deposits	-91,679	-126,641	-28
Interest expenses from securitised liabilities	-22,515	-26,236	-14
Interest expenses from hedging derivatives	**-83,751**	**-107,788**	**-22**
Other interest expenses and similar expenses	**-94**	**-140**	**-33**
Interest rate anomalies	**9,564**	**9,132**	**5**
Interest income from financial liabilities	**17,216**	**18,091**	**-5**
Interest expenses from assets	**-7,652**	**-8,959**	**-15**
Total	**112,587**	**120,923**	**-7**

Net interest income declined by € 8,336 thousand to € 112,587 thousand compared to the previous year, which is largely due to the decrease in interest-bearing assets in the form of loans and fixed-interest securities.

Within receivables, interest income declined by € -38,431 thousand. The low interest rate environment, the reorganisation process at Group level and the associated decline in new lending had a negative impact. Redemptions and maturities that were not fully offset by new business resulted in a steadily declining volume that caused interest income from bonds and other fixed-income securities to fall by € -14,976 thousand. Interest income from derivatives also declined (€ -60,985 thousand). For information on the corresponding balance sheet developments, please refer to Note ((34) Financial assets at fair value through other comprehensive income) and Note ((35) Financial assets at amortised cost).

Interest expenses also declined significantly overall, which is mainly reflected in the expenses from financial liabilities at amortised cost of € -38,683 thousand and interest expenses from derivatives of € -66,057 thousand; the reasons for this are in particular the lower refinancing volume associated with the lower level of interest-bearing assets as well as the lower interest rate level on the capital market. The interest expenses from lease liabilities are included under other interest expenses and similar expenses.

Within the interest rate anomalies, € 2,693 thousand (previous year: € 2,028 thousand) was received from the ECB's special monetary policy measures ("Targeted longer-term refinancing operations II") and ("Targeted longer-term refinancing operations III") during the 2020 financial year.

No interest is recognised within NORD/LB CBB that is not consistent with the effective interest method outlined in Note ((9) 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.

(22) 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.

	2020 (in € thousand)	2019 (in € thousand)	Change (in %)
Commission income	**6,913**	**12,311**	**-44**
Lending and guarantee business	5,449	6,048	-10
Account management and payment transactions	42	106	-60
Security transactions and custody service	1,244	5,918	-79
Other commission income	178	240	-26
Commission expenses	**-66,072**	**-65,438**	**1**
Lending and guarantee business	-25,997	-19,050	36
Account management and payment transactions	-138	-169	-18
Security transactions and custody service	-719	-952	-25
Brokerage business	-38,729	-43,755	-11
Other commission expenses	-489	-1,513	-68
Total	**-59,159**	**-53,127**	**11**

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.

The increase in commission expenses in the lending and guarantee business is mainly due to expenses resulting from a guarantee granted by the State of Lower Saxony in the amount of € 5.9 million and the pandemic-related expansion of the hedged volume in the form of guarantees by NORD/LB. The reduction in brokerage business is primarily due to the decline in the volume of new loans and existing loans.

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:

2020 in € million	Financial Markets	Loans & Loan Services	Client Services Inhouse	Bank Management & Other	Total profit/ loss
Commission income	1.1	5.4	0.4	0.0	6.9

2019 in € million	Financial Markets	Loans & Loan Services	Client Services Inhouse	Bank Management & Other	Total profit/ loss
Commission income	5.6	5.7	1.0	0.0	12.3

Financial Markets

Commission income is generated by Fixed Income Relationship Management & Sales Europe 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. The significant decline is the result of a contract adjustment pertaining to the services to be provided within the NORD/LB Group and thus also the remuneration structure.

Loans & Loan Services

Commission income within the Loans & Loan Services 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.

Client Services Inhouse

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 2020, the Bank would have to allocate earnings of € 262 thousand to subsequent years in accordance with IFRS 15, which corresponds to approximately 3.8 per cent of commission income. This would have amounted to € 355 thousand in the previous year, which is roughly equivalent to 2.9 per cent of commission income. Due to the minor impact on the presentation of net assets and financial performance, the Bank did not recognise any contract assets or liabilities.

(23) Profit/loss from measurement at fair value

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).

	2020 (in € thousand)	2019* (in € thousand)	Change (in %)
Trading profit/loss	**-15,515**	**-24,454**	**-37**
Profit/loss from derivatives	-15,511	-24,470	-37
- Interest-rate risks	-5,845	377	< -100
- Currency risks	-13,973	-15,091	-7
- Credit derivatives	4,307	-9,756	< -100
Profit/loss from loans and advances held for trading	-4	16	< -100
Profit/loss from financial assets mandatorily at fair value through profit or loss	**-2,454**	**6,691**	**< -100**
Profit/loss from debt securities and other fixed-interest securities	-2,320	7,212	< -100
Profit/loss from loans and advances	-134	-520	-74
Profit/loss from financial instruments designated at fair value through profit or loss	**-481**	**-17,210**	**-97**
Profit/loss from securitised liabilities	-481	-17,210	-97
Total	**-18,450**	**-34,973**	**-47**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

The profit/loss from measurement at fair value continues to be clearly negative, but has improved by € 16,523 thousand during the 2020 financial year.

The negative trading profit/loss is largely driven by negative temporary measurement effects of € 17,957 thousand (previous year: € 9,028 thousand), which are attributable to basis spread effects on cross currency swaps.

This was partially offset by a valuation result of € 4,307 thousand (previous year: € -9,756 thousand) from the credit derivative received from the State of Lower Saxony to hedge the risk of loss on certain ship and aircraft financing portfolios. The positive development of the fair value is mainly attributable to a deterioration in credit ratings as well as the pandemic-driven widening of general credit spreads and the associated increase in credit default risk.

Furthermore, payments made during the financial year significantly reduced future guarantee commission payments as of the balance sheet date, which also has a positive effect on the valuation of the derivative.

This was additionally offset by a substantial reduction in the portfolio, particularly within open-ended loan commitments. This was largely due to repayments and the external transfer of parts of the portfolio. Please also refer to Note ((3) Explanation of the balance sheet effects of the guarantee contracts from the support contracts of the NORD/LB Group) and Note ((4) Development of the guarantee portfolio as at 31 December 2020) for more information.

The negative result from financial assets mandatorily at fair value through profit or loss is mainly attributable to interest rate changes in EUR.

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

	2020 (in € thousand)	2019 (in € thousand)	Change (in %)
Loan loss provisions for financial assets at fair value through other comprehensive income	**-56**	**15**	**< -100**
Income from reversal of loan loss provisions for			
Debt securities and other fixed-interest securities	20	21	-8
Expenses from allocations of loan loss provisions for			
Debt securities and other fixed-interest securities	-76	-6	> 100
Loan loss provisions from financial assets at amortised cost	**-8,129**	**3,430**	**< -100**
Income from reversal of loan loss provisions for			
Debt securities and other fixed-interest securities	2,118	2,993	-29
Loans and advances	1,479	2,093	-29
Expenses from allocations of loan loss provisions for			
Debt securities and other fixed-interest securities	-5,946	-4	> 100
Loans and advances	-5,780	-1,652	> 100
Allocations to and reversals of provisions in the lending business	**3,253**	**-2,609**	**< -100**
Additions to receivables written off	**0**	**1,791**	**-100**
Modification profit/loss	**404**	**-163**	**< -100**
Total	**-4,529**	**2,464**	**< -100**

Changes in loan loss provisions resulted in a loss of € -4,933 thousand (previous year: € +2,627 thousand).

Increased risk provisioning requirements were identified in particular for one exposure in the hotel sector and exposures in shipping. Further effects result mainly from increases in loan loss provisions of € 9,968 thousand driven by the COVID-19 pandemic on exposures of particularly hard-hit industries, sectors and countries, mainly companies in the logistics sector (€ 1,488 thousand) in the field of port and airport operations, companies in the hotel industry (€ 2,623 thousand) as well as government bonds and local authorities (€ 5,003 thousand). Offsetting effects mainly resulted from the reversal of a provision in the amount of € 3,041 due to the derecognition of a loan commitment.

The net modification gain or loss results from receivables measured at amortised cost and

amounts to € 404 thousand (previous year: € -163 thousand); 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 € 43.3 million (previous year: € 22.5 million). No additions were made to receivables written off during the financial year (previous year: € 1,791 thousand).

For further information on the changes in loan loss provisions, please refer to Note ((53) Loan loss provisions and gross carrying amount)).

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

	2020 (in € thousand)	2019 (in € thousand)	Change (in %)
Profit/loss from the disposal of financial assets at amortised cost			
Profit/loss from the disposal of			
Loans and advances	-48	227	< -100
debt securities and other fixed-interest securities	-3,031	509	< -100
Total	**-3,079**	**736**	**< -100**

A loss of € -3,079 thousand (previous year: profit of € 736 thousand) was generated from the disposal of financial assets during the year under review. The disposal, which was attributable to a Group-wide redimensioning, related to a debt security with a nominal volume of € 40.0 million (previous year: € 212.5 million).

(26) 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 ((10) Financial instruments). Hedged underlying transactions include loans and advances or liabilities to banks and customers, financial assets and own issues.

	2020 (in € thousand)	2019 (in € thousand)	Change (in %)
Profit/loss from micro fair value hedges			
from hedged underlying transactions	-25,704	-14,413	78
from derivatives employed as hedging instruments	27,629	21,067	31
Total	**1,925**	**6,654**	**-71**

The profit/loss from hedge accounting is more balanced than in 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 using derivatives also takes place 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, LIBOR or IBOR) 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, LIBOR or IBOR) 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 (in € million) 31.12.2020	Average Interest rates (in %) 31.12.2020	Nominal (in € million) 31.12.2019	Average Interest rates (in %) 31.12.2019
Financial assets at fair value through other comprehensive income				
Underlying transactions	344.0	0.96	505.0	1.18
Hedging investments	344.0	0.96	505.0	1.18
Financial assets at amortised cost				
Underlying transactions	1,357.7	4.67	1,323.6	5.37
Hedging investments	1,371.3	4.33	1,337.2	5.35
Financial liabilities at amortised cost				
Underlying transactions	2,686.7	1.47	1,984.7	1.96
Hedging investments	2,686.7	1.38	1,984.7	1.96

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 (in € million) 31.12.2020	Average Interest rates (in %) 31.12.2020	Nominal (in € million) 31.12.2019	Average Interest rates (in %) 31.12.2019
Financial assets at fair value through other comprehensive income				
Underlying transactions	33.3	1.88	51.6	2.01
Hedging investments	33.3	1.88	51.6	2.01
Financial assets at amortised cost				
Underlying transactions	288.8	3.27	334.0	3.80
Hedging investments	288.8	3.06	334.0	3.57
Financial liabilities at amortised cost				
Underlying transactions	208.3	4.71	208.3	4.96
Hedging investments	208.3	4.71	208.3	4.96

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:

	2020 (in € million)	2019 (in € million)	Change (in %)
Financial assets at fair value through other comprehensive income	**-0.1**	**-0.2**	**-50**
Underlying transactions	9.4	10.3	-9
Hedging investments	-9.5	-10.5	-10
Financial assets at amortised cost	**-5.0**	**-4.8**	**4**
Underlying transactions	336.5	303.3	11
Hedging investments	-341.5	-308.0	11
Financial liabilities at amortised cost	**10.0**	**10.6**	**-6**
Underlying transactions	-392.8	-313.9	25
Hedging investments	402.8	324.5	24
Total	**4.9**	**5.7**	**-14**

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.

(27) Profit/loss from foreign exchange

The profit/loss from foreign exchange improved by € 411 thousand to € 135 thousand and remains nearly balanced.

(28) Administrative expenses

Administrative expenses comprise staff expenses and other administrative expenses:

	2020 (in € thousand)	2019 (in € thousand)	Change (in %)
Staff expenses	**-18,864**	**-17,231**	**9**
Wages and salaries	-13,183	-14,678	-10
Social insurance contributions	-1,405	-1,397	1
Expenditure on pension schemes and other benefits	-1,017	-1,021	0
Other staff expenses	-3,260	-135	> 100
Other administrative expenses	**-10,447**	**-13,304**	**-21**
Costs for IT and communications	-6,082	-7,977	-24
Building occupancy costs	-501	-677	-26
Expenses for marketing, communications and entertainment	-82	-165	-51
Personnel-related material expenses	-164	-282	-42
Costs for legal, auditing, appraisal and consulting services	-1,581	-1,823	-13
Levies and contributions	-508	-521	-3
Expenses for operating and office equipment	-13	-71	-82
Other administrative expenses	-1,516	-1,788	-15
Total	**-29,312**	**-30,535**	**-4**

Administrative expenses fell by € 1,223 thousand in 2020. The reduction is mainly attributable to a decrease in costs for IT and communication (€ 1,894 thousand) and wages and salaries (€ 1,495 thousand). This is offset by the creation of provisions for reorganisation measures within other staff expenses of € 3,200 thousand.

(29) Current amortisation and depreciation

	2020 (in € thousand)	2019 (in € thousand)	Change (in %)
Property and equipment	-2,208	-2,493	-11
Intangible assets	-3,241	-2,136	52
Investment property	-307	-154	> 100
Total	**-5,756**	**-4,784**	**20**

All the above items result from ordinary depreciation. In reporting year 2020, 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.

Please refer to Note ((37) Property and equipment), Note ((38) Investment property) and Note ((39) Intangible assets) for further information.

(30) Other operating income

	2020 (in € thousand)	2019 (in € thousand)	Change (in %)
Other operating income	**11,483**	**5,822**	**97**
Rental income	718	755	-5
Income from intra-Group service charging	5,606	5,053	11
Other operating income	5,159	14	> 100
Other operating expenses	**-14,639**	**-13,364**	**10**
Expenses from the bank levy	-7,161	-6,137	17
Expenses from investment property	-321	-94	> 100
Other taxes	-2,276	-2,156	6
Expenses from intra-Group service charging	-4,864	-4,548	7
Other operating expenses	-17	-429	-96
Total	**-3,156**	**-7,542**	**-58**

Other operating profit/loss improved by € 4,386 thousand during the 2020 financial year, which is mainly due to the increase in other operating income in the form of results-independent tax refunds from other periods of € 3,918 thousand (previous year: € 0 thousand) and reimbursements from internal service charging of € 968 thousand (previous year: € 0 thousand).
Income and expenses from intra-Group service charging relate to services received and provided and are at a largely constant level.
Other taxes mainly result from the wealth tax due for the 2020 financial year of € 2,250 thousand (previous year: € 2,130 thousand).

Rental income from investment properties remained essentially constant. Rental deferrals granted as at the balance sheet date are temporary in nature and have only been granted to a limited extent. Please refer to Note ((5) Material impacts of the COVID-19 pandemic on the net assets, financial position and earnings position of NORD/LB CBB) on the annual report of NORD/LB CBB) and Note ((38) Investment property) for further information.

(31) Income taxes

	2020 (in € thousand)	2019* (in € thousand)	Change (in %
Current taxes on income and earnings	0	231	-100
Deferred taxes	0	0	-
Total	**0**	**231**	**-100**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

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:

	2020 (in € thousand)		2019* (in € thousand)	
IFRS earnings before taxes		**-8,794**		**-394**
Anticipated income tax expenditure	24.9%	2,193	24.9%	98
Effects of reconciliation:				
Taxes from previous years reported in the reporting period	0.0%	0	-96.2%	379
Non-deductible operational expenditure	-6.5%	-574	137.1%	-541
Effects of tax-free earnings	0.0%	2	-0.4%	2
Adjustments from foreign imputable withholding tax	0.0%	0	-66.1%	261
Other effects	0.0%	0	-8.1%	32
Less non-recognition of income taxes in accordance with IAS 12	-18.4%	-1,621	0.0 %	0
Reported income tax expenses	**0.0%**	**0**	**-58.7%**	**231**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

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: 24.94 per cent) applicable in Luxembourg in 2020.

No income tax is payable due to the net loss for reported for 2020. Due to the current lack of certainty regarding the future generation of sufficient taxable income, no deferred tax assets are recognised in the financial statements prepared in accordance with IAS 12.

Notes to the balance sheet

(32) Cash reserve

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Balances with the central banks	82.3	11.6	> 100
Total	**82.3**	**11.6**	**> 100**

Balances with central banks totalled € 81.7 million (previous year: € 2.5 million) at the Luxembourg Central Bank (€ 10.3 million of this amount (previous year: € 9.0 million) relates to the minimum reserve requirement) and € 0.5 million (previous year: € 9.0 million) at the Swiss National Bank.

(33) 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.

	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in %)
Trading assets	**170.7**	**123.3**	**38**
Positive fair values from derivatives			
Interest-rate risks	75.3	61.2	23
Currency risks	95.4	57.9	65
Credit risk	0.0	0.0	-
Loans and advances to customers	0.0	4.2	-100
Financial assets mandatorily at fair value through profit or loss	**740.0**	**822.2**	**-10**
Debt securities and other fixed-interest securities	737.2	815.3	-10
Loans and advances to banks	2.8	6.9	-60
Total	**910.6**	**945.5**	**-4**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

As at 31 December 2020, the Bank had no equity instruments or any assets designated at fair value through profit or loss.

€ 737.2 million of the debt securities and other fixed-interest securities at fair value through profit or loss (previous year: € 815.3 million) are listed. The reduction is largely due to assets with a nominal value of € 76.0 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 ((63) Longer-term assets and liabilities) for the maturity of assets.

(34) Financial assets at fair value through other comprehensive income

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Debt securities and other fixed-interest securities	1,590.0	1,939.4	-18
Total	**1,590.0**	**1,939.4**	**-18**

The decline in financial assets at fair value through other comprehensive income was largely due to maturities and repayments that were not fully made up by new business.
Of bonds and other financial securities, € 1,590.0 million (previous year: € 1,939.4 million) are listed. Please refer to Note ((63) 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) are presented in Note ((53) Loan loss provisions and gross carrying amount).

(35) Financial assets at amortised cost

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Debt securities and other fixed-interest securities	1,345.0	1,547.5	-13
Loans and advances to banks	338.5	732.1	-54
Loans and advances to customers	7,996.3	9,953.6	-20
Total	**9,679.8**	**12,233.1**	**-21**

The decline in debt securities and other fixed-interest securities and other fixed-interest securities at amortised cost is mostly due to maturities and repayments that were not fully made up by new business. Furthermore, one sale was conducted during the financial year in connection with a Group-wide redimensioning. As explained in Note ((10) Financial instruments), the transaction is material in scale but very irregular, so the sale is consistent with the corresponding “hold” business model. The disposal, which was attributable to a Group-wide redimensioning, related to a debt security with a nominal volume of € 40.0 million (previous year: € 212.5 million). Please refer to Note ((25) Net profit/loss on disposal from financial instruments not measured at fair value through profit or loss) for information regarding the effects on the income statement. Of bonds and other financial securities, € 1,345.0 million (previous year: € 1,547.5 million) are listed. Maturities of assets are presented in Note ((63) Longer-term assets and liabilities).

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

Within loans and advances to customers, the lending business not eligible for cover pooling decreased by € -2,033.7 million during the 2020 financial year and the volume of receivables purchased that are not eligible for cover pooling declined by € -348.5 million. The amount of business eligible for cover pooling rose slightly by € 76.4 million. The decrease in the portfolio is largely attributable to repayments, maturities, the current reorganisation process at Group level and the associated decline in new lending.

Note ((53) Loan loss provisions and gross carrying amount) presents the changes to loan loss provisions in this item.

As in the previous year, there were no reclassifications during the year under review.

(36) 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.

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Derivatives under micro fair value hedges	370.5	312.9	18
of which: derivatives under micro fair value hedges from interest-rate risks	*345.9*	*288.8*	*20*
of which: derivatives under micro fair value hedges from interest-rate/currency risks	*24.5*	*24.1*	*2*
Total	**370.5**	**312.9**	**18**

Maturities of assets are presented in Note ((63) Longer-term assets and liabilities). Please refer to Note ((26) Profit/loss from hedge accounting) for further details on hedge accounting and the profit/loss from hedge accounting.

(37) Property and equipment

	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in %)
Land and buildings	28.9	29.2	-1
Operating and office equipment	1.3	2.1	-37
Right of use assets from leasing	1.6	1.8	-9
Total	**31.9**	**33.1**	**-4**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information

The historical cost of the Bank's own buildings amounted to € 66.6 million, which includes a share of property worth € 23.0 million.

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

in € million	Land and buildings	Operating and office equipment	Right of use assets from leasing	Total	Investment property
Cost as at 01.01.2019	**66.6**	**11.6**	**2.8**	**80.9**	**0.0**
Additions	0.0	0.3	0.1	0.4	0.0
Disposals	0.0	-1.9	0.0	-1.9	0.0
Transfers	-34.5	0.0	0.0	-34.5	34.5
Totals 31.12.2019*	**32.0**	**10.0**	**2.8**	**44.8**	**34.5**
Accumulated depreciation/amortisation as at 01.01.2019	**-5.2**	**-8.8**	**0.0**	**-14.0**	**0.0**
Depreciation	-0.4	-1.0	-1.0	-2.5	-0.2
Transfers	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	**29.2**	**2.1**	**1.8**	**33.1**	**31.5**
Cost as at 01.01.2020	**32.0**	**10.0**	**2.8**	**44.8**	**34.5**
Additions	**0.0**	**0.1**	**1.9**	**1.9**	**0.0**
Disposals	0.0	-0.1	-2.0	-2.1	0.0
Transfers	0.0	0.0	0.0	0.0	0.0
Totals 31.12.2020	**32.0**	**10.0**	**2.7**	**44.6**	**34.5**
Accumulated depreciation/amortisation as at 01.01.2020	**-2.8**	**-7.9**	**-1.0**	**-11.7**	**-3.0**
Depreciation	-0.3	-0.9	-1.0	-2.2	-0.3
Impairments (non-scheduled)	0.0	0.0	0.0	0.0	0.0
Transfers	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.1	1.0	1.1	0.0
Totals 31.12.2020	**-3.1**	**-8.6**	**-1.0**	**-12.8**	**-3.3**
Closing balance as at 31.12.2020	**28.9**	**1.3**	**1.6**	**31.9**	**31.2**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

The imputed land share of land attributable to investment property is accounted for in Note ((38) Investment property). See also Note ((38) Investment property) and Note ((2) Adjustment of the previous year’s figures). The building and land owned by NORD/LB CBB has a slightly higher, positive market value of € 66.5 million (previous year: € 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 includes the portions of the building used by third parties and by the Bank itself, including the land. The owner-occupied portion accounts for € 32.0 million, which includes € 11.2 million for the land. Accordingly, the portion used by third parties has a market value of € 34.5 million, divided into buildings valued at € 22.4 million and land valued at € 12.1 million.
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.

(38) Investment property

	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in %)
Investment property and land	31.2	31.5	-1
Total	**31.2**	**31.5**	**-1**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

Following the initial recognition of the building as an investment property as at 31 December 2019, the Bank also defined the imputed share of the land used by third parties as investment property during the financial year. Please refer to Note ((37) Property and equipment) for information on recognition, transfers and other changes in cost and accumulated depreciation. Please also refer to Note ((2) Adjustment of the previous year's figures) for information on the adjustment of the previous year's figures. Information on market value is also provided in this Note.

The profit/loss on investment property is as follows:

	2020 (in € thousand)	2019 (in € thousand)	Change (in %)
Rental income	718	378	90
Direct operating expenses	-321	-94	100
Current amortisation and depreciation	-307	-154	> 100
Total	**90**	**130**	**-31**

(39) Intangible assets

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Software	27.2	25.6	6
Purchased	27.2	25.6	6
Payments on account and intangible assets under development	0.2	4.6	-96
Total	**27.4**	**30.2**	**-9**

NORD/LB CBB continues to use software that has been fully amortised. The assets presented above underwent impairment testing pursuant to IAS 36 and were found to be recoverable.

The development of intangible assets is as follows:

in € million	Purchased software	Payments on account and intangible assets under development	Total
Cost as at 01.01.2019	**31.8**	**15.9**	**47.7**
Additions	0.4	5.2	**5.6**
Disposals	-3.7	-0.2	**-3.9**
Reclassifications	16.3	-16.3	**0.0**
Totals 31.12.2019	**44.8**	**4.6**	**49.4**
Accumulated depreciation/ amortisation as at 01.01.2019	**-20.7**	**0.0**	**-20.7**
Amortisation	-2.1	0.0	**-2.1**
Impairments (non-scheduled)	0.0	0.0	**0.0**
Disposals	3.7	0.0	**3.7**
Totals 31.12.2019	**-19.2**	**0.0**	**-19.2**
Closing balance as at 31.12.2019	**25.6**	**4.6**	**30.2**
Cost as at 01.01.2020	**44.8**	**4.6**	**49.4**
Additions	0.1	0.3	**0.4**
Disposals	0.0	0.0	**0.0**
Reclassifications	4.8	-4.8	**0.0**
Totals 31.12.2020	**49.6**	**0.2**	**49.8**
Accumulated depreciation/amortisation as at 01.01.2020	**-19.2**	**0.0**	**-19.2**
Amortisation	-3.2	0.0	**-3.2**
Impairments (non-scheduled)	0.0	0.0	**0.0**
Disposals	0.0	0.0	**0.0**
Totals 31.12.2020	**-22.4**	**0.0**	**-22.4**
Closing balance as at 31.12.2020	**27.2**	**0.2**	**27.4**

As at 31 December 2020, intangible assets included € 7.6 million for FINCUBE and € 3.2 million for Avaloq. The planned residual useful life depends on the modules capitalised and varies between 3 and 15 years. The core IT project “Helios” accounted for € 12.3 million at the reporting date. All assets underwent impairment testing pursuant to IAS 36 and were found to be recoverable.

Accordingly, as in the previous year, no impairment losses were recognised in 2020. Expected cash flows remained constant during 2020, 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.

(40) Income tax assets

The income tax assets are broken down as follows:

	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in %)
Current income tax assets	7.9	5.6	40
Deferred tax assets	1.0	1.3	-22
Total	**8.8**	**6.9**	**29**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

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:

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Assets	**0.0**	**0.0**	**-**
Liabilities	**1.0**	**1.3**	**-22**
Provisions	0.6	0.6	-4
Financial liabilities designated at fair value through profit or loss	0.4	0.6	-40
Total	**1.0**	**1.3**	**-22**

Please refer to Note ((50) Notes to the statement of changes in equity) for fair value changes.

(41) Other assets

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Tax assets from other taxes	0.6	0.2	> 100
Deferred income	0.8	0.6	42
Receivables from intra-Group service charging	0.0	2.0	-100
Other assets	0.0	2.3	-99
Total	**1.5**	**5.1**	**-70**

(42) 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.

	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in %)
Trading liabilities	**87.7**	**131.6**	**-33**
Negative fair values from derivatives			
Interest-rate risks	48.3	62.8	-23
Currency risks	32.7	58.4	-44
Credit risk	6.7	10.4	-36
Financial liabilities designated at fair value through profit or loss	**1,359.6**	**1,560.1**	**-13**
Securitised liabilities	1,359.6	1,560.1	-13
Total	**1,447.3**	**1,691.7**	**-14**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

Please refer to Note ((58) Residual terms of financial assets and liabilities) and Note ((63) Longer-term assets and liabilities) for information on the maturities of liabilities.

The fair value from credit risk derivatives within trading derivatives is entirely attributable to the recognition of the guarantee contracts from the State of Lower Saxony. In this context, please refer to Note ((3) Explanation of the balance sheet effects of the guarantee contracts from the support contract of the NORD/LB Group) and Note ((4) Development of the guarantee portfolio as at 31 December 2020). Please also refer to Note ((2) Adjustment of the previous year's figures).

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). In this context, please refer to Note ((49) Notes to the statement of comprehensive income). The aforementioned values were not transferred within the equity items.

Apart from a maturity during the year under review, there was no derecognition of any financial liability designated at fair value through profit or loss in the reporting year, as in the previous year.
The carrying amount of the financial liability at fair value through profit or loss is € 15.2 million (previous year: € 15.5 million) higher than the amount that the company would contractually have to pay to the creditor of the liability on maturity.

(43) Financial liabilities at amortised cost

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Deposits	**6,105.0**	**8,737.5**	**-30**
Deposits of banks	3,490.7	6,105.8	-43
Deposits of customers	2,614.3	2,631.7	-1
Securitised liabilities	**3,973.1**	**3,907.8**	**2**
Pfandbriefe	2,093.3	1,794.4	17
Other securitised liabilities	1,879.8	2,113.4	-11
Total	**10,078.1**	**12,645.3**	**-20**

The increase within the Pfandbriefe resulted from the issues of two Lettres de Gage in the amount of € 300.0 million and € 500.0 million during the financial year, whereby this was offset by maturities during the year. The reduction in deposits from financial institutions is due in particular to short-term deposits on the capital market. Please refer to Note ((58) Residual terms of financial assets and liabilities) and Note ((63) Longer-term assets and liabilities) for information on the maturities of liabilities.

(44) 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.

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Derivatives under micro fair value hedges	491.0	480.2	2
of which: derivatives under micro fair value hedges from interest-rate risks	*401.4*	*383.3*	*5*
of which: derivatives under micro fair value hedges from interest-rate/currency risks	*89.6*	*97.0*	*-8*
Total	**491.0**	**480.2**	**2**

Please refer to Note ((58) Residual terms of financial assets and liabilities) and Note ((63) Longer-term assets and liabilities) for information on the maturities of liabilities.

Please refer to Note ((26) Profit/loss from hedge accounting) for further details on hedge accounting and the profit/loss from hedge accounting.

(45) Provisions

Provisions are broken down as follows:

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Provisions for pensions and similar obligations	**3.8**	**3.9**	**-2**
Other provisions	**4.7**	**7.8**	**-40**
Provisions for staff	0.5	0.5	-1
Provisions in lending business	0.3	3.5	-93
Provisions for reorganisation measures	4.0	3.7	8
Other provisions	0.0	0.1	-100
Total	**8.5**	**11.6**	**-27**

Provisions for reorganisation measures mainly relate to obligations towards employees in connection with a current multi-stage restructuring project. Payments were made in 2020 and are expected to continue until 2023. Refer to Note (17) 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, other 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 1.1.2020	**3.9**	**0.5**	**3.7**	**3.5**	**0.1**
Additional provisions, including increase of existing provisions	0.0	0.2	3.2	0.1	0.0
(-) amounts used	0.0	-0.1	-2.9	0.0	-0.1
(-) amounts not used which were reversed during the reporting period	0.0	0.0	0.0	-3.4	0.0
Increase in amount discounted during reporting period and impacts of changes to discount rate	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	0.0	0.0	0.0	0.0
Closing balance as at 31.12.2020	**3.8**	**0.5**	**4.0**	**0.3**	**0.0**

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 2021 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	31.12.2020 (in %)	31.12.2019 (in %)	Change (in %)
Annual salary development	1.0	1.0	0.0
Annual inflation rate	2.5	2.5	-
Annual increase in the BBG (cost-of-living index included)	3.2	3.2	0.0
Discount rate	1.2	1.5	-20.0
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	1.2	1.5	-20.0
Turnover rate	2.0	2.0	0.0

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

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Present value of the defined benefit obligation	6.8	6.6	4
Less fair value of plan assets	-3.7	-3.4	10
Other amounts recognised in the balance sheet (flat-rate tax)	0.7	0.7	-2
Negative balance (net indebtedness)	**3.8**	**3.9**	**-2**

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

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Opening balance 01.01.	**6.6**	**6.0**	**9**
Current service cost	0.3	0.3	9
Interest expense	0.1	0.1	-15
Actuarial gains/losses from the liability	0.0	0.3	> 100
Retirement benefits paid	-0.1	-0.1	-22
Closing balance 31.12.	**6.8**	**6.6**	4

The defined benefit obligation as at the reporting date must also be divided into amounts from defined benefit plans which are not financed by a fund and amounts from defined benefit plans which are financed in whole or in part from a fund. The latter applies to the defined benefit obligation of NORD/LB CBB. According to information from the insurance company, adjustments made on the basis of experience to the development of plan liabilities and plan assets amount to € -341 thousand (previous year: € -291 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 rates	-0.4	0.4
Wages	0.3	-0.3

The fair value of plan assets developed as follows:

	2020 (in € million)	2019 (in € million)	Change (in %)
Opening balance 01.01.	**3.4**	**3.3**	**3**
Expected return on plan assets	0.0	0.1	-15
Actuarial gains/ losses on plan assets	0.1	0.0	> 100
Employer contributions	0.3	0.2	84
Retirement benefits paid	-0.1	-0.1	-22
Closing balance 31.12.	**3.7**	**3.4**	**10**

The fair value of plan assets comprises the following:

	31.12.2020 (in %)	31.12.2019 (in %)	Change (in %)
Equity instruments	**2.5**	**2.6**	**15**
Of which: active market	*2.5*	*2.6*	*15*
Of which: non-active market	*0*	*0*	*0*
Debt instruments	**86.7**	**87.1**	**-2**
Of which: active market	*86.7*	*87.1*	*-2*
Of which: non-active market	*0*	*0*	*0*
Real estate	**4.6**	**4.6**	**-2**
Of which: active market	*4.6*	*4.6*	*-2*
Of which: non-active market	*0*	*0*	*0*
Other assets	**6.3**	**5.7**	**29**
Of which: active market	*0*	*0*	*0*
Of which: non-active market	*6.3*	*5.7*	*29*

The fair value of plan assets includes equity instruments amounting to € 91 thousand (previous year: € 87 thousand), debt instruments amounting to € 3,206 thousand (previous year: € 2,936 thousand), real estate amounting to € 169 thousand (previous year: € 155 thousand) and other assets amounting to € 233 thousand (previous year: € 193 thousand). Other assets mainly consist of senior secured receivables and bank balances.

The total anticipated return of 1.2 per cent results from the weighted average of the anticipated income from investment categories held by the plan assets. The total payments to the plan assets of the defined benefit obligations during the next reporting period are expected to amount to € 45 thousand (previous year: € 53 thousand).

The pension expense is as follows:

	2020 (in € thousand)	2019 (in € thousand)	Change (in %)
Current service cost	**333**	**305**	**9**
Interest expense	81	95	-15
Expected return on plan assets	-45	-53	-15
Employer contributions to plan assets	-328	-178	84
Actuarial effects not recognised in profit or loss	-99	271	> 100
Total	**-59**	**440**	**> 100**

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

	31.12.2020 (in € million)	31.12.2019 (in € million)
Defined benefit obligation (DBO)	6.8	6.6
Plan assets	-3.7	-3.4
Deficit	3.1	3.2
Actuarial gains/losses	-0.1	0.3
Adjustments made on the basis of experience to:		
Defined benefit obligations (DBO) and plan assets	-0.3	-0.3

(46) Income tax liabilities

The income tax liabilities are broken down as follows:

	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in %)
Current income tax liabilities	4.8	4.8	0
Deferred income tax liabilities	9.9	10.6	-7
Total	**14.7**	**15.5**	**-5**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

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 ((31) Income taxes) for further information.

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

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Assets	**9.9**	**10.6**	**-7**
Financial assets at fair value directly in equity	9.9	10.6	-7
Total	**9.9**	**10.6**	**-7**

(47) Other liabilities

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Liabilities from short-term employee remuneration	1.0	1.3	-19
Liabilities from accruals and other provisions	3.7	3.9	-5
Liabilities from payable taxes and social insurance contributions	8.0	7.1	13
Deferred income	0.9	1.2	-31
Liabilities from leases	1.7	1.8	-7
Other liabilities	0.8	1.1	-27
Total	**16.1**	**16.4**	**-2**

Liabilities from short-term employee remuneration largely comprise residual holiday entitlements. Liabilities from accruals and other provisions include agreements of € 2.4 million that were already contracted in the course of the multi-stage reorganisation project currently being implemented.

(48) Equity

Breakdown of equity:

	31.12.2020 (in € million)	31.12.2019* (in € million)	Change (in %)
Issued capital	**205.0**	**205.0**	**0**
Retained earnings	**446.6**	**455.4**	**-2**
Other comprehensive income (OCI)	**26.8**	**28.2**	**-5**
Of which: Other comprehensive income that will be reclassified to the income statement in subsequent periods			
Assets at fair value directly in equity	29.7	31.9	-7
Of which: Other comprehensive income that will not be reclassified to the income statement in subsequent periods			
Own credit-risk adjustment (OCA)	-1.1	-1.9	-40
Revaluation of net liability from pensions	-1.8	-1.9	-4
Total	**678.3**	**688.5**	**-1**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

Other disclosures

(49) 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 2020	Income tax effect 2020	Amount after taxes 2020	Amount before taxes 2019	Income tax effect 2019	Amount after taxes 2019
Other comprehensive income that will be reclassified to the income statement in subsequent periods						
Changes in financial assets at fair through other comprehensive income	-2,999	748	-2,251	7,455	-1,484	5,971
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	1,019	-254	765	2,248	-612	1,636
Actuarial gains (+) / losses (-) from defined benefit pension provisions	112	-28	84	-363	67	-296
Profit/loss recognised through other comprehensive income	**-1,869**	**466**	**-1,403**	**9,340**	**-2,028**	**7,312**

(50) 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 2020, 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 2019 and 2020 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 net profit or loss for the year.
Further key components of equity include measurement changes from financial liabilities designated at fair value through other comprehensive income 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)

Due to the elimination of the corporate tax burden for 2020 as a result of the net loss for the current financial year, there will be no reserves formed in 2021 to reduce the 2021 wealth tax.

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
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
2020	0.4*	2.0*	2020	31.12.2024
Total		**43.6**		

*) Subject to the amending resolution by the Bank's Annual General Meeting of Shareholders, the adjustments made to the previous year's figures (see note (2) Adjustments to the previous year's figures) and the resulting net loss for the year result in a lower formation of reserves for reducing the wealth tax burden for 2020.

(51) 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.

In this context, cash and cash equivalents are defined as cash reserves (cash on hand, balances with central banks) and presented in Note ((32) Cash reserve).

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.

IAS 7.44A requires further disclosures on financing activity.

As in the previous year, only minor leasing payments were made in 2020, so further explanation of financing activities in table form is no longer provided.

Cash flow from investing activities comprises payments from the disposal and acquisition of property and equipment, investment property, intangible assets and shares in companies.
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 2020.

There were also no new requirements under IAS 7 in reporting year 2020. For further information regarding liquidity risk management at NORD/LB CBB, please refer to the statements of the risk report in the management report.

Notes to financial instruments

(52) 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:

	31.12.2020					
in € million	**Level 1**	**Level 2**	**Level 3**	**Fair value total**	**Carrying**	**Diffe-rence**
Assets						
Cash reserve	**82.3**	**0.0**	**0.0**	**82.3**	**82.3**	**0.0**
Trading assets	**0.0**	**170.7**	**0.0**	**170.7**	**170.7**	**0.0**
Positive fair values from derivatives	0.0	170.7	0.0	170.7	170.7	0.0
Interest-rate risks	0.0	75.3	0.0	75.3	75.3	0.0
Currency risks	0.0	95.4	0.0	95.4	95.4	0.0
Credit risk	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	0.0
Financial assets mandatorily at fair value through profit or loss	**693.9**	**46.0**	**0.0**	**740.0**	**740.0**	**0.0**
Debt securities and other fixed-interest securities	693.9	43.3	0.0	737.2	737.2	0.0
Loans and advances	0.0	2.8	0.0	2.8	2.8	0.0
Financial assets at fair through other comprehensive income	**1,426.1**	**163.9**	**0.0**	**1,590.0**	**1,590.0**	**0.0**
Debt securities and other fixed-interest securities	1,426.1	163.9	0.0	1,590.0	1,590.0	0.0
Financial assets at amortised cost	**32.2**	**1,201.5**	**8,521.9**	**9,755.6**	**9,679.8**	**75.8**
Debt securities and other fixed-interest securities	32.2	1,201.5	0.0	1,233.7	1,345.0	-111.3
Loans and advances	0.0	0.0	8,521.9	8,521.9	8,334.8	187.2
Positive fair values from hedge accounting derivatives	**0.0**	**370.5**	**0.0**	**370.5**	**370.5**	**0.0**
Interest-rate risks	0.0	345.9	0.0	345.9	345.9	0.0
Currency risks	0.0	24.5	0.0	24.5	24.5	0.0
Total	**2,234.4**	**1,952.6**	**8,521.9**	**12,709.0**	**12,633.2**	**75.8**

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 € 111.3 million, down on the previous year (€ 141.3 million) by € 30.0 million.

	31.12.2019*					
in € million	**Level 1**	**Level 2**	**Level 3**	**Fair value total**	**Carrying amount**	**Diffe-rence**
Assets						
Cash reserve	**11.6**	**0.0**	**0.0**	**11.6**	**11.6**	**0.0**
Trading assets	**0.0**	**123.3**	**0.0**	**123.3**	**123.3**	**0.0**
Positive fair values from derivatives	0.0	119.1	0.0	119.1	119.1	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	0.0	0.0	0.0	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 through other comprehensive income	**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	**89.8**	**1,316.4**	**10,903.3**	**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	0.0	0.0	10,903.3	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	**2,641.4**	**1,974.2**	**10,903.3**	**15,518.9**	**15,442.5**	**76.5**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

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:

	31.12.2020					
in € million	**Level 1**	**Level 2**	**Level 3**	**Fair value total**	**Carrying amount**	**Diffe-rence**
Liabilities						
Trading liabilities	**0.0**	**81.1**	**6.7**	**87.7**	**87.7**	**0.0**
Negative fair values from derivatives	0.0	81.1	6.7	87.7	87.7	0.0
Interest-rate risks	0.0	48.3	0.0	48.3	48.3	0.0
Currency risks	0.0	32.7	0.0	32.7	32.7	0.0
Credit derivatives	0.0	0.0	6.7	6.7	6.7	0.0
Financial liabilities designated at fair value through profit or loss	**1,054.5**	**305.0**	**0.0**	**1,359.6**	**1,359.6**	**0.0**
Securitised liabilities	1,054.5	305.0	0.0	1,359.6	1,359.6	0.0
Financial liabilities at amortised cost	**1,825.4**	**3,841.6**	**4,597.6**	**10,264.6**	**10,078.1**	**186.5**
Deposits	0.0	1,680.9	4,597.6	6,278.5	6,105.0	173.5
Securitised liabilities	1,825.4	2,160.7	0.0	3,986.1	3,973.1	13.0
Negative fair values from hedge accounting derivatives	**0.0**	**491.0**	**0.0**	**491.0**	**491.0**	**0.0**
Interest-rate risks	0.0	401.4	0.0	401.4	401.4	0.0
Currency risks	0.0	89.6	0.0	89.6	89.6	0.0
Total	**2,879.9**	**4,718.8**	**4,604.3**	**12,203.0**	**12,016.4**	**186.5**

	31.12.2019*					
in € million	**Level 1**	**Level 2**	**Level 3**	**Fair value total**	**Carrying amount**	**Diffe-rence**
Liabilities						
Trading liabilities	**0.0**	**121.2**	**10.4**	**131.6**	**131.6**	**0.0**
Negative fair values from derivatives	*0.0	121.2	10.4	131.6	131.6	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	10.4	10.4	10.4	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	***1,515.4**	**4,046.3**	**7,319.2**	**12,881.0**	**12,645.3**	**235.7**
Deposits	*0.0	1,649.3	7,319.2	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	**2,622.4**	**5,100.9**	**7,329.7**	**15,053.0**	**14,817.3**	**235.7**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

The fair values were determined using the discounted cash flow method based on the yield curves applicable as at 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 € 186.5 million. The decrease of € -49.2 million in hidden liabilities on the liabilities side mainly results from changes in market interest rates.
The transfers within the fair value hierarchy are summarised as follows:

01.01.2020 - 31.12.2020 in € million	from Level 1 to Level 2	from Level 1 to Level 3	from Level 2 to Level 1	from Level 2 to Level 3	from Level 3 to Level 1	from Level 3 to Level 2
Financial assets mandatorily at fair value through profit or loss	**26.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Debt securities and other fixed-interest securities	26.3	0.0	0.0	0.0	0.0	0.0
Financial assets at fair value through other comprehensive income	**9.7**	**0.0**	**37.8**	**0.0**	**0.0**	**0.0**
Debt securities and other fixed-interest securities	9.7	0.0	37.8	0.0	0.0	0.0

During the year under review, one financial asset at fair value through profit or loss and one financial asset at fair value directly in equity switched from Level 1 to Level 2. Conversely, two financial assets at fair value through other comprehensive income 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 5.5 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:

01.01.2019 - 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 through other comprehensive income	**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

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

	Trading assets	
	Fair values from credit derivatives	
	2020 (in € million)	2019* (in € million)
1. January	**-9.8**	**0.0**
Addition on purchase or issue	0.0	0.0
Effect in the income statement	4.3	-9.8
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 December	**-5.5**	**-9.8**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

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

In the NORD/LB CBB annual report, the guarantee contracts with the State of Lower Saxony 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 31.12.2020 (in € million)	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 31.12.2020	Weighted average 31.12.2019
Derivative assets	0.0	0.0	Rating	Rating classes (DSGV scale of 27)	-	-
Derivative liabilities	6.7	10.4	Rating	Rating classes (DSGV scale of 27) 2 - 15	5	6

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

The weighted average uses both borrower and collateral provider ratings in accordance with the loan-to-value ratio.

The ratings and LGDs used are significant input data not observable on the market for the fair value measurement of credit derivatives. Significant changes to this input data result in a 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. The weighted ratings used are based on the borrower's rating. These are shown below:

	Change in fair value in € million for	
Portfolio	**rating upgrade of one notch**	**rating downgrade of one notch**
Shipping/maritime industry customers	-0.3	0.6
Aircraft customers	0.0	0.0

The rating level of the collateral provider is not changed here, as these are government export credit insurers whose rating is based on the country ratings of South Korea and China. Given the extremely good creditworthiness of these countries, a deterioration or improvement by one notch has only marginal effects.

(53) 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 (Stage 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 (Stage 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 (Stage 3).

Changes in loan loss provisions can arise mainly due to financial assets or off-balance sheet liabilities changing stage and due to changes in risk provisioning within a stage as a result of rating shifts.

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 stages defined in IFRS 9. This is followed by details on the classification methodology and level allocations:

in € million	Loan loss provisions 31.12.2020	Loan loss provisions 31.12.2019
For financial assets		
Stage 1	7.2	2.0
Stage 2	7.4	4.9
Stage 3	0.1	0.2
For loan commitments, financial guarantees and other off-balance sheet obligations		
Stage 1	0.0	0.2
Stage 2	0.1	3.3
Stage 3	0.1	0.1
Total	**15.0**	**10.7**

in € million	Gross carrying amount 31.12.2020	Gross carrying amount 31.12.2019
For financial assets		
Stage 1	10,569.5	13,643.2
Stage 2	775.6	515.0
Stage 3	21.7	33.1
For loan commitments, financial guarantees and other off-balance sheet obligations		
Stage 1	1,049.4	1,339.3
Stage 2	31.8	108.9
Stage 3	0.1	0.1
Total	**12,448.2**	**15,639.5**

in € million	Opening balance as at 1.1.2020	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Allocation Credit-related additions	Allocation Additions of assets
Loan loss provisions for financial assets at fair value through other comprehensive income						
Assets with no significant increase in credit risk (Stage 1)	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Debt securities and other fixed-interest securities	0.1	0.0	0.0	0.0	0.1	0.0
Assets with significant increase in credit risk, not impaired (Stage 2)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Assets with significant increase in credit risk, impaired (Stage 3)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**

in € million	Reversal: Reversals due to credit ratings	Reversal: Utilisation	Reversal: Disposal of assets	Other changes: Modification of assets	Other changes: Changes to the model and parameters	Other changes: Currency translation	Closing balance as at 31.12.2020
Loan loss provisions for financial assets at fair value through other comprehensive income							
Assets with no significant increase in credit risk (Stage 1)	**0.0**	**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	0.0	0.1
Assets with significant increase in credit risk, not impaired (Stage 2)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Assets with significant increase in credit risk, impaired (Stage 3)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**

in € million	Opening balance as at 1.1.2020	Transfer			Allocation	
		to Stage 1	to Stage 2	to Stage 3	Credit-related additions	Additions of assets
Loan loss provisions for financial assets at amortised cost						
Assets with no significant increase in credit risk (Level 1)	**2.0**	**2.3**	**-0.4**	**0.0**	**6.4**	**0.1**
Debt securities and other fixed-interest securities	0.2	2.3	0.0	0.0	4.7	0.0
Loans and advances	1.8	0.0	-0.4	0.0	1.7	0.1
Assets with significant increase in credit risk, not impaired (Level 2)	**4.9**	**-2.3**	**0.4**	**0.0**	**5.2**	**0.0**
Debt securities and other fixed-interest securities	3.9	-2.3	0.0	0.0	1.2	0.0
Loans and advances	1.0	0.0	0.4	0.0	4.0	0.0
Assets with significant increase in credit risk, impaired (Level 3)	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Debt securities and other fixed-interest securities	0.0	0.0	0.0	0.0	0.0	0.0
Loans and advances	0.2	0.0	0.0	0.0	0.0	0.0
Total	**7.1**	**0.0**	**0.0**	**0.0**	**11.6**	**0.1**

in € million	Reversal: Reversals due to credit ratings	Reversal: Utilisation	Reversal: Disposal of assets	Other changes: Modification of assets	Other changes: Changes to the model and parameters	Other changes: Currency translation	Closing balance as at 31.12.2020
Loan loss provisions for financial assets at amortised cost							
Assets with no significant increase in credit risk (Level 1)	**2.5**	**0.0**	**0.4**	**0.0**	**0.0**	**-0.4**	**7.1**
Debt securities and other fixed-interest securities	2.0	0.0	0.0	0.0	0.0	-0.2	4.9
Loans and advances	0.4	0.0	0.3	0.0	0.0	-0.2	2.2
Assets with significant increase in credit risk, not impaired (Level 2)	**0.5**	**0.0**	**0.3**	**0.0**	**0.0**	**-0.1**	**7.4**
Debt securities and other fixed-interest securities	0.0	0.0	0.0	0.0	0.0	-0.1	2.7
Loans and advances	0.4	0.0	0.3	0.0	0.0	0.0	4.7
Assets with significant increase in credit risk, impaired (Level 3)	**0.0**	**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	0.0	0.0
Loans and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total	**3.0**	**0.0**	**0.6**	**0.0**	**0.0**	**-0.5**	**14.7**

in € million	Opening balance as at 1.1.2020	Transfer			Allocation	
		to Stage 1	to Stage 2	to Stage 3	Credit-related additions	Additions of 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)	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments	0.2	0.0	0.0	0.0	0.0	0.0
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)	**3.3**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Loan commitments	3.2	0.0	0.0	0.0	0.1	0.0
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)	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial guarantees	0.1	0.0	0.0	0.0	0.0	0.0
Total	**3.5**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**

in € million	Reversal			Other changes			Closing balance as at 31.12.2020
	Reversals due to credit ratings	Utilisa-tion	Disposal of assets	Modifi-cation of assets	Changes to the mo-del and parame-ters	Currency transla-tion	
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**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Financial guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Off-balance sheet items with significant increase in credit risk, not impaired (Level 2)	**0.0**	**0.0**	**3.2**	**0.0**	**0.0**	**0.0**	**0.1**
Loan commitments	0.0	0.0	3.2	0.0	0.0	0.0	0.1
Financial guarantees	0.0	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**	**0.0**	**0.1**
Financial guarantees	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total	**0.0**	**0.0**	**3.3**	**0.0**	**0.0**	**0.0**	**0.3**

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

in € million	Opening balance as at 1.1.2020	Transfer			Additions to assets	Disposals from assets
		to Stage 1	to Stage 2	to Stage 3		
Gross carrying amount for financial assets at fair value through other comprehensive income						
Assets with no significant increase in credit risk (Level 1)	**1,939.5**	**0.0**	**0.0**	**0.0**	**22.5**	**-370.6**
Debt securities and other fixed-interest securities	1,939.5	0.0	0.0	0.0	22.5	-370.6
Assets with significant increase in credit risk, not impaired (Level 2)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Assets with significant increase in credit risk, impaired (Level 3)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total	**1,939.5**	**0.0**	**0.0**	**0.0**	**22.5**	**-370.6**
Gross carrying amount for financial assets at amortised cost						
Assets with no significant increase in credit risk (Level 1)	**11,703.7**	**109.0**	**-391.8**	**0.0**	**2,386.7**	**-4,598.7**
Debt securities and other fixed-interest securities	1,244.2	101.0	-39.9	0.0	40.3	-153.7
Loans and advances	10,447.9	8.0	-351,9	0.0	2,273.6	-4,445.0
Cash reserve	11.6	0.0	0.0	0.0	72.7	-2.0
Assets with significant increase in credit risk, not impaired (Level 2)	**515.0**	**-109.0**	**391.8**	**0.0**	**146.1**	**-141.0**
Debt securities and other fixed-interest securities	307.4	-101.0	39.9	0.0	43.5	-25.5
Loans and advances	207.5	-8.0	351.9	0.0	102.6	-115.5
Assets with significant increase in credit risk, impaired (Level 3)	**33.1**	**0.0**	**0.0**	**0.0**	**14.3**	**-25.7**
Loans and advances	33.1	0.0	0.0	0.0	14.3	-25.7
Total	**12,251.8**	**0.0**	**0.0**	**0.0**	**2,547.1**	**-4,767.5**
Total	**14,191.3**	**0.0**	**0.0**	**0.0**	**2,569.6**	**-5,138.1**

in € million	Direct depreciation of assets	Other changes			Closing balance as at 31.12.2020
		Modification of assets	Currency translation	Other changes	
Gross carrying amount for financial assets at fair value through other comprehensive income					
Assets with no significant increase in credit risk (Level 1)	**0.0**	**0.0**	**-1.3**	**0.0**	**1,590.1**
Debt securities and other fixed-interest securities	0.0	0.0	-1.3	0.0	1,590.1
Assets with significant increase in credit risk, not impaired (Level 2)	**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**
Total	**0.0**	**0.0**	**-1.3**	**0.0**	**1,590.1**
Gross carrying amount for financial assets at amortised cost					
Assets with no significant increase in credit risk (Level 1)	**0.0**	**0.0**	**-227.4**	**0.0**	**8,979.4**
Debt securities and other fixed-interest securities	0.0	0.0	-83.6	0.0	1,108.2
Loans and advances	0.0	0.0	-143.8	0.0	7,788.9
Cash reserve	0.0	0.0	0.0	0.0	82.3
Assets with significant increase in credit risk, not impaired (Level 2)	**0.0**	**0.4**	**-27.6**	**0.0**	**775.6**
Debt securities and other fixed-interest securities	0.0	0.0	-19.8	0.0	244.4
Loans and advances	0.0	0.4	-7.7	0.0	531.2
Assets with significant increase in credit risk, impaired (Level 3)	**0.0**	**0.0**	**0.0**	**0.0**	**21.7**
Loans and advances	0.0	0.0	0.0	0.0	21.7
Total	**0.0**	**0.4**	**-255.0**	**0.0**	**9,776.7**
Total	**0.0**	**0.4**	**-256.3**	**0.0**	**11,366.8**

in € million	Opening balance as at 1.1.2020	Transfer to Stage 1	Transfer to Stage 2	Transfer to Stage 3	Additions to assets	Disposals from assets
Gross carrying amounts for loan commitments, financial guarantees and other off-balance sheet liabilities						
Off-balance sheet items with no significant increase in credit risk (Level 1)	**1,339.3**	**0.0**	**-43.2**	**0.0**	**274.7**	**-514.3**
Loan commitments	1,293.1	0.0	-29.9	0.0	266.3	-488.0
Financial guarantees	46.2	0.0	-13.2	0.0	8.4	-26.3
Off-balance sheet items with significant increase in credit risk, not impaired (Level 2)	**108.9**	**0.0**	**43.2**	**0.0**	**6.2**	**-126.4**
Loan commitments	100.4	0.0	29.9	0.0	6.2	-119.3
Financial guarantees	8.5	0.0	13.2	0.0	0.0	-7.1
Off-balance sheet items with significant increase in credit risk, impaired (Level 3)	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Loan commitments	0.0	0.0	0.0	0.0	0.0	0.0
Financial guarantees	0.1	0.0	0.0	0.0	0.0	0.0
Total	**1,448.3**	**0.0**	**0.0**	**0.0**	**280.9**	**-640.7**

in € million	Direct depreciation of assets	Other changes			Closing balance as at 31.12.2020
		Modification of assets	Currency translation	Other changes	
Gross carrying amounts 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**	**-7.2**	**0.0**	**1,049.4**
Loan commitments	0.0	0.0	-7.3	0.0	1,034.1
Financial guarantees	0.0	0.0	0.1	0.0	15.3
Off-balance sheet items with significant increase in credit risk, not impaired (Level 2)	**0.0**	**0.0**	**0.0**	**0.0**	**31.8**
Loan commitments	0.0	0.0	0.0	0.0	17.2
Financial guarantees	0.0	0.0	0.0	0.0	14.6
Off-balance sheet items with significant increase in credit risk, impaired (Level 3)	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**
Loan commitments	0.0	0.0	0.0	0.0	0.0
Financial guarantees	0.0	0.0	0.0	0.0	0.1
Total	**0.0**	**0.0**	**-7.2**	**0.0**	**1,081.3**

As already described in the Notes ((5) Material impacts of the COVID-19 pandemic on the net assets, financial position and earnings position of NORD/LB CBB) and ((11) Loan loss provisions), a management adjustment (MAC-19) was established at the level of the NORD/LB Group and therefore also at NORD/LB CBB for performing loans in accordance with IFRS 9 to account for expected short- to medium-term effects on loan loss provisions in accordance with IFRS in the 2020 annual financial statements. The objective of MAC-19 is to anticipate and account for effects of the COVID-19 pandemic that are expected in the future but have not yet arisen. Rating changes that have already occurred during the financial year are not included in the adjustment, but are reflected in the risk provisioning before application of MAC-19.

For NORD/LB CBB, the amount posted to hedge against the expected effects of the COVID-19 pandemic amounts to € 10.0 million. The key drivers here are the corporate finance sector and the logistics sector in the area of port and airport operations included in this sector, the field of port and airport operations, companies in the hotel industry as well as the US-municipal portfolio and government bonds.

Reported loan loss provisions therefore rose by € 10.0 million to € 15.0 million.

in € million	Risk provisioning before MAC-19 adjustment	MAC-19 Adjustment	Risk provisioning after MAC-19 adjustment
Loan loss provisions for financial assets at fair value through other comprehensive income	-0.1	0.0	-0.1
Loan loss provisions for financial assets at amortised cost - securities	-2.0	-5.7	-7.6
Loan loss provisions for financial assets at amortised cost - receivables	-2.8	-4.3	-7.0
Loan loss provisions for loan commitments, financial guarantees and other off-balance sheet liabilities	-0.2	-0.0	-0.2
Total	**-5.1**	**-10.0**	**-15.0**

The effects on the assets from the defined sectors are presented below:

in € million	Risk provisioning before MAC-19 adjustment	MAC-19 Adjustment	Risk provisioning after MAC-19 adjustment
Assets with no significant increase in credit risk (Stage 1)	**-0.9**	**-6.3**	**-7.3**
Corporates	-0.4	-2.2	-2.7
Real estate	0.0	0.0	0.0
Structured finance	-0.3	-0.1	-0.4
Central governments	-0.2	-4.0	-4.2
Assets with significant increase in credit risk, not impaired (Stage 2)	**-3.9**	**-3.7**	**-7.5**
Corporates	-0.7	0.0	-0.7
Real estate	-1.5	-2.6	-4.1
Central governments	-1.7	-1.0	-2.7
Assets with significant increase in credit risk, impaired (Stage 3)	**-0.2**	**0.0**	**-0.2**
Corporates	-0.2	0.0	-0.2
Total	**-5.1**	**-10.0**	**-15.0**

Sensitivity analyses

The effects on the Bank's loan loss provisions are presented in table below presents the by means of two different sensitivity analyses. Sensitivity is calculated on the basis of potential economic factors on the one hand and further negative economic developments related to the COVID-19 pandemic on the other. Changes within the respective stage allocations are shown in addition to the effects on risk provisioning. Both sensitivity analyses are based on the loan loss provisions recognised in the accounts as at 31 December 2020 and therefore represent effects that could potentially exceed the loan loss provisions. In Note ((53) Loan loss provisions and gross carrying amount), the Bank defines the baseline scenario as the loan loss provisions reported as at 31 December 2020, including consideration of the MAC-19 adjustment.

Sensitivity analyses on the basis of macroeconomic drivers

The analysis presented first is based on potential developments of macroeconomic drivers and is implemented in two scenarios, the positive upside scenario and the negative downside scenario, by adjusting the PD profiles used to calculate the loan loss provisions. In addition to industry- and country-specific default probabilities, the following macroeconomic variables are taken into account and modified within the PD profiles:

Oil price, unemployment rate (%), change rate in real gross domestic product (GDP) (%), change rate in consumer price index (CPI) (%), change rate in a leading equity index (%), short-term interest rates (3 months nominal) (%), long-term interest rates (10 years nominal) (%) and change rate in national currency/USD (%). The oil price trend is the only global variable that flows into the model, all other variables are country-specific.

Country-specific variables are available for Germany, the USA, the UK and Canada. Furthermore, the countries France, Luxembourg, the Netherlands, Ireland, Austria and Italy are taken into account approximatively via a forecast for the euro area. Taking into account assumptions about these economies, more than 90 per cent of exposure coverage is achieved.

The following tables show the assumed forecasts for Germany, the USA, Great Britain, Canada and the Eurozone:

Germany	positive		Base		negative	
Year	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**
Unemployment rate (in %)	5.9	5.8	5.9	6.0	6.0	6.7
GDP (real; Y/Y[1] in %)	-5.1	5.0	-5.2	3.2	-5.7	0.3
HCPI[2] (in % Y/Y)	0.5	1.6	0.5	1.3	0.4	0.7
Leading index shares (in %)	0.0	0.1	-0.1	0.1	-0.2	0.1
(DAX, % p.a.)	3.5	6.3	- 9.4	5.7	-18.8	5.3
Short-term interest rates (3M money market rate, in %)	-0.4	-0.5	-0.4	-0.5	-0.4	-0.6
Long-term interest rates (10Y government, in %)	-0.5	-0.3	-0.5	-0.5	-0.5	-0.7
Exchange rate (EUR/USD)	1.1	1.2	1.1	1.1	1.1	1.1
Rate of change in exchange rate (in % Y/Y)	1.8	5.3	0.9	0.9	0.0	-3.6

1) Y/Y = year to year
2) Consumer Price Index

USA	positive		Base		negative	
Year	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**
Unemployment rate (in %)	8.0	6.0	8.0	7.0	8.0	9.0
GDP (real; Y/Y[1] in %)	-3.6	4.8	-3.6	3.7	-3.6	3.0
CPI[2] (in % Y/Y)	1.3	2.2	1.3	2.0	1.3	1.0
Leading index shares (MSCI TR USA, % p.a.)	0.0	12.0	-3.0	8.0	-5.0	-3.0
Short-term interest rates (3M money market rate, in %)	0.3	0.3	0.3	0.3	0.3	0.3
Long-term interest rates (10Y government, in %)	0.8	1.2	0.8	1.1	0.8	0.7
Exchange rate (EUR/USD)	1.1	1.2	1.1	1.1	1.1	1.1
Rate of change in exchange rate (in % Y/Y)	1.8	5.3	0.9	0.9	0.0	-3.6

1) Y/Y = year to year
2) Consumer Price Index

United Kingdom	positive		Base		negative	
Year	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**
Unemployment rate (in %)	4.4	4.2	4.5	4.7	4.6	6.0
GDP (real; Y/Y[1] in %)	-10.5	6.7	-11.3	6.5	-11.7	-4.8
CPI[2] (in % Y/Y)	1.0	1.5	0.9	1.4	0.9	1.7
Leading index shares (FTSE 100, % p.a.)	-18.6	6.5	-28.5	5.0	-31.5	2.0
Short-term interest rates (3M money market rate, in %)	0.3	0.1	0.3	0.1	0.3	-0.2
Long-term interest rates (10Y government, in %)	0.3	0.2	0.3	0.2	0.3	0.0
Exchange rate (GBP/USD)	1.3	1.4	1.3	1.2	1.1	1.1
Rate of change in exchange rate (in % Y/Y)	1.8	6.5	-0.2	-2.4	-2.2	-8.7

1) Y/Y = year to year
2) Consumer Price Index

Canada	positive		Base		negative	
Year	2020	2021	2020	2021	2020	2021
Unemployment rate (in %)	9.6	7.0	9.6	8.0	9.6	10.0
GDP (real; Y/Y[1] in %)	-5.7	6.5	-5.7	5.0	-5.7	3.0
CPI[2] (in % Y/Y)	0.7	1.8	0.7	1.7	0.7	1.0
Leading index shares (MSCI TR CAN, % p.a.)	-6.0	10.0	-8.0	10.0	-10.0	-1.0
Short-term interest rates (3M money market rate, in %)	0.5	0.2	0.5	0.2	0.5	0.2
Long-term interest rates (10Y government, in %)	0.7	1.1	0.7	0.9	0.7	0.6
Exchange rate (CAD/USD)	1.3	1.3	1.3	1.3	1.3	1.4
Rate of change in exchange rate (in % Y/Y)	0.8	-3.0	0.8	-1.5	0.8	0.8

1) Y/Y = year to year
2) Consumer Price Index

Euroland	positive		Base		negative	
Year	2020	2021	2020	2021	2020	2021
Unemployment rate (in %)	7.8	8.6	7.9	9.0	8.0	9.8
GDP (real; Y/Y[1] in %)	-6.9	5.8	-7.2	4.7	-7.6	1.5
CPI[2] (in % Y/Y)	0.3	1.2	0.3	1.0	0.2	0.4
Leading index shares (EuroStoxx50 Perf., % p.a.)	-8.3	8.7	19.2	6.9	-27.1	7.6
Short-term interest rates (3M money market rate, in %)	-0.4	-0.5	-0.4	-0.5	-0.4	-0.6
Long-term interest rates (10Y government, in %)	-0.5	-0.3	-0.5	-0.5	-0.5	-0.7
Exchange rate (EUR/USD)	1.1	1.2	1.1	1.1	1.1	1.1
Rate of change in exchange rate (in % Y/Y)	1.8	5.3	0.9	0.9	0.0	-3.6

1) Y/Y = year to year
2) Consumer Price Index

The assumed trend of the only global variable oil price is shown in the table below:

Oil price	positive		Base		negative	
Year	2020	2021	2020	2021	2020	2021
Brent (in USD per barrel)	43.0	65.0	42.0	47.0	40.0	29.0

Taking into account the macroeconomic factors mentioned above, the following table summarises the adjustment factors resulting from the analysis for individual rating modules affecting the Bank if an adjustment occurred in at least one scenario:

Rating module	positive		Base		negative	
Year	2020	2021	2020	2021	2020	2021
Corporates	1.0	1.0	1.1	1.0	1.5	1.1
Aircraft finance	1.0	0.8	1.3	1.0	1.4	1.1
International real estate	1.0	1.0	1.3	1.3	1.3	1.3
Leasing finance	1.0	0.8	1.0	1.0	1.0	1.0
Project finance	1.0	1.0	1.1	1.0	1.6	1.3
Standard rating	0.9	0.9	1.0	1.0	1.0	1.0

A factor different from 1 means that the cyclically averaged PD profiles have been corrected accordingly either upwards or downwards. In the positive scenario, the negative adjustments made in the course of the COVID-19 pandemic are largely reversed. In the negative one, there were strong adjustments due to the negative outlook, which is reflected above all in the second forecast year. No adjustments were made to the rating modules banks, international local authorities or ship financing.

The table below shows the risk provisions assuming that the positive and negative scenarios are each weighted at 100 per cent. For better comparability, the tables also contain the probability-weighted values reflected in the baseline scenario, which are reflected in these consolidated financial statements.

In addition, a focus was placed on the rating modules in which a different assessment of the need for a parameter adjustment was made in at least one scenario. The weighted relative probability of default, based on the corresponding gross carrying amounts, as a reflection of the change in macroeconomic factors, decreases by 12 basis points (-10.5 per cent) – from 116 basis points to 104 basis points – in the upside scenario. In the opposite downside scenario, this figure increases by 18 basis points (+15.3 per cent) to 134 basis points. The above scenarios are applied to the entire portfolios of debt securities and other fixed-interest securities as well as financial receivables.

The effects are shown below by balance sheet category and stage allocation:

in € million	Baseline scenario		Positive scenario		Negative scenario	
	Gross carrying amount	Loan loss provisions	Gross carrying amount	Loan loss provisions	Gross carrying amount	Loan loss provisions
Financial assets at fair value through other comprehensive income	**1,590.1**	**-0.1**	**1,590.1**	**-0.1**	**1,590.1**	**-0.5**
Stage 1	1,590.1	-0.1	1,590.1	-0.1	1,567.3	-0.1
Stage 2	0.0	0.0	0.0	0.0	22.8	-0.5
Stage 3	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities and other fixed-income securities measured at amortised cost	**1,352.6**	**-7.6**	**1,352.6**	**-7.6**	**1,352.6**	**-7.6**
Stage 1	1,108.2	-4.9	1,108.2	-4.9	1,108.2	-4.9
Stage 2	244.4	-2.7	244.4	-2.7	244.4	-2.7
Stage 3	0.0	0.0	0.0	0.0	0.0	0.0
Financial receivables measured at amortised cost	**8,402.3**	**-7.0**	**8,424.1**	**-6.6**	**8,424.1**	**-7.8**
Stage 1	7,871.2	-2.2	7,950.0	-2.0	7,783.3	-2.8
Stage 2	531.2	-4.7	452.3	-4.5	619.1	-4.8
Stage 3	21.7	-0.1	21.7	-0.1	21.7	-0.1
Loan loss provisions for loan commitments, financial guarantees and other off-balance sheet liabilities	**1,081.3**	**-0.3**	**1,081.3**	**-0.2**	**1,081.3**	**-0.3**
Stufe 1	1,049.4	-0.0	1,049.4	-0.0	1,043.5	-0.0
Stufe 2	31.8	-0.1	31.8	-0.1	37.7	-0.2
Stufe 3	0.1	-0.1	0.1	-0.1	0.1	-0.1
Total	**12,448.2**	**-15.0**	**12,448.2**	**-14.5**	**12,448.2**	**-16.2**

Sensitivity analyses based on factors influenced by the COVID-19 pandemic

In addition to the effects of potential economic factors, NORD/LB CBB presents a further sensitivity analysis that reflects negative economic development driven by the COVID-19 pandemic. For this purpose, the Bank also distinguishes between two scenarios: the “COVID-19 Stress 1” and “COVID-19 Stress 2” scenarios. In this second analysis, sensitivity is reflected by means of an adjustment made to the borrower’s potential creditworthiness.

Industries and sectors affected by COVID-19 were identified from within the credit portfolio of NORD/LB CBB in order to define the stress scenarios. Rating trends were anticipated for these industries and sectors with the help of statistical information on economic development during the pandemic. The most decisive factor was the decline in sales that had already occurred and was expected to occur in the respective industries. The approach is based on the effects of the MAC-19 adjustment presented in the balance sheet to date, but shows possible effects that go beyond this to model pandemic trends that are even stronger than those already anticipated in the figures for the MAC-19 adjustment. Further information on the MAC-19 adjustment is presented in Note ((11) Loan loss provisions) and in the previous sections of Note ((53) Loan loss provisions and gross carrying amount).

The selection of sectors and industries is also based on the MAC-19 adjustment approach to ensure consistency and comparability. Sectors and industries include travel, hospitality, transportation and logistics, as well as selected government entities, which also includes the US-municipal portfolio within NORD/LB CBB. When assessing the borrowers in the industries described above, the rating is adjusted according to two different scenarios.

The weighted relative probability of default as an expression of the rating increases from 116 basis points (bp) to 151 bp in the Stress 1 scenario and to 184 bp in the Stress 2 scenario. The biggest adjustments were made in the hospitality (S1: +698 bp, S2: +2,513 bp), travel (S1: +579 bp, S2: +853 bp) and logistics (S1: +254 bp, S2: +406 bp) industries. A total of € 2.8 billion from various industries is subject to the stress scenarios described. This corresponds to approximately 23 per cent of the total portfolio.

The effects are shown below by balance sheet category and stage allocation:

in € million	Baseline 31.12.2020		COVID-19 Stress 1		COVID-19 Stress 2	
	Gross carrying amount	Loan loss provisions	Gross carrying amount	Loan loss provisions	Gross carrying amount	Loan loss provisions
Financial assets at fair value through other comprehensive income	**1,590.1**	**-0.1**	**1,590.1**	**-0.1**	**1,590.1**	**-0.1**
Stage 1	1,590.1	-0.1	1,590.1	-0.1	1,590.1	-0.1
Stage 2	0.0	0.0	0.0	0.0	0.0	0.0
Stage 3	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities and other fixed-income securities measured at amortised cost	**1,352.6**	**-7.6**	**1,352.6**	**-8.3**	**1,352.6**	**-9.3**
Stage 1	1,108.2	-4.9	1,108.2	-4.6	1,108.2	-4.7
Stage 2	244.4	-2.7	244.4	-3.6	244.4	-4.6
Stage 3	0.0	0.0	0.0	0.0	0.0	0.0
Financial receivables measured at amortised cost	**8,402.3**	**-7.0**	**8,424.1**	**-7.2**	**8,424.1**	**-7.4**
Stage 1	7,871.2	-2.2	7,839.3	-2.2	7,822.4	-2.2
Stage 2	531.2	-4.7	538.9	-4.7	535.7	-0.8
Stage 3	21.7	-0.1	45.9	-0.3	66.0	-4.4
Loan loss provisions for loan commitments, financial guarantees and other off-balance sheet liabilities	**1,081.3**	**-0.3**	**1,081.3**	**-0.6**	**1,081.3**	**-0.6**
Stufe 1	1,049.4	0.0	1,049.3	0.0	969.3	0.0
Stufe 2	31.8	-0.1	30.5	0.0	110.5	0.0
Stufe 3	0.1	-0.1	1.5	-0.6	1.5	-0.6
Total	**12,448.2**	**-15.0**	**12,448.2**	**-16.2**	**12,448.2**	**-17.4**

Based on the sensitivity analysis presented above, it is clear that the effects in both analyses result in moderate increases in negative scenarios. This is mainly due to the effects of COVID-19 in conjunction with the MAC-19 adjustment, which have already been accounted for in full, as well as fact that this adjustment has diminished the magnitude of the sensitivity shifts. The moderate increase is also attributable to the relatively small share of the portfolios described above compared to the total volume. The low level of sensitivity in both cases described is supported by the high loan-to-value ratio in the form of guarantees and the associated significant reduction in the volume of risk-weighted assets as at 31 December 2020.

(54) Net gains or losses by measurement category

	01.01.2020-31.12.2020 in € thousand	01.01.2019- - 31.12.2019* (in € thousand)	Change (in %)
Trading portfolio	-24,781	-56,644	-56
Financial assets mandatorily at fair value through profit or loss	-9,554	20,341	< -100
Financial instruments designated at fair value through profit or loss - net gain or loss in the income statement	-21,055	-38,642	-46
Financial liabilities designated at fair value through profit or loss - net gain or loss in OCI	765	1,636	-53
Financial assets at fair value through other comprehensive income - net gain or loss in the income statement	14,154	18,476	-23
Financial assets at fair value through other comprehensive income - net gain or loss in OCI	-2,251	5,971	< -100
Financial assets at amortised cost	229,271	286,244	-20
Financial liabilities at amortised cost	-101,616	-138,187	-26
Total	**84,932**	**99,195**	**-14**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

The net gain or loss comprises net interest income, loan loss provisions, net modification gain or loss, disposal profit/loss, additions to receivables written off, the fair value measurement and effects of the fair value measurement recognised directly in equity based on the change in credit risk.
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.

(55) 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.

	31.12.2020		31.12.2019	
	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	**212.5**	**212.5**	**374.1**	**374.1**
Debt securities and other fixed-interest securities	212.5	212.5	374.1	374.1
Financial assets at fair value through other comprehensive income	**174.2**	**174.2**	**812.0**	**812.0**
Debt securities and other fixed-interest securities	174.2	174.2	812.0	812.0
Financial assets at amortised cost	**860.5**	**741.7**	**671.1**	**494.4**
Debt securities and other fixed-interest securities	0.0	0.0	0.0	0.0
Receivables	860.5	741.7	671.1	494.4
Total	**1,247.1**	**1,128.4**	**1,857.1**	**1,680.5**

(56) 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 31.12.2020	Nominal values 31.12.2019	Positive fair values 31.12.2020	Positive fair values 31.12.2019	Negative market values 31.12.2020	Negative market values 31.12.2019
Interest-rate risks	**6,034.0**	**6,248.8**	**421.2**	**350.0**	**449.8**	**446.1**
Interest rate swaps	6,034.0	6,159.8	421.2	350.0	449.8	446.1
Caps, floors	0.0	0.0	0.0	0.0	0.0	0.0
Exchange-traded contracts	0.0	89.0	0.0	0.0	0.0	0.0
Currency risks	**3,143.7**	**3,701.7**	**119.9**	**82.0**	**122.3**	**155.4**
Forward exchange transactions	893.7	1,238.2	1.2	2.1	17.9	8.4
Currency swaps/interest rate (cross-) currency swaps	2,250.0	2,463.5	118.8	79.9	104.5	147.0
Credit derivatives*	**121.9**	**121.9**	**0.0**	**0.0**	**6.7**	**10.4**
Credit default swap*	121.9	121.9	0.0	0.0	6.7	10.4
Total	**9,299.6**	**10,072.4**	**541.2**	**432.0**	**578.8**	**611.9**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

Stock exchange contracts are futures that are subject to clearing on a daily basis.

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. 2020	31.12. 2019	31.12. 2020	31.12. 2019	31.12. 2020	31.12. 2019	31.12. 2020	31.12. 2019
Remaining terms to maturity								
Up to 3 months	709.6	276.3	879.3	1,238.6	0.0	0.0	0.0	0.0
More than 3 months & up to 1 year	635.8	461.9	100.1	63.1	0.0	0.0	0.0	0.0
More than 1 year & up to 5 years	1,771.3	2,590.0	396.0	460.9	0.0	0.0	121.9	0.0
More than 5 years	2,917.2	2,920.6	1,768.3	1,939.0	0.0	0.0	0.0	121.9
Total	**6,034.0**	**6,248.8**	**3,143.7**	**3,701.7**	**0.0**	**0.0**	**121.9**	**121.9**

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

(57) 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 through other comprehensive income 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 through other comprehensive income, 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:

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Assets			
Financial assets at fair value through other comprehensive income	393.3	577.5	-32
Financial assets at amortised cost	1,823.8	1,970.4	-7
Total	**2,217.1**	**2,547.9**	**-13**
Liabilities			
Financial liabilities at amortised cost	3,197.6	2,453.7	30
Total	**3,197.6**	**2,453.7**	**30**

Please also see Note ((10) Financial instruments) and Note ((26) Profit / loss from hedge accounting) for further information on hedge accounting.

(58) Residual 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.

31.12.2020 (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**	**0.0**	**0.0**
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	0.0	**0.0**
Financial assets mandatorily at fair value through profit or loss	**0.0**	**0.0**	**0.0**	**2.8**	**0.0**	**2.8**
Of which: Loans and advances to banks	0.0	0.0	0.0	2.8	0.0	**2.8**
Of which: Loans and advances to customers	0.0	0.0	0.0	0.0	0.0	**0.0**
Financial assets at amortised cost	**1,537.5**	**132.3**	**295.7**	**2,858.2**	**3,518.1**	**8,341.8**
Of which: Loans and advances to banks	338.5	0.0	0.0	0.0	0.0	**338.5**
Of which: Loans and advances to customers	1,199.1	132.3	295.7	2,858.2	3,518.1	**8,003.3**
Total	**1,537.5**	**132.3**	**295.7**	**2,861.0**	**3,518.1**	**8,344.6**

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

31.12.2020 (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	**11.0**	**6.9**	**2.0**	**19.0**	**48.8**	**87.7**
Derivatives	11.0	6.9	2.0	19.0	48.8	**87.7**
Financial liabilities designated at fair value through profit or loss	**0.0**	**544.8**	**0.0**	**814.8**	**0.0**	**1,359.6**
Securitised liabilities	0.0	544.8	0.0	814.8	0.0	**1,359.6**
Financial liabilities at amortised cost	**1,324.5**	**1,189.4**	**1,068.7**	**3,610.0**	**2,885.5**	**10,078.1**
Deposits	1,223.4	1,088.5	292.1	1,596.5	1,904.4	**6,105.0**
Securitised liabilities	101.1	100.9	776.6	2,013.5	981.1	**3,973.1**
Negative fair values from hedge accounting derivatives	**0.9**	**0.3**	**15.5**	**84.2**	**390.0**	**491.0**
Issued loan commitments	**0.2**	**5.0**	**107.8**	**693.2**	**245.1**	**1,051.3**
Issued financial guarantees	**0.0**	**0.1**	**0.1**	**12.2**	**17.6**	**30.0**
Total	**1,336.6**	**1,746.5**	**1,194.0**	**5,233.5**	**3,587.0**	**13,097.7**

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**	**113.9**	**131.6**
Derivatives	7.7	0.6	0.7	8.7	113.9	**131.6**
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**	**3,776.2**	**16,265.5**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

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

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

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Financial assets mandatorily at fair value	274.8	432.3	-36
Financial assets at fair value through other comprehensive income	201.5	838.3	-76
Financial assets at amortised cost	1,200.0	987.7	22
Total	**1,676.3**	**2,258.3**	**-26**

The collateral reported in the categories "Financial assets mandatorily at fair value" and "Financial assets at fair value through other comprehensive income" is in the form of securities deposited in connection with genuine repurchase transactions with a maximum remaining term of six months. "Financial assets at amortised cost" comprises € 860.5 million in loans that were deposited with Luxembourg Central Bank as part of the ECB programmes (Targeted longer-term refinancing operations II) and (Targeted longer-term refinancing operations III). In addition, cash collateral in the amount of € 339.5 million was provided for derivative liabilities.

The following assets were transferred to the Bank as collateral for receivables:

	31.12.2020 (in € million)	31.12.2019 (in € million)	Change (in %)
Financial assets at amortised cost	101.7	563.1	-82
Total	**101.7**	**563.1**	**-82**

The collateral received in the category “Financial liabilities at amortised cost” results from cash collateral for derivative receivables.

Collateral which may also be sold or passed on without the collateral provider defaulting on payment was not held during the 2020 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.

(60) Offsetting of financial assets and financial liabilities

The effects or potential effects of claims for netting relating to the Bank's financial assets and liabilities at the end of the 2020 reporting period and at 31 December 2019 are shown in the following tables:

31.12.2020 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	Collaterial		
					Securities as collateral	Cash collateral	
Assets	**540.4**	**0.0**	**540.4**	**233.6**	**0.0**	**100.5**	**206.3**
Derivatives	540.4	0.0	540.4	233.6	0.0	100.5	206.3
Securities lending and repurchase transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	**959.6**	**0.0**	**959.6**	**233.6**	**386.5**	**336.0**	**3.4**
Derivatives	572.1	0.0	572.1	233.6	0.0	336.0	2.5
Securities lending and repurchase transactions	387.5	0.0	387.5	0.0	386.5	0.0	0.9

31.12.2019 in € million	Gross amount before offsetting	Amount of offsetting	Net amount after offsetting	Master netting arrangements and similar arrangements without offsetting			Nettobetrag
				Of which: Financial instruments	Collaterial		
					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

The change in the net amount of derivatives in assets as at 31 December 2020 (€ 206.3 million) results from the termination and repayment of a cash collateral for derivatives in the cover pool. In accordance with the contractual agreements, improvements in counterparty ratings meant that there was no further need to provide collateral here.

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

(61) Regulatory information

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

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.

	31.12.2020 (in € million)	31.12.2019 (in € million)
Total risk exposure amount	**2,642.7**	**3,567.0**
Capital requirements for credit risk	200.5	273.7
Capital requirements for operational risks	10.0	11.1
Capital requirements for market risks	0.5	0.6
Capital requirements for loan amount adjustments	0.4	0.0
Capital requirements	**211.4**	**285.4**

Regulatory capital

	31.12.2020 (in € million)	31.12.2019* (in € million)
Issued capital	205.0	205.0
Other reserves	446.6	451.6
Other components of CET 1 capital	26.8	28.2
- Deductible items	-32.4	-38.5
Common Equity Tier 1 capital	**645.9**	**646.3**
Components of additional Tier 1 capital	0.0	0.0
Additional Tier 1 capital	**0.0**	**0.0**
Tier 1 capital	**645.9**	**646.3**
Paid-up instruments of Tier 2 capital	0.0	0.0
Eligible provisions in excess of expected losses under the IRB approach	8.8	2.3
Tier 2 capital	**8.8**	**2.3**
Own funds	**654.7**	**648.5**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

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 2020 and 2019.
The Bank had the following ratios at the end of the respective year:

	2020 (in %)	2019 (in %)
Common equity tier 1 capital ratio	24.4	18.1
Tier 1 capital ratio	24.4	18.1
Total capital ratio	24.8	18.2

The common equity tier 1 capital ratio of NORD/LB CBB totalled 24.4 per cent, which is above the regulatory requirement, just like the total capital ratio of 24.8 per cent. The ECB did not impose any stricter requirements on the Bank for 2020 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 2020. Taking into account the capital conservation buffer of 2.5 per cent and an anti-cyclical capital buffer of 0.0 per cent, the Overall Capital Requirement ("OCR") as at 31 December 2020 is at least 7.0 per cent for the common equity tier 1 capital ratio, at least 8.5 per cent for the Tier 1 capital ratio and at least 10.5 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 18/03 (CSSF Regulation No. 18-03 dated 5 June 2018 on the implementation of a certain degree of discretion as stipulated in EU Regulation No. 575/2013).

(62) Foreign currency volume

The following assets and liabilities were denominated in foreign currency as at 31 December 2020 and 31 December 2019:

in € million	USD	JPY	CHF	GBP	Other	Total 31.12.2020	Total 31.12.2019
Assets							
Cash reserve	0.0	0.0	0.5	0.0	0.0	**0.5**	**2.5**
Trading assets	62.1	0.0	0.1	48.6	0.0	**110.8**	**69.8**
Financial assets mandatorily at fair value through profit or loss	3.9	0.0	0.0	0.0	0.0	**3.9**	**4.6**
Financial assets at fair value through other comprehensive income	0.0	39.6	36.8	0.0	0.0	**76.4**	**97.7**
Financial assets at amortised cost	1,934.6	99.0	18.7	1,377.1	112.7	**3,542.2**	**4,162.0**
Positive fair values from hedge accounting derivatives	0.1	0.0	24.4	0.2	0.0	**24.6**	**24.5**
Other assets	0.1	0.0	0.0	0.0	0.0	**0.1**	**0.0**
Total	**2,000.8**	**138.6**	**80.5**	**1,425.9**	**112.8**	**3,758.6**	**4,361.1**
Liabilities							
Trading liabilities	33.8	0.2	0.1	11.8	0.0	**46.0**	**53.0**
Financial liabilities designated at fair value through profit or loss	544.8	0.0	0.0	0.0	0.0	**544.8**	**598.4**
Financial liabilities at amortised cost	1,020.6	0.4	77.3	31.5	205.6	**1,335.5**	**2.046.3**
Negative fair values from hedge accounting derivatives	319.9	24.7	3.8	0.3	56.4	**405.0**	**396.3**
Other liabilities	0.0	0.0	0.0	0.4	0.1	**0.4**	**0.9**
Total	**1,919.1**	**25.3**	**81.2**	**44.0**	**262.0**	**2,331.6**	**3,095.0**

(63) 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.

	31.12.2020 in € million	31.12.2019* in € million	Change (in %)
Assets			
Trading assets	154.5	120.3	28
Derivatives	154.5	116.1	33
Loans and advances	0.0	4.2	-100
Financial assets mandatorily at fair value through profit or loss	463.5	745.6	-38
Debt securities and other fixed-interest securities	460.7	742.7	-38
Loans and advances	2.8	2.9	-4
Financial assets at fair value through other comprehensive income	1,149.3	1,579.3	-27
Debt securities and other fixed-interest securities	1,149.3	1,579.3	-27
Financial assets at amortised cost	7,668.9	8,989.3	-15
Debt securities and other fixed-interest securities	1,295.4	1,492.3	-13
Loans and advances	6,373.5	7,497.0	-15
Positive fair values from hedge accounting derivatives	366.2	311.6	18
Other assets	0.5	0.0	> 100
Total	**9,802.8**	**11,746.1**	**-17**
Liabilities			
Trading liabilities	67.8	122.6	-45
Derivatives	67.8	122.6	-45
Financial liabilities designated at fair value through profit or loss	814.8	1,410.1	-42
Securitised liabilities	814.8	1,410.1	-42
Financial liabilities at amortised cost	6,495.5	7,088.9	-8
Deposits	3,500.9	4,043.8	-13
Securitised liabilities	2,994.6	3,045.1	-2
Negative fair values from hedge accounting derivatives	474.3	472.1	0
Provisions	0.1	3.4	-96
Other liabilities	0.4	0.4	-13
Total	**7,852.9**	**9,097.5**	**-14**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

(64) Leases

NORD/LB CBB acted both as a lessor and as a lessee under operating and finance leases as defined in IFRS 16 in 2020. The Bank acts as a lessor of real estate and as a lessee of IT hardware, vehicles and other rights of use.

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

	2020 (in € thousand)	2019 (in € thousand)	Item in the profit and loss account
Interest expenses from lease liabilities	12	37	Interest expenses from liabilities
Expenses from short-term leases	0	38	Administrative expenses
Expenses from low-value leases	13	33	Administrative expenses
Expenses from additional variable lease payments	0	0	Administrative expenses
Total	**25**	**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 ((51) Notes to the cash flow statement).

Changes in rights of use under leases, including additions, are shown under Note ((37) Property and equipment).

The following table shows the carrying amounts and depreciation amounts of the rights of use under leases, broken down by class:

	31.12.2020 Carrying amount (in € million)	31.12.2020 Depreciation (in € million)	31.12.2019 Carrying amount (in € million)	31.12.2019 Depreciation (in € million)
Vehicles	0.1	0.1	0.1	0.1
Hardware	1.2	0.8	1.1	0.8
Other rights of use	0.4	0.1	0.5	0.1
Total	**1.6**	**1.0**	**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.

31.12.2020 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	**0.1**	**0.1**	**0.8**	**0.7**	**0.0**	**1.7**

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	**0.1**	**0.1**	**0.8**	**0.8**	**0.0**	**1.8**

In 2019 and 2020 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.

	2020 in € million	2019 in € million
Leasing income from investment property	0.7	0.4
Of which: Income from variable lease payments not dependent on an index or interest rate	*0.0*	*0.0*
Total	**0.7**	**0.4**

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

	31.12.2020 in € million	31.12.2019 in € million
Future lease payments up to 1 year	0.5	0.7
Future lease payments 1 year to 2 years	0.5	0.5
Future lease payments 2 years to 3 years	0.5	0.4
Future lease payments 3 years to 4 years	0.5	0.3
Future lease payments 4 years to 5 years	0.1	0.3
Future lease payments over 5 years	0.0	0.0
Total undiscounted future lease payments	**2.1**	**2.2**

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

(65) Contingent liabilities and other obligations

	31.12.2020 in € million	31.12.2019 in € million	Change (in %)
Contingent liabilities	**30.0**	**54.8**	**-45**
Liabilities arising from guarantees and indemnity agreements	30.0	54.8	-45
Other liabilities	**1,051.3**	**1,393.4**	**-25**
Irrevocable loan commitments	**1,051.3**	**1,393.4**	**-25**
Total	1,081.3	1,448.3	-25

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 obligations are not discounted.

(66) Subsequent events

There were no significant events between the reporting date on 31 December 2020 and the preparation of the financial statements by the Managing Board on 24 March 2021.

(67) Auditor fee

(in € thousand)	2020	2019
Auditor fee for:		
Auditing	627	615
Other certification services	56	55
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.

(68) Deposit protection and resolution/ guarantee fund

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.

(69) Geographical breakdown of cover pool

Lettres de Gage publiques

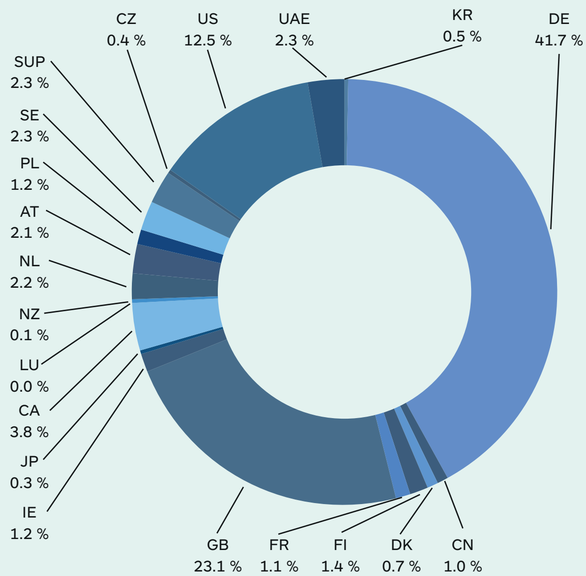
As a rule, the Luxembourg Pfandbrief legislation allows the coverage of loans and advances from countries which belong to the OECD, the European Union or the EEA, or countries with a (very) good rating from approved rating agencies.

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

As of the reporting date 31 December 2020:

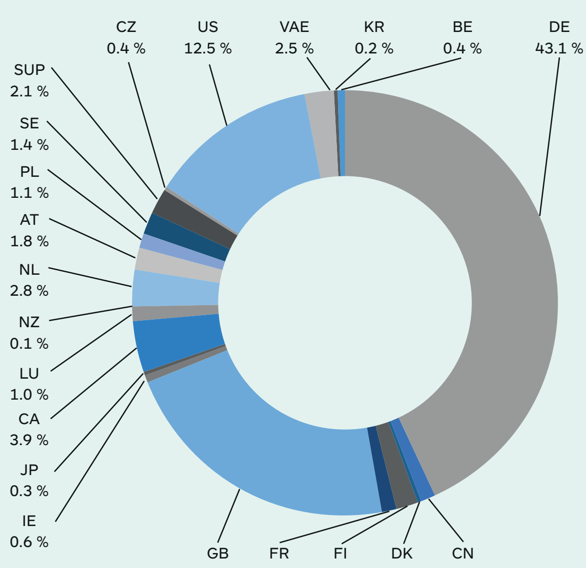
Geographical distribution



Region	in %
Europe	79.6
North America	16.2
Asia	4.1
Other	0.1

As of the reporting date 31 December 2019:

Geographical distribution



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

Lettres de Gage énergies renouvelables

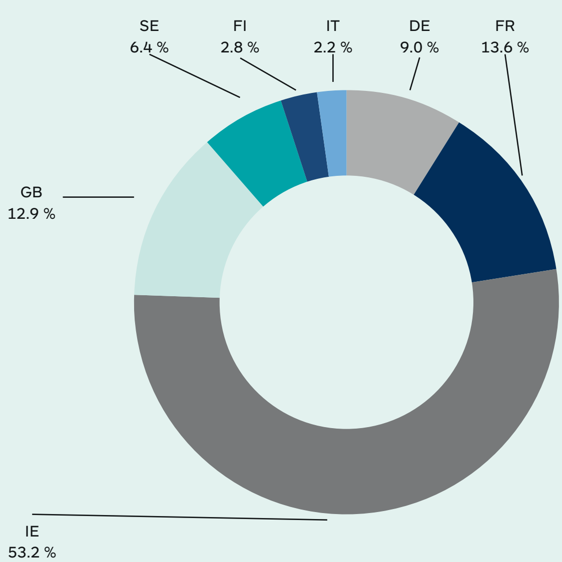
On 22 June 2018, the amendment to the law of 5 April 1993 on the financial sector entered into force with regard to the introduction of Lettres de Gage énergies renouvelables..

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.

The cover pool of NORD/LB CBB is diversified geographically over 7 (previous year: 5) different countries:

As of the reporting date 31 December 2020:

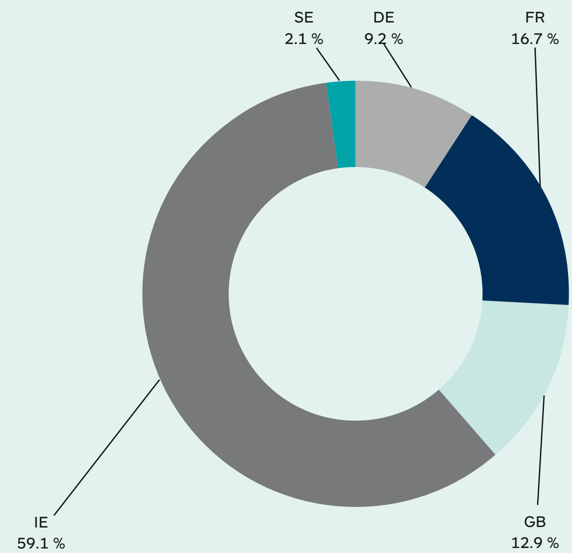
Geographical distribution



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

As of the reporting date 31 December 2019:

Geographical distribution



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

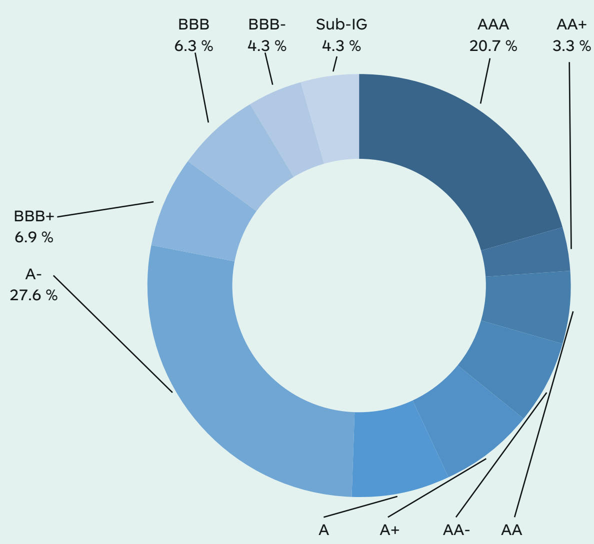
(70) Credit rating structure of the cover pool

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

Lettres de Gage publiques

As at 31 December 2020

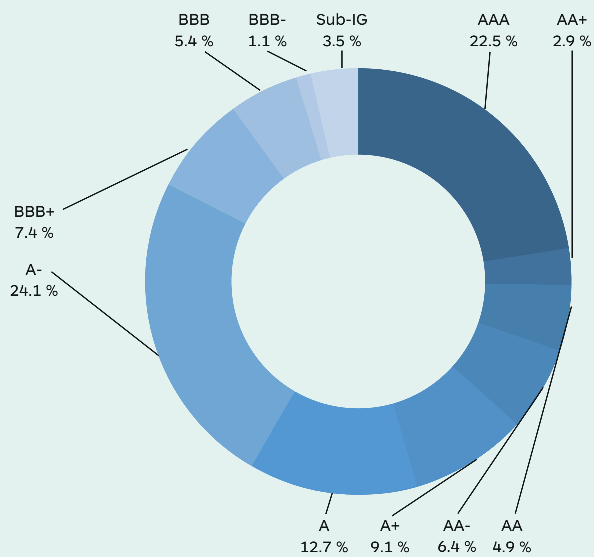
Credit rating structure



Rating	in %	in %	in %
AAA	20.7		35.9
AA	15.2	78.2	
A	42.3		
BBB	17.5		
Sub-IG segment	4.3		

As of the reporting date 31 December 2019:

Credit rating structure

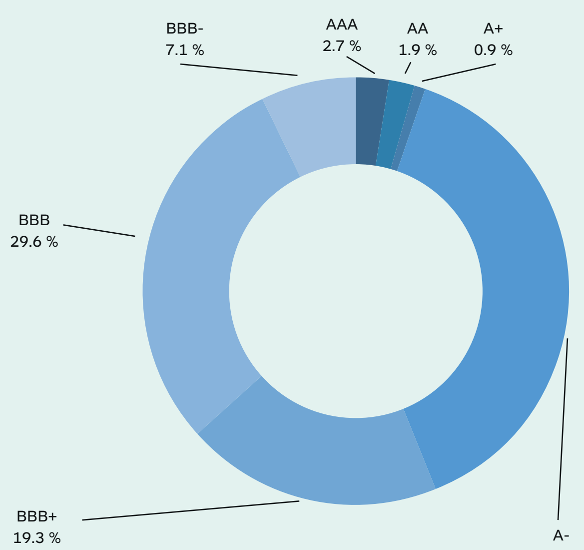


Rating	in %	in %	in %
AAA	22.5		36.6
AA	14.1	82.5	
A	45.9		
BBB	14.0		
Sub-IG segment	3.5		

Lettres de Gage énergies renouvelables

As at 31 December 2020

Credit rating structure

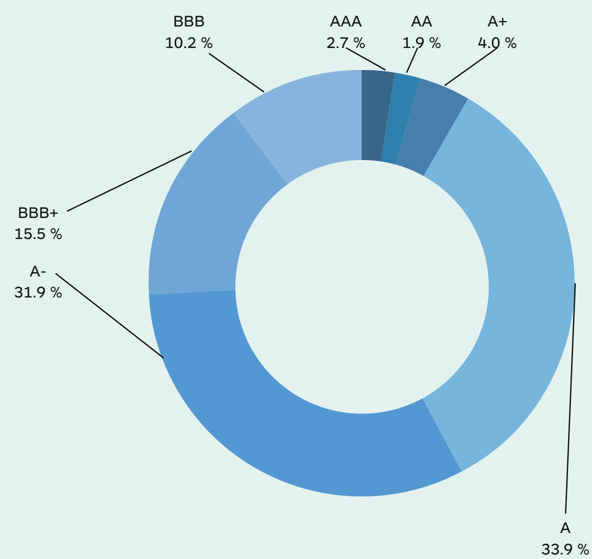


Rating	in %	in %	in %
AAA	2.7		4.6
AA	1.9	44.1	
A	39.5		
BBB	55.9		
Sub-IG segment	0.0		

Lettres de Gage énergies renouvelables

As at 31 December 2019

Credit rating structure



Rating	in %	in %	in %
AAA	2.7	74.3	4.5
AA	1.9		
A	69.8		
BBB	25.7		
Sub-IG segment	0.0		

(71) Cover ratio

The cover ratio in the cover calculation as at 31 December 2020 was follows:

Lettres de Gage publiques:

Cover calculation	Cover holdings (in € million)		Issues * (in € million)		Shortfall (-) / Over-collaterali-sation (+) (in € million)	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Nominal without derivatives	5,032.5	5,535.4	4,130.7	4,357.6	+901.7	+1,177.8
Present value without derivatives	5,823.2	6,381.1	4,650.3	4,811.1	+1,172.9	+1,570.0

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

The interest surplus cover as at 31 December 2020 amounted to € 452.5 million (previous year: € 627.0 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 énergies renouvelables:

Cover calculation	Cover holdings (in € million)		Issues * (in € million)		Shortfall (-) / Over-collaterali-sation (+) (in € million)	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Nominal without derivatives	372.1	373.8	300.0	-	72.1	373.8
Present value without derivatives	413.9	416.9	306.6	-	107.3	416.9

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

The first issue was made in January 2020.
The interest surplus cover as at 31 December 2020 amounted to € 35.6 million (previous year: € 49.7 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.

(72) Number of employees

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

	Male 2020	**Male 2019**	**Female 2020**	**Female 2019**	**Total 2020**	**Total 2019**
NORD/LB CBB	108.2	114.6	42.8	50.4	151.0	165.0

Related parties

(73) Relationships to related companies and persons (related parties)

NORD/LB (parent company of NORD/LB CBB) and Companies in accordance with IAS 24.9 (b) are classified as related legal entities.

Natural persons who are considered to be related parties in accordance with IAS 24 are members of the Managing Board and Supervisory Board of NORD/LB CBB, the members of the NORD/LB Managing Board as the Group parent company, and close family members.

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. In the case of NORD/LB CB CBB, only the State of Lower Saxony acts as a shareholder in the parent company.

The nature of the transactions with related parties are within the scope of the ordinary business activities of a bank. These include, in particular, funding, raising liquidity through and for 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 2019 and 2020 can be found below. Expenses for governing bodies are shown separately in Note ((75) Members of governing bodies and list of mandates). Changes in the group of related parties lead to restatements of the previous year's figures where necessary.

as at 31 December 2020:

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
Assets				
Trading assets	**127.9**	**0.0**	**0.0**	**0.0**
Derivatives	127.9	0.0	0.0	0.0
Financial assets at amortised cost	**0.9**	**0.0**	**0.0**	**0.0**
Receivables	0.9	0.0	0.0	0.0
Positive fair values from hedge accounting derivatives	**360.7**	**0.0**	**0.0**	**0.0**
Other assets	**0.0**	**0.0**	**0.0**	**0.0**
Total	**489.5**	**0.0**	**0.0**	**0.0**

as at 31 December 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
Assets				
Trading assets	**73.8**	**0.0**	**0.0**	**0.0**
Derivatives	73.8	0.0	0.0	0.0
Financial assets at amortised cost	**0.6**	**0.0**	**25.1**	**0.0**
Receivables	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**	**0.0**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

as at 31 December 2020:

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	**48.3**	**0.0**	**0.0**	**6.7**
Derivatives	48.3	0.0	0.0	6.7
Financial liabilities designated at fair value through profit or loss	**305.0**	**0.0**	**0.0**	**0.0**
Securitised liabilities	305.0	0.0	0.0	0.0
Financial liabilities at amortised cost	**2,744.0**	**10.0**	**0.0**	**0.0**
Deposits	861.0	0.0	0.0	0.0
Securitised liabilities	1,882.9	10.0	0.0	0.0
Negative fair values from hedge accounting derivatives	**164.1**	**0.0**	**0.0**	**0.0**
Other liabilities	**0.0**	**0.0**	**0.0**	**1.4**
Total	**3,261.4**	**10.0**	**0.0**	**8.1**
Guarantees / sureties received	6,542.9	0.0	0.0	76.9
Guarantees / sureties granted	0.0	0.0	0.0	0.0

as at 31 Dezember 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**	**10.4**
Derivatives	100.2	0.0	0.0	10.4
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**	**1.4**
Total	**5,329.8**	**10.1**	**0.0**	**11.8**
Guarantees / sureties received	5,621.4	0.0	0.0	185.0
Guarantees / sureties granted	0.0	0.0	0.0	0.0

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

01.01. - 31.12.2020 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	56,269	109	477	0
Interest expenses	112,720	27	0	0
Commission income	1,103	0	0	0
Commission expenses	56,943	0	0	5,872
Trading profit / loss	-18,811	0	0	4,307
of which: credit derivatives	*0*	*0*	*0*	*4,307*
Profit / loss from hedge accounting	48,409	0	0	0
Profit/loss from foreign exchange	127,270	0	0	0
Other income and expenses	1,448	-2	0	0
Total	**46,024**	**81**	**477**	**-1,566**

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
Trading profit / loss	-28,719	0	0	-9,756
of which: credit derivatives	*0*	*0*	*0*	-9,756
Profit / loss from hedge accounting	72,873	0	0	0
Profit/loss from foreign exchange	-82,354	0	0	0
Other income and expenses	939	-2	0	0
Total	**-174,126**	**-29**	**609**	**-10,476**

*) The previous year's figures have been adjusted for individual items. See Note ((2) Adjustment of the previous year's figures) for more information.

The table above presents income and expenses according to their definition and without a plus or minus sign. The other items as well as the other income and expenses correspond to a result and are assigned a plus or minus sign depending on their characteristics

(74) 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
(Chair 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

Mitglieder des Vorstands

Thorsten Schmidt, Irrel
Member of the Managing Board

Manfred Borchardt, Trier
Member of the Managing Board

Mandate

Thorsten Schmidt
- Member of the Board of Directors
of ABBL, Luxembourg
- Spokesman of the Managing Directors
of German banks in Luxembourg

(75) Remuneration of and loans to governing bodies

	2020 (in € thousand)	2019 adjusted (in € thousand)**	2019 (in € thousand)
Salaries of active board members and of the Extended Managing Board*	**2,918**	**2,767**	**1,702**
Short-term employee benefits	2,484	2,494	1,484
Post-employment benefits	329	198	143
Other long-term benefits***	19	75	75
Benefits upon termination of employment	86	0	0
Supervisory Board	**44**	**59**	**59**

*) relates to the Managing Board and management employees.
**) As of 1 July 2020, the organisational levels below the Managing Board were streamlined within the organisational structure. This is accompanied by a change in how the Extended Managing Board is defined. Accordingly, the figures in the table for 2019 are shown before and after adjustment (adjusted).
***) Relates to benefits from 2015.

As at the reporting date on 31 December 2020, 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 € 0 thousand (previous year: € 7 thousand) as at the reporting date on 31 December 2020 and were unchanged at € 0 thousand with respect to the Supervisory Board. With regard to termination benefits, payment obligations in the amount of € 202 thousand still exist for subsequent years.

(76) Disclosures concerning 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.

31.12.2020 in € million	Securitisation companies	Asset leasing companies	Asset and project financing	Total
Size of the non-consolidated structured entity	938.7	216.9	**-**	**1,155.5**
Financial assets mandatorily at fair value through profit or loss	13.0	-	-	**13.0**
Financial liabilities at amortised cost	-	63.9	-	**63.9**
Assets recognised in the balance sheet of NORD/LB CBB	**13.0**	**63.9**	**-**	**76.9**
Financial liabilities at amortised cost	-	-	-	**-**
Liabilities recognised in the balance sheet of NORD/LB CBB	**-**	**-**	**-**	**-**
Maximum risk of loss	13.0	63.9	**-**	**76.9**
Losses incurred in the financial year	-	-	-	**-**

31.12.2019 in € million	Securitisation companies	Asset leasing companies	Asset and project financing	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 liabilities 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, 24 March 2021
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

This **REPORT OF THE REVISEUR D'ENTREPRISES AGREE** is a free translation into English of the German original version which is considered the legally binding document. In the event of any discrepancy between the German version of the report and its English translation, the German language version shall prevail.

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 audit of the financial statements

Opinion
We have audited the financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank (the "Company" or the "Bank"), which comprise the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion
We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the «Responsibilities of "réviseur d'entreprises agréé" for the audit of the financial statements» section of our report. We are also independent of the Company in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Impairment of Level 1 and 2 financial instruments
Please refer to Note 11 Loan loss provisions in the notes to the annual financial statements for the accounting and measurement methods applied by the Company. Disclosures on the loan loss

provisions recorded in the 2020 financial year and the loan loss provisions as of the reporting date can be found in Note 24 Net valuation allowance from financial instruments not measured at fair value through profit or loss and modifications, Note 53 Loan loss provisions and gross carrying amount, and in Note 45 Provisions.

The risk to 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 of the reporting date.

The carrying amount of the Bank's financial assets not measured at fair value through profit or loss, including loan commitments, financial guarantees and the Bank's other off-balance sheet commitments amounted to EUR 12,448.2 million as at the balance sheet date (previous year: EUR 15,639.5 million) before loan loss provisions. The Bank allocated financial assets as well as loan commitments, financial guarantees and other off-balance sheet commitments with a gross carrying amount of € 11,618.9 million (93.3%, previous year: EUR 14,982.5 million or 95.8%) to the risk provisioning category "without significant increase in default risk since initial recognition" and with a carrying amount of EUR 807.4 million (6.5%; previous year: EUR 623.9 million or 4.0%) to the risk provisioning category "significant increase in default risk".

As of the reporting date, the Bank had recognised the corresponding credit risk by setting up loss allowances of EUR 14.6 million and provisions of EUR 0.1 million. Net loss provisions in the 2020 financial year amounts to EUR 4.9 million, whereby the calculation of the loss provisions for Stage 1 and Stage 2 takes into account a management adjustment of EUR 10.0 million.

Loss allowances for Stage 1 and Stage 2 have been determined on the basis of expected credit losses and, thus, include expectations about the future. Expected credit losses are recognised using a three-stages procedure for determining allowances.

Various value-determining input factors are taken into account, such as the determination of statistical probabilities of default and loss given default, the potential amount of exposure at default, the criteria for transfers between stages, which relate to a significant change in the default risk of borrowers, as well as the determination of future cash flows. Furthermore, such calculation incorporates macroeconomic information in consideration of COVID-19 scenarios, which is subject to a high degree of judgement and uncertainty. Further COVID-19 effects, which cannot be mapped using the existing methodology, are taken into account by means of downstream adjustments determined centrally in the NORD/LB Group.

There is a risk to the financial statements that the creditworthiness of customers and future cash flows are not assessed correctly or that the determination of risk provisioning parameters is incorrect, resulting in value adjustments not being recognised or not being recognised to a sufficient extent.

Our audit approach

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:

As a first step, we gained comprehensive insight into the development of the portfolios, the associated counterparty risks and the processes used to identify, manage, monitor and assess credit risks by inspecting evaluations and risk reports, conducting interviews, reviewing guidelines and work instructions, reviewing the defined methods and their implementation, as well as reviewing and assessing the validation concept and validation reports.

With the involvement of the auditor of the consolidated financial statements, we checked the appropriateness and effectiveness of the internal control system with regard to the risk classification procedures and risk models as well as the determination of value-determining factors, and assessed the relevant IT systems and internal processes. Our audit focused on assessing the methodological approach for calculating the probabilities of default and loss given default, which were derived from historical data.

We took into account the effects of COVID-19 in particular within the scope of our risk-based substantive audit procedures. With regard to the methodological approach used when including macroeconomic information and the subsequent adjustments determined centrally within the NORD/LB Group, we relied on audit results obtained by the auditor of the consolidated financial statements.

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 appropriately based on the criteria developed by the Bank.

In order to assess the appropriateness of significant risk provisioning parameters and the parameter adjustments made in line with current market conditions, we relied on the audit results obtained by the Group auditor in connection with a validation carried out by NORD/LB. We also verified the categorisation of the risk classification and of the calculation of Stage 1 and Stage 2 risk provisioning.

Furthermore, we verified the mathematical accuracy of the relevant components of the income statement and the completeness and accuracy of the disclosures in the notes prepared in connection with the IFRS 9 accounting standard.

Subsequent measurement of the guarantees agreed with the State of Lower Saxony

For an explanation of the impact of the guarantee agreements on the financial statements and a description of the accounting policies applied, please refer to Note 3 Explanation of the balance sheet effects of the guarantee agreements from the support contract of NORD/LB Group, Note 4 Development of the guarantee portfolio as at 31 December 2020, Note 10 Financial instruments, Note 23 Profit/loss from measurement at fair value and Note 33 Financial assets at fair value through profit or loss respectively Note 42 Financial liabilities at fair value through profit or loss in the notes to the financial statements. Please also refer to Note 2 Adjustment of the previous year's figures.

The risk to the financial statements

Effective 23 December 2019, the Bank signed two guarantee agreements with the State of Lower Saxony to provide risk relief for a loan portfolio with ship financing and an additional loan portfolio with aircraft financing. The guarantee agreements represent significant transactions with the related party, the State of Lower Saxony, as the majority owner of NORD/LB as the Group parent company, and are accounted for as credit derivatives for which the Bank acts as the collateral taker.

The two guarantee agreements cumulatively disclosed a negative fair value of EUR 6.7 million as of the reporting date (previous year: EUR 10.4 million). The changes in fair value as compared to the previous year are recognised in trading result for credit derivatives, which is reported under profit / loss from fair value measurement. In the 2020 financial year, the changes in the fair value of the two credit derivatives resulted in a total valuation gain of EUR 4.3 million (previous year: valuation loss of EUR 9.8 million). The selection of the valuation models as well as their parametrisation are to a certain extent subject to judgement.

The risk for the financial statements is that the models, assumptions and (valuation) parameters on which the valuation of the guarantee derivatives is based are not derived appropriately and comprehensibly and that the guarantee derivatives are valued incorrectly as a result.

Our audit approach
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:
In a first step, as part of our test of design and with the involvement of the auditor of the consolidated financial statements and its valuation expert, we conducted interviews and inspected both guarantee agreements and the accounting policies and valuation concept as well as other relevant documents with respect to potential changes and assessed the appropriateness of the internal control system with regard to the measurement of the two guarantee derivatives. This test of design included assessing the valuation models and the underlying assumptions and parameters.
We verified the data flow and - also with the involvement of auditor of the consolidated financial statements and their valuation expert - performed an independent revaluation in the course of substantive audit procedures.
We also sampled the exposures that, based on the Bank's assessment, had a significant influence on the overall credit derivative assessment to satisfy ourselves as to the appropriateness of the risk assessment and the completeness of the information used for the assessment.

Other information
The Management Board is responsible for the other information. The other information comprises the information stated in the management report and the Corporate Governance Statement but does not include the financial statements and our report of the "réviseur d'entreprises agréé" thereon.
Our 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, consider 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 this fact. We have nothing to report in this regard.

Responsibilities of the Management Board and Those Charged with Governance for the financial statements
The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Responsibilities 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 report of the “réviseur d’entreprises agréé” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with 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 in the aggregate, 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 the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of Management 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 Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the “réviseur d’entreprises agréé” to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the “réviseur d’entreprises agréé”. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

Report on other legal and regulatory requirements

We have been appointed as “réviseur d’entreprises agréé” by the ordinary General Meeting of the Shareholders on 21 April 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is ten years.

The management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the management report. The information required by article 70bis paragraph (1) letters c) and d) of the amended law of 17 June 1992 on the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

Luxembourg, 24 March 2021

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Harald Thönes

Report of the Supervisory Board

The Managing Board of the Bank informed the Supervisory Board on a regular basis about the business development and the situation of the Bank during the reporting year. The Supervisory Board met four times during the 2020 reporting year.

KPMG Luxembourg, Société coopérative, Luxembourg, audited the financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank and issued an unqualified auditors' opinion. The auditor also attended the extraordinary meeting of the Supervisory Board on 9 April 2021 to discuss the financial statements and reported on the results of the audit of the financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank.

The Supervisory Board and the presidential committee adopted resolutions on business transactions presented to them and other matters which require a decision by these bodies in accordance with the Articles of Association and the regulations pertaining to these articles.
The Supervisory Board also discussed the business and risk strategy of the Bank in detail. Fundamental issues concerning business policy and operational areas were discussed in detail at several meetings.

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

The Supervisory Board approved the management report and the financial statements of NORD/LB Luxembourg S.A. Covered Bond Bank as at 31 December 2020 at its meeting on 9 April 2021.
The Supervisory Board would like to thank the Managing Board of the Bank for the trusting cooperation and expresses its appreciation to the Managing Board and all employees of the Bank for the work performed during 2020.

Luxembourg, April 2021

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

Covered Bond Bank
Luxembourg

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

Tel.: +352 452211-1
Fax: +352 452211-319

mailto: contact@nordlb.lu
web: www.nordlb.lu