NORD/LB

Die norddeutsche Art.

Strategic Action.

Developing solutions with competence.
A bank provides answers.

Finanzgruppe

Annual Report 2016

	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015	Change (in %)
Income Statement (in € million)			
Net interest income	1 735	1 974	– 12
Loan loss provisions	2 956	698	> 100
Net commission income	219	234	– 6
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	415	280	48
Profit/loss from financial assets	49	72	– 32
Profit/loss from investments accounted for using the equity method	– 2	8	> 100
Administrative expenses	1 113	1 114	–
Other operating profit/loss	– 173	– 97	78
Earnings before reorganisation and taxes	**– 1 826**	**659**	**> 100**
Reorganisation expenses	– 39	– 6	> 100
Earnings before taxes	**– 1 865**	**653**	**> 100**
Income taxes	94	135	– 30
Consolidated net profit	**– 1 959**	**518**	**> 100**
Key figures in %			
Cost-Income-Ratio (CIR)	50,7	46,4	9
Return-on-Equity (RoE)	– 24,5	8,7	> 100

	31 Dec. 2016	31 Dec. 2015	Change (in %)
Balance sheet figures in € million			
Total assets	174 797	180 998	– 3
Customer deposits	57 301	60 597	– 5
Customer loans	105 640	107 878	– 2
Equity	6 041	8 513	– 29
Regulatory key figures			
Common equity tier 1 capital (in € million)	6 752	8 320	– 19
Tier 2 capital (in € million)	2 655	2 207	20
Own funds (in € million)	9 777	10 647	– 8
Total risk exposure (in € million)	59 896	63 675	– 6
Common equity tier 1 capital ratio (in %)	11,27	13,07	– 1,8
Total capital ratio (in %)	16,32	16,72	– 0,4

Minor discrepancies may arise in this report in the calculation of totals and percentages due to rounding.

Contents

Please find the detailed Corporate Governance Report at www.nordlb.com/legal-information/legal-notices/corporate-governance/

Who we are and what services we provide

As a **commercial bank,** NORD/LB provides an attractive and comprehensive offering of financial services to private, corporate and institutional customers as well as to the public sector, in Northern Germany and well beyond this core region. For example, NORD/LB participates in the structured financing of international projects, particularly in the areas of energy, infrastructure, shipping, aircraft and real estate. Through Braunschweigische Landessparkasse, NORD/LB operates as a savings bank in the region between the Harz and Heide, Holzminden and Helmstedt.

NORD/LB acts as a **Landesbank** in the federal states of Lower Saxony and Saxony-Anhalt, where it provides support for banking business, and is available to promote the economic development of the region. In Mecklenburg-Western Pomerania and Saxony-Anhalt NORD/LB provides advice to customers about current investment and subsidy programmes.

In its capacity as a central bank for the savings banks, NORD/LB is also a partner for all of the **savings banks** based in Mecklenburg-Western Pomerania, Saxony-Anhalt and Lower Saxony. Moreover, it is also a service provider for savings banks in other federal states such as Schleswig-Holstein. NORD/LB offers all the services that the savings banks require for their activities. The nationwide and international network within the NORD/LB Group creates ideal solutions for customers of the S-Finance Group.

NORD/LB is the **parent company** that guides all business activities in alignment with strategic objectives, creates synergy effects, bolsters the customer divisions and bundles the service offerings.

NORD/LB
Die norddeutsche Art.

Braunschweigische Landessparkasse
Ein Unternehmen der NORD/LB

NORD/LB
Covered Bond Bank Luxembourg

NORD/LB
Asset Management

DEUTSCHE/HYPO
Ein Unternehmen der NORD/LB

BLB
Your Specialists. Your Bank.

approx. 240 000
current accounts in the Braunschweig region

> 6400
employees

approx. 2400
corporate customers

> 5000
properties financed

1363
ships financed

612
aircraft financed

> 70
savings banks in the savings bank network

Strategic Action.

Broadly diversified and yet highly specialised: What makes NORD/LB´s business model so special and what strategy it will apply in the year 2017 to keep it on track for profit are explained by the new Chairman of the Managing Board Thomas S. Bürkle.

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Developing solutions

with competence.

External factors cannot always be influenced. Though the way in which they´re dealt with can be. We meet challenges – such as those continually posed to us by the shipping sector – with a cool head and circumspect decision-making.

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A bank

provides answers.

Digitalisation, low interest rates, international orientation: Dynamic times raise questions – for our customers, business partners and employees. NORD/LB has an ear that´s open to everyone and has many good answers.

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Introduction by the Chairman of the Managing Board

Thomas S. Bürkle
Chairman of the Managing Board of NORD/LB, Hanover

Dear reader,

2016 was an extremely challenging year for NORD/LB. The global shipping crisis has once again intensified and NORD/LB responded with another massive increase in its risk provisioning. As a result, the Bank has posted a loss for the first time since 2009. It is obvious that a loss of this magnitude is painful. Yet NORD/LB is strong enough to withstand it unaided.

One of the biggest tasks for 2017 will be to integrate the Bremer Landesbank into NORD/LB Group. At the same time, there‘s a huge opportunity here. We will use this opportunity to reorganise the Group as a whole and make it more efficient. We will continue to develop our business model and reorganise the structure of business segments within the Group. In so doing, we will tap into synergy potential and optimise and streamline work processes across the Group.

All of us at NORD/LB will work on this with full vigour and dedication, as will also be the case for the other challenges we face such as the digitalisation of the financial sector and the tightening of regulatory requirements. I have no doubt that we will succeed in our endeavour. We have already made great progress on scaling back the shipping portfolio, and we will continue in this vein in 2017.

„We will continue to develop our business model and reorganise the structure of business segments within the Group."

What is often overlooked: NORD/LB consists of much more than ship finance. It has considerable profitability. All our business segments outside ship finance are profitable, despite pressure on margins and low interest rates. In the past year, we have again been able to realise many successful and innovative finance operations for our customers, for instance in the fields of renewable energy, aircraft finance, infrastructure projects, for commercial real estate and in agricultural banking as well as in all other sectors for our Mittelstand corporate clients. For this, we must not only thank the knowledge and commitment of our employees, but also the trust placed in us by our customers, investors and owners.

For this trust, I would like to express my heartfelt thanks. I look forward to continuing this excellent collaboration as partners in future.

Kind regards,

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

Introduction by the Chairman of the Supervisory Board

Peter-Jürgen Schneider
Minister of Finance, State of Lower Saxony, and Chairman of the Supervisory Board of NORD/LB, Hanover

Dear reader,

A solution isn‘t really worth much if it only solves one problem. Finding solutions in order to tread new paths and finding adequate responses to new questions – that is our ambition at NORD/LB Norddeutsche Landesbank.

One example is obvious: The shipping crisis once again placed the Bank before new challenges in 2016 – and not only in day-to-day business. A solution also had to be found to absorb the impact of the shipping crisis on the Group subsidiary Bremer Landesbank (BLB). With the complete acquisition of BLB by NORD/LB, we were not only able to ensure the continued existence of BLB, we also created new possibilities to reshape the Group for the future and to lead NORD/LB as a whole back into calmer waters.

Following Dr Gunter Dunkel‘s retirement, we welcome Mr Thomas Bürkle as new Chairman of the Managing Board. He has excellent knowledge of the NORD/LB Group in all its facets and will lead the Group decisively and with a steady hand into the future – in that good North German way that is usual for us. He takes on the reins of a bank which is among the leading providers, both nationally and internationally, in many business fields. Many of the highlights of this report also show this.

„We created new possibilities to reshape the Group for the future and to lead NORD/LB as a whole back into calmer waters."

At this point, I would like to express my heartfelt thanks to our previous Board Chairman Dr Gunter Dunkel for his excellent work over the past years. He took office in the year 2009 in very difficult times and had the task of steering NORD/LB through the tumult of the global finance and shipping crisis. That was no easy feat. Nevertheless, the Bank's capital could be strengthened in this adverse environment and the ever tighter regulatory requirements could be satisfied.

The challenges that the Bank had to face will remain for his successor. In meeting these challenges, I wish the Board a lucky hand. 2016 was no easy year for NORD/LB. But it was a year on which it can grow.

Kind regards,

Peter-Jürgen Schneider
Lower Saxony
Chairman of the Supervisory Board of NORD/LB Norddeutsche Landesbank

Extended Group Managing Board

Dr Thorsten Schmidt
Born 1964, Chairman of the Managing Board of NORD/LB

Dr Hinrich Holm
Born 1965, Deputy CEO, Treasury, Markets, Bank Asset Allocation, Corporate Finance, Corporate Sales Savings Banks, Credit Asset Management, Savings Bank Network, Investment Bank Saxony-Anhalt and Relationship Saxony-Anhalt as well as Asia Pacific and China

Andreas Pohl
Born 1957, Speaker of the Board of Managing Directors of Deutsche Hypo

Christoph Schulz
Born 1960, Private and Commercial Customers and Foundations; Chairman of the Managing Board of Braunschweigische Landessparkasse

From left to right: Thorsten Schmidt, Dr Hinrich Holm, Andreas Pohl, Christoph Schulz, Ulrike Brouzi, Christoph Dieng, Thomas Bürkle, Günter Tallner, Christian Veit

Ulrike Brouzi
Born 1965, Chief Financial Officer (CFO); Chief Operations Officer (COO); Finance/Tax, Organisation and IT, Corporate Services, Group Security Division, Compliance and Landesförderinstitut and Relationship Mecklenburg Western Pomerania

Christoph Dieng
Born 1967, Chief Risk Officer (CRO); Credit Risk Management, Finance and Risk Control, Special Credit Management, Research/Economy as well as Landesförderinstitut and Relationship Mecklenburg Western Pomerania.

Thomas S. Bürkle
Born 1953, Chairman of the Managing Board (CEO); Managing Board Office/Legal/Investments, Human Resources/Organisation, Internal Audit, Corporate Communication and Strategy Development

Günter Tallner
Born 1962, Corporate Clients, Housing, Agricultural Banking, Ship Finance, Aircraft Finance, Structured Finance (Energy and Infrastructure), Relationship Management, Institutional Clients, Relationship America in ANL New York.

Christian Veit
Born 1970, Chairman of the ManagingBoard of Bremer Landesbank

Strategic Action

On our own steam

Interview with Thomas Bürkle

// *Mr Bürkle, you assumed the reins as Chairman of the Managing Board of NORD/LB at the start of the year. Would you have wanted the times to be different for your start?*
Thomas Bürkle: In life, it´s not about wishing, it´s about doing. Of course, the environment in which we now find ourselves isn´t easy. And of course the loss that NORD/LB posted in 2016 is painful. Important to remember though is the following: The loss is not the result of a weakness in operations, but is rather the necessary consequence of a massive cautionary measure. It is therefore more a sign of strength and certainty of action and not an indication of weak profitability or of a defect in the business model.

// *// In view of the € 1.9 million pre-tax loss, could you explain that?*
Thomas Bürkle: Last year, NORD/LB generated income of € 1.1 billion before loan loss provisions. We slashed our costs considerably and have a cost-income ratio of 50.7 percent. This clearly shows our very strong position, also when compared to peers. The biggest challenge we face is the shipping crisis, and for this reason, everybody is talking a lot about it – us, the media, the rating agencies, the analysts, the investors. But we mustn´t forget here that NORD/LB is not simply a shipping bank. 85 percent of the finance we provide has nothing to do with ships – but rather with aircraft, renewable energies, commercial real estate, infrastructure, Mittelstand corporate clients and private banking. All these segments are profitable. We have a broadly diverse business model.

// *All the same, you must still absorb loan loss provisions of over € 2.9 billion in respect of shipping finance which drags the annual result into the red. For NORD/LB, that sort of magnitude is unprecedented, Mr Bürkle.*
Thomas Bürkle: That is correct. These loan loss provisions are a determined and necessary response to the renewed intensification of the shipping crisis. They make the Bank more robust and resistant. In our Annual Report 2016, this is certainly painful. But in taking this decision, we limit our future downside risk considerably.

// *So you view the loan loss provisions as a sort of liberation?*
Thomas Bürkle: This word goes a little too far for me. The shipping crisis is not yet over. In future years, we will also see further significant loan loss provisions for ship finance – but certainly no longer in this order of magnitude. Accordingly, we are back on track for a profit in 2017.

// Will you be able to satisfy the increasingly tighter demands of banking regulators with these results though?

Thomas Bürkle: We will see a temporary and moderate deterioration in our capital ratios, so much is clear and also planned. But that will of course not be the permanent state of affairs. We will also gradually improve our ratios again. In recent years, we have significantly strengthened our tier-1 capital and this is because – despite the global financial crisis, despite the Euro crisis, despite the shipping crisis, despite low interest rates – we have always been profitable thanks to our diversified business model. And we have owners who have always supported our capital-boosting programme. That was very circumspect, but it wasn´t a matter of course. All this is now paying off.

// The shipping crisis has also impacted on the Bremer Landesbank where considerable adjustment now stands to be made.

Thomas Bürkle: And not only there – the complete integration of the Bremer Landesbank will impact on the entire Group. It will be bound even more tightly together in future. We will optimise processes and ensure the networks of both banks are brought even closer together. We want to exploit significant synergy effects and so make further reductions to costs. And we want a business model which is entirely free of overlap. We want to turn a Group of hard-hitting banks into a hard-hitting banking Group. To this end, we have created the «One Bank» initiative. We see the integration of Bremer Landesbank as a clear opportunity.

// One of the challenges which you face, both in Hanover and Bremen, is the announced reduction of the ship portfolio in the Group to a total volume of between € 12 and € 14 billion. Is that at all realistic in this catastrophic market – especially as you are not the only ones now jostling on to the market?

Thomas Bürkle: That is not easy, but it is feasible. We are pursuing various approaches in parallel, from the search for new capital providers to the reduction of individual ship loans all the way to the marketing of larger packages. In this way, we reduced the ship portfolio by around € 2.2 billion last year alone. We are therefore on good track.

„We can do lots of things that others can‘t do.“ Thomas S. Bürke stresses where NORD/LB‘s strengths are.

// *Also quite apart from the shipping crisis, the financial sector is currently under pressure: Low interest rates, digitalisation, FinTechs weigh on all banks. Where is room left for NORD/LB here?*
Thomas Bürkle: Irrespective of how interest rates develop, we are possibly less sensitive to the impact of interest rates than our rivals. In many of our business areas, we are a highly specialised provider of expertise. Customers come to us because we can do lots of things that many others can´t do. We were never an interest rate discounter. As regards digitalisation, we must certainly improve our own IT processes on the one hand, but that is currently a challenge facing all banks. On the other hand, we want to learn and benefit from new business models in the FinTech sector. To this end, we have established a joint venture with Dieter-von-Holtzbrinck Ventures in order to fuel young start-ups. We want to play an active role here, and what we have seen up to now is promising.

// *Where do you see the Bank in one year´s time, after your first year as Board Chairman?*
Thomas Bürkle: In one year´s time, Bremer Landesbank will be much more closely integrated into the Group, capital ratios will again be moving upwards, loan loss provisions will be far below their year-ago value – and we will be back in the profit zone. We will be exactly where we belong.

Developing solutions with competence

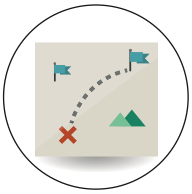
Hedging risks. Optimising portfolio quality. Improving efficiency.

2016

At the beginning of the year, NORD/LB´s ship financing portfolio stood at € 19 billion. For us, this was the starting point for a significant correction in course.

€ 16.8 bn totalled NORD/LB's Shipping portfolio as at 31 Dec 2016

12 % Decrease of shipping portfolio

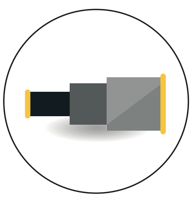


12 to 14 billion

We plan to reduce our ship financing portfolio to this level by the end of 2018.

€ 520 Mio Increase of portfolio due to a stronger USD

3 % rise caused by the USD effect



€420 million

in new business in the shipping sector in 2016. A contradiction? No, targeted investment in high growth segments – and thus a contribution to shoring up the future of this business area.

50 % cruise ships and ferries
20 % special tonnage
30 % tanker

2017

In this year, we again expect positive earnings performance. We have set the course for this and for portfolio reduction with our risk provisioning measures.

Ship finance:
Change of course with sustainable strategy

The hope of a recovery on the shipping markets was not realised in 2016 either, after now eight years of stormy seas. On the contrary, the situation once again intensified. For a Bank like NORD/LB, which has been an active lender to the shipping industry for over 45 years, these fundamentals have obviously had a considerable impact on earnings. For us, 2016 was the starting point for the implementation of a comprehensive set of measures for reorganisation in this sector.

1. Increase in loan loss provisions
The issue of risk provisioning for ship finance has been with us for a long while. Acting with due circumspection, we have used recent years to strengthen our capital base and to establish and expand a financial buffer.

In 2016, we again hiked loan loss provisions for shipping risks considerably. Although this resulted in a negative result, we are satisfied that our decision was the right one – and for good reason. Thanks to our strategic action, we have ensured we have built the necessary strength to absorb the negative result with no external help. From as early as 2017, we expect to be in the black again. We also benefit here from the broad diversification of our business model: With the exception of ship finance, all other business fields are profitable and relaxed with regard to the risk situation.

The result of the stress tests carried out in 2016 by the European Banking Authority (EBA) also confirms our stability. The stress tests showed that NORD/LB has adequate capital even in an extreme crisis scenario.

The strengthening of the capital base and the reinforcement of profitability over recent years is paying off.

New concepts for one of NORD/LB‘s longest standing business fields.

2. Reduction of ship finance portfolio
The increase in loan loss provisions also lays the foundation stone for a basic component of our package of measures: the improvement of portfolio quality. We will essentially achieve this by actively and significantly scaling back our ship finance portfolio.

In order to push forward this reduction in a focused way, we established a new business unit in 2016. Within NORD/LB‘s existing portfolio, the Ship Asset Trading team will drive the sustainable reduction of the portfolio forward.

Our objective is clearly defined: Whereas at the beginning of 2016 accounts still revealed € 19 billion in ship finance, by the end of 2018, the corresponding figure will stand at between only € 12 and € 14 billion. On this ambitious path, we have already achieved a lot with a reduction of € 2.2 billion in the 2016 financial year alone. This success confirms that our chosen path is the right one and that we should continue in this vein.

3. Selective and high-quality new business
Shipping is and remains essential for the global economy. NORD/LB does not only view remaining active in this sector as a necessity, but also as an opportunity. By carefully expanding our business activities, we are consciously extending our radius internationally, specifically towards Asia. The objective behind this is to increasingly reflect the global market in the shipping portfolio alongside the domestic German market.

We are very selective regarding new business in this sector and always ask ourselves: What will sustainably improve the quality of our portfolio? In this way, we are moving away from commercial shipping and are increasingly focusing on high-growth segments such as cruise ships, selected types of ferry and special ships.

For an improved risk quality and a more profitable portfolio in the long term: In new shipping business, NORD/LB is increasingly focused on popular special ships. In particular, these are certain types of ferry and high-growth cruise ships.

Through further diversification of the global portfolio, we are continuing to develop our business approach.

Conclusion
In view of the difficult economic framework conditions, our tried and trusted business principle of taking a cautionary approach has again proved to be a decisive advantage. Our motto is „First build the capital and then plan its application". This sounds simple, but in the reality of shipping markets, it is a complex challenge. We know that we need to play a long game here. But in this way, we will always remain in a position to decide ourselves in what form and at what pace the sustainable reform of our ship finance business should move forwards. In financial, strategic and operational terms, we are best equipped.

The transformation of our ship financing business is already becoming clearly evident in the first year already:

134 ships

The number of ships divested from our portfolio in 2016.

€ 2.2 billion

The extent by which the ship portfolio was scaled back in 2016.

39 ships

The number of ships acquired in the fields of cruise ships, ferries, tankers and special tonnage to the detriment of commercial shipping.

48 %

The extent of cover for non-performing loans through loan loss provisions.

Shipping and financial competence in a strong network: Joint Venture of NORD/LB, Offen Group and Caplantic

In February 2016, NORD/LB, the shipping company Offen Group and Caplantic GmbH, a company specialised in alternative assets established a joint venture in order to pool their expertise in the field of shipping and finance. Crystal Ocean Advisors GmbH is to be expanded to become an international provider for the restructuring and resolution of non-performing loans in ship finance. The newly established company is another building block in the strategic evolution of NORD/LB on the road to becoming a credit asset manager.

In the German shipping market, this integrated service approach is unique up to now. The three stakeholders see the greatest market potential in the high interest of many institutional investors looking to enter the shipping sector, but without the necessary cross-sector knowledge.

Bremer Landesbank: now fully integrated into the NORD/LB Group

NORD/LB previously held a 54.83 percent stake in Bremer Landesbank (BLB). From 1 January 2017, this stake increased to 100 percent. Bremer Landesbank is traditionally strong in shipping and ship owning company business. Through the course of the considerable tightening in capital requirements and in requirements governing loan loss provisions as set by the European Central Bank, the decision was taken in August 2016 to integrate BLB fully into NORD/LB Group. Both BLB as well as NORD/LB are convinced they have found a good solution for all sides with this step.

BLB remains an active and valuable member of the NORD/LB Group and will continue to play an important role there in future. NORD/LB's Managing Board made this explicitly clear on the acquisition. How the detailed structure of BLB will look within the Group in future is currently being thoroughly reviewed and planned. Its services will be offered in full within the NORD/LB Group.

Although BLB currently still covers a broad range of services, which to some degree overlap with the NORD/LB's service offering, synergy effects are to be used more intensively and efficiently from 2017. As a result, new opportunities will arise for the efficiency and competitiveness of BLB.

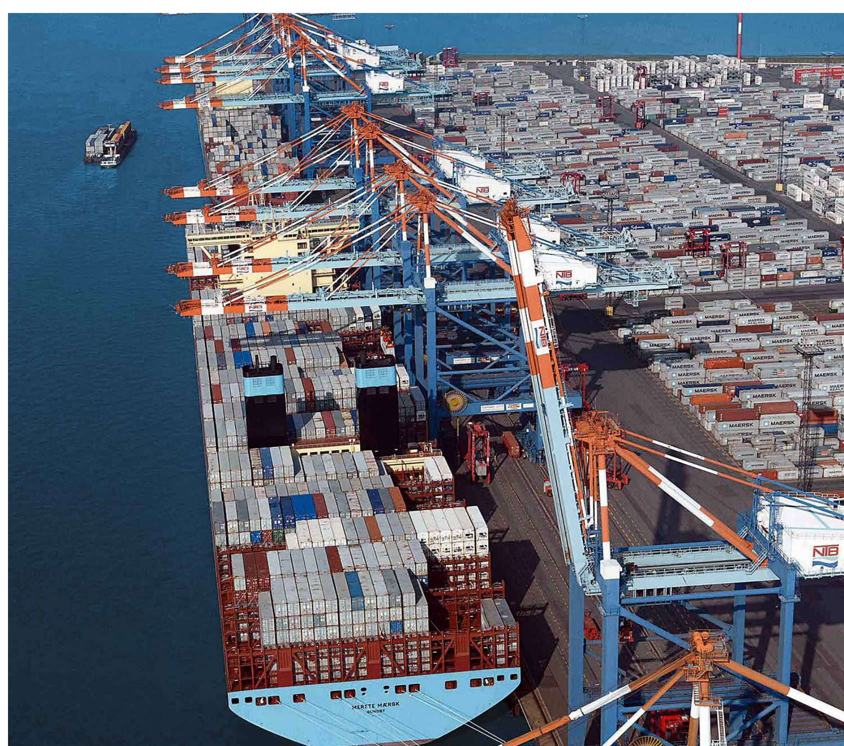
Finance for gantry cranes

BLB's corporate client division has already in 2016 made valuable contributions to the NORD/LB Group – for example in the complex finance of gantry cranes.

At least 85 percent of global trade is conducted by sea. Gantry cranes provide efficient loading and unloading of ships at transshipment terminals in ports and are thus essential in international goods transport. For investments in new gantry cranes on the quayside in Bremerhaven, a challenging finance model was spearheaded by BLB and its team of experts in Ports/Logistics, also including comprehensive funds from the KfW programme. This finance model was subsequently structured and implemented in line with customer needs.

As at 1 January 2017, Bremer Landesbank is 100 percent owned by the NORD/LB Group. Among its biggest projects in 2016 was the finance of gantry cranes in Bremerhaven.

- Individual loan grant from KfW funds based on the collateral provided under a pool agreement in the amount of up to € 70 million
- Concurrent harmonisation with flexible revolving credit facility (RCF) in the amount of € 25 million
- Different financing groups in both loans



A bank provides answers

Dr Ulrich Erxleben, Founding Member of Smacc

Together with Stefan Korsch and Janosch Novak, Ulrich Erxleben established the start-up SMACC in May 2015. After completing his studies in St. Gallen, Switzerland, he held various positions, including in California's Palo Alto as well as San Francisco and New York. Today he is based just outside Berlin, and as the managing director of a young team at SMACC, he aims to make corporate finance as smooth and simple as possible. A business concept, which NORD/LB supports as investor.

“Is NORD/LB ready for the digital future?”

For many years, we have had a flexible response to the changing requirements of clients and markets and have structured our offers accordingly. Of course, we are not a young start-up, but a bank which looks back on a long tradition – and as such, we can contribute towards the ascent of new and innovative ideas.


I ♥ Accounting

Tapping into new markets with FinTechs

FinTech

As the short form of the term “financial technology”, FinTechs are modern, mostly web-based technologies and applications in the field of financial services.

Flexible, dynamic, innovative – for a number of years now, technology-driven companies, often startups, have been storming on to the market for financial products and services, for instance with mobile payment and trading solutions and in lending business. FinTechs (see inset) have thereby pushed their way into segments which have traditionally been reserved for established banks – and have created a new competitive environment.

Instead of viewing these as competition or even as a threat to our own business model, we embrace FinTechs and take a close look in order to assess whether they could make a worthwhile investment for NORD/LB. Through targeted investment in FinTech start-ups, we also benefit from the extension of our own service spectrum and we reinforce our position as provider of innovative solutions.

Digitalised accounting with SMACC
SMACC is a digitalised accounting platform co-financed by NORD/LB. “SMACC’s objective is to make finance as smooth and simple as possible for companies of all sizes and sectors,” Ulrich Erxleben explains, one of the three founding members of SMACC. “Though there’s more: With our solution, otherwise such tedious tasks like accounting can be fun!”

Here, the SMACC team has developed intelligent software which digitalises financial processes such as invoice management and payments and automates current accounting. As a result, companies gain financial transparency and control – and are freed up to focus more on their core business.

“We see ourselves as problem solvers with a unique offer in this segment.”

Ulrich Erxleben, Founding Member of SMACC

BLSK direkt: Service on all channels

Customer requirements are changing rapidly. Irrespective of opening times and appointments, they want quick answers to their questions and preferably an immediate solution. To this end, customers are increasingly turning to digital options. This by no means only applies to the so-called digital natives. Older people and inhabitants of more rural regions increasingly prefer the comfort of the telephone, tablet or smartphone.

A good example of how we as a bank have evolved with the wishes and demands of our clients is BLSK direkt – a bundled, cross-media service offering of the Braunschweigische Landessparkasse (BLSK). Lars Dannheim, Departmental Head of BLSK.direkt, explains.

"A telephone call with our service team lasts four minutes on average. That's all it takes for the customer to explain his or her concern and we take care of the rest. Not bad when you compare that with the time taken for an in-branch visit. And this brings us right into the middle of a long list of arguments in favour of our branch-independent service offering. With "BLSK direkt", we have created an interdisciplinary competence centre for service.

What does that mean? Since 2015 we have provided a central service as opposed to classic in-branch service to our private banking clients in all areas – and from 2017 also for business clients. Clients complete the lion's share of their banking activities via various communication channels such as telephone, internet, e-mail or app. We are continually expanding our service offering and supplementing it by digital services such as, for example, photo transfer and Kwitt, a payment system via smartphone. In this way, the banking experience is becoming increasingly convenient for clients.

Experience shown that most questions can be answered quickly and simply via BLSK direkt. And this is even coupled with higher availability: Website and app are available around the clock for information, online banking and placing service orders. Telephone hours extend far beyond branch opening times, there is no waiting time and no travel time. With regard to more complex matters, e.g. financial analysis, pension arrangements, investment advice or real estate issues, we offer face-to-face consultations at one of our many sites. BLSK direkt ensures that there is sufficient consultation capacity in our branches. Our central telephone team also supports our colleagues in branch by arranging appointments by telephone in order to make use of this capacity.

As a bank, it is crucial for us that we recognise customer needs early on and respond with attractive offers. Here, BLSK is a trailblazing and creative solution:

In our "Digital Lab", a type of think-tank, we bring together ideas for future-oriented technologies and products. These are tested with regards to their suitability for everyday use and profitability for our business. The motto is: Stay innovative and just do it!"

3010

The BLSK direkt central service number for private clients is well-known in Braunschweig.

85 %

satisfaction level with BLSK direkt a revealed by regular surveys – a top score amongst savings banks!

11 000

Internet branch orders recorded by BLSK in 2016.
BLSK leads in terms of the benchmark used by the Sparkassenverband.

"A 30-man service team deals competently with customer enquiries," Lars Dannheim explains, Departmental Head of BLSK direkt.

Holger Twist Head of Finance Flensburger Brauerei

When companies comprehensively invest in their energy efficiency, this is essentially a question of finance. As Head of Finance and Accounting of the brewery, Flensburger Brauerei, Holger Twist knows exactly how important close cooperation based on the trust between bank and business is. Alongside the environmental aspect, he is responsible for ensuring the costbenefit relationship is right for the brewery – just as in the current joint project with NORD/LB (from page 34).

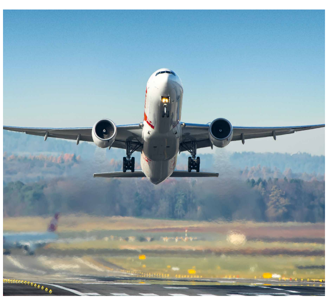
“Interest rates are at an historic low – what solutions does NORD/LB offer?”

Since classic investments are often not an option, we support our institutional, business and private banking clients in their search for alternatives. Depending on their investment profile and target, this may be a fund, an aircraft investment, an investment in renewable energy or otherwise the recommendation that now is the right time to invest in one’s own efficiency.

Targeted and strategically intelligent investment

Credit Asset Management: Partner for Alternative Investments

In 2015, NORD/LB expanded its business model to include Credit Asset Management. Since then, it has acted as the interface between credit markets and institutional clients. Our task, amongst others, is to develop credit further, turning it into a professional investment product – with the objective of positioning NORD/LB as a leading provider of alternative assets. In the current period of low interest rates, investment opportunities outside conventional areas of investment are very much in demand.



One of the first transactions of the newly established business area – the placing of finance for a Boeing passenger aircraft of the type B777-300ER – went very successfully. Demand from a broad circle of potential investors was high. Today, participants have an aggregate value of €3.9 billion.

Further aircraft finance products have proved an attractive investment. They are particularly suitable for the investment needs of institutional clients such as insurance companies and pension funds on account of their long maturities.

The placement of finance for a Boeing B777-300ER met with high demand from investors.

First joint project between NORD/LB and Talanx: Together, the two partners provided followup finance for the Finsterwalde II and II solar parks near Cottbus in Brandenburg.

Renewable energies as attractive field of investment

Joint finance in renewable energies: The collaboration between NORD/LB and Talanx represents the first time two large North German players from the finance and insurance industry have worked together. Within the framework of a cooperation agreement, together with Talanx as institutional investor, in 2016 we provided around € 85 million for the long-term finance of two solar parks in Brandenburg.

“This finance is yet another building block in our portfolio of successful renewable energy projects,” Christoph Schellkes says, Head of Credit Asset Management at NORD/LB. “With our comprehensive expertise in this field, we would like to improve access for investors – especially institutional investors – to this high-growth market. The solar park investment is an important step in this direction.” With Talanx, we have found a long-term investor and thus ideal partner for this infrastructure project, which runs to the end of 2029. “With this investment, we have again secured a return which is considerably higher than the current yield on German sovereign bonds. We also supplement our portfolio sustainably in the field of alternative capital investments,” Katharina Thomas stresses, Senior Investment Manager at Talanx Asset Management.

Finance was provided for the Finsterwalde II and III solar parks near Cottbus. The two parks have a total output of 39.8 megawatts and can provide 10 800 households with electricity. The solar parks have been in operation since 2010. NORD/LB and Talanx have now secured followup financing after the previous funding arrangements expired.

Future-oriented investment in energy efficiency

It can be found in machines, processes and buildings: Savings potential which is just waiting to be discovered and exploited. But to do this, investment is often necessary; investment which lots of entrepreneurs shy away from. At present though, measures to improve energy efficiency are especially interesting, not only ecologically, but also economically: Thanks to historically low interest rates, above-average long maturities and high redemption subsidies, such as those granted by the KfW, investments can pay off even in just a few years – and have a sustainable and positive impact on the operating result.

Flensburger Brauerei: low interest loan for modernisation improving energy efficiency
The brewery, Flensburger Brauerei, a long-standing client of NORD/LB, recognised this potential many years ago. Within the framework of the ISO-50001 norm, the company has systematically improved its energy efficiency. Already in 2013, the brewery installed its own combined heating and power unit. This was followed in 2016 by the expensive refurbishment of a warehouse to become a production facility. The brewery secured finance via NORD/LB as its local bank, working in cooperation with KfW.

This cooperation was possible because the modernisation included roof insulation and the incorporation of a modern ventilation unit with heat recovery. Overall, the company received around € 714 000 from the KfW “Bauen und Sanieren” energy efficiency programme for this investment. The redemption subsidy stands at five percent. Alongside energy costs, these measures will also mean the brewery makes an annual emissions saving of 30 tons of carbon dioxide.

Flexible investment solution from Bremer Landesbank

At the beginning of 2016, Bremer Landesbank (BLB) expanded its family of fund products to include yet another innovative investment strategy, the BLB Global Opportunities Fund. The investment objective is to tap into as big an earnings potential as possible. This is to be achieved through broad diversification with flexible investment focus and active management. The investment universe is comprised of international bond, equity and commodity markets, FX as well as alternative investments.

Improving the operating result with targeted investment: Holger Twist, Head of Finance at the brewery Flensburger Brauerei, talks about efficiency measures with Stefan Oellrich from NORD/LB.

BLB Global Opportunities Fund has a free and completely flexible approach. It uses tried and trusted accounting models, though imposes no restrictions on the distribution of assets classes. The fund managers are free to choose to invest 100 percent in equities if their analysis shows this to be sensible. Equally, they are free to invest 100 percent in gold or in bonds. Derivatives are also possible in order to hedge risks. The portfolio is hedged where certain market events are expected. In this way, the fund also remains capable of responding, even in extreme phases.

New fund solution for foundations

Foundations require reliable annual payouts in order to finance their charitable work. Thanks to its long-term experience in individual management for foundations, NORD/LB is very familiar with these requirements. Since November 2015, we have also made our expertise in this area available via a fund solution. "Nordlux Pro – Stiftungs Partner A" combines predictable regular payouts with the objective of protecting the foundation's assets.

Long-term, globally focused investment strategy
Those responsible for the foundation benefit from a direct link to portfolio management and from additional services. Moreover, institutional clients with sufficient capital have the option of extending the fund to include their own customised asset class. On account of its long-term, globally focused investment strategy and low fees, the fund is also suitable for private investors with its asset managed character.

In the difficult capital market environment of 2016, the fund turned in performance of 4.10% and made a payout of 2.25%.

Dr Sandra Reich, Head of German Desk Asia Pacific (ex-China)

Dr Sandra Reich has supported the management team of NORD/LB Singapore Office since August 2016. As former Managing Director of the Hamburg and Hanover stock exchanges and law graduate, she brings with her comprehensive expertise and experience in banking and the stock market sector. In Singapore, she spearheads the German Desk, which provides support to German corporate clients in their business activities in Asia.

“What opportunities does NORD/LB use on international markets?”

We know no limits in customer care. We want to be not only where our customers are – but also to accompany them to the places where they do business as an expert partner. Accordingly, we have expanded our presence in our core markets and have gained new business fields as a result.


CAPITAGREEN
138 Market Street

Strong presence for our customers in Asia

Asia remains a boom region. Despite waning growth rates in China, Asia's markets remain the driving forces of the global economy. Many of our customers also see it this way and are expanding their own businesses in Asia. In order to be at their side, we have reinforced our presence in Shanghai and Singapore. In the coming months, we want to grow considerably in Asia. Our focus here is on project finance in the fields of energy, infrastructure, in ship and aircraft finance as well as in finance for German Mittelstand companies.

Focus on renewable energies and aircraft finance
In particular in the field of renewable energies, our long-term German and European customers are among the world's leading providers. In view of the substantial pent-up demand as part of the expansion of energy infrastructure in many Asian countries, our customers are looking to exploit the many market opportunities there. We assist them here with our expertise.

In aircraft finance, NORD/LB has in recent years established a new team with finance experts at its Singapore office. Through this we hope to participate in the dynamic growth projected for the Asian air travel market over the coming years. This way, we will also contribute to achieving one of NORD/LB's strategic targets: increasing the diversification of the entire business with aircraft finance.

German Desk supports German corporate clients in Asia
With 80 employees at the Singapore office and 20 employees in Shanghai, NORD/LB is today already the leading German regional bank in Asia. In China, on account of the distinguishing feature of NORD/LB, we are the only operational German regional bank in the People's Republic and the preferred business partner for financing solutions for German companies.

Outside China, the Singapore office provides the competence centre in the Asia Pacific region for lending and finance business with NORD/LB's German Mittelstand corporate clients. Their point of contact on site is the German Desk.

Ambitious on Asian markets: NORD/LB's Singapore office has 80 employees and houses the German Desk for German Mittelstand corporate clients.

“We build bridges from Germany to Asia”

A conversation with Dr Sandra Reich, Head of the German Desk at NORD/LB Singapore Office
Dr Sandra Reich has been the face of the German Desk at NORD/LB in Singapore since 1 August 2016. She coordinates all steps, from customer enquiry all the way to the solution. She works closely both with the team at NORD/LB’s Singapore office as well as with the headquarters in Germany.

// How do you describe the function of the German Desk?
Basically, we aim to be where our customers are. Only in this way are we able to develop solutions for needs which arise here on site. In this way, we build bridges from Germany to Asia. We aim to make the customer’s life easier by providing support with individual financing enquiries and accompanying them as a trusted partner in what is often a new environment for them.

// What questions do your customers approach you with?
Overall, infrastructure in Asia for foreign companies is very good. Support from NORD/LB is therefore very targeted, for instance, when a customer is looking at specific investment. Financing, optimisation, orientation – this trio essentially describes the issues which we help our customers with. The comprehensive offer therefore stretches from working capital loans, via factoring and risk management all the way to cooperation with an Asian bank.

Targeted expansion of European-wide activities

Wind and solar projects in France
For over 20 years, NORD/LB has been active in the financing of renewable energies – at present the financing volume stands at € 9.3 billion. As we see it, France is one of the biggest growth regions in the field of renewable energies. In 2016, we took further steps with various finance projects to expand our involvement and establish France as a NORD/LB core market, alongside Germany, UK and Ireland. Meanwhile, we have financed around 500 megawatts in solar and wind energy.

- For the Austrian energy producer WEB Windenergiee AG (W.E.B), we financed the construction and subsequent operation of a large wind park with a total finance volume of € 63 million. The onshore wind park “Les Gourlus” with a total output of 38.4 megawatts (MW) is located in the ChampagneArdenne region.

- Together with Siemens, NORD/LB financed a 24 MW wind energy park for the company LongWing Energy in Département de Vienne, Region PoituCharantes. Total finance volume € 42 million.

- "Sheepfarm" was our first large-volume on-roof solar project in France. The complex consisted of 20 000 solar modules which were mounted on 505 shelters for breeding sheep as well as on two agricultural buildings. In total, we provided € 22 million in finance for the Danish fund manager OBTON A/S.

- Over the course of 2016, we intensified our collaboration with the Danish fund manager OBTON A/S and concluded finance agreements for two more solar portfolios, Batisolaire und ENR 1. The total financing volume of the three projects realised together with OBTON stands at some € 48 million.

Dynamic housing market in the Netherlands

We also managed to expand our already broadly diversified real estate portfolio in the Netherlands in 2016. Deutsche Hypo financed the acquisition of the housing portfolio "Granite" for a property company managed by PATRIZIA Group. The financing volume stood at € 68.6 million and was provided over a ten-year term.

The broadly diversified portfolio comprises 29 residential properties with a total of 1 275 residential units in 23 locations in the Netherlands. The majority of the properties, with total floor space of 107 744 square metres, are located in large cities such as Amsterdam, Zwolle and Dordrecht.

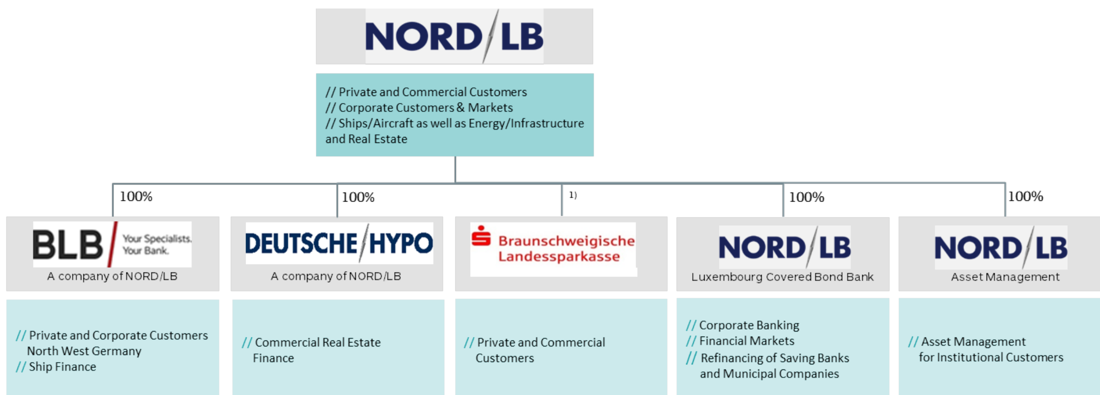
This once again underlines our strong position in the Netherlands, one of the core markets of NORD/LB. The housing market there currently appears to be in very good shape and is still in growth. We are optimally positioned to benefit from this in future too.

2016

Group Management Report

The Group – Basic Information

Overview of the Group



1) NORD/LB institute with partial legal capacity

NORD/LB Group's Business Segments

Private and Commercial Customers	// Private and Commercial Customer Business
	// Corporate Customer Business and Private Banking Business
	// Insurance Payments

Corporate Customers	// Corporate Customer Business, Agricultural Banking, Housing
Markets	// Business with Institutional Customers, Savings Banks/ Financial Institutions and Public Sector Customers // Savings Banks Syndicate Business

Energy and Infrastructure Customers	// Financing of Renewable Energies
	// Infrastructure Finance
	// Leasing and Export and Trade Finance

Ship Customers	// Ship Finance
Aircraft Customers	// Aircraft Finance
Real Estate Customers	// Commercial Real Estate Finance // Finance for Community Interest Properties

Business Model

NORD/LB Norddeutsche Landesbank Girozentrale (hereinafter: NORD/LB or the Bank) is a public-law institute with legal capacity and registered offices in Hanover, Braunschweig and Magdeburg. The Bank's head office is located in Hanover. Its owners are the federal states of Lower Saxony and Saxony-Anhalt, the Savings Banks Association of Lower Saxony, Hanover (Sparkassenverband Niedersachsen, referred to below as SVN), the Holding Association of the Savings Banks of Saxony-Anhalt (Sparkassenbeteiligungsverband Sachsen-Anhalt) and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania (Sparkassenbeteiligungszweckverband Mecklenburg-Vorpommern).

The subscribed capital amounts to € 1,607,257,810 with the federal state of Lower Saxony holding 59.13 per cent (of which around 33.44 per cent is held in trust for the federal-state-owned Hannoversche Beteiligungsgesellschaft mbH, Hanover), the federal state of Saxony-Anhalt holding around 5.57 percent, the SVN around 26.36 percent, the Holding Association of the Savings Banks of Saxony-Anhalt around 5.28 per cent and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania around 3.66 percent.

NORD/LB is a commercial bank, landesbank (federal state bank) and central bank for the savings banks operating in northern Germany and beyond this core region, with domestic branches in Hamburg, Munich, Düsseldorf, Schwerin and Stuttgart. The foreign branches in London, New York, Shanghai and Singapore play a significant role, ensuring the Bank's presence in all the major international financial and trade markets. As legally dependent business units, the branches pursue the same business model as NORD/LB. The values of trust, responsibility and sustainability applied throughout the NORD/LB Group are complemented by reliability and transparency.

As the federal state bank for Lower Saxony and Saxony-Anhalt, NORD/LB is responsible for fulfilling the functions of a central bank for the savings banks (giro centre). The Bank also handles promotional business on behalf of the federal states through Investitionsbank Sachsen-Anhalt – part of Norddeutsche Landesbank Girozentrale – and through the Mecklenburg-Western Pomerania Promotion Institute, a business division of Norddeutsche Landesbank Girozentrale.

NORD/LB acts as a central bank for the savings banks in Mecklenburg-Western Pomerania, Saxony-Anhalt and Lower Saxony and is the partner for all of the savings banks based in those states. It also acts as a service provider for savings banks in other German federal states such as Schleswig-Holstein. NORD/LB provides all the services that the savings banks require for their activities.

In the NORD/LB Group, NORD/LB acts as the parent company, controlling all of the business activities in line with the strategic objectives, creating synergies, reinforcing the customer divisions and bundling service offerings. The NORD/LB Group comprises among others

- Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen (referred to below as: Bremer Landesbank),
- Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover (referred to below as: Deutsche Hypo),
- Norddeutsche Landesbank Luxembourg S.A. Covered Bond Bank, Luxembourg-Findel (referred to below as: NORD/LB Luxembourg),
- NORD/LB Vermögensmanagement, Luxembourg-Findel and
- NORD/LB Asset Management AG, Hanover.

The Bank also maintains additional investments as detailed in the Notes.

Business segments

Private and Commercial Customers

The Private and Commercial Customers segment of the NORD/LB Group comprises various customer segments, primarily in northern Germany.

The following customer segments are served at NORD/LB locations:

Location Segment	BLSK	NORD/LB Hannover	Bremer Landes-bank	NORD/LB Hamburg	NORD/LB Vermögensmanagement Luxembourg S.A.
Service Customers	X	X			
Branch Consultancy Customers	X	X		X	
Retail-Firmenkunden	X	X		X	
Private Banking	X	X	X	X	X
Corporate Customers	X	X			

In Braunschweig and those parts of the former Duchy of Braunschweig which today belong to the federal state of Lower Saxony, Braunschweigische Landessparkasse (BLSK) performs the function of a savings bank, as an institution having partial legal capacity within NORD/LB. Within the scope of these responsibilities, BLSK offers banking and financial services of all sorts.

In the retail segments, the product range is geared to customer-specific savings bank financing concepts; it comprises all banking services and products for the credit and investment business, including fund products (primarily DEKA) and all financial services including insurance, real estate brokerage and home savings.

In addition, extended services in high-end customer segments include Bremer Landesbank's award-winning asset management services, tandem support for companies and corporate customers at BLSK and NORD/LB, entrepreneur banking at Bremer Landesbank and support for customers with international investment interests through NORD/LB Vermögensmanagement Luxembourg S.A.

In private banking and the corporate customers unit, the NORD/LB Group is positioned as the provider of choice at each of its locations. Bremer Landesbank's Private Clients Division constitutes a competence centre in the Group thanks to its asset and portfolio management for capital market transactions and its asset management services.

Corporate Customers

NORD/LB conducts its corporate customer business in its core region (excluding the business territory covered by BLSK) and at other selected locations around Germany. This comprises SME customers as well as agricultural banking and housing. In the network region, NORD/LB supports the savings banks and their customers with an extensive range of products as part of the syndication business. As a reliable and innovative partner for financial services, Bremer Landesbank's corporate customer business services are available to its customers in the north-western region, and throughout Germany for the food sector.

The NORD/LB Group offers its corporate customers numerous traditional banking products and services. These services include transaction management, tailored corporate financing, management of interest and foreign currency risk, and complex corporate financing. Professional liquidity and risk management, structuring of equity measures and innovative financing instruments supplement the product portfolio.

The aim within the corporate customer business is to position the NORD/LB Group as one of the leading partners for SMEs, thanks not only to its reputation as a quality service provider in the core region but also through nationwide business activity. By expanding the client base, extending the range of products and strengthening sales channels, the objective is to consolidate existing customer relations, win promising new customers and thus increase the granularity of the customer and business portfolio. The main goal is to achieve core bank status with customers.

Markets

Through the Markets segment, NORD/LB accesses the market for financial market activities requested on behalf of customers. The segment also has sales responsibility for savings banks and institutional customers. This customer group mainly includes insurance companies, asset managers, investment companies, banks and savings/regional banks, central banks, pension funds and institutions, the German federal government and the individual federal state governments as well as social insurance funds. Corporate Sales provides advice and support for financial market products in other business segments.

The offering includes traditional capital market products as well as alternative products not found in mass banking (including derivatives), e.g. special types of debt security, and tailored capital-market products for institutional customers such as corporate promissory notes (Schuldscheine), structuring of special funds, pool fund solutions, portfolio management mandates and institutional public funds. The secondary business includes sales and trading for securities of all types.

The Markets segment pursues a customer-focused growth strategy. This involves enhancing service and support for existing customers through a consistent multi-product approach, systematically acquiring new customers (regional banks, savings banks and pension funds) and strengthening placement activity in Asia and North America. This is designed to provide a firm basis for the placement and risk distribution products of NORD/LB and its cooperation partners among customers and investors.

The range of products and services in the Markets segment is rounded out by the promotional business, used by almost all the savings banks in the network.

Through its network business, NORD/LB's Markets segment makes both retail and capital market products available to the savings banks. The savings bank network business also includes the KfW promotional business and the relationship function with publicly owned savings banks.

NORD/LB's municipal loan business focuses on northern Germany and in particular on its defined catchment area. In addition to traditional and alternative municipal financing, NORD/LB offers integrated advice to municipalities on all aspects of municipal financing. In this context, NORD/LB's interest and debt management offers end-to-end support for municipalities aiming to optimise their interest burden. NORD/LB is also integrated within nationwide projects to advance the development of collaboration with municipalities.

For institutional customers, the NORD/LB Asset Management Group within the NORD/LB Group offers administration and management services for financial instruments. The particular focus here is on investors in customer groups comprising insurance companies, pension funds and institutions, foundations and banks (especially savings banks).

Energy and Infrastructure customers

The remit covers global business relations with customers of NORD/LB and Bremer Landesbank in various sectors: infrastructure, energy (including renewables in particular) and leasing. The central locations of this strategic segment are Hanover, Bremen and London. Customers are also offered support from locations in New York and Singapore.

Activities include structuring and provision of tailored financing solutions for project transactions. This segment meets a key market need by integrating institutional investors into hybrid financing structures, thereby improving opportunities for refinancing.

In the energy sector, financing relates mostly to new construction and capacity expansions of wind and photovoltaic plants. The core business area is Germany and other selected European countries, on the basis of cooperation with established project developers, operators and plant manufacturers. Through advisory mandates, NORD/LB supports the international spread of German project development expertise and exports of German technology. NORD/LB was a pioneer in this business segment, where it has been an active player for almost 30 years. Gas power plants and pipeline projects are also financed in the US market.

The main focus in the Infrastructure segment is on financing for projects in the social and public sectors (public-private partnerships/public-finance initiatives). Examples include university, school or public hospital buildings and transport infrastructure development. NORD/LB supports its customers with professional expertise and many years of local industry knowledge, from the start of the tender phase through to contract signing.

In the leasing business (movables leasing), the focus is on nationwide refinancing of SME and bank leasing companies. Selective expansion of business volumes in these growth sectors helps to diversify risk and bolster NORD/LB's long-term earnings stability. By growing the number of global advisory mandates and adding new institutional structuring partners, NORD/LB is modernising tried-and-tested syndication structures and tapping new earnings potentials. This area is consolidating its position on the market through the regional expansion of advisory and structuring activities, and raising its long-term commission revenues.

Ship Customers

The Ship Customers segment, comprising asset-related ship financing, operates mainly from Hanover and Bremen with support from branches in Hamburg and Singapore. The many years of expertise with this type of asset and the ability to develop tailored financing solutions for customers are used to position NORD/LB on the global market for ship financing. Traditional financing products are flanked by a range of additional services, enabling NORD/LB to offer its customers integrated solutions from one provider.

Given the sustained deterioration in the outlook for the global shipping industry, it was decided in 2016 to scale back ship financing exposure considerably (to € 12 – 14 billion) by the end of 2018.

Ship financing nevertheless remains one of NORD/LB's core segments. The aim is to maintain the Bank's positioning as a expert partner in the ship financing market. Business volumes are being purposefully increased with cruise ships and ferries as well as in the special tonnage category, alongside a marked reduction for commercial shipping. Appropriate placement and funding instruments are also used with a view to managing and optimising the portfolio proactively. The target customers are principally shipping companies and domestic shipyards that have good credit ratings backed up by impressive and crisis-tested market strategies.

The business approach is systematically developed by continuing to diversify the portfolio based on a more balanced spread of assets and regions, and by developing and broadening the product range.

Aircraft Customers

Business activities in the Aircraft Customers segment focus on asset-related financing, with a product portfolio geared to the needs of aircraft leasing companies and airlines.

NORD/LB has been active in this business field for more than 30 years and has long since been one of the leading providers of commercial aircraft financing. The objective is to cement this good position on the global market. This business segment is based in Hanover, and is supported by other sales units in New York and Singapore.

The product portfolio embraces traditional and innovative financing types with a focus on operating leases and portfolio transactions. Alongside credit products, the segment provides advisory, agency and cross-selling services to meet customers' and investors' needs in full.

As regards asset selection, NORD/LB deals primarily with modern and fungible commercial aircraft from reputable manufacturers. Over the last two years, know-how has been extended to include helicopter financing. Active portfolio management and optimisation through appropriate outplacement and funding instruments are used to reinforce the segment's already favourable position.

Real Estate Banking Customers

Commercial real estate financing by NORD/LB and Deutsche Hypo is aggregated with Bremer Landesbank’s financing of community-interest properties in the Real Estate Banking Customers segment.

This segment essentially comprises structured financing for complex commercial real estate projects and portfolios in Germany and the European target markets of the UK, France, Benelux and Poland. The client base comprises professional real estate investors who regularly engage in investments of this sort. As regards property types, there is a particular focus on office and retail real estate, multi-storey residential blocks, hotels and logistics. In addition, the community-interest property segment specialises in financing care homes.

Deutsche Hypo is the competence centre for commercial real estate financing within the Group's Real Estate Banking Customers segment. The Bank sees itself as a German real estate bank with European reach, providing support for its customers in strategic target markets. Thanks to its standalone market presence, Deutsche Hypo projects itself distinctively in the real estate market and is responsible for new business activity in the Group's commercial real estate financing. NORD/LB no longer engages in any commercial real estate business. Bremer Landesbank performs the competence centre function for community-interest property financing within the NORD/LB Group.

The strategic orientation of commercial real estate financing aims to develop structuring expertise in the direct business over the long term, while driving expansion of the product portfolio ahead. The strategic importance of the community-interest property sub-segment is underscored by demographic trends and a growing demand for inpatient care.

Group Management / Others

All integrated components are directly linked to operative business activity. Staff units, parts of the Group not covered by the segmentation described above, sources of income for the Bank as a whole and consolidations are carried under Group Controlling/Others.

In detail, this category comprises in particular overall Bank income from investment and financing income (from investment positions among others) not assigned to the segments due to lack of controllability, unallocated residual service centre costs, overall Bank projects, profit/loss from financial instruments not recognised in the segments' business income (in particular from central measurement effects), profit/loss from financial assets, hedge accounting, other investments, consolidation items and restructuring and reorganisation expenses. In addition, some components of Other operating profit/loss such as the bank levy and certain provisions are assigned to this segment.

The Financial Markets segments also recognised here take central responsibility for managing interest-rate, exchange-rate and liquidity risks together with funding, and they provide access to national and international financial markets (Treasury). For funding and liquidity management during the year, the Financial Markets segments use the interbank and repo market as well as the various instruments of the European Central Bank. The funding mix is supplemented by new issues business in euros and US dollars. Additional investments are made in the banking book as part of overall bank control and management of the total risk exposure amount (Bank Asset Allocation). The portfolios are managed by the NORD/LB Asset Liability Committee.

NORD/LB's Credit Asset Management (CAM), another Financial Markets segment, is a Group-wide competence centre for marketing alternative assets to institutional investors. In this context the division links the Bank’s credit divisions with the capital market. Both credit and capital market customers can benefit from the asset know-how and structuring expertise of NORD/LB in Hanover, and also in London, New York and Singapore. CAM intends to position the Bank on the capital market as one of the leading providers of alternative assets, and to make further improvements to the NORD/LB loan book from a risk/return perspective.

Reconciliation

Income components presented differently for internal accounting purposes and for the external presentation in the income statement are separated in the reconciliation. Reasons for these reconciliation positions include recognition under different income positions in internal and external accounting, and also differences in accrual accounting. Another factor is the incorporation of residuals for which further differentiation and allocation to the operative segments is either impossible, or would entail excessive effort.

Strategic Development of NORD/LB

NORD/LB is a customer-centric bank that focuses on its lending business. With its business activities this business model reflects its role as a commercial bank, Landesbank (federal state bank) and the central institution for savings banks. Granularity, diversification and a prudent risk policy are the principles for its basic strategic direction. Alongside strict financing policies, NORD/LB's risk philosophy is expressed in an asset-based financing approach for complex assets such as ships, aircraft and commercial real estate; besides high collateralisation rates and protection against inflation, this approach also offers exceptional advantages through opportunities for secured funding with cover pool-eligible assets (such as real-estate and aircraft Pfandbriefs). Overall, NORD/LB targets a long-term business mix that strikes a balance between large-volume, structured finance business with ship/aircraft customers, energy/infrastructure customers and real estate customers on the one hand and, on the other, business activities with more granular risk structures in the Private and Corporate Customers segment as well as institutional customers and savings banks. In the future too, NORD/LB expects that this approach will enable it to benefit from broad diversification in its business portfolio, through activities in sectors with different market cycles. Emphasis is also placed on separating new business growth from total asset growth. NORD/LB therefore aims to expand its value chain by using its expertise in structuring the complex financing of assets and its associated expertise in various sectors to offer credit-based investment products to institutional capital market investors.

Alongside portfolio-related aspects of diversification, NORD/LB's business activities continue to be strongly influenced by the interests and needs of its owners and the economic structures of its owner states.

The strategic goal for 2021 at NORD/LB Group level is to increase return on equity (RoE) to over nine per cent while keeping the cost-income ratio (CIR) at about 50 percent. The current losses, caused primarily by the ongoing shipping crisis, are putting pressure on current RoE. Through countermeasures such as resizing the portfolio in the ship financing segment, we anticipate a prompt return to profits that will also enable us to attain the planned RoE. However, there are significant planning uncertainties here as regards whether – and to what extent – the shipping markets will actually recover. The focus is not only on economic objectives but also on meeting regulatory requirements.

The cornerstones of the Bank's long-term strategy are currently being revised under the motto of "One Bank". In this context, the Bank will adhere to the basic features of its existing business model but will increase its efficiency, especially as regards processes. The "One Bank" strategic initiative therefore has three main thrusts supporting the objective of strengthening the Bank's capital strength and financial performance. First, the Group's legal structures are to be simplified. Second, the operating model is to be streamlined with standardisation of processes and a focus on core skills which give the Bank an edge over competitors. Third, overlaps in the organisation of business segments will be eliminated.

- **Private and Commercial Customers:** The Private and Commercial Customers segment can trace its history back 250 years to the founding institutions of NORD/LB; this segment represents the core of the Bank today, and right from the very outset, has been of key to NORD/LB as a cornerstone of the business model. To take account of changing customer needs and demographics, the main strategic focus in the retail business is to be placed on driving product innovations, together with ongoing automation and optimisation of value-adding processes and digital sales. The objectives for 2021 are CIR of less than 75 per cent and RoRaC of around nine percent.

- **Corporate Customers**: Providing credit to the regional economy is one of the primary tasks of a Landesbank. The outstanding hallmark of Lower Saxony as a business location is its successful automotive industry, but the economy here has many other facets. Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania are states with vast expanses of land. Soil quality and flat topography provide ideal conditions for high-yield, efficient farming. Agriculture therefore accounts for major parts of economic activity in this region. This is reflected in NORD/LB's business model, with the Agricultural Customers business forming a key arm of the Corporate Customers segment. The financing of municipal and municipal based housing companies constitutes a further speciality of the Corporate Customers segment. NORD/LB's Corporate Customers segment also covers a wide range of other sectors in which NORD/LB finances regional SMEs in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania. In doing so it works closely with the regional savings banks. NORD/LB has expanded and established its Corporate Customers business beyond the region of its owners with offices in Hamburg, Düsseldorf, Stuttgart and Munich. By 2021, NORD/LB is targeting CIR of less than 35 per cent and RoRaC of around 12 percent.

- **Savings Bank Network**: NORD/LB acts as the central institution for savings banks in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania and provides them with all of the products and services they need in their role as regional commercial banks. The structural characteristics of the Savings Banks Finance Group are vital for this cooperation. This savings bank network is part of NORD/LB and the aim is to strengthen it by focusing on lending and capital market business. The savings bank network plays a cross-divisional role in the Bank's business model with regard to the diverse business activities pursued by the savings banks. What is more, NORD/LB provides products for savings banks beyond the core region of northern Germany as well.

- **Markets**: The main activities here centre around sales to institutional customers of capital market products and products closely related to the capital market. Given that NORD/LB covers large parts of its own funding requirements with capital market instruments, it began to exploit its relevant market know-how and skills at an early stage and to advise issuers of debt securities on the structuring and placement of such instruments. Today it is one of the main market players in issuing and trading public-sector debt instruments, Pfandbriefs and other interest-bearing securities in Germany. The Bank's current market position in fixed-income flow products is to be expanded further (based on existing products). Strategic goals for the Markets segment in 2021 are CIR of less than 50 per cent and RoRaC of about 26 percent.

- **Ship Customers**: All of the major German sea ports are located in the North Sea and Baltic Sea regions, so many German shipping companies are based here as well. This is why NORD/LB built up expertise in ship financing, which is now a key element of the business model and will remain one of its cornerstones in the future. In anticipation of a lengthy crisis in commercial shipping, a significant resizing of the Group's shipping portfolio is planned, bringing it to around € 12–14 billion by 2018. Targeted expansion of the cruise ship, ferry and special tonnage segments at the expense of commercial shipping should facilitate greater diversification and a balanced risk structure. Measures to achieve the strategic goals for 2021 should counteract the shipping crisis. RoRaC of around nine per cent and CIR of roughly 30 per cent are expected in 2021.

- **Aircraft Customers**: Lower Saxony is the third largest location for the aviation and aerospace industry in the world after Seattle and Toulouse. In addition to the Airbus locations in Buxtehude, Stade, Varel and Nordenham, a large number of SME suppliers scattered throughout the federal state play an important role in this industry. NORD/LB numbers among the leading providers of commercial aircraft financing. Especially in Asia, aircraft financing offers the Bank good growth and earnings potential which is currently being tapped by stepping up these business activities. In the aircraft sector, higher-margin and complex credit products are being added to the established product portfolio. CIR should remain strong at around 22 per cent in 2021. The strategic RoRaC target for this business segment is roughly 14 percent.

- **Energy and Infrastructure Customers**: Favourable climate conditions in northern Germany enable NORD/LB to support economically viable projects in its home region. This has helped the region to become Germany's leading producer in many sectors, including renewable energies in particular. The focus here is on building wind farms as well as solar and photovoltaic plants. Gas plants and pipeline projects coupled with LPG plants and high-voltage networks are also financed. The renewables business and infrastructure projects will continue to play a key role in NORD/LB’s business model. The business volume is to be expanded in these segments specifically, and also internationally to some extent, in order to achieve greater country diversification as well. The increase in advisory and structuring services is designed to drive a sustainable rise in commission income. All these measures should produce CIR of less than 35 per cent and RoRaC of about 14 per cent in 2021.

- **Real Estate Banking Customers**: The commercial real estate business is one of NORD/LB's core activities. Hanover-based Deutsche Hypo acts as the competence centre for commercial real estate financing in the Group. The regional focus of business activity is on the core market of Germany and the main European real estate markets. The objectives of commercial real estate financing are to continue expanding structuring expertise in the direct business, to diversify the income base and to strengthen the Group's profile as a marketer of real estate know-how in order to develop capital market products and services for institutional investors. CIR below 30 per cent and RoRaC of around 12 per cent are planned for 2021.

Outline of the Control System

The NORD/LB Group's control system is based on an annual process in which the strategic objectives are confirmed or revised by the Managing Board in the spring of each year. The process defines the target values for the following year's planning, which is drawn up in autumn. This top-down, bottom-up planning is synchronised as a bidirectional process and is adopted at year's end.

Key management indicators here are return on equity (RoE) at overall bank level, return on risk-adjusted capital (RoRaC) at business segment level, together with the cost-income ratio (CIR) and earnings before taxes (both at bank and business segment level). Key financial performance indicators as per DRS 20 are stated in full in the Group management report. There are no key non-financial performance indicators as per DRS 20.

Definition of key management indicators:

Return on equity (RoE)	Earnings before taxes / Long-term equity under commercial law Long-term equity under commercial law = reported equity – revaluation reserve – earnings after taxes
Return on risk- adjusted capital at segment level (RoRaC)	Earnings before taxes / committed capital of the higher of the total risk exposure amount limits and the amount called on
Cost-income ratio (CIR)	Administrative expenses / Total earnings Total earnings = Net interest income + Net commission income + Profit/loss from financial instruments at fair value through profit or loss + Profit/loss from hedge accounting + Profit/loss from investments accounted for using the equity method + Other operating profit/loss

Arrows are used to show trends in the following sections.

The table below shows the meanings of the different arrow directions.

→	Change between -5 und +5 per cent
↘	Change between -15 und -5 per cent
↗	Change between +5 und +15 per cent
↓	Change more than -15 per cent
↑	Change more than +15 per cent

Risk Management

The following description of risk management and the extended risk report were both drawn up on the basis of IFRS 7. The more specific requirements of German Accounting Standard DRS 20 were also taken into account.

The Group risk report includes parts of the NORD/LB Group's qualitative risk reporting as per the Capital Requirements Regulation (CRR) insofar as supplementary to requirements under commercial law. However, more extensive regulatory reporting is provided in a separate disclosure report published on the NORD/LB website (http://www.nordlb.de/berichte).

Risk reporting basically covers all companies in the scope of consolidation as per IFRS, which also includes special purpose entities (SPE)) as per IFRS 10. The recognition of the materiality principle affects the scope. The group of significant companies included in overview-based quantitative risk reporting is defined in a multi-stage process, as described in the section on investment risk. The result is that NORD/LB Group's quantitative risk reporting is based on individual risks relating to Group companies of material relevance for risk. These include

- NORD/LB, the parent,
  and the following subsidiaries:
- Bremer Landesbank,
- NORD/LB Luxembourg S.A. Covered Bond Bank (kurz NORD/LB Luxembourg) and
- Deutsche Hypo.

In relation to the Group's total holding of financial instruments at the time of audit, these four companies (referred to below as “Group companies of material relevance for risk”) account for a share of over 95 percent. Viewed from the overall Group perspective, all the other companies only make quantitatively insignificant contributions to the individual risks. The risks contained in these companies are treated as investment risk, and additional explanations are provided as appropriate through qualitative reporting in connection with investment risk.

Auditing of Group companies of material relevance for risk takes account of companies consolidated under IFRS as well as companies in the regulatory basis of consolidation. The terms “consolidated”and “Group” are therefore used synonymously below.

Risk reporting is generally based on the management approach. Internal and external risk reporting is essentially based on the same terms, methods and data.

General Risk Management

Fundamentals

A bank's business activity inevitably entails deliberate acceptance of risks. Efficient risk management in terms of risk/return-based equity allocation is therefore a key component of modern bank management and a high priority for the NORD/LB Group. Risk management is primarily designed to control risks.

From a business management perspective, the NORD/LB Group defines risk as the possibility of direct or indirect financial losses due to unexpected negative differences between the actual and projected results of business activity.

At least once a year and as required, the NORD/LB Group implements a multi-stage process to develop an overall risk profile in accordance with legal requirements. The overall risk profile comprises the types of risk that are relevant for the NORD/LB Group. A further distinction is made between material and non-material risks. “Material” in this context denotes all relevant risk types that could have a significantly negative impact on the NORD/LB Group's capital resources, earnings situation, liquidity position or attainment of strategic goals.

As NORD/LB is positioned as a lending bank, credit risks are by far the most significant category. Market risks are also of great importance. Further material risks include investment risk and liquidity risk. Operational risk is important in this respect but is secondary to the others. Material risk types are thus identified as credit risk, investment risk, market risk, liquidity risk and operational risk. Also relevant are business and strategic risk, reputational risk, pension risk and real estate risk. All material risk types are controlled by NORD/LB's risk management system. The material risk types take account of all relevant risks. In the risk reporting, risks are mainly presented after risk mitigation measures have been applied. One example of an exception is the presentation of credit exposure.

According to § 25a of the German Banking Act (KWG) in conjunction with the Minimum Requirements for Risk Management (MaRisk), the functions of a proper business organisation include specification of strategies based on procedures for determining and securing risk-bearing capacity, which include both the risks and the capital available to cover them.

NORD/LB Luxembourg is subject to corresponding regulations stipulated by the Commission de Surveillance du Secteur Financier (CSSF, the Luxembourg financial supervision authority), with which the institutions concerned must comply.

As part of the current risk management structure at the NORD/LB Group, the managing boards of NORD/LB and Deutsche Hypo decided on 30 June 2013 to announce the use of the waiver option by Deutsche Hypo in accordance with § 2a (1) in the version of the German Banking Act applicable at this time. The prerequisite for this purpose is the control and profit/loss transfer agreement concluded for an indefinite period between Deutsche Hypo and NORD/LB.

Strategies

Handling risks responsibly is the topmost priority in the NORD/LB Group's business policy. The Group risk strategy drafted for this purpose takes precedence over the risk strategies of the companies in the NORD/LB Group of material relevance for risk. The Group risk strategy is incorporated in comments on the organisation of risk management and the risk sub-strategies, taking account of the respective business models in the risk strategies drawn up by the companies of material relevance for risk.

The risk strategies of the companies of material relevance for risk are each defined in accordance with the business model, the business strategy and the risk strategy requirements of the NORD/LB Group, and are reviewed at least once a year or as required. All risk strategies contain information on the principles of risk policy, the organisation of risk management and on risk sub-strategies relating to material risk types.

The core element of the risk strategies is the Group-wide risk-bearing capacity model (RBC model), based on which risk appetite is specified. For the NORD/LB Group it was determined conservatively that under normal circumstances in a going-concern scenario, no more than 80 per cent of risk capital may be exposed to potential risk as the primary scope of control. 20 per cent of risk capital is held as a buffer.

The maximum allocation of risk capital to the material risk types is also determined within the scope of the risk strategies based on the RBC model. Most of the cover pool is allocated to credit risks, reflecting the NORD/LB Group's focus on customer-oriented lending business. The individual entities are responsible for determining their own applicable allocation, but this must be consistent with the NORD/LB Group allocation.

The purpose of the risk strategies is to ensure that all material risk types are managed efficiently and presented transparently to management, supervisory bodies and other third parties with a justified interest. On this basis, companies in the NORD/LB Group of material relevance for risk have a variety of additional instruments available to them at operational level to ensure adequate transparency regarding the risk situation, and they structure the required limitations and portfolio diversification so as to permit management and monitoring.

These instruments are detailed in the risk handbook of the NORD/LB Group and the risk handbooks and/or relevant documentation of the individual entities.

Furthermore, the NORD/LB Group has commitments in the restructuring plan agreed with the European Union (EU), which are taken into account for risk management purposes.

Structure and Organisation

Responsibility for the NORD/LB Group's risk management lies with the Managing Board of NORD/LB. The Managing Board initially coordinates the Group risk strategy and any amendments in the extended Group Managing Board, which also includes the chairpersons of the managing boards of Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo. After the Group risk strategy is adopted by the NORD/LB Managing Board, it is submitted to the Supervisory Board of NORD/LB for information and discussion. The Group risk strategy was also regularly reviewed and amended during the reporting year.

The Chief Risk Officer (CRO) on the Managing Board of NORD/LB is responsible for drawing up and monitoring the Group risk strategy in consultation with the heads of the Market departments. This includes monitoring all material risks, including risk reporting at Group level. At individual entity level, this responsibility is assigned to the Managing Board or the risk officers.

NORD/LB's Finance and Risk Controlling Division is responsible for updating and developing the Group-wide RBC model, monitoring compliance on a continuous basis and for regularly reviewing the NORD/LB Group's risk strategies.

Operational risk management is handled on a decentralised basis in the Group companies. To allow maximum comparability of measurement, reporting, control and monitoring of all material risks, instruments used for these purposes are coordinated with entities of material relevance for risk.

The NORD/LB Group's Risk Management includes the extended Group Managing Board as well as various other bodies.

- **Group Control Committees:** Control processes throughout the Group are supported by a system of Group Control Committees (GCC) whose members, depending on the specific GCC, include various members of the Managing Board and departmental heads of NORD/LB companies of material relevance for risk.
- **Risk Management Methods Board:** this body develops and approves appropriate standards for key risk controlling methods and reports at NORD/LB Group level. The members are the heads of specialist departments at NORD/LB Group companies significant from a risk perspective.
- **Group Risk Committee:** The Group Risk Committee (GRC) is chaired by the CRO. Other permanent members are the department heads responsible for Structured Finance/Corporate Customers and for Financial Markets/Corporate Finance, the Chief Operating Officer and the head of Finance and Risk Controlling, Credit Risk Management and Special Credit Management at NORD/LB as well as the risk officers of NORD/LB Group companies significant from a risk perspective. Further participants are invited when required. The GRC supports the Managing Board with its risk management responsibilities. The GRC adopts an integrated approach to examining risk types at the NORD/LB Group, taking the overall portfolio into account. There are also regular reports in the GRC about the activity of the US Risk Committee (USRC), which monitors risk management at the branch in New York. The Chief Risk Officer of NORD/LB chairs the USRC meetings.
- **Credit-ALCO:** Credit-ALCO was established in the reporting year as an advisory body for the Managing Board with regard to managing the credit portfolio (including commercial real

estate financing of Deutsche Hypo). Recommendations are given for measures to optimise profitability and risk indicators in view of the targets, risk assessments, aspects to optimise portfolios and restrictions as well as current market trends. Implications for strategy and ongoing business development should be discussed and identified. The head of Financial Markets chairs the Credit-ALCO meetings. Further permanent members include the head of Credit Markets, the Chief Risk Officer, the heads of Credit Asset Management, Corporate Customers, Ship and Aircraft Financing, Structured Finance, Credit Risk Management, Finance and Risk Controlling, Treasury, Special Credit Management and Commercial Real Estate Financing (including Deutsche Hypo). Further participants can be invited to the meetings when required. Every member of the NORD/LB Managing Board is entitled to participate in Credit-ALCO meetings as a guest.
- **Other advising committees**: The Managing Board is supported by a number of other committees that advise in specific areas. These include the Asset Liability Committee (investment strategies) as well as the Risk Round Table (governance, op-risk and compliance issues).

The structure and organisation of risk management in the NORD/LB Group meets the MaRisk requirements. The risk management process is subject to constant review and refinement. Any adjustments can include organisational measures, adjustments to procedures for quantifying risk and the continuous updating of relevant parameters.

Risk-oriented and process-independent audits of the effectiveness and adequacy of risk management are carried out by the internal audit units of the individual entities within the NORD/LB Group. As an instrument of the Managing Board, Internal Audit is an independent element of the internal monitoring process. Its primary objectives are to increase and protect the value of the Bank and the Group by adopting a particularly foresighted, risk-oriented and objective approach to auditing, thereby identifying important risks for the Bank and the Group, proactively triggering, monitoring and supporting change processes, and effectively mitigating risks. Group Audit's activities complement those of the subsidiaries' internal audit units. The focus is on issues of Group-wide risk strategy and the consistency of Group subsidiaries' business and risk strategies in relation to the Group's business and risk strategy, Group-wide risk-bearing capacity including risk reporting, structural and process organisation, and risk management and controlling processes in the context of Group-wide risk management, Group-wide management of risks classified as material in the main investments (credit, investment, liquidity, market and operational risks), Group reporting, Group accounting, financial reporting to the Group Managing Board and the functionality of the internal audit units in the main investments.

In addition to Group audits, joint audits are also carried out by Group Audit with the internal audit units of the Group's subsidiaries (cooperative Group audits). Group Audit objectives, tasks, functions and instruments are defined in the Group audit policy.

The handling of new products, new markets, new sales channels, new services and variations thereof is regulated on a decentralised basis by New Product Processes (NPP) in the individual institutions of the NORD/LB Group of material relevance for risk, taking account of overall conditions in each case. However, NPP are implemented on the basis of close liaison among the institutions.

The main objective of the NPP is to identify, analyse and assess all potential risks for the NORD/LB Group before commencing new business. This entails the integration of all required audit areas, documentation of new business activities and their management in the overall operational process, decisions on commencing business and associated restrictions as applicable.

Detailed additional information on the structure and organisation of risk management is given in the following subsections on structure and organisation for each risk type, starting with the structural and process organisation of Risk Management at NORD/LB. Following this, the main differences in the subsidiaries are presented separately.

Risk-bearing capacity model

The RBC model provides the methodological basis for monitoring the NORD/LB Group's risk strategies. At Group level, this monitoring is undertaken by NORD/LB's Finance and Risk Controlling while at individual entity level, it is performed by the relevant Risk Controlling unit. Lead management for the ongoing refinement of the Group-wide RBC model is assigned to NORD/LB's Finance and Risk Controlling.

The risk-bearing capacity model describes the regular quantitative reconciliation of risk potentials from material risks with the capital available to cover such risks. As part of the reconciliation, and in addition to the aggregate risk analysis (primary criterion), risk-strategy guidelines (in particular) are monitored in the form of limits at the level of the respective material risk types (secondary criterion).

The aim is to provide qualitative and quantitative evidence about the adequacy of capital in current and future analyses. In conjunction with the established sub-processes of risk controlling, risk monitoring and risk reporting within the risk management process, it is ensured that the responsible committees are informed promptly about the risk-bearing capacity of NORD/LB Group companies of material relevance for risk and of the NORD/LB Group as a whole.

Consideration of risk-bearing capacity results under going-concern or business case assumptions is crucial for providing evidence about capital adequacy.

The overarching principle for this control committee is the ability to continue business based on the existing business model while complying with external requirements and with ongoing coverage of all risks to be considered within the scope of risk-bearing capacity. In the going-concern approach, identified risk potential is compared with available capital with due consideration of regulatory capital requirements.

An additional consideration level is the gone-concern approach as an auxiliary stimulus condition, taking account of creditor protection as part of a wind-up scenario. Risks are estimated similarly to the business case, but including credit-spread risks as well as hidden liabilities from investment securities. The examination of capital ratios in the form of a comparison of external requirements (TARGET) and what actually occurs (ACTUAL) forms another level of consideration within the risk-bearing capacity model as a strict auxiliary condition.

The design of the risk-bearing capacity model enables direct triggers for controlling to be gleaned from the applicable consideration level (going concern or business case). The external requirements regarding the necessary capital ratios are strict auxiliary conditions at this consideration level.

Risk concentrations are also taken into account when determining risk-bearing capacity, both within a risk type and across risk types. Concentrations within a risk type generally relate to credit risks as the most significant risk type for NORD/LB. These have been integrated via the internal credit risk model into the RBC model. A consolidated analysis of credit and investment risks took place in the integrated counterparty risk model as at 31 December 2016.

Concentrations across risk types are examined by means of stress tests. As part of risk controlling for the bank as a whole, NORD/LB purposefully employs stress-test instruments to analyse the effect of potential adverse scenarios, and derive appropriate actions for risk management.

The revolving stress-testing process starts with a structured process to identify and determine the scenarios relevant for and representing a potential threat to the Bank's business model. These scenarios are each reviewed by a Case Manager, who examines their economic cause and effect chains across all risk types, as well as their impact on key control and risk variables. The focus here is on understanding the interdependencies and deriving triggers for necessary actions.

In addition to this case-based procedure, the effects of a global recession on the Bank's key control committees are reviewed on an ongoing basis. Stress reviews specific to risk types are also conducted (as part of liquidity management for example).

The Finance and Risk Compass prepared quarterly and the preliminary summary of the risk situation at the NORD/LB Group are the key instruments for internal risk reporting to the Managing Board and supervisory bodies. Compliance with the specifications of the risk strategy on risk appetite and on the allocation of risk capital to material risk types is therefore reviewed regularly.

In addition to the report on risk-bearing capacity, the Managing Board is also informed about risks relating to the Pfandbrief business on a quarterly basis. These reports meet the requirements of § 27 of the Covered Bond Act (Pfandbriefgesetz).

Credit risk

Credit risk is a component of counterparty risk and is broken down into traditional credit risk and counterparty risk in trading. Traditional credit risk denotes the risk of a loss when borrowers default or when their credit rating deteriorates. Counterparty risk in 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 defines the risk of a loss when a debtor defaults or when their credit rating deteriorates. It corresponds to the traditional credit risk and relates to money market transactions.
- Replacement risk denotes the risk of the contract partner defaulting in a pending transaction with a positive market value so that the transaction has to be replaced with a loss.
- Settlement risk is broken down 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 denotes the risk of a loss when an issuer or reference debtor defaults or when their credit rating deteriorates.

In addition to the original credit risk, cross-border capital services involve country risk (transfer risk). This is the risk of a loss occurring as a result of overriding government barriers despite the ability and willingness of the counterparty to satisfy the payment claims. Please refer to the economic report for the presentation of counterparty risks.

Strategy

The lending business and the management of credit risks represent a core competence for the NORD/LB Group that is to be constantly refined and expanded. The NORD/LB Group sees itself as a reliable universal bank for its customers, focusing on the lending business.

To meet the specific requirements of each business segment, NORD/LB has established financing principles for the individual market segments classified in the strategic business segments as risk-relevant; these cover both market and back-office areas. The principles represent binding guidelines for new lending business, including the ratings of target counterparties, for the relevant market division.

New lending business focuses on concluding agreements with customers that have good credit ratings. The NORD/LB Group also concentrates on business with counterparties of good standing in the capital market business. Business is conducted with customers outside the above credit rating criteria only after careful consideration of their opportunity and risk profiles.

Management of the NORD/LB Group's credit portfolio is geared to risk and reward. The aim is to generate competitive profitability while ensuring efficiency and flexibility through active management of credit risk positions to minimise unexpected losses.

At regional level, NORD/LB focuses mainly on domestic business. The Bank's foreign activities must bear some relation to its existing business segments, and should be promoted only for the purpose of improving (regional) portfolio diversification in the Bank's current business segments or increasing market penetration in existing foreign locations. Opportunistic individual transactions that do not fulfil the above criteria are permissible in exceptional cases; however, in principle, no business should be initiated abroad that is detached from the existing core business and from existing customer relationships without a regional link.

The aim is to assemble a diversified and balanced portfolio of business activities where incomes generated are split more or less evenly between structured finance (ships, aircraft, project financing, commercial real estate) and granular business (private and corporate customers, markets) and risk-weighted assets are also split evenly between the structured finance and granular businesses. Overall, no value driver should account for more than 25 per cent of the portfolio's risk-weighted assets or income.

Structure and Organisation

A risk-related organisational structure and the functions, tasks and competencies of the divisions involved in risk processes are clearly and unambiguously defined at employee level. In accordance with MaRisk, processes in the lending business are characterised by a clear organisational and structural separation of the market and back-office divisions, up to and including management level.

NORD/LB market divisions conduct operational financing business for customers, properties and projects at national and international level subject to specified limits. They are primarily responsible for the core tasks of acquisitions and sales. The market divisions are responsible for the first vote and for structuring conditions, and they bear the responsibility for profit/loss. In the case of low-volume, non-risk relevant exposures and also of municipal loans, the market divisions in some cases bear sole responsibility for risks (unilateral competence) as well as responsibility for analysing and observing these risks.

Analysis tasks (which include defining ratings), observation of risks and definition of collateral values are bundled within the Credit Risk Management (CRM) Back Office Division. Real estate and special appraisals are exceptions here: these functions are performed as a separate, market-independent valuation management process. The Credit Risk Management division is also responsible for the second vote taken on decisions on individual credits. Exposures with a concentration of risks are also subject to a vote in connection with large exposure management. On the basis of a multi-stage reporting system, the division also prepares sector portfolio reports on selected sub-segments at regular intervals.

Credit and Collateral Management is responsible for implementing the credit decisions for risk-relevant exposures, including contract documentation and management of existing transactions. For structured finance, the respective market division is responsible for these tasks.

The Credit Portfolio Management Group, which is part of CRM, is responsible for central management of risk concentrations in the NORD/LB Group's credit portfolio. Concentrations are examined with regard to the size of a group of related customers in accordance with Art. 4 (39) of the CRR, as well as by country and industry.

Non-performing exposures or those requiring restructuring are processed by Special Credit Management (SCM) at NORD/LB. Loans with a rating of 11 on the rating master scale of the German Savings Banks Association (DSGV) (allocation to the “high risk” category or worse as defined by the German financial sector initiative, “Initiative Finanzstandort Deutschland” (IFD), must be reported to SCM. Other defined risk indicators (e.g. suspicion of behaviour detrimental for creditors, initiation of restructuring processes) may also require reporting in this way. The SCM decides whether it will assume full responsibility, whether coaching will take place or whether the exposure will remain in the Market or CRM Division with intensive support. From a rating of 16 (allocation to IFD risk category of “Default” [non-performing loans]), SCM is obliged to assume responsibility. Exceptions to the reporting requirement and the obligation to assume responsibility are made for low-risk business and for transaction-specific reasons. Credit Risk Management handles processing for financial institutions including central governments and foreign regional authorities, asset-backed securities (ABS) and corporate bonds.

Credit decision authorisations are classified in accordance with the total liability and rating of the borrower. Credit decisions are essentially taken by an authorised person in a Market division and an authorised person in a Back-Office division (bilateral authorisation). The second vote is taken in units independent of the Market divisions, in accordance with specified criteria. Besides fulfilling the regulatory requirement of functional separation for credit votes, this ensures that credit decisions of high quality are made on the basis of uniform standards.

The Managing Board is responsible for overall control of NORD/LB’s credit portfolio. To this end, the Board consults with the Group Risk Committee (GRC) among others, thereby linking individual credit decisions to portfolio management and ensuring a holistic approach across risk types. For this purpose, the GRC recommends various instruments to the Managing Board; these may include ordering an acquisition stop, limiting country, sector or counterparty-related concentrations or outplacement of exposures or sub-portfolios. Within the general guidelines set by the Managing Board, the GRC also determines individual strategies as necessary for individual groups of related customers, countries and sectors within the strategic limit system. The Managing Board retains responsibility for decisions on individual loans.

Above a certain volume, decisions are taken by the Managing Board or the Risk Committee, a subcommittee of the NORD/LB Supervisory Board. The Risk Committee participates in granting loans in accordance with an authorisation regulation passed by the Supervisory Board. Acquiring investments also requires the approval of the Supervisory Board, as do loans to executives.

Finance and Risk Controlling is responsible for the methods used to measure credit risks and for credit risk control instruments. Finance and Risk Controlling is also responsible for independent monitoring of credit and investment risks at portfolio level, the reporting system for this purpose and the regulatory reporting system and for the methodology of procedures related to the economic estimation of counterparty risk.

At Bremer Landesbank, independent back-office functions are performed by Back Office Financing. In addition to arranging the second vote, the following functions are assigned to Back Office Financing: verification and setting of the rating, setting and/or verification of collateral values, processing and support for restructuring and liquidation exposures and risk provisioning, and design of the processes and regulations for the credit business. Exposures outside ratings 1 to 8 receive more intensive support and/or are passed for restructuring to the unit of the same name. This unit takes the basic decision on whether to continue supporting the exposure or whether to terminate and implement enforcement measures, which are carried out by a separate liquidation unit within the Back Office Division. Independent monitoring of risks at portfolio level and independent reporting are the responsibility of Risk Controlling in the Overall Bank Control Division and/or the Back Office Management Group.

Risk management at NORD/LB Luxembourg is based on the NORD/LB concepts, and is developed continuously in accordance with business management and regulatory criteria. The credit decision is taken by an authorised member of the Bank staff after the Back Office vote by NORD/LB Luxembourg's Credit Risk Management. Independent monitoring of the portfolio is undertaken by Risk Controlling at NORD/LB Luxembourg. Loans requiring management attention or restructuring are monitored by the SCM Division of NORD/LB and by the CRM Division of NORD/LB Luxembourg.

Risk management at Deutsche Hypo confirms to uniform Group standards, and is refined on a continuous basis. The second vote for credit transactions is arranged by the Credit Risk Management (CRM) Back-Office Division. Exposures in need of restructuring are managed by SCM at Deutsche Hypo, either on an 'intensive care' basis aimed at out-of-court restructuring, or with the additional aim of realising the collateral in case of counterparty default. Monitoring of Deutsche Hypo's risks at portfolio level is undertaken by local Risk Controlling.

Collateral

To assess credit risks, in addition to the credit rating of borrowers or counterparties reflected in the rating, the customary bank collateral available and other risk mitigation methods are of critical importance. The NORD/LB Group therefore accepts domestic and foreign collateral in the form of property and rights (loan collateral) in order to reduce credit risk. When accepting collateral, the cost-benefit relationship of the collateralisation is taken into account.

The collateral is assessed on a case-by-case basis both at the time the loan is granted and during subsequent ongoing monitoring (normally at least once a year) in order to determine whether it appears recoverable at the assumed value based on foreseeable economic developments during the (remaining) term of the loan. The credit guidelines and lending policies of the NORD/LB Group define the fundamental types of securities and loan collateral that can be used, and the maximum credit that may be lent against them (lending limit). Sureties, credit collateral similar to sureties, assignments of receivables and other rights, chattel mortgages, real estate, receivables and other rights as well as the collateral assignment of chattel are accepted as credit collateral. Other collateral can be contracted with the borrower, but this does not reduce the unsecured portion of the exposure.

The legal portfolio of collateral is maintained in a special collateral management system. This is also used to take into account collateral when calculating the capital adequacy requirement and for regulatory reports.

To ensure the legal validity and enforceability of collateral, standard contracts are mainly used. In addition, external legal opinions are obtained and/or the preparation of contracts is assigned to authorised law firms. At the same time, relevant legislation is subject to continuous monitoring. For foreign collateral, the monitoring procedures ensure that amendments to legislation or case-law are examined to determine their impact on existing collateral. International law firms are employed to help with this area in foreign jurisdictions.

Control and Monitoring

To assess credit risk in the NORD/LB Group, each borrower is rated as part of an initial or annual credit rating process and, as required, a rating or creditworthiness category is also determined for each borrower. The rating modules employed were either developed in various cooperation projects conducted by the savings banks and Landesbanks or were developed internally by NORD/LB.

To manage risks at individual transaction level, a specific limit is stipulated for each borrower within the scope of operational limiting; this 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 loan.

Risk concentrations and correlations at portfolio level are mapped when the credit risk potential is estimated in the credit risk model. Risk concentrations are also restricted by country and industry limits at portfolio level as well as by the Large Exposure Management limit model for groups of related customers. For every rating, this model defines a segment-specific loss-at-default limit geared to NORD/LB's risk-bearing capacity.

Securitisations

Securitisation is a further instrument available to the NORD/LB Group for managing credit risks. The aim of these securitisation activities is to optimise the yield/risk profile of the credit portfolio and to reduce the burden of regulatory equity requirements.

To diversify the credit portfolio, credit risks in the Bank's own books can be transferred to other market players (with the NORD/LB Group as originator) or additional credit risks may be taken on (with the NORD/LB Group as investor or sponsor). As a sponsor, the NORD/LB Group makes liquidity facilities available to improve the credit quality of Hannover Funding, its own asset-backed commercial paper conduit programme, or it supports the programme by buying asset-backed commercial paper. The NORD/LB Group also engages in securitisation activities as an arranger of structured transactions for customers.

Securitisation transactions are all subject to a strict approval and monitoring process to enable identification and management of potential risks before and after a contract is concluded. The NORD/LB Group employs risk classification procedures approved by the regulatory authorities in accordance with the CRR, as well as other approaches to assess the creditworthiness of securitisation transactions. In its role as investor and sponsor, the NORD/LB Group follows a conservative exposure strategy.

The NORD/LB Group's exposure strategy centres around a divestment portfolio and customer-focused new business. A strategy is in place to scale back the NORD/LB Group's remaining investor portfolio; this comprises sales and reductions of regulatory capital while maintaining profitable interests. NORD/LB's new business concentrates on selected large customers of NORD/LB, with receivables financing offered through the conduit of Hannover Funding LLC.

As originator, NORD/LB conducted no further transactions in the reporting year.

In 2016, Bremer Landesbank originated a synthetic securitisation for a credit portfolio with an initial volume of some € 3.420 billion in the following asset classes: renewable energies, corporate customers, community-interest property, commercial property and leasing. In order to hedge the credit risks involved, a first loss guarantee with an initial volume of some € 94 million was concluded with a private investor with effect from 30 June 2016. The contractual term of this guarantee is 10 years plus a maximum period of two years for processing uncompleted liquidation cases.

Deutsche Hypo increased one of the existing transactions in the reporting year. Future new business can be incorporated into the hedging transaction in a replenishment period running until 2018. The accepted guarantees amount to EUR 77.3 million (previous year EUR 61.5 million) in total.

The NORD/LB Group had second and first loss guarantees amounting to around EUR 765.11 million to hedge the credit risk of various portfolios. Of these, the retained first loss tranches amounted to approximately EUR 152.38 million.

Deutsche Hypo and NORD/LB CBB entered into no new securitisation positions in the reporting period.

The securitisation positions held by the NORD/LB Group can basically be classified as carrying little risk. The NORD/LB Group did not have any re-securitisation positions or securitisation positions with unfunded protection in the portfolio during the reporting year.

Assessment

Credit risk is estimated by means of the risk indicators of expected loss and unexpected loss. Expected loss is determined based on probability of default, taking recovery rates into account. The risk premium that must be collected to cover the expected loss is calculated using the same standards throughout the Group.

The unexpected loss for credit risk is estimated throughout the Group with the help of an economic credit risk model for different confidence levels and a timeframe of one year. The credit risk model used by the NORD/LB Group includes correlations and concentrations in the risk assessment, and is subject to annual review and validation.

The credit risk model calculates the unexpected loss at overall portfolio level. The model used is based on the CreditRisk+ model. Using correlated sector variables, systematic industry effects are mapped in the loss distribution. The estimated probability of default (PD) is based on internal rating methods. Loss given default (LGD) is determined on a transaction-specific basis.

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

Risk quantification methods and procedures are coordinated among the Risk Controlling units of the Group companies of material relevance for risk in order to guarantee uniformity within the NORD/LB Group. Ongoing risk management is handled on a decentralised basis in the Group companies.

NORD/LB 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 standardised approach for credit risk (CRSA) is applied. NORD/LB has the relevant authorisation for its rating systems, for the Internal Assessment Approach (IAA) for securitisations and for the use of credit risk mitigation techniques. Further portfolios are to be gradually migrated from CRSA to IRBA.

Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo (taking account of the waiver regulation) also have authorisations for the relevant rating systems and approval for the use of credit risk mitigation techniques.

Reporting

Among other publications, NORD/LB's Finance and Risk Controlling Division compiles the NORD/LB Finance and Risk Compass, which presents and analyses all material structural features and parameters required for managing the NORD/LB Group's credit portfolio. The Finance and Risk Compass also includes in-depth analyses and stress scenarios for the credit portfolio. It is submitted to the Managing Board every quarter, with additional detail for individual sub-segments provided in industry portfolio reports from Credit Risk Management.

The NORD/LB Managing Board receives additional regular and ad-hoc reports on the credit portfolios of the NORD/LB Group and of NORD/LB from the CRM Division, e.g. on risk concentrations with groups of related customers, country and industry concentrations and 'management attention' exposures (credit watchlist).

At Bremer Landesbank, the Managing Board is briefed on credit risks by means of the credit portfolio report. The credit portfolio report is drawn up each quarter, and it supplements the monthly RBC report. In addition, the Managing Board receives monthly reports based on single borrowers regarding 'intensive care' and problematic exposures, as well as a report on the identification and monitoring of risk concentrations at borrower unit level (Large Exposure Management).

For NORD/LB Luxembourg, Finance & Risk draws up a detailed credit portfolio report for the Managing Board and members of the Lux Risk Committee as part of the management information system in order to provide transparency regarding existing risks and risk concentrations at an early stage so that any necessary measures can be initiated.

Deutsche Hypo also issues a quarterly risk report which provides the Managing Board and the Supervisory Board with detailed information about the Bank's risk situation.

Investment Risk

Investment risk is also a component of counterparty risk. It denotes the risk of incurring losses when making equity available to third parties. A potential loss due to other financial liabilities is also part of the investment risk, unless it was taken into account in the other risks.

In addition to the original investment risk, cross-border capital services involve country risk (transfer risk).

Strategy

Securing and improving the NORD/LB Group's own market position is the key motivation behind its investment policy. The general purpose of investments is to strengthen universal banking activities and fulfil joint tasks resulting from the role of federal state bank (Landesbank) and central savings bank. To support the NORD/LB Group's business model, there is a deliberate focus on banks and financial companies.

The strategic objective of major investments is to forge closer links in support of the NORD/LB Group's customer-centric business model. With all other investments, however, the general objective is systematic reduction, provided that this makes economic and business sense.

The Group's interests in relation to investments are primarily safeguarded by centrally defined key business indicators or by specifically assigned tasks. The aim is to ensure that the Group is managed effectively and that transparency is guaranteed for third parties.

Structure and Organisation

Investment risks at the various levels in the Group are managed by NORD/LB's Investment Management in close cooperation with other divisions, in particular Finance and Risk Controlling and Finance/Tax. Support for domestic and foreign investments is provided either on a centralised basis by Investment Management or by the corresponding units in the subsidiaries. Minor exposures are controlled and supervised by the divisions initiating the exposure in each case, given their close relationship. This takes place in close cooperation with Investment Management. Management of investment-specific data is the responsibility of Investment Management.

The investment analysis by NORD/LB's Investment Management is an integral element of investment risk measurement and is also used for the materiality review of investments. Based on the analysis, which also takes explicit account of risks in excess of the carrying amount, a uniform classification valid across all divisions is undertaken, whereby investments are classified as Significant, Important or Other. Investments are examined on the basis of quantitative as well as qualitative criteria.

The result of the materiality review is crucial for the purposes of supervision intensity in all NORD/LB divisions. There is additional risk-related differentiation of the treatment of significant investments. The Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo investments, which are significant based on quantitative criteria, are included in internal and external overview reporting at the level of individual risk types. The NORD/LB Asset Management Group investment, which is significant on the basis of qualitative criteria (comprising NORD/LB Asset Management Holding GmbH and NORD/LB Asset Management AG), is recognised as an investment risk together with the significant and other investments, but is subject to closer analysis by the divisions involved in investment management. The concept just described is also implemented at subsidiaries with their own investments (Bremer Landesbank, Deutsche Hypo). Investment analysis of the subsidiaries of NORD/LB Luxembourg is performed by NORD/LB's Investment Management.

Control and Monitoring

Investments are monitored regularly by analysing reports drawn up during the year, interim and annual reports, as well as audit reports. Control is exercised by representatives of NORD/LB or the managing subsidiaries on/in the supervisory boards, managing and advisory boards, shareholders’ meetings, annual general meetings and owners’ meetings and also on the basis of operating mandates in the companies.
In general, all investments are managed centrally by NORD/LB's Investment Management. At decentralised level, however, some subsidiaries (including Bremer Landesbank in particular) have corresponding Investment Management units.
The extended Group Managing Board and Group Control Committees are generally utilised for managing all significant investments.

Assessment

Investment risks are also measured by considering risks over and above the carrying amount, e.g. from funding obligations, profit and loss transfer agreements and letters of comfort. Within the investment risk category, a risk model has been used to estimate the risk potential for different confidence levels and a period of one year; the parameters used are based on the event of a loss from an investment position. Further calculations were based on the Gordy model. The model employed calculates how much individual investments contribute towards expected and unexpected loss at portfolio level, which together add up to the risk potential for the portfolio. As at 31 December 2016, a consolidated counterparty risk model was rolled out for credit and investment risks. The integration approach is designed in such a way that the investment and credit risks are simulated in mutual dependency, in order to take account of concentration risks between risk types. This does not change the modelling of credit risks itself.

Reporting

The Investment Management Group reports to the Managing Board and the NORD/LB supervisory bodies on the investment portfolio each year. The report includes (for example) an analysis of current developments regarding strengths and weaknesses of significant and important investments.
There is also quarterly reporting on significant and important investments in the Finance and Risk Compass issued by Finance and Risk Controlling. Furthermore, realised or anticipated profit/loss from investments is reported monthly to Finance/Taxes. Also on a monthly basis, Finance and Risk Controlling submits a report to NORD/LB’s Managing Board on the profit/loss and profitability of the NORD/LB Group's largest investments consolidated under commercial law.
Information on the risk situation for the investments is incorporated into the quarterly Finance and Risk Compass by NORD/LB's Finance and Risk Controlling. In this context, Group Investment Management also reports on the profitability of significant and important investments, and on the risk situation on a portfolio basis.

In those subsidiaries of material relevance for risk which have investments, regular reports on the respective investments are also issued as appropriate.

Market-price Risk

Market risk denotes potential losses that may be sustained due to changes in market parameters. Market risk is subdivided into interest-rate risk, credit-spread risk, currency risk, share risk, fund risk and volatility risk:

- Interest-rate risk is always present when the value of a position or a portfolio reacts to changes in one or more interest rates or to changes in complete yield curves, and when these changes may consequently impair the value of the position (present-value approach) or reduce the interest income (income-oriented approach). The interest-rate risk also includes, in particular, the risk from changes in interest basis spreads and from changes in yield curves, together with repricing risks and interest-rate risks from optional components.According to Article 362 CRR, NORD/LB must also split trading book interest-rate risks into general and specific risks. It is NORD/LB's understanding that the general interest-rate risk mapped in the internal model acknowledged by the regulator also includes the credit-spread risk, while the specific interest-rate risk determined according to the standard procedure corresponds to the issuer risk.
- Credit-spread risks arise in case of changes to the credit spread valid for the given issuer, borrower or reference debtor used for market or model measurement of the position. Credit-spread risks thus stem from securities, credit derivatives and promissory notes (Schuldscheine) held for trading purposes. Credit products held for placement purposes are also relevant here.
- Other risk sub-types relevant for NORD/LB include the risk that the value of a position reacts to changes in one or more currency exchange rates (currency risk), share prices or share indices (share risk), fund prices (fund risk) or volatilities applied for valuing options (volatility risk), and that the changes reduce the value of the item.
- As the Bank conducts no business in commodities, the risk sub-type of commodity risks is not relevant for the NORD/LB Group. This risk sub-type is not included in reports on market risk or on risk-bearing capacity.

Strategy

The NORD/LB Group's activities in respect of market risks focus on selected markets, customers and product segments. Positioning on money, currency and capital markets should reflect the significance and size of the Bank, and is primarily geared to customers' needs and support for overall Bank management. The NORD/LB Group does not engage in opportunistic positioning beyond the scope just described.

Trading activities relating to customer business focus on interest products. Transactions carried out here are not concluded with a view to short-term exploitation of existing or expected differences between purchase and sales prices or fluctuations in market prices, market values or interest rates in order to generate profit.

Credit investments in securities and credit derivatives create significant credit-spread risks in fixed assets across the Group. The NORD/LB Group generally aims to use credit spreads until the exposure matures, and to reduce the amount of such credit investments by gradually trimming down the portfolios.

Structure and Organisation

The trading divisions of Treasury, Markets, Bank Assets Allocation and Credit Asset Management (CAM) are responsible for managing market risks at NORD/LB. As part of their Global Head function, the trading divisions are also responsible for trading activities conducted at the London, New York, Singapore and Shanghai foreign branches. Trading transactions are processed and monitored in separate divisions.

Management of market risks is supported by the Asset Liability Committee (Group ALCO). The Group ALCO is an advisory body that generally meets on a monthly basis at NORD/LB AöR level and quarterly at NORD/LB Group level. It supports strategic management of market and liquidity positions as well as management of investment portfolios with the aim of optimising the profitability of risk capital tied up in positions at NORD/LB Group level. For this purpose, recommendations for action are developed as a basis for decision-making by the head of Financial Markets. Group ALCO meetings are chaired by the NORD/LB department head responsible for the Financial Markets units. Other permanent or ad-hoc members with voting rights for NORD/LB are the Chief Risk Officer (CRO), the business manager of the Group ALCO, Direct Reports Treasury, Bank Assets Allocation, Markets, Finances/Tax, Research/Economy, Credit Asset Management and the departmental management of Risk Controlling, the Managing Board of Braunschweigische Landessparkasse (BLSK) and the Managing Board of NORD/LB Asset Management. For subsidiaries of material relevance for risk, representatives at Managing Board and Divisional Management level are permanent members (with voting rights) of the Group ALCO. As required, guests may be invited to attend the meetings while individual agenda items are discussed. Market risks are monitored by Finance and Risk Controlling which, in accordance with MaRisk, operates independently of the divisions responsible for market risk control, both in terms of function and organisation; Finance and Risk Controlling performs extensive monitoring, limiting and reporting activities for NORD/LB (including its foreign branches). These also include calculating eligible amounts based on the internal risk model for quarterly CRR reporting. Responsibility for developing and validating the risk model also lies with Finance and Risk Controlling.

The market risks of Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo are managed on a decentralised basis by local trading and/or Treasury divisions. These entities have their own risk controlling units in place to monitor risks. Calculated data is integrated into reporting at Group level.

Control and Monitoring

For internal control and monitoring of market risks, including limiting, Value-at-Risk (VaR) methods are generally employed for all significant portfolios in the NORD/LB Group. For the individual entities, the VaR limit for market risks overall is derived from the RBC model, and is allocated by Managing Board resolution to the head of Financial Markets who then delegates it to the subordinate organisational units at his or her own responsibility.

Compliance with the limit is monitored by the risk controlling units. Any losses are added to separate loss limits, resulting in a reduction of the VaR limits in accordance with the principle of self-absorption. Correlation effects between the portfolios are included in calculating the VaR and in delegating sub-limits.

In addition, the Financial Markets units include the respective Treasury divisions which plan the interest-rate, liquidity and currency risks for each entity from the Bank's lending and deposit business in the banking book. This planning is generally based on macro-control. Securities, interest derivatives, money and foreign exchange products are used as hedges. Details on the accounting treatment of hedging instruments and types of hedging relationship can be found in the notes to the consolidated financial statements.

Assessment

The VaR indicators are calculated daily using the historical simulation method. The methodology and risk system used for this purpose have been standardised across the NORD/LB Group. As the Group standard, a unilateral confidence level of 95 per cent and a holding period of one trading day are applied. On the last day of each quarter, NORD/LB prepares an additional VaR calculation for the NORD/LB Group based on the aforementioned parameters, as part of the risk-bearing capacity calculation.

The VaR calculation is based on historical changes to risk factors over the previous twelve months. The models take account of correlation effects between risk factors and sub-portfolios.

VaR models are particularly suitable for measuring market risks under normal market conditions. 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.

The prediction quality of the VaR model is verified by comprehensive backtesting analyses. These involve comparing the daily change in value of the respective portfolio with the previous day's VaR. There is a backtesting exception if the negative change in value observed exceeds the VaR amount.

In addition to VaR, stress-test analyses are used to examine the impact of extreme market changes on risk positions. Various stress scenarios have been defined for each market risk type (interest, currency, share, fund, volatility and credit-spread risk); these scenarios approximately reflect the average of the highest observed changes in the given risk factors, and are combined to produce scenarios spanning all types of market price risk. The risk factors observed were selected so as to cover the material risks for the overall NORD/LB portfolio and for the individual sub-portfolios of the trading divisions.

Additional stress-test analyses are performed at least once per quarter; these include strategy-related stress tests for selected trading positions and specific stress scenarios for spread and basis risks in the banking book.

Further stress tests covering all risk types are conducted on a quarterly basis within the context of reporting on risk-bearing capacity. The stress-test parameters are reviewed at least annually and are adjusted to changes in the market situation as necessary.

NORD/LB also uses the VaR model to calculate the capital adequacy requirements for general interest-rate risks, currency risks and for specific share risks in accordance with the Capital Requirements Regulation (CRR) at all relevant locations. The standard method is applied for the specific interest-rate risk (the remaining risk type from the regulatory perspective).

Reporting

According to MaRisk, in the companies of material relevance for risk in the NORD/LB Group, local Risk Controlling (which is independent of the divisions responsible for the positions) reports on market risks to the responsible department heads each day. In addition, weekly reporting is usually in place; this also takes account of the credit spread risks.

NORD/LB’s Managing Board is informed in detail once per quarter about the market risks and profit/loss situation of NORD/LB and the NORD/LB Group. Daily reporting to the responsible department heads also takes place in subsidiaries of material relevance for risk.

Liquidity Risk

Liquidity risks are those that can stem from disruptions in the liquidity of individual market segments, unexpected events in the lending, deposit or issue business, or changes in own funding conditions. As part of the risk inventory for the overall risk profile, the breakdown of the liquidity risk was adjusted in the reporting year and now comprises two instead of three types of sub-risk. Traditional liquidity risk is unchanged, while funding risk was replaced by the liquidity-spread risk. Market liquidity risks are taken into account implicitly, as per the definition below. Accordingly, the liquidity risk is now sub-divided into traditional liquidity risk (also including intraday liquidity risk) and liquidity-spread risk. Both liquidity risks are explained in the following sections.

- Traditional liquidity risk is the risk that payment obligations cannot be met, or cannot be met on time. At NORD/LB the focus in this context is on observing the next 12 months on the one hand, and on intraday risk on the other. From the longer-term perspective, risks can potentially be caused by general disruptions 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. From the intraday perspective (also intraday liquidity risk), an institution's ability to manage intraday liquidity effectively is of particular importance. Intraday risk occurs when payments cannot be made at the scheduled time, thereby impacting the liquidity situation of the Bank or others. Possible causes of risks are market disruptions (delayed/defaulted payment flows from market participants), and the ability to estimate one's own intraday liquidity situation at any time and forecast the size and timing of expected payment flows as fully as possible. The focus here is on intraday planning and management of liquidity and the institution's ability to meet its own payment obligations even under conditions of stress.
- Liquidity-spread risk describes the potential losses caused by changes in own refinancing conditions on the money or capital market. 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 the funding 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 “reinvestment risk” if future liquidity surpluses are present. But this does not lead to a traditional liquidity risk (in the sense of a future risk of inability to pay), instead, under certain circumstances it can merely have a negative impact on future earnings if it is subsequently not possible to service costs under liabilities from assets. Risk drivers for reinvestment risk can also include the liquidity spread if it is assumed that this is passed over to assets. The focus here is on the entire range of maturities. Model assumptions are made for positions without any fixed maturities. By considering individual currencies in the liquidity risk, spread risks from cross-currency swaps are also taken into account implicitly in the liquidity-spread risk. Securities are modelled in accordance with their liquidity category, so market liquidity risks are also implicitly considered. Market-liquidity risk defines the potential losses to be borne if transactions need to be concluded at conditions which are not in line with the fair market value due to a lack of liquidity in individual market segments. NORD/LB's understanding is that 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.

Strategy

Securing liquidity at all times is strategically essential for NORD/LB. While traditional liquidity risk should principally be hedged by maintaining a sufficient supply of liquid assets (in particular eligible securities), funding risks are permitted with a structural transformation of liquidity terms. Risks are restricted by appropriate limits in both cases.

The limit for traditional liquidity risk is designed to ensure the ability to make payment even in a conservative stress scenario, while the limit for the liquidity-spread risk is derived from the risk strategy and risk-bearing capacity of the NORD/LB Group, and allows opportunities for a contribution to earnings from the term transformation commonly used by banks.

To limit market-liquidity risk, NORD/LB primarily engages in securities transactions in markets that have proven adequately liquid in difficult market phases over recent years.

The business policy principles for liquidity-risk management in the NORD/LB Group are stated in the Global Group Liquidity Policy. The individual institutions in the NORD/LB Group also have liquidity control policies in place with basic strategic guidelines to ensure an adequate liquidity supply. Liquidity control measures in emergencies and crises are specified in contingency plans.

Risk concentrations under liabilities are prevented by a diversified investor base and product range. The focus is on institutional and public investors, in line with the NORD/LB Group's risk-adjusted orientation. Diversification of refinancing sources is also strengthened by Pfandbrief issues and retail deposits.

Structure und Organisation

In addition to Treasury, the trading divisions of Markets and Bank Asset Allocation as well as Finance and Risk Controlling are integrated into NORD/LB's liquidity-risk management process.

Treasury is responsible for managing positions carrying liquidity risk, and it bears the profits and losses resulting from changes in the liquidity situation (in general, or specific to NORD/LB).

Treasury also presents the liquidity maturity balance sheet to the Asset Liability Committee. In addition, it reports to this committee on the liquidity-spread risk and issues recommendations for action regarding ongoing strategic planning as appropriate.

Finance and Risk Controlling is responsible for introducing and developing liquidity-risk models. It also determines and monitors traditional liquidity risk and monitors traditional liquidity risk and liquidity-spread risk. Finance and Risk Controlling monitors compliance with the Liquidity Coverage Ratio (LCR) too.

In the event of a liquidity crisis, the Global Liquidity Management crisis team is in place to assume responsibility for liquidity control in close liaison with the Managing Board.

The liquidity risks of Bremer Landesbank, NORD/LB Luxembourg and Deutsche Hypo are managed on a decentralised basis by local Treasury units, with monitoring by the entities' own risk controlling units. To ensure coordination between the decentralised units, information is exchanged regularly between companies in the NORD/LB Group of material relevance for risk; this information concerns management-related Treasury issues and questions regarding risk controlling models.

Control and Monitoring

The liquidity-spread risk of NORD/LB and its subsidiaries of material relevance for risk is limited by present-value limits and volume structure limits for the various maturities derived from risk-bearing capacity. Liquidity maturities are also considered separately by currency.

Traditional liquidity risk is primarily limited by analysing a dynamic stress scenario. The scenario describes the most likely crisis situation in each case, and hence also describes an elevated risk of a rating downgrade for NORD/LB as at the reporting date, taking into account the credit portfolios affected by the shipping crisis among other things. The analysis is based on liquidity cash flows and covers the following twelve months on a daily basis. For products without a fixed liquidity maturity, optional components (e.g. from irrevocable credit commitments), planned new business and funding opportunities, assumptions are made in accordance with the market situation and are subject to regular validation.

The limit system helps to ensure that in the event of stress, surplus liquidity is available for at least three months. This means that securing the ability to make payment at any time in this maturity range is given preference over possible opportunities to generate profit. Bearing profitability aspects in mind, the aim is to ensure a liquidity surplus for at least six months in the dynamic stress scenario.

The dynamic stress scenario is supplemented by further static stress tests. These tests cover a scenario specific to NORD/LB and also the alternative scenario of a general liquidity crisis, as well as a short-term scenario of market-wide liquidity turbulence.

Market-liquidity risks are implicitly considered by classifying securities according to market liquidity in the liquidity maturity balance sheet. On the basis of a detailed security category concept, securities are allocated – according to their degree of liquidity – to one of eleven main categories with one to eight sub-categories (e.g. by central bank eligibility and rating). The liquidity maturity balance sheet is presented by liquidity category, with the maturities ranging from due on demand to final maturity.

In addition to tradability, when classifying the securities in the liquidity categories the usability of collateral is of key importance in particular, i.e. the suitability of the securities as collateral in repo transactions, with central banks or as cover for Pfandbriefs.

For management purposes at Group level, a monthly Group liquidity maturity balance sheet is drawn up from the risk perspective of the main Group companies. For this purpose, all cash flows in euros and the translated amount of foreign currency cash flows are combined in a single global overview. The liquidity maturity balance sheets are also drawn up in the main foreign currencies.

Assessment

As the basis for calculating utilisation of volume structure limits for various maturity bands, NORD/LB uses a liquidity maturity balance sheet for the entire position which essentially reflects the standard case. Liquidity risk is estimated in a risk-bearing capacity concept, on the basis of a present-value consideration of the liquidity-spread risk.

Calculation of dynamic and static stress scenarios for modelling traditional liquidity risk is based on present liquidity maturities. These are stressed until they reflect a crisis. For example, reduced position liquidities and increased utilisation of credit commitments are presumed. The stress scenarios can present the impact of unexpected events on the Group's liquidity situation. This facilitates foresighted planning and preparations for emergencies.

The key importance of market liquidity for all securities held is factored into stress scenario analysis. In addition, the credit-spread risks for all securities are considered when calculating market risks. Since the spreads observed on the market reflect both the credit rating of the issuer and the market liquidity of the securities, the risk reporting also indirectly takes the market liquidity of the securities into account. No separate risk measure is applied for market-liquidity risks.

Reporting

The Group’s quarterly “Finance and Risk Compass” and “Report on the Risk Situation” reports inform the Managing Board in detail about the liquidity risk situation of NORD/LB AöR and the NORD/LB Group. There is also the opportunity to obtain current information on the liquidity situation on a daily basis from the Liquidity Risk Cockpit.

Risk Controlling provides the responsible department heads with data on the dynamic stress scenario for NORD/LB's traditional liquidity risk every day.

Monthly liquidity-spread risk reports are prepared in euros and key foreign currencies. In addition, the maturity balance sheets underlying the liquidity-spread risk are presented together with the stress tests to the Asset Liability Committee, which convenes each month.

NORD/LB's largest customers in the deposit business are also monitored regularly. The relevant report is made available via the Liquidity Risk Cockpit.

For subsidiaries of material relevance for risk, corresponding reports are also in place regarding the traditional liquidity risk, the liquidity-spread risk and the liquidity situation in the status quo and under stress. These reports update the managing divisions, responsible department heads and the Managing Board on a quarterly, monthly, weekly or even daily basis.

Operational Risk

Operational risks are potential events, unintended from the NORD/LB Group's perspective, which occur as a result of the inadequacy or failure of internal procedures, employees or technology or as a result of external influencing factors, resulting in a loss or significant negative consequences for the NORD/LB Group. They include legal risks, but not strategic or business risks.

In accordance with this definition, legal risks, risks due to a change in law, compliance risks, outsourcing risks, insourcing risks, conduct risk, fraud risks, model risks, IT risks and vulnerabilities in contingency and crisis management are included in operational risk, together with personnel risks. Insourcing risks, IT risks and personnel risks were added during the risk inventory carried out in the reporting year, while dilution risks are no longer included.

The NORD/LB Group pursues the goal of efficient and sustainable management of operational risks, i.e.:

- avoidance or transfer, where this makes economic sense;
- compliance with relevant legal requirements at all times
- avoidance of future losses with a strong risk culture, which includes an open approach to operational risks employee awareness is maintained and promoted with measures as required
- business continuity and contingency plans to limit damage in the case of extreme unexpected events. Very extreme, unforeseeable events are countered by a crisis management organisation
- implementation of an appropriate and effective internal control system.

Management

Risk management for operational risks is based on the "three lines of defence" model. Responsibility for managing operational risks is decentralised within the given framework and lies with the divisions (first line of defence). Downstream control processes are in place as part of risk management and compliance functions along the second line of defence, which are supplemented by a central methodological framework for risk identification and assessment as well as higher-level management and reporting processes. Process-independent audits are conducted by Internal Audit (third line of defence).

Three lines of defence model

1st line of defence	2nd line of defence	3rd line of defence
// Decentral risk control in the divisions	// Central monitoring / control processes, in particular relating to risk management and compliance // Methodological framework	// Process-independent audit by Internal Audit

The NORD/LB Group adopts an integrated approach to managing operational risks, which it develops continuously. The aim is to ensure optimal interlinkage of the processes along the second line of defence. In this context, operational risks are presented more transparently within a consolidated governance, OpRisk & compliance report. In addition, method-based consolidation processes were promoted.

The NORD/LB Group has a uniformly structured internal control system (ICS) based on the framework of the Committee of Sponsoring Organisations of the Treadway Commission (COSO). Applying standardised methods and procedures is designed to ensure an appropriate and effective ICS throughout the bank and a lasting improvement. The structural ICS organisation at the NORD/LB Group is essentially a regular and recurring control cycle. The overriding goal is ICS's Bank-wide assessment based on examinations of the appropriateness and effectiveness of the controls implemented. By means of interlinked business continuity management focusing on time-critical activities and processes, contingency measures are in place to ensure appropriate operations in the event of an emergency and a return to normal operations as quickly as possible. The higher-level contingency and crisis organisation ensures communication and decision-making capabilities in the event of escalating emergencies and crises.

Control and Monitoring

Monitoring and control

Risk identification	Assessment	Reporting

// Loss events
// Self-assessment
// Risk indicators
	// Risk matrix
	// Scenario analyses
	// OpVaR model
		// Integrated Governance OpRisk & Compliance Report

The NORD/LB Group collects data on losses from operational risks above a de minimis limit of € 5,000. This data provides the basis for analyses aimed at optimising risk management. The loss data collected is exchanged with other banks in anonymous form in the Data Consortium of Operational Risks (DakOR). Consortium data is added to the database used for the internal model. In addition, information is available in the database of the Data Service for Public Operational Losses and Reputation Risks (ÖffSchOR), in which press reports on major losses resulting from operational risk are collected, structured and processed.

An annual, integrated self-assessment is designed to help identify future developments at an early stage by utilising expert know-how. The assessment includes all questions relating to the second line of defence in one questionnaire. Risk indicators are used in NORD/LB to identify potential risks early and to take countermeasures. Indicators are selected on a risk-oriented basis and reviewed regularly to ensure they remain up to date.

Scenario analyses provide detailed insight into the risk situation at topic or process level, and relevant measures are derived as necessary. Risk-oriented analysis planning draws on all available data (e.g. losses, self-assessments, audit reports, results from the ICS control cycle). The results are included in the internal OpVaR model and improve measurement accuracy as a result.

All risks are assessed on the basis of a risk matrix valid for the entire Group and are included in the Bank's risk reporting. The results are reported to the Managing Board every quarter (in the Finance and Risk Compass), while information on material risks is reported on an ad-hoc basis. Reports are sent to the competent divisions as and when required, but at least once a year.

The "Risk Round Table" was established as part of integrated OpRisk management, which is a central committee offering a platform where issues concerning significant OpRisk issues and methods can be discussed at management level. It focuses on operational risks, including process, IT, personnel, legal, outsourcing and compliance risks as well as security and contingency management. The Risk Round Table is designed to create transparency across the divisional boundaries of the second line of defence and enable comprehensive management initiatives.

One particular feature of the Bank's protection against operational risks lies in developing and expanding a high level of awareness and establishing an open risk culture. Employee risk awareness is enhanced through onsite and online training, a regular governance, OpRisk & compliance newsletter and ad-hoc information. "Lessons Learned" from previous cases play a special role here.

Specific management cycles have been implemented for IT and security risks. They are designed to ensure that internal and external threats are recognised quickly and can be actively managed. In IT, instructions on procedures, alternative capacities and backups ensure the IT infrastructure is suitably stable. Security concepts and contingency plans supplement precautionary measures to prevent losses resulting from the failure or manipulation of applications and information.

Personnel risk is countered by permanently ensuring adequate staffing in terms of quality and quantity. The aim is to ensure that all employees have the required skills for the range of tasks assigned to them. Staff shortages form part of contingency planning.

To prevent criminal acts, money laundering, the financing of terrorism and other compliance risks, NORD/LB has established comprehensive protection and prevention measures. Ongoing control and monitoring activities help to identify relevant issues. If there are any indications of major fraud, the course of action is decided in an ad-hoc committee at management level. There is a whistleblowing system for employees and customers so that information can be passed on securely.

Protection against legal risks is ensured by using contract templates and holding close consultations with the Legal Department. To ensure there are no unintended regulatory omissions, the Compliance Department identifies new banking requirements, informs the relevant divisions of resultant needs for action and provides evidential information across all divisions. The aim is to ensure compliance with legal provisions and requirements by implementing effective procedures in the specialist divisions.

The quality of external suppliers and service providers is ensured by risk-adjusted management of service providers. For significant outsourcings, a quarterly risk assessment takes place using defined risk indicators. A tailored contingency plan is also drawn up for each significant outsourcing.

NORD/LB’s insurance cover is adequate. NORD/LB’s insurance cover is subject to a regular analysis regarding its scope and effectiveness. Natural disasters and terrorist attacks are defined as force majeure and are countered with appropriate contingency concepts.

Accounting-related ICS

NORD/LB’s ICS, which also includes the accounting process, covers all the policies, procedures and measures implemented by management that are aimed at the organisational implementation of management decisions relating to

- the correctness and reliability of external accounting,
- compliance with legal regulations that are relevant for NORD/LB, and to
- ensuring the effectiveness and efficiency of the accounting.

The ICS is designed to prevent the risks associated with accounting processes, e.g. incorrect presentation, recognition or measurement of transactions or incorrect presentation of information in financial reporting.

The accounting-related ICS is integrated into the NORD/LB Group's overall ICS concept, and consists of a hierarchy of checks and key controls that are carried out periodically or as and when required, with documentation of the results. Key controls are reviewed annually to determine whether they are appropriate and effective. The testing is part of a control cycle that ensures the quality of the internal control system.

NORD/LB’s accounting process is decentralised. The preparation of the annual report and the management report for NORD/LB in compliance with legal regulations is the responsibility of NORD/LB's Finance/Taxes Division. Many issues subject to accounting are already recorded in the market and back office divisions in upstream systems at NORD/LB, and are already subject there to controls with regard to verification, completeness and valuation. There are also controls with regard to the correct recording of data, the reporting of facts and the preparation of disclosures in the notes.

For new processes to be implemented in order to meet new reporting requirements and new accounting standards, the controls and key controls necessary in this respect are integrated into the existing control system and expanded.

NORD/LB and its foreign branches have built up organisationally independent accounting processes and they have their own accounting-related control processes. The foreign branches are integrated within NORD/LB's overall ICS concept.

The closing accounting figures of NORD/LB and the foreign branches are consolidated via a SAP module into one set of financial statements for NORD/LB.

In selected areas relevant for accounting, in particular when calculating liabilities to employees, NORD/LB uses external service providers.

The accounting process is partly monitored by Finance/Taxes via a central, intranet-based management application. This application allows all activities and milestones relevant to the financial statements to be tracked in relation to their respective completion dates. In addition, the specialist divisions involved in preparing the financial statements communicate daily regarding processing status, so that management can immediately take control in the event of questions or delays.

NORD/LB's Internal Audit conducts process-independent audits to ensure compliance with the ICS. The accounting-related ICS is also subject to an annual audit by the auditor. The results are reported to the Audit Committee.

Assessment

The NORD/LB Group uses the standard CRD IV (Pillar I) approach to calculate the capital requirement.

For the risk-bearing capacity (Pillar II) and for internal control purposes, a Value-at-Risk model based on a loss distribution approach is used. The distribution parameters are calculated on the basis of internal data, scenario analyses and external data from the DakOR consortium. An allocation process combining size indicators with risk-sensitive elements is used to assign the model results to the individual institutions. Risk indicators in the warning zone impact the models. The model parameters regularly undergo comprehensive validation and stress tests. Mitigation effects due to insurance or other instruments used to spread risk are not considered in the quantification model at present. However, NORD/LB regards the use of industry-standard insurance products as part of active risk management. Development of the internal model has continued and its complexity has been reduced, while the modelling and data basis are still geared to the advanced measurement approach (AMA) as per CRD IV. Implementation took place on 31 December 2016.

Reputation Risk

Definition und Strategy

Reputation risk defines the risk of the Bank sustaining serious or permanent losses due to a loss of trust among customers/business partners, the general public, employees or the owners. Step-in risk is a subsidiary component of reputational risk.

Step-in risk denotes the risk arising if a bank provides financial support to a company in financial difficulties without being contractually obliged to do so, or if such support exceeds an existing contractual obligation.

NORD/LB aims to maintain and continually expand the trust of stakeholders at all times, and to be perceived as a fair and reliable partner. The aim is also to ensure the efficient management of reputational risks in a manner that makes economic sense. The following specific objectives are pursued:

- Prevent the occurrence of reputational risks with guidelines, knowledge of stakeholder expectations and the safe management of risky transactions
- Early identification of emerging and existing reputational risks
- Safe management of reputational risks that have emerged

Management

As a matter of priority, each and every employee is responsible for preventing reputational risks. As well as Corporate Communications, key players in this regard are Sustainability Management, Compliance, and Finance and Risk Controlling. Handling of reputational risks is consolidated in the RepRisk framework.

General and Bank-wide rules to prevent reputational risks define the permitted scope for decision-making. The following main rules apply in this regard:

- Financing principles
- Guidelines for controversial business activities (ESG guidelines)
- Guidelines for external communication
- Requirements for personnel recruitment
- Policies on money laundering and fraud
- Monitoring of sanctions
- Ethical principles and management of conflicts of interest.

Mechanisms such as defined audit steps and checklists in control processes should help to identify and safely control reputational issues. If an individual case with elevated reputational risk is not covered by general rules, an ad-hoc committee is convened.

Employee awareness of certain issues is raised by means of courses and web-based training (e.g. on the German Securities Trading Act (WpHG), the German Money Laundering Act (GwG), fraud, security/data protection). Newsletters on issues relating to the second line of defence, focusing mainly on current cases are discussed, also help to raise awareness.

In parallel with continuous, Bank-wide exchange of reputation-related information, NORD/LB has an early-warning system comprising several indicators, which is continually developed. These indicators are introduced where issues relevant for the reputation of NORD/LB can potentially be identified at an early stage.

The findings concerning reputational risks are included in the regular risk reporting and sustainability reports.

Economic Report

Key Results at a Glance

// The Euroland-analysts of the NORD/LB took the first place of the Thomas Reuters StarMine Award 2016

// The Agency checked the projections of 60 banks regarding economy and financial indicators.

// Since Years the NORD/LB analysts achieved regularly good results for short and long run interest outlooks.

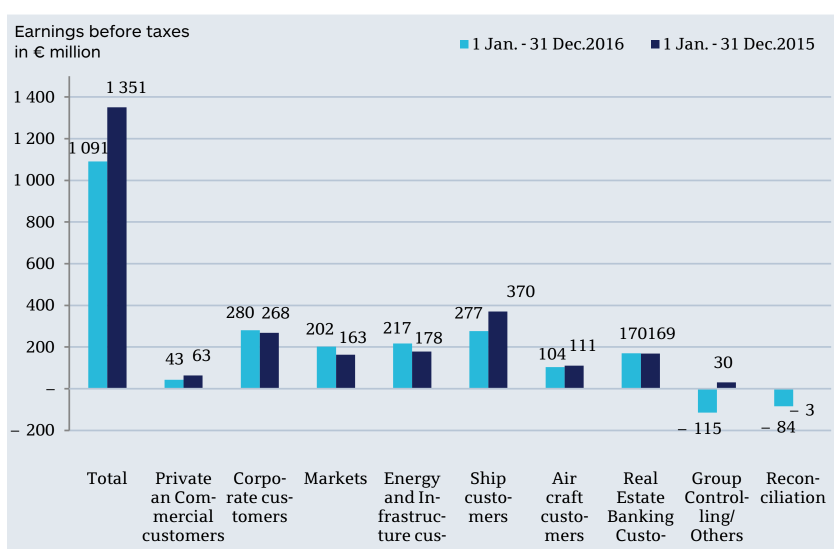
// Profit before tax and risk provisioning of the group decrease mainly on the basis of Hedge Accounting, Other operating income (Repurchases of own bonds) as well as restructuring accruals (BremerLB)

// The result of Privat and Commercial customers decreased due to low interest income.

// In the segments corperate customers as well as, markets, real estate, energy and infrastucture customers results were improved in comparision to 2015.

// Shipping customers with low interst and commission income (portfolio reduction)

// Interest income decrease in the area of aeroplane customers. Reasons are the declined new business due to pressure on margins.



General Economic and Industry-specific Environment

Global Economic Environment

Real global economic growth was once again moderate, coming in at only slightly more than 3 per cent for the fourth year in a row. In the US, economic momentum picked up over the course of the year, lifting Gross Domestic Product (GDP) by around 1.6 per cent for the year as a whole compared to 2015, despite a weak first half of the year. The situation remained difficult in Japan, where GDP only rose by 1 per cent in 2016 year-on-year. By contrast, the economic recovery in the eurozone continued and proved to be very robust in the face of difficult external factors, such as the Brexit vote at mid-year and Donald Trump's victory in the US presidential election at the beginning of November. On the whole, economic activity in developed economies remained strong enough to largely offset the ongoing weakness in some key emerging markets. With its growth model in transition, China's GDP growth slipped further to just 6.7 per cent. Russia and Brazil showed tentative signs of a gradual economic stabilisation at year's end. However, the volume of real global trade was weak and likely rose by less than 2 per cent.

As expected, the economic recovery in the eurozone continued in 2016. Quarter-on-quarter growth was at least 0.3 per cent in every quarter. For 2016 as a whole, overall economic growth was 1.7 per cent. However, the general economic development was once again quite divergent in 2016. Among the major economies, Spain stands out again with its very high economic growth, which once again exceeded 3.0 per cent for the year. The Netherlands and Germany also posted above-average growth rates. By contrast, economic development in France and Italy was muted. The two countries continue to suffer from structural problems. As in the preceding year, economic performance in France (+1.1 per cent) and Italy (+1.0 per cent) lagged well behind the rest of the single currency area. Bringing up the rear again in 2016 was Greece, but at least it managed to stabilise itself over the course of the year – albeit from a very low level. The Central Statistics Office in Ireland is once again expected to post the most impressive growth. After recording an incredible growth rate of 26 per cent in 2015, the country is set to post GDP growth of more than 4 per cent for 2016. However, these figures should be viewed with some caution, as they mainly reflect corporate tax inversion and off-shoring. Thus, Ireland has been profiting from its corporate tax rates, which are very low by international comparison. While foreign trade once again remained weak throughout the eurozone, domestic demand has supported growth. The high rate of expansion of real private consumption was also once again supported by very low inflation (+0.2 per cent) and a perceptible reduction in the unemployment rate to an annual average of +10.0 per cent.

The German economy had very solid performance in 2016. Despite several negative events, economic growth accelerated again slightly. Real GDP grew by 1.9 per cent year-on-year. After strong growth in the first half of the year followed by a brief pause in the summer, growth accelerated significantly in the fourth quarter. As expected, the overall economic expansion in 2016 was mainly supported by domestic demand. The most important drivers of growth were private consumption (+2.0 per cent) and public-sector spending (+4.2 per cent). Construction investments also made a significant contribution to total economic expansion of 3.1 per cent. By contrast, net exports and machinery and equipment investments for the year as a whole (+1.7 per cent) were disappointing. The good economic situation contributed to further improvement in employment, with nearly 43.6 million people employed at the end of December on a seasonally adjusted basis.

In particular, measures by central banks as well as the Brexit vote and the US presidential election had a significant impact on the capital markets in 2016. Because of heightened political uncertainty, the US Fed waited until December to increase interest rates for a second time since the financial crisis. The European Central Bank (ECB), by contrast, even accelerated its expansionary monetary policy. In addition to reducing the deposit rate to 0.40 per cent, the ECB also made further changes to its expanded asset purchase programme (APP) for bonds, including temporarily increasing its monthly purchases for a year starting in April 2016. It also began purchasing corporate bonds in mid-2016. The inflation rate climbed above the 1.0 per cent mark at the end of 2016 for the first time in more than three years. However, this increase was mainly due to base effects related to the price of oil, with domestic price pressure remaining low, as reflected in a core rate of just 0.9 per cent (December). Against this background, the ECB Governing Council decided in December to extend the EAPP until at least the end of 2017. As a result, the low interest rate environment persisted, even though long-term government bond yields rose sharply over the course of 2016. At the end of December, the yield on 10-year US Treasuries was 2.44 per cent, while the yield on German Bunds with the same maturity was substantially lower at 0.21 per cent. The US dollar benefited from the change of course on interest rates in the US and the increasing monetary policy divergence between the Fed and the ECB. In this environment, the EUR/USD exchange rate moved in a range from more than 1.16 USD/EUR to less than 1.04 briefly in December. Spreads on EUR/USD cross-currency basis swaps expanded over the course of the year, and at year-end the short and medium-term segment was around 45 basis points while the 10-year segment was around 40 basis points.

Aircraft

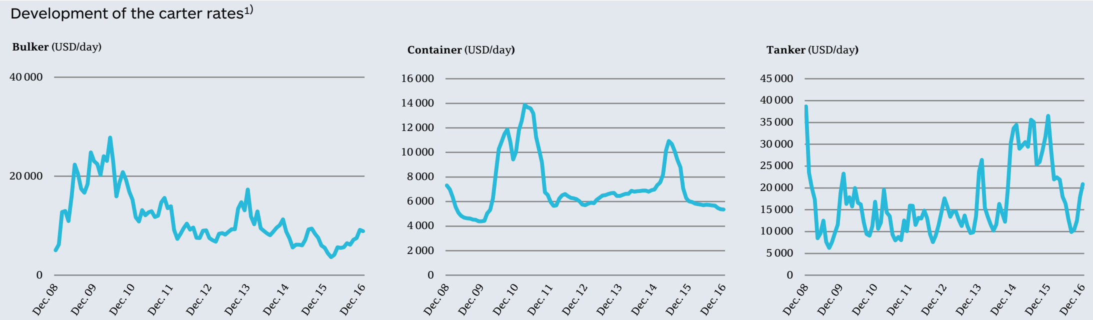
According to the calculations of the International Air Transportation Organisation (IATA), global passenger numbers (RPK, revenue passenger kilometres) increased by 6.3 per cent in the market as a whole in 2016 year-on-year. The growth rates were 6.7 per cent for international traffic and 5.7 per cent for domestic traffic. There were clear geographical differences in these transport developments. Global passenger traffic in the Middle East (11.2 per cent), Asia/Pacific (9.2 per cent) and Africa (6.5 per cent) showed above-average performance. Following a decline in air traffic growth in Europe (in particular international traffic) in the wake of terrorist attacks, RPK growth has picked up again since August.

The effects of geopolitical uncertainties and the after-effects of the terrorist attacks in Europe have to date had only marginal and temporary effects on the global growth of passenger traffic. Instead, growth has mainly been supported by the recovery of the global economy and cheaper flights as a result of lower oil prices.

Following a weak start to the year, the growth in freight tonne kilometres (FTKs) sold has picked up again since May. For the year as a whole, year-on-year growth amounted to 3.8 per cent. The European air freight companies were the growth drivers, gaining 7.6 per cent year-on-year.

Shipping

Development of the carter rates[1)]



[1)] Source: Clarkson Research Services Limited 2016; ClarkSea Index: Weighted average of major types of vessels

At first, 2016 was shaped in particular by the development of the bulker sector. The negative trend that started in 2015 continued, with the Baltic Dry Index reaching an all-time low in the first quarter. At first, the number of ships scrapped was bolstered by the poor income situation and rose sharply. As the bulker sector recovered toward mid-year, scrapping activity flattened somewhat, and the sector did not break the record of 30.6 million dwt scrapped it had reached in 2015. Thanks to improved demand for iron ore in China in the fourth quarter, rate indexes experienced a spurt at the end of the year. One positive aspect worth noting is the sustained level of orders in the bulker sector throughout the year.

Growth in the container sector was much more restrained in 2016 than it was in the previous year. While the container fleet rose by only around 1.5 per cent, it did exceed the 20 million TEU mark. In particular, the opening of new locks on the Panama Canal led to a significant shift in tonnage demand. As a result of another poor peak season and a general lack of demand in combination with growing capacity, rates fell below operating costs in some cases. The surprising bankruptcy of Korea’s Hanjin Shipping, one of the top liner companies, caused additional turbulence and accelerated consolidations in the market. Accordingly the idle fleet rose and reached a new record level with approximately 1.6 million TEU at the end of 2016. At the same time, the number of vessels scrapped in the container sector rose sharply in the second half of the year. With a total of around 660,000 TEU scrapped, it was the largest ship volume removed from the market ever.

While the tanker sector experienced a renaissance in 2015 as a result of the drop in oil prices, the trend reversed in 2016. Growing tonnage capacities following the delivery of newly built ships combined with lower demand and reduced oil production led to a rate correction in the sector. The modest stabilisation of oil prices, especially in the second half of the year, was not enough to reinvigorate the offshore industry. Sentiment in this niche remained negative with an average price for oil (Brent) of USD 44/b in 2016.

Real Estate

Despite the complex effects of the decision by the UK to leave the EU and political events in the US, among other events, the attractiveness of global real estate investments was not shaken in 2016. For the year as a whole, there was a global transaction volume of around € 628 billion in 2016. This represents a change of minus 6 per cent year-on-year. The transaction volume in the EMEA region (Europe, the Middle East, Africa) fell as well, to € 233 billion (prior year: € 254 billion). Uncertainty on the European commercial real estate market, in part as a result of political events, led to a cautious mood. However, demand for real estate in Europe remained high. The reduced availability of top properties resulted in overheating in some locations, with prices at peak levels. On the German commercial real estate market, historically low interest rates were once again the largest driver behind institutional investors’ strong appetite for investments in 2016. By the end of 2016, the German investment market had posted a transaction volume of around € 53 billion (prior year: around € 55 billion) and the market was characterised by a persistently high supply shortage. Strong demand for the office asset class, representing 45 per cent of the total transaction volume, followed by retail at 23 per cent, continued. At around € 4.7 billion, logistics real estate posted another record year. With a total transaction volume of around € 30 billion (prior year: € 31 billion), the focus remained on the major real estate markets of Munich, Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne and Stuttgart. On the whole, the established asset classes of the commercial real estate market remained in the expansionary phase of the real estate cycle.

Finance Sector

The European banking market has been in a state of profound change for many years. This has been triggered by various external factors, in particular changes resulting from the financial market crisis, such as weaker economic growth, very low interest rates and increasing regulation. In addition, the continuing digitalisation of the economy is having an ever greater impact on the banking sector. Taken together, these factors have led to a reduction in the number of banks in the EU over the years.

Market growth as measured in terms of the change in the volume of credit is – despite modest growth rates – restrained. This development shows that European banks lack growth momentum, particularly as their business remains affected by the development of interest rates in the eurozone, as reflected in narrower interest margins. Lower margins on new business are also a consequence of high competitive pressure and the resulting cut-throat competition in most European banking markets.

While few banks are using the departure of market participants who have come under pressure as a strategy for expanding, most European banks are responding to current developments by reorganising business segments, focusing on core business, reducing balance sheet risks and initiating efficiency improvement programmes. This has revealed that there is considerable pressure on European banks, particularly on the cost side.

In addition to the expense of restructuring programmes that are underway, this is due to a sharp rise in costs as a result of regulatory requirements and investments in IT structures, in part in connection with ongoing digitalisation. In short, the European banking system faces various structural problems that have negative implications for earnings. Ultimately, this restricts the ability of banks to absorb risks and build capital reserves.

As one of the largest landesbanks in Germany, NORD/LB is one of the country’s ten largest credit institutions. It has a good market position in its business with small and medium-sized companies in Lower Saxony, Saxony-Anhalt and Mecklenburg-Western Pomerania and its business with private clients in the Braunschweig region. NORD/LB is among the world’s largest ship and aircraft financiers and has extensive expertise in the renewable energies segment.

As the top supervisory authority for the European financial market, the ECB is ramping up its regulatory activities. As a result – and accompanied by statutory changes related to the introduction of resolution mechanisms – the requirements regarding the maintenance of loss absorbing capacity (equity and debt instruments) will continue to increase. In this connection, it will be particularly important to keep an eye on changes to “liability cascades” as well as the introduction of new, subordinated bonds.

Significant Events in the Financial Year

Regulatory requirements concerning minimum Capital

According to EU Regulation No. 575/2013 on Regulatory Requirements for Banks and Securities Firms (CRR), NORD/LB must, at both the individual institution level and at Group level, comply with legally prescribed minimum equity ratios for the supervisory capital ratios Common Equity Tier 1 capital, Tier 1 capital and own funds and have a gradually increasing capital buffer by 2019. The numerator is the relevant equity ratio and the denominator is the relevant total risk exposure amount according to Art. 92 para. 3 CRR. In the 2016 reporting year, the minimum equity ratios pursuant to the CRR were as follows: Common Equity Tier 1 capital 4.5 per cent, Tier 1 capital 6.0 per cent and own funds 8.0 per cent. In 2016, the required capital conservation buffer was 0.625 per cent.

In addition to these statutory minimum equity ratios, the European Central Bank (ECB), as the supervisory authority responsible for NORD/LB at Group level, required that for the period from 1 January to 30 December 2016 an individual minimum equity ratio of 9.25 per cent be maintained in respect of Common Equity Tier 1 in accordance with the CRR methodology, taking into account the transitional provisions. As at 31 December 2016, this minimum ratio rose to 9.75 per cent The capital conservation buffer was already included in this. With effect from the start of 2017, the ECB modified the definition and amount of this minimum ratio. Excluding the capital buffer, the total capital ratio requirement arising from the Supervisory Reporting Process (SREP) for the NORD/LB Group is 10.25 per cent. In addition to the statutory minimum capital ratio of 8 per cent, this includes a requirement of 2.25 per cent that must consist entirely of Common Equity Tier 1 capital. In 2017 NORD/LB must also observe the statutory capital conservation buffer of 1.25 per cent, and, as a national institution of systemic importance, must also maintain a capital buffer for other institutions of systemic importance of 0.33 per cent. Both capital buffers must be met with Common Equity Tier 1 capital and result in a total requirement of 8.33 per cent of Common Equity Tier 1 capital at Group level in 2017.

Capital Measures

In financial year 2016, NORD/LB once again met the statutory minimum equity ratios at both Group and individual institution level as well as the individual minimum ratio imposed by the ECB in respect of Common Equity Tier 1 capital.

For 2016 as a whole, NORD/LB posted negative earnings after taxes both at individual institution level in accordance with the German Commercial Code (deutsches Handelsgesetzbuch – HGB) and at Group level (in accordance with IFRS),

The negative consolidated profit resulted in a decline in Tier 1 capital at the NORD/LB Group level at the end of 2016. Based on the transitional provisions contained in the CRR, only a portion of the negative consolidated profit was charged against Tier 1 capital in 2016. Accordingly, the full effect of the negative consolidated profit on the NORD/LB Group's Common Equity Tier 1 capital will only be visible toward the end of the first quarter of 2017, when it reduces the Common Equity Tier 1 capital ratio.

Nevertheless, NORD/LB initiated a measure to strengthen its regulatory equity during the reporting period. In addition, and against the background of the EU-wide supervisory regulations regarding the participation of a bank's creditors in its losses in the event of restructuring or insolvency (bail-in) that have applied since the start of 2016, subordinated loans were taken out in several tranches in 2016.

The negative result at the individual institution level, taking account of the profit carried forward from the prior year, led to an accumulated loss according to the German Commercial Code. As a

consequence, the contractually agreed interest for contributions already made to NORD/LB by silent partners will not be applied for 2016. The resulting effects are reflected in the valuation of the silent participations recognised in subordinated capital as at the reporting date.
Elements of the silent participations were taken on by the special purpose vehicles, which refinanced the participations by issuing similarly structured listed bonds. These companies have already publicly announced that the 2017 interest on the bonds, which is linked to NORD/LB's interest on the Bank's participations for 2016 is unlikely to apply.

EU Process: Restructuring Plan and Commitments made by NORD/LB

The prerequisite for the completion of the capital measures undertaken in 2011 and 2012 was a state aid assessment and authorisation of the measures by the European Commission. The authorisation of the capital measures was based on a restructuring plan agreed by the Bank, its owners, the federal government and the European Commission in 2012. An independent trustee monitors the fulfilment of the commitments entered into.
NORD/LB, the Federal Republic of Germany and the European Commission agreed on the key points, which were the future focus of the Group's business segments on various focal points, a reduction of the Group total assets and optimisation of cost levels.
In addition, NORD/LB decided at the start of 2011, with the agreement of its owners, to stabilise the NORD/LB Group's administrative expenses at € 1.1 billion over the long term. In order to achieve this goal, NORD/LB implemented specific measures that affected its structures and processes in order to reduce material and personnel costs.
Based on the commitments, which were valid through the end of 2016 at the latest, NORD/LB continued to focus on pursuing its proven business model. NORD/LB anticipates that the trustee's final report as at 31 December 2016 will confirm that it implemented all remaining commitments by the end of 2016 as required.

Bank stress test

The results of the Europe-wide bank stress tests were published this July. NORD/LB's diversified business model again proved robust. Despite high charges resulting from the shipping crisis, the Bank's performance was average for the German banking sector.
Furthermore, NORD/LB submitted the ECB's transparency exercise survey in September. The data collected from all banks surveyed was published on the website of the European Banking Authority (EBA) in December.

IT Roadmap

NORD/LB's IT is based on established standard industry practices. In large part it is provided alongside the Savings Banks Financial Group's finance IT.
NORD/LB continuously invests in the updating and further development of its IT in order to support its business processes optimally and cost-efficiently and to fulfil the national, international and European regulatory requirements relating to IT. In financial year 2016, the focus is on consolidating significant elements of the IT infrastructure relating to finance IT, updating the loan IT systems and modifying the bank management systems. The service expenditures necessary to do this can be found under administrative expenses.

UK's exit from the EU (Brexit)

In the EU membership referendum held on 23 June 2016, the UK voted to leave the European Union (EU). The withdrawal may make free access to the Single European Market more difficult for the UK, which would mean the loss of a strong economic partner for the EU. The effects that this will have on individual asset classes (such as project financing, structured finance and real estate financing) depend on the results of the negotiations between the UK government and the EU

Commission, which will be assessed by the Bank in a timely and appropriate manner.

Securing the future of Bremer Landesbank

Because of negative developments in Bremer Landesbank's (BLB) traditionally heavy exposure to the crisis-plagued ship financing segment, an agreement in principle regarding the total acquisition of the already fully consolidated Bremer Landesbank was concluded in the third quarter. On 7 November, NORD/LB acquired all BLB shares held by the Free Hanseatic City of Bremen and the Savings Banks Association of Lower Saxony, with legal effect from 1 January 2017. The share acquisition took effect on 1 January 2017 subject to the conditions precedent, including the approval of the German Federal Cartel Office, the revision of the state treaty and the approval of the Supervisory Board and Owners' Meeting.

In connection with the acquisition of all shares of BLB by NORD/LB, the two companies concluded a control agreement with loss pass-through rights in January 2017. In addition, NORD/LB issued a unrestricted comfort letter in favour of BLB.

As a result of further extensive risk provisioning expenditures for troubled ship loans, BLB was no longer able to meet the minimum Tier 1 capital ratio requirement at the end of 2016, and its risk-bearing capacity no longer satisfied MaRisk. For this reason, it was necessary for NORD/LB to increase capital in order to strengthen BLB's capital reserves and reduce the pressure on its regulatory capital ratios. The capital measure in the amount of € 400 million was carried out with effect on 21 March 2017.

Other planned capital-strengthening measures for Bremer Landesbank include implementation of a synthetic securitisation and a regulatory waiver between Bremer Landesbank and NORD/LB. BLB has applied for a waiver in accordance with § 2a para. 1 and 2 of the German Banking Act (KWG) in conjunction with Art. 7 para. 1 CRR in order to obtain relief from capital requirements. If approval of the waiver is delayed or denied by the supervisory authority, a corresponding capital increase of € 200 million can be carried out on the basis of an existing decision. The continued existence of BLB depends on the implementation of these two capital-strengthening measures as planned.

The integration of BLB into NORD/LB will be developed as part of a joint project by the two banks and then implemented. The goal is to complete the final stage by 2020.

HETA Asset Resolution (HETA)

In April 2016, the Austrian Financial Market Authority ordered the immediate liquidation of HETA Asset Resolution AG (HETA), with the participation of all creditors. As part of the liquidation, creditors were given the opportunity to exchange HETA debt securities, with two choices available to them. Creditors could either receive cash compensation for their respective HETA debt securities at 75 per cent of the original value or exchange the HETA debt securities for state-guaranteed zero-coupon bonds issued by the Carinthia Equalisation Fund and maturing in January 2032. The cash value of the zero-coupon bonds was around 90 per cent of the original value of the claims. In August 2016, NORD/LB decided to exchange its HETA debt securities for the zero-coupon bonds. NORD/LB received the zero-coupon bonds in October 2015. The lower cash value of the zero-coupon bonds compared to the original claim led NORD/LB to waive debt claims owed by HETA in the low tens of millions.

Report on the Earnings, Assets and Financial Position

Earnings Position

During the year under review, the NORD/LB Group's earnings were largely impacted by the challenging developments on the shipping markets. In particular, the significant increase in loan loss provisions resulted in earnings before taxes of € -1,865 million during the year under review. Net interest income continued to be negatively affected by the ECB's continued expansive monetary policy. There was a positive development with respect to the profit/loss from financial instruments at fair value through profit or loss, including hedge accounting, which is bolstered by a higher trading result. The decline in other operating profit/loss is mainly the result of the increased negative net effect from the repurchase of registered bonds, promissory notes and issued debt securities.

The figures for the income statement are summarised as follows:

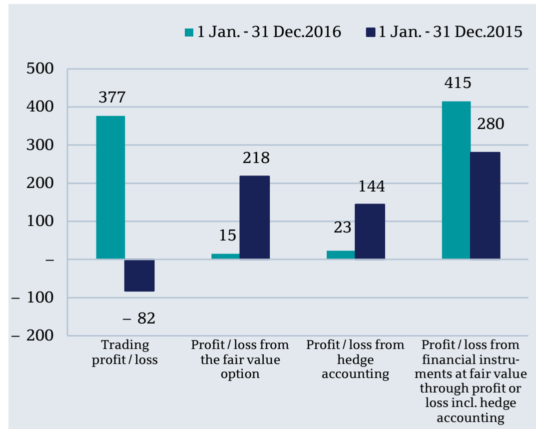
	1 Jan. - 31 Dec. 2016 (in € million)	1 Jan. - 31 Dec. 2015 (in € million)	Change (in %)
Net interest income	1 735	1 974	– 12
Loan loss provisions	2 956	698	> 100
Net commission income	219	234	– 6
Profit / loss from financial instruments at fair value through profit or loss including hedge accounting	415	280	48
Profit / loss from financial assets	49	72	– 32
Profit / loss from investments accounted for using the equity method	– 2	8	> 100
Administrative expenses	1 113	1 114	–
Other operating profit / loss	– 173	– 97	78
Earnings before reorganisation	**– 1 826**	**659**	**> 100**
Reorganisation expenses	– 39	– 6	> 100
Earnings before income taxes	**– 1 865**	**653**	**> 100**
Income taxes	94	135	– 30
Consolidated profit	**– 1 959**	**518**	**> 100**

Due to persistently low interest rates on the money and capital markets, **net interest income** declined by € 239 million to € 1,735 million year-on-year. The decrease in interest income of € 1,016 million has a greater impact on earnings than the reduction in interest expenses in the amount of € 777 million. On the earnings side, the decrease was particularly pronounced in interest income from lending and money market transactions and from financial instruments at fair value. In 2015, securities holdings with high coupons were amongst others disposed of and fixed interest notes for lending expired. As a result of market conditions, reinvestments were made on lower terms. The previous year was also positively impacted by higher than expected prepayment penalties received, which returned to normal levels in the current period. In respect to expenses, the reduction of liabilities to customers was particularly responsible for lower interest expenses from lending and money market transactions. In addition, lower derivative volumes led to reduced interest expenses from financial instruments at fair value.

Expenses from **loan loss provisions** increased by € 2,258 million year-on-year to € 2,956 million. This effect is primarily attributable to the € 1,976 million increase in net allocations to specific valuation allowances because of increased valuation allowance requirements in the ship financing segment. In addition, the negative net effect of direct write-offs of bad debts/additions to receivables written off, which was € 420 million higher, strained earnings. The increase in net reversals of portfolio valuation allowances of € 150 million is reflected positively in the results.

Net commission income declined slightly year-on-year. The increase in commission expenses of € 20 million is reflected in the results to a greater extent than the rise in commission income of € 5 million. Commission expenses rose, in particular, because of higher guarantee premium payments for securitised portfolios. By contrast, commission income increased compared to the prior-year period as a result of reconciliations in the custody business.

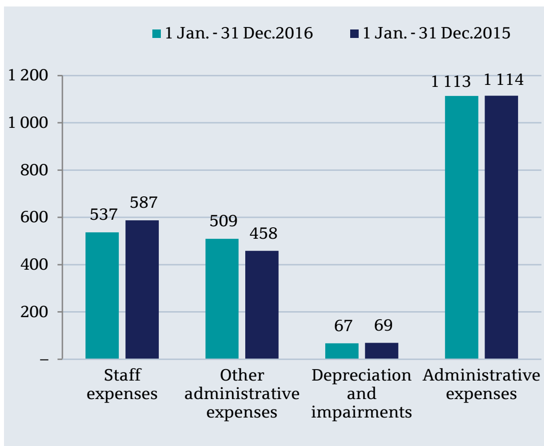
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting amounts to € 415 million and improved by € 135 million year-on-year. This effect is primarily attributable to increased trading income compared with the previous year, which more than offset the negative contributions from the fair value option and hedge accounting. The trading profit/loss was impacted by the positive trend of realised profit/loss and valuation gains/losses from registered bonds and promissory notes, as well as interest rate derivatives due to the fall in the EUR and USD interest rates compared with the previous year. The latter was also the factor behind the positive trend of the foreign exchange result. The decline in earnings from currency derivatives was due to the reduction in volume of cross currency swaps and the conclusion of new business at the current EUR/USD basis spread level. Profit/loss from the fair value option, which declined by € 203 million, was affected by compensating interest-driven effects. Profit/loss from hedge accounting amounted to € 23 million. The change in the estimate of the interest distribution will minimise any mismatch in the profit/loss from hedge accounting.



Profit/loss from financial investments amounted to € 49 million and is thus € 23 million lower year-on-year. This is largely the result of a decrease of € 12 million in profit/loss from available-for-sale (AfS) financial assets. This is because of a decline in disposal losses of € 77 million, which was not offset by the positive contribution to profit/loss from reversals of impairment losses in the amount of € 65 million. In addition, there was a negative effect on profit/loss from the € 21 million decrease in the profit/loss from shares in companies, as this was influenced positively in the prior year by the sale of investments. By contrast, the profit/loss from financial assets in the category loans and receivables (LaR) rose by € 10 million, largely as a result of realised profits.

Profit/loss from companies accounted for using the equity method amounted to € – 2 million, down € 10 million year-on-year. This is largely the result of impairment losses on shares in companies accounted for using the equity method.

Administrative expenses fell slightly by € 1 million to € 1,113 million compared to the prior-year period. Other administrative expenses rose compared to the prior-year period by € 51 million. In particular, this development was the result of the € 43 million rise in service expenses for IT in connection with the continuous development of the IT roadmap and the € 14 million increase in consulting expenses. In contrast, expenses for levies and contributions were reduced by € 8 million, which is attributable to the NORD/LB Group's reduced expenses in relation to the landesbanks' security reserves. Staff expenses were reduced by € 50 million, with the implementation of the savings programme more than offsetting the impact of wage increases.



Other operating profit/loss fell by € 76 million year-on-year to € –173 million. This is mainly the result of the increased negative net effect from the repurchase of registered bonds, promissory notes and issued debt securities as well as unscheduled amortisation and depreciation on ship assets from consolidated special-purpose entities. In contrast, there was a positive net effect from disposals of receivables. In addition, there were earnings of € 37 million from the purchase of an associated company. Other operating profit/loss includes expenses in connection with the EU banking levy of € 55 million.

The **Reorganisation expenses** of € 39 million include € 34 million in expenses for provisions for reorganisation measures as a result of the complete takeover of Bremer Landesbank and which are mainly for staff expenses. In addition, the result includes net allocations to reorganisation expenses in the amount of € 5 million for agreements already concluded at the reporting date concerning the termination of employment contracts as part of an efficiency improvement programme.

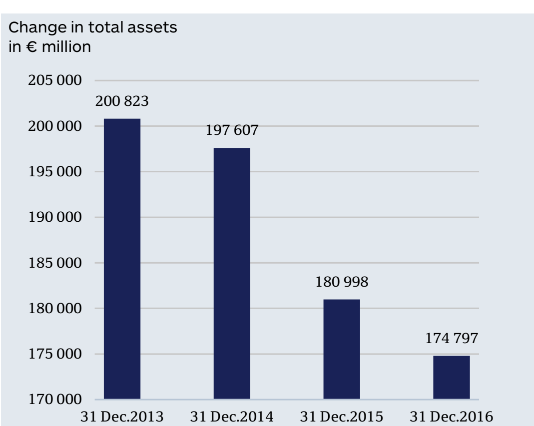
The expenses for **income taxes** of € 94 million during the year under review was primarily the result of current income taxes at foreign Group units and tax expenditure for previous years.

During the reporting year under review, total **irrevocable credit commitments** increased by around € 1 billion and amount to € 10 billion as at the balance sheet date.

Assets and Financial Position

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Loans and advances to banks	21 747	21 194	3
Loans and advances to customers	105 640	107 878	– 2
Risk provisioning	– 3 797	– 2 919	30
Financial assets at fair value through profit or loss	12 526	14 035	– 11
Positive fair values from hedge accounting derivatives	2 327	2 507	– 7
Financial assets	31 574	34 515	– 9
Investments accounted for using the equity method	285	290	– 2
Assets held for sale	421	58	> 100
Other assets	4 074	3 440	18
Total assets	**174 797**	**180 998**	**– 3**
Liabilities to banks	49 241	48 810	1
Liabilities to customers	57 301	60 597	– 5
Securitised liabilities	35 815	35 877	–
Financial liabilities at fair value through profit or loss	15 056	16 057	– 6
Negative fair values from hedge accounting derivatives	2 945	3 148	– 6
Provisions	2 753	2 428	13
Other liabilities	1 661	1 269	31
Subordinated capital	3 984	4 299	– 7
Reported equity including non-controling interests	6 041	8 513	– 29
Total liabilities and equity	**174 797**	**180 998**	**– 3**

Total assets fell slightly compared with 31 December 2015.



Loans and advances to banks rose by € 553 million year-on-year to € 21,747 million. This change was primarily the result of the increase in short-term loans and advances resulting from money market transactions. Other loans and advances fell, in particular as a result of liabilities to foreign banks.

Loans and advances to customers continues to be the most significant balance sheet item and remained unchanged at 60 per cent of the total. This item fell by € 2,238 million year-on-year, mainly due to the planned reduction in the portfolio of ship mortgage loans. The portfolio of loans and advances held for sale totalled € 1,001 million and was transferred to assets held for sale. The goal is to sell the loans and advances in 2017.

Loan loss provisions increased year-on-year by € 878 million to € 3,797 million, which was attributable to the increase in specific valuation allowances in ship finance. Taking account of the assets held for sale recognised in the balance sheet in accordance with IFRS 5, risk provisioning rose by € 1,589 million to € 4,508 million.

At € 12,526 million, **financial assets at fair value through profit or loss**, including trading assets and financial assets designated at fair value, are down by € 1,509 million year-on-year. This reduction is due to valuation and volume effects, which are mirrored on the liabilities side.

As a result of the decrease in **available-for-sale (AfS) financial assets** as part of the reduction in the total risk exposure amount, the financial assets portfolio fell € 2,941 million year-on-year to € 31,574 million.

Assets held for sale primarily include net receivables (€ 290 million) and property and equipment in the amount of € 108 million from fully consolidated subsidiaries held for sale.

The increase in **other assets** is primarily due to the rise in cash reserves.

Liabilities to banks rose by € 431 million year-on-year to € 49,241 million. The rise was mainly attributable to the increase in term deposits. Liabilities resulting from money market transactions declined.

Liabilities to customers fell by € 3,296 million year-on-year to € 57,301 million. The decline was primarily attributable to the decreased promissory notes portfolio and reduced liabilities resulting from savings deposits.

Securitised liabilities were down slightly on the previous year at € 35,815 million. The decline is due in large part to repurchases of public-sector Pfandbriefe and reductions in the money market instrument portfolio.

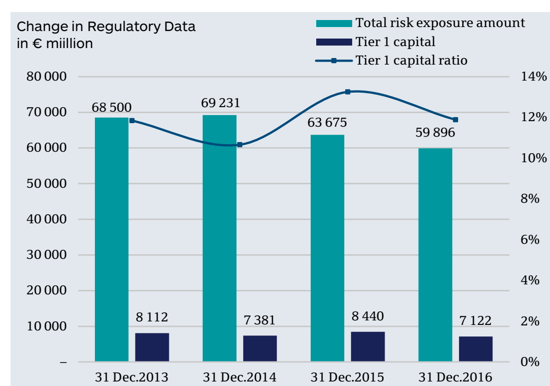
Liabilities at fair value through profit and loss consist of trading liabilities and financial liabilities designated at fair value. Year-on-year, the € 1,001 million decline, with the inverse amount on the assets side, is based on valuation and volume effects.

Provisions increased by € 325 million to € 2,753 million and were attributable to the increase in interest-related net indebtedness from defined benefit pension plans.

Other assets include designated liabilities held for sale in the amount of € 19 million (€ 7 million).

Subordinated capital declined by € 315 million to € 3,984 million due to the revaluation of silent participations, repayments and exchange rate effects in USD-denominated capital.

The decline in **reported equity** of € 2,472 million to € 6,041 million was primarily due to the consolidated profit, changes in the revaluation of the net liability from defined benefit pension plans and the anticipated loss as a result of the purchase of own capital instruments from minority shareholders.



Development of the Business Segments

The NORD/LB Group operates in the following segmentsOverall Bank,

- Private and Commercial Customers,
- Corporate Custumers,
- Markets,
- Energy and Infrastructure Customers,
- Ship Customers,
- Aircraft Customers and
- Real Estate Banking Customers

Overall Bank

31 Dec.2016 (in € million)	Overall bank	Trend	Development
Earnings before taxes (EBT)	– 1 865	↓	- Earnings before taxes are negative and therefore substantially lower than the prior year. - Net interest income declined noticeably because the special effect recognised in 2015 as a result of high prepayment penalties no longer applied, net interest received from the investment of pension provisions declined following the outsourcing of pensions to the provident fund in 2015, profits from the deposit business and investments of equity decreased as a result of interest rates, there was a decline in the volume of lending and higher interest expenses for subordinated bonds. - Risk provisioning is up sharply as a result of higher valuation allowances on the ship loan portfolio. Partial compensation through the reversal of portfolio-based valuation allowances. - Net commission income moderately lower as a result of expenditures for capital-relief securitisation measures. - Profit/loss from financial instruments at fair value through profit or loss is up sharply as a result of stronger sales in the customer business as well as the valuation of securities and derivatives. - Profit/loss from hedge accounting down sharply. The change in the hedge profit/loss is due to the harmonisation of the valuation methods for underlying transactions and hedging investments as well as the movements of yield curves in 2016. - Profit/loss from financial assets significantly lower, as the realisation profit was down due to the sales of investments. - Profit/loss from at-equity investments slightly negative as a result of valuation corrections on investments and thus down sharply year-on-year. - Administrative expenses almost unchanged. The effect of noticeably lower staff expenses as a result of the decision to largely forgo bonus payments is almost entirely offset by appreciably higher other administrative expenses as a result of project and ongoing IT costs. - Other operating profit/loss significantly worse year-on-year, mainly as a result of the repurchase of own issues and amortisation and depreciation at consolidated ship companies. - Much higher reorganisation/restructuring expenses in connection with the intended integration of Bremer Landesbank.
Cost-Income-Ratio (CIR)	50,7%	↗	- CIR slightly higher than the prior year. - Noticeably lower earnings and nearly unchanged administrative expenses.
Return-on-Equity (RoE)	-24,5%	↓	- RoE negative and thus considerably worse than the prior year. - In particular, affected by high risk provisioning for the ship loan portfolio.

Private and Commercial Customers

31 Dec.2016 (in € million)	Private and Commercial Customers	Trend	Development
Earnings before taxes (EBT)	47	↓	- Earnings before taxes well below prior year. - Net interest income includes much lower earnings from the deposit business and sharply lower earnings from the investment of tied-up capital as a result of low interest rates. In addition, modestly lower earnings from lending business (mainly as a result of Bremer Landesbank). - Reversal of portfolio valuation allowances in the loan loss provisions in the reporting year and thus opposite the formations of specific valuation allowances in the prior year. - Net commission income nearly unchanged year-on-year. - Profit/loss from financial instruments at fair value through profit/loss with secondary significance for the segment. - Profit/loss from investments accounted for using the equity method is due to Öffentliche Versicherung Braunschweig (interest on owner's capital). - Slight reduction in administrative expenses as a result of significantly lower staff expenses. - Other operating profit/loss much better as a result of a reduction in internal charges.
Cost-Income-Ratio (CIR)	81,2%	↗	- CIR is slightly above the prior-year value. - Much lower earnings are a significant factor.
Return-on-Risk-adjusted-Capital (RoRaC)	12,6%	↓	- Value well below the prior-year value because of sharply lower earnings before taxes.

Persistently low interest rates on the capital markets during the year under review resulted in a much greater reliance on alternative sources of earnings than in previous years.

There were two main focuses at Braunschweiger Landessparkasse (BLSK). First, we met customer demand for simpler and more transparent pricing of private and business current accounts with a change in the account model. The new account options and prices are based on customer behaviour (type of payment methods, quantity).

Second, customers who are not in regular contact with BLSK were identified. The goal was to maintain closer contact with these customers and to tap expanded sources of income. This was made possible by the new focus of the branch structure and the related establishment of the phone and online branch called "BLSK direct". Customer advisors in the branches can now focus on the resulting shift in service activities to the advisory meeting with the customer on-site.

In view of the major challenges in the current interest environment, the Private Banking portfolio manager team has developed the Nordlux Pro StiftungsPartnerA investment fund. Given the strategic focus and tactical allocation, the fund management company will be advised by BLSK portfolio managers and foundation experts. The fund has generally been designed to meet the needs of foundations, but because of the "partner approach" it is also available to other conservative capital investors. The aim of the investment policy is long-term asset preservation and long-term income generation.

In collaboration with Braunschweig Zukunft GmbH, BLSK awarded the Founder Prize for the fourth time. The prize recognises young entrepreneurs for extraordinary service and the development of innovative ideas.

The Braunschweigische Sparkassenstiftung, which was established as part of the 250th anniversary of BLSK, got off to a successful start and has established itself among other foundations in a short period of time.

The excellent position of the NORD/LB Group in the private customer segment in the area of individual asset management is demonstrated by the awards the Group received in 2016. Trade magazine Elite Report named Bremer Landesbank's Private Banking business the best asset manager in a German-speaking country for the 13th time in a row, with the distinction “summa cuim laude”. The asset and portfolio management team proved its expertise with its Systematic Investment Process, which it developed and implemented and which was supplemented in 2016 with another innovative investment strategy, the Global Opportunities Fund.

With the successful launch of the SIM sales measure (starter package for international medical professionals), Bremen Private Banking is expanding its expertise in its core business of advising independent professionals, and healthcare professionals in particular.

The Private Customer area at Bremer Landesbank is also responsible for financing major construction projects in Berlin-Schöneberg, which meet the highest environmental, social and economic standards (see the award for sustainable building from the Deutsche Gesellschaft für Nachhaltiges Bauen). Of the total investment volume of € 86 million, around € 72 million was financed in conjunction with consortium partner IBB.

Corporate Customers

31 Dec.2016 (in € million)	Corporate Customers	Trend	Development
Earnings before taxes (EBT)	200	↓	- Earnings before taxes much lower than prior year, mainly as a result of higher risk provisioning. - Net interest income slightly above prior year because of an expansion of business. - Considerably higher allocations to risk provisioning. However, risk provisioning in the prior year on a low level. - Net commission income slight below the prior-year level, primarily because of lower one-off commissions. - Trading profit/loss somewhat stronger than prior year because of the improved development of counterparty-specific default risk for derivatives. - Administrative expenses nearly the same. Higher staff expenses are offset by lower overhead costs. - Other operating profit/loss for this segment has little relevance for earnings.
Cost-Income-Ratio (CIR)	34,4%	→	- CIR slightly improved over the prior year. - Slightly higher earnings (growth case) and nearly unchanged administrative expenses are significant factors.
Return-on-Risk-adjusted-Capital (RoRaC)	16,1%	↓	- Substantially lower RoRaC. - This is mainly due to much lower operating results owing to increased risk provisioning.

Despite the difficult market environment characterised by increased competition, volatile markets and margin pressure, the Bank grew its corporate customer business further in 2016, strengthening its position as a core bank. New customer acquisition was good across the entire corporate customer segment. In particular, growth was based on the consistent strategic realignment of the corporate customer business over the past several years.

Thanks to a thorough rearrangement of its investments in the energy supply market, energy company EWE AG, based in Oldenburg, strengthened its business model, increasing its flexibility for further strategic growth in the energy market. NORD/LB assisted with the related financing of the purchase of shares in favour of the EWE Verband, which increased its stake in EWE AG by ten per cent. This major transaction was financed together with Bremer Landesbank and another consortium partner.

NORD/LB has established itself throughout Germany as a specialist in financing residential properties. Demographic changes, energy efficiency requirements and the search for housing by broad sections of the population in a time when housing is in short supply necessitate special expertise in financing for residential properties, especially for large projects. This special segment will continue to see growth in the future as well. There is a particular focus here in western German regional markets.

NORD/LB solidified its market position as the largest specialist in agricultural banking. In particular, NORD/LB expanded its exposure in North Rhine-Westphalia. NORD/LB served its agricultural customers as a reliable partner in implementing required adjustment processes, such as the adjustments necessitated by the fall in milk prices. In this case, in addition to bridging liquidity shortages, it was necessary to hedge prices and implement risk provisioning in order to better counter price pressure.

A specific example is the modern dairy cow facility for 690 cows for agricultural company Günterode in northern Thuringia, which NORD/LB financed back in 2011. A biogas plant built near the farm at the same time resulted in operational synergies, as the animals provide a significant portion of the required substrate. This diversification reduced the potential risks of the business model and improved the company's competitive position right from the start, allowing the customer to quickly take advantage of price hedging during the milk price crisis in 2016 through the use of commodities futures and the targeted utilisation of financing to cover temporary liquidity shortages.

On 23-24 November 2016, the 12th annual Structured FINANCE trade fair opened in Stuttgart, which provides market participants with a platform for discussing the latest trends in corporate financing. The participants included some 1,900 financial decision-makers from companies and providers of the latest financing products. In its role as sponsor of this event, NORD/LB put together two workshops at the trade fair for customers. In its two workshops, "Promissory notes: A strategic component of the financing mix" and "Purchasing pools of receivables as a flexible element of overall financing", NORD/LB presented the potential individual structures of these two financing options to a wide audience.

Markets

31 Dec.2016 (in € million)	Markets	Trend	Development
Earnings before taxes (EBT)	203	↑	- Earnings before taxes rose significantly. - Much lower net interest income from securities holdings year-on-year as a result of persistently low interest rates. - Risk provisioning in this segment is not significant. - The special effect from the sale of custodian bank activities had a significant positive impact on net commission income. - In particular, substantially lower losses in the value of securities holdings and positive valuation effects from interest-rate derivatives lead to a considerably improved profit/loss from financial instruments at fair value through profit or loss. The successful distribution of structured products also contributes to the very good trading result. - Slight reduction in operating costs, particularly as a result of lower material costs (IT) and operating costs allocated internally. - Other operating profit/loss only has minor relevance for the results in this segment.
Cost-Income-Ratio (CIR)	40,8%	↘	- Noticeable improvement of the CIR year-on-year. - A major reason for this are moderately higher earnings, driven by income from the sale of custodian bank activities and the profit/Loss from financial instruments at fair value through profit or loss.
Return-on-Risk-adjusted-Capital (RoRaC)	44,0%	↑	- RoRaC well above the prior year. - Noticeable increase in earnings and an appreciable reduction in capital commitment in the derivative position.

A significant driver of the overall result in the Markets segment was the business with institutional customers in traditional capital market products and products related to the capital market.

Despite the challenging market environment, the Markets segment once again demonstrated its expertise in placing both its own issues and third-party issues in 2016. The strategic expansion of the Debt Capital Markets (DCM) business segment for financial institutions, government issuers and quasi-government issuers was continued successfully. In addition to the primary focus of business activities in 2016 on the euro covered bond market, a number of mandates were won in other fixed income markets as well. For example, new issuers were gained in northern Europe, Benelux, Germany, Australia and New Zealand and brought to market with the help of NORD/LB.

On the German Pfandbrief market, NORD/LB was once again one of the four largest arrangers and placed first among German Landesbanks for the syndication of Pfandbrief mandates. Internationally, NORD/LB was among the top 15 banks in the euro covered bond benchmarks segment, as it was in 2015 as well. In particular, the covered bond joint lead mandates that NORD/LB won for the first time in 2016 included in particular Sweden's Swedbank, Denmark's BRFkredit and Germany's Apotheker- und Ärztebank. In addition, NORD/LB made the short list in the category "Best Distribution" as part of the awards presented by trade magazine "The Cover".

In April 2016, NORD/LB was given a leading role in a mandate by BNP Paribas for a senior unsecured benchmark with a focus on German investors. The bond volume was increased in August by NORD/LB and two other banks.

In the area of public budgets, NORD/LB acted as the lead manager on major public transactions for promissory notes for municipalities in Germany. These include cities such as Bielefeld and Hanover as well as the region of Hanover and numerous private placements.

As part of its own funding activities, in addition to private placements NORD/LB also placed a 10-year Pfandbrief benchmark issue and the second

NORD/LB unsecured benchmark in what was a challenging market environment.

The portfolio of pass-through loans once again rose slightly year-on-year. KfW Development Bank's automatic application and approval process for housing sector promotional products via Webservice, including immediate approval, was successfully introduced at savings banks in the NORD/LB network region in 2016. This accelerated and optimised the promotional loan process in the housing segment significantly. This process will be expanded to promotional loan programmes for the commercial sector by 2018.

In addition, as part of the handover of custodian bank activities to Landesbank Baden-Württemberg, 2016 volumes were transferred as scheduled.

Energy and Infrastructure Customers

31 Dec.2016 (in € million)	Energy and Infra-structure Customers	Trend	Development
Earnings before taxes (EBT)	182	↑	- Earnings before taxes rose sharply over the prior year. - Slightly positive development of net interest income as a result of increased holdings. - Risk provisioning significantly higher than the prior year, but still at a low level. - Commission income rose sharply as a result of business brokered in the prior year but not implemented until 2016 as well as an unplanned spike in new business. - Profit/loss from financial instruments at fair value through profit or loss rose sharply as a result of derivative earnings in particular. - Administrative expenses at the same level as the prior year. - Other operating profit/loss has little relevance for this segment.
Cost-Income-Ratio (CIR)	31,0%	↘	- Noticeable decline in CIR as a result of an appreciable increase in earnings with stable administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	22,8%	↗	- RoRaC significantly higher. - Sharp rise in earnings before taxes with a slightly lower capital commitment.

Despite increasing competition, NORD/LB maintained its market position in the Energy and Infrastructure Customer segment as one of the leading financiers of renewable energy in its core European markets of Germany, France, the UK and Ireland.

The first financing structure in 2016 worth noting is an agreement reached with an institutional investor, with the support of the Credit Asset Management unit, to provide financing upon conclusion of the deal. The deal involves two solar parks in Brandenburg, for which more than two-thirds of the total transaction volume was placed with the institutional investor, Talanx. A number of similar business structures were successfully implemented in the energy segment in 2016.

NORD/LB also financed the construction of eight schools and three hospitals in the UK in 2016. For this work, NORD/LB won the infrastructure "Deal of the Year" award in the category "Most Valuable Customer Solution".

NORD/LB also successfully maintained its position as a book runner on the US market, involving additional lenders in its structures.

A key milestone for NORD/LB in the Asia region is its successful market entrance in Australia, where it structured and financed a solar project in the Lakeland region (North Queensland).

The wind power financing segment was also developed successfully in 2016. One notable example is the financing provided for the construction and subsequent operation of a large wind farm in France for an Austrian energy producer. This allowed the Bank to further increase its exposure in the key French market.

The Structured Finance Customers at Bremer Landesbank developed positively in 2016 and continued on a growth path. Bringing in a higher-than-average amount of new business, renewable energy was a key growth driver. This is due in part to the anticipatory effects related to wind onshore with a view to the impending renewal of the Renewable Energy Act (Erneuerbare-Energien-Gesetz – EEG) in Germany as well as a good level of new business in France.

Ship Customers

31 Dec.2016 (in € million)	Ship Customers	Trend	Development
Earnings before taxes (EBT)	– 2 663	↓	- Earnings before taxes remained significantly negative and much worse than the prior year. - Net interest income showing clearly negative tendency due to the portfolio reduction. - Allocations to risk provisioning at a high level and rising significantly as a result of the ongoing ship crisis. - Net commission income fell sharply owing to constraints on new business. - Profit/loss from financial instruments at fair value through profit or loss dropped considerably due to fewer transactions. - Administrative expenses slightly lower resulting from reduced headcount in connection with a contraction in volume. - Other operating profit/loss in this segment is insignificant.
Cost-Income-Ratio (CIR)	28,6%	↑	- Significant deterioration in CIR. - Administrative expenses were marginally lower while earnings fell considerably.
Return-on-Risk-adjusted-Capital (RoRaC)	-114,7%	↓	- Significant deterioration of RoRaC. - Substantially lower capital commitment as a result of a much smaller shortfall and portfolio reduction not sufficient to offset the negative effects of risk provisioning and earnings.

In the Ship Customers segment, the NORD/LB Group focused mainly on downsizing the portfolio. Thus, the current Group volume is to be pared down to between € 12 and € 14 billion. For this purpose, a team of specialists was established that concentrates solely on this reduction and has access to an extensive network. The initial successes were posted at the end of 2016 when about € 3 billion in exposure was reduced.

In addition, the systematic conversion and diversification of the portfolio, primarily in terms of regions, customers and asset classes, was advanced further. The Group-wide focus here is on a reduction of the commercial shipping portfolio and a reduction in activities in the special tonnage segment at the Hanover location and the cruise ship and ferry segment. Special attention is being paid here to liability and cash flow structures. As a result, new business activities were dominated by niche markets (44 per cent) and the cruise ship and ferry segment (26 per cent).

Through active portfolio management, the NORD/LB Group managed to further diversify its portfolio, especially in various asset areas as well as regions with low-risk structures. Thanks to its many years of market experience and its selective process for choosing projects to finance, NORD/LB was able to acquire financing that had a high level of economic stability with average financing terms.

By engaging in in-depth discussions with existing customers, in 2016 NORD/LB was also able to strengthen and expand its expertise in structuring complex transactions to meet individual customer needs. Thus, in addition to traditional interest-rate and currency hedging, shipping industry customers also benefited, for example, from the use of securitisation facilities, in which NORD/LB purchases its customers' receivables, which creates very flexible and, from the company's perspective, optimised financing.

Because of its many years of experience and its broad global customer base, NORD/LB is also able to find attractive partners with top ratings to participate in the bundled and securitised pools of third-party shipping receivables.

Aircraft Customers

31 Dec.2016 (in € million)	Aircraft Customers	Trend	Development
Earnings before taxes (EBT)	104	↘	- Earnings before taxes down moderately over the prior year. - Net interest income reduced appreciably as a result of lower average holdings because of the low volume of new business in the first half of the year and decreased margins with higher refinancing costs. - Reversals of risk provisioning and income from depreciated receivables have a positive impact on earnings before taxes. - Sharp rise in net commission income because of derivatives brokering. - Profit/loss from financial instruments at fair value through profit or loss nearly unchanged. - Administrative expenses modestly higher as a result of an increase in headcount (at the branch in Singapore, among other places) and increased inter-company cost allocations.
Cost-Income-Ratio (CIR)	20,7%	↗	- Noticeable rise in the CIR as a result of slightly lower earnings and moderately higher administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	22,8%	↘	- Marked decline in RoRaC. - This comes against a background of lower earnings before taxes and disproportionately lower capital commitment.

Competitive pressure in the Aircraft Customers segment remains high. NORD/LB has responded to this development by acting as a responsible organiser of larger credit facilities in addition to its function as a lender. Consequently, commission-based advisory services are playing a growing role in NORD/LB's aircraft financing.

In 2016, a new team of specialists was set up successfully in the Singapore location. Complementing the established teams in Hanover and New York, the team in Singapore will enable us to provide direct support for target customers and investors in the Asia/Pacific region. The Singapore team has already conducted its first operating lease transactions with customers in the region.

Other highlights in the financial year under review include the issuance of promissory notes for a European carrier and an Irish leasing company, among others. These transactions open up alternative sources of refinancing and expand the NORD/LB product range.

Operating leases remain another focus of NORD/LB's aircraft financing: a number of larger portfolio transactions were structured in the interests of customers in 2016. NORD/LB, as the arranger, worked with the Credit Asset Management unit to place a large portion of these transactions with banks and institutional investors.

Real Estate Customers

31 Dec.2016 (in € million)	Real Estate Banking Customers	Trend	Development
Earnings before taxes (EBT)	173	↘	- Moderate decline in year-on-year results, mainly due to significant net reversals of loan loss provisions in 2015 and slightly lower interest income in 2016. - The reduction of the NORD/LB portfolio contributed to lower interest income. In Deutsche Hypo's commercial real estate financing, the amount of financing remained the same with slightly lower margins. - In the Real Estate Banking Customers business segment, there were net reversals of loan loss provisions. These were much lower than the prior year, which was marked by reversals in the previous portfolio. Deutsche Hypo's loan loss provisions are down sharply and are characterised by net reversals. - Net commission income considerably higher. This is largely due to increased processing fees for new business at Deutsche Hypo. - The sharp increase in profit/loss from financial instruments at fair value through profit or loss is largely down to the valuation of the counterparty-specific default risk for derivatives. - Administrative expenses declined slightly as a result of decreased costs following the reduction in the NORD/LB portfolio.
Cost-Income-Ratio (CIR)	27,6%	→	- The CIR is at nearly the same level as the prior year. - The relative decline in administrative expenses is slightly higher than the relative decline in earnings.
Return-on-Risk-adjusted-Capital (RoRaC)	23,5%	↗	- Moderate rise in RoRaC. - The relative decline in committed capital as a result of the reduction of the portfolio exceeds the relative decline in the operating result.

Business at Deutsche Hypo in financial year 2016 was characterised by a strong demand for real estate, a tight supply of good quality real estate and highly competitive commercial real estate financing. In this challenging environment, the bank managed to increase its new business volume year-on-year. Deutsche Hypo continued its conservative risk policy and adhered to its clear requirements in terms of the quality and profitability of new business. This enabled it to conclude a number of attractive new business transactions. There are three exemplary projects.

In July 2016, Deutsche Hypo provided long-term investment financing and short-term VAT bridge facility to Prime Corporate Center, a real estate office located in Warsaw. The newly built office complex, which has a sustainability certificate, is located in the up-and-coming Warsaw neighbourhood of Wola, which is gaining in importance as a business district. The funding recipient is a property company managed by Warburg HIH Invest Real Estate GmbH.

Deutsche Hypo financed a residential and office portfolio in Hamburg in December 2016. The residential portfolio is comprised of 25 properties and is located in good to very good neighbourhoods in Hamburg. The office portfolio is also comprised of properties in good locations in the neighbourhoods of Altona, Neustadt, Rotherbaum and Ottensen. The portfolio includes the Dockland property. The borrower is ROBERT VOGEL GmbH & Co KG.

In mid-December 2016, Deutsche Hypo, in collaboration with two financing partners as part of a club deal, financed a comprehensive real estate portfolio for DIC Asset AG. The financing volume was € 960 million, of which Deutsche Hypo, as the arranger and book runner, provided € 510 million. The loan has a total term of up to seven years. The financed portfolio includes commercial properties throughout Germany, with a regional focus on North Rhine-Westphalia and Hesse.

Group Management/Others

31 Dec.2016 (in € million)	Group Management/ Others	Trend	Development
Earnings before taxes (EBT)	– 25	↓	- Sharp decline in earnings, particularly as a result of consolidation effects from loan loss provisions as well as the profit/loss from hedge accounting and other operating profit/loss. - Contribution to net interest income by this segment rose sharply, in particular because it was no longer necessary to service silent participations. - Loan loss provisions much less negative as a result of considerably lower consolidation effects in connection with loan loss provisions on consolidated shipping companies. - Negative commission income from guarantee payments because the increase in the Northvest guarantee rose sharply. - Significantly improved trading profit/loss, mainly due to the realisation and valuation result. - Sharply reduced profit/loss from hedge accounting. - Profit/loss from financial assets declined substantially because the effects from the sale of investments in the prior year no longer apply. - Profit/loss from investments accounted for using the equity method slightly negative because of unplanned amortisation and depreciation. - Sharply higher administrative expenses because of higher project-related advisory expenses and increased ongoing IT costs. - Other operating profit/loss down sharply, mainly because of greater impact from the repurchase of registered securities, promissory notes and issued debt securities as well as unscheduled amortisation and depreciation on consolidated shipping companies. - Significant increase in reorganisation expenses as a result of provisions in connection with the planned integration of Bremer Landesbank.

Target v Actual Comparison

31 Dec.2016 (in € million)	Planned amount	Actual amount	Accounting variance	Statement
Earnings before taxes	↓	– 1 865	↓	- Earnings before taxes well below target. - Earnings (including other operating profit/loss) appreciably above target. - Net interest income down as expected, but by slightly less than anticipated in planning. In particular, the results of interest rate and liquidity risk management and the lack of servicing for silent participations contributed to the target being exceeded. Interest from lending slightly below plan as a result of restrained new business, while on the liabilities side interest on deposits was appreciably above plan. - Risk provisioning exceeded the target by sixfold (mainly as a result of the ship lending portfolio). - Net commission income noticeably below target as a result of lower fees in nearly all segments; Energy and Infrastructure Customers and Real Estate Banking Customers were the only segments with service fee income well above target. - Profit/loss from financial instruments at fair value through profit or loss exceeded the target by more than double, particularly as a result of positive valuation effects for interest and currency derivatives. - Profit/loss from hedge accounting is positive, but well below target. - Profit/loss from financial assets is well above target as a result of value gains and profits from the sale of securities. - Profit/loss from at-equity investments slightly negative as a result of valuation corrections on investments and thus well below target. - Administrative expenses as planned: Staff expenses appreciably below target as a result of substantially lower special payments. Other administrative expenses offset the effect in staff expenses through high project costs (related to IT and regulations) and ongoing IT expenses. - Other operating profit/loss significantly worse than the negative target, mainly as a result of the repurchase of own issues and amortisation and depreciation at consolidated ship companies. - An unplanned reorganisation/restructuring expense was incurred, mainly in connection with the intended integration of Bremer Landesbank.
Cost-Income-Ratio (CIR)	↑	50,7%	↘	- CIR appreciably better than planned. - Earnings from net interest income and financial Instruments valued at fair value through profit and loss appreciably higher than planned. - Administrative expenses as planned.
Return-on-Equity (RoE)	↓	-24,5%	↓	- RoE negative and well below plan. - Earnings before taxes well short of the target as a result of high risk provisioning.

The NORD/LB Group fell well short of its targets in 2016, with negative earnings before and after taxes. This was mainly due to high risk provisioning. Earnings surged ahead of target, but only partly offset the impact of risk provisioning.

With the exception of the Ship segment, whose contribution to earnings before taxes was clearly negative as a result of unexpectedly high risk provisioning, all of the Bank's other business segments nearly achieved their planned contributions to earnings (Corporate Customers), achieved them (Aircraft Customers) or in some cases even exceeded them (Energy and Infrastructure Customers, Real Estate Banking Customers, Private and Commercial Customers), thus partly offsetting some of the cyclical effects of the Ship segment.

Target achievement with regard to key figures is similar among the segments: Since earnings are good and administrative expenses stable or declining, the CIR in nearly every business segment is close to target (Corporate Customers, Private and Commercial Customers) or better (Energy and Infrastructure Customers, Markets). The CIR only exceeds the target slightly in the Aircraft Customers and Ship Customers segments. In 2016, the actual RoRaC is either close to (Corporate Customers, Aircraft Customers) or above expectations (Private and Commercial Customers, Energy and Infrastructure Customers, Markets, Real Estate Banking Customers) in all segments – except the Ship segment – as a result of the development of earnings before taxes and the contribution to the total risk exposure amount.

At € 60 billion, the total risk exposure amount of the NORD/LB Group remained well below target. In particular, this development is due to defaults and the reduction of the volume of the Ship Customers portfolio as well as new business, which, on the whole, is below plan. The impact of the development of the USD/EUR exchange rate was offset substantially. In addition, the increase in the total risk exposure amount as a result of model changes based on market-price risks accounted for in planning did not actually occur.

Overall Assessment

The NORD/LB Group's net assets, financial position and earnings were in good shape in financial year 2016, despite a market environment that remains challenging. Thanks to the Bank's diversified business model, its operational business has been satisfactory over the last few months. As a result, some business segments had positive results. However, the results were impacted by higher-than-planned risk provisioning, especially in the Ship Customers segment. Consequently, the reporting year closed with earnings before taxes in the amount of € –1,865 million. In order to further reduce existing risks, additional measures to reduce the shipping portfolio were initiated.

Personnel and Sustainability Report

Responsibility that is documented and verified

Awards

// The Journal ELTERN and the Statistica Portal statista asked more than 19 000 Employees of enterprises from 15 different industies regarding several cirteria of family friendliness. NORD/LB is one of the winners list in the industy banks and financial services.

// DEUTSCHLAND TEST cunducted a study regarding optimal career opportunities in more than 2000 enterprises of 57 industries. A questionnaire with 23 questions was asked for the areas development opportunities, sustainability, innovation and loyalty of staff.

//The Fair Company Initiative is the largest and most popular employer initiative for students and young professionals in Germany. Companies with Fair Company seal offer useful practical experience as they commit themselves to approved quality standards and verifiable rules. For this responsible and transparent business culture NORD/LB was awarded with the Fair Company seal.

Ratings

	oekom research	MSCI ESG Research Inc.	Sustainalytics
Corporate Rating	C+ Investment status: Prime	AA	63 of 100 points

	imug
Uncovered Bonds	CCC
Public Pfandbriefe	BBB
Hypothekenpfandbriefe	BB
Schiffspfandbriefe	CCC

Personnel Report

An increasingly more complex regulatory environment as well as ever faster changes in markets and the financial sector have an impact on the entire NORD/LB Group. Because of this and other drivers of change, such as demographic change and digitalisation, it is particularly important for the NORD/LB Group's HR policy to be able to manage the increasing requirements placed on its employees – there was particular emphasis in 2016 on skills, performance orientation, leadership and agility.

And continued earnings and cost pressure on all of the NORD/LB Group had an impact on overall personnel work in 2016: It was necessary both to ensure investment flexibility and to achieve cost objectives. In the challenging environment that 2016 presented, the NORD/LB Group used all of the human resources tools available to it to retain, develop and create jobs.

Common Strategic Direction

NORD/LB's HR-related activities are based on a personnel strategy derived from the Bank's business and risk strategy. The strategic parameters of NORD/LB AöR also provide a framework to guide the activities of the NORD/LB Group. In 2016, there was a focus on controlling:

- headcount, i.e. allocating available resources and capacities in a value-added manner as well as securing and retaining positions;
- factor costs, i.e. ensuring market-oriented and performance-based compensation via a strategic compensation model;
- staff quality, i.e. increasing motivation and productivity by creating clarity regarding duties, competencies and responsibilities;
- transformation, i.e. the ability of staff to deal with change.

Value added Resource Management and Recruitment of Junior Staff

At the end of 2016, the NORD/LB Group employed 6,427 people (compared to 6,343 people in 2015). Thus, the NORD/LB Group's headcount increased only slightly by 1.3 per cent. This was possible Group-wide thanks to the optimal allocation of resources and consistent cost management. State-of-the-art resource management tools, such as internalisation tools to reduce costs and early succession planning in order to become less dependent on key resources, were used to achieve these goals. Resources for regulatory and IT-related issues had to be increased in a targeted manner. In the short term, this was achieved by contracting professionals. With a view to the medium term, the Group built up its own talent pipeline with qualified junior staff.

Thanks to the Bank's social/economic policy training mandate, its specific resource needs and its very good experience with the integration of apprentices into the Bank's career paths, the NORD/LB Group was able to increase its training ratio by 0.3 per cent, from 4.1 per cent in 2015 to 4.4 per cent in 2016. Consequently, the number of junior staff in training (apprentices and trainees) also rose to 284 (2015: 262). This underscores the importance of junior staff training at the NORD/LB Group.

The training offerings at the NORD/LB Group mainly comprise commercial occupations, some as part of dual studies as well as various trainee programmes. Deutsche Hypo and NORD/LB Luxembourg increased their training offerings in particular, while Bremer Landesbank mainly expanded its trainee programmes. Specifically in order to meet the enormous demand for IT employees, a new occupation requiring specialised training was launched in addition to the current IT training offerings at NORD/LB AöR – IT specialist. In order to meet regulatory and IT requirements, special regulatory-specific and IT-related trainees programmes were developed and offered at NORD/LB AöR as well in 2016.

Market-oriented and Performance-related Remuneration

Ensuring market-oriented and performance-based compensation is a main focus of the entire NORD/LB Group's human resources work. To this end, a comprehensive compensation model was implemented at NORD/LB AöR in 2016 that both meets regulatory requirements and promotes a performance mindset among employees. The new compensation model was introduced and communicated as a way to take account of the expectations of both the employer and employees. This means that the compensation model is based on a clear formulation of mutual requirements and needs. The compensation model was implemented on the basis of three pillars. The first two pillars are the employee's basic compensation and a new variable compensation component that creates performance incentive and is therefore linked with the Bank's job architecture and also takes account of its competence model. The third pillar is a new occupational pension that is standardised and transparent for all new hires. In addition to IVV compliance, the assumptions of this compensation approach will also represent the framework to guide the activities of the NORD/LB Group in the future.

Because of increased regulatory requirements detailed information regarding compensation is provided in separate compensation reports prepared by the individual companies of the NORD/LB Group.

Standardisation of Work in regarding Performance orientation and strenghthening of Company health

The potential-oriented personnel policy of the NORD/LB Group focused on three general areas: promote a focus on performance and the ability of employees to make decisions; simultaneously work on the skills of employees and managers; and increase the Bank's attractiveness as an employer in order to find and retain the right employees.

A job structure/architecture in which all positions within the company are allocated based on their relative added value was established at NORD/LB AöR in order to promote a focus on performance. This transparent structure comprises four different career paths with different levels.

The work on the competencies of managers and employees led to the greater consistency of the compensation model with target profiles at the NORD/LB Group that define duties, conduct and competencies. The NORD/LB AöR competency model was fully integrated and also introduced at Deutsche Hypo – with the goal of gradually establishing the competency model in the human resources tools there. The management recruitment process was harmonised between NORD/LB AöR and NORD/LB Luxembourg in 2016. The 360 degree management feedback process was also integrated further at the NORD/LB Group in 2016. NORD/LB Luxembourg has also used this diagnostic tool to measure the competencies of its managers since this year.

In order to meet the challenges the Bank faces, the entire NORD/LB Group provides an environment in which all employees are treated equally, irrespective of gender, nationality, ethnic origin, religion or ideology, disability, age, sexual orientation or identity. The NORD/LB Group is primarily guided here by the principles of the Diversity as Opportunity – Charter of Diversity initiative (Diversity als Chance – Charta der Vielfalt). Both NORD/LB AöR and Bremer Landesbank joined the initiative in 2013 and Deutsche Hypo joined in 2014. The NORD/LB Group's work in the area of diversity focuses on the benefits of difference within the Bank, i.e. differing views, experiences, approaches and values. This results in good development prospects and opportunities for all employees. The Bank also improved opportunities for women through targeted measures. The diversity figures at the NORD/LB Group, with the proportion of women as a share of total staff at 49.4 per cent (2015: 49.6 per cent), the proportion of women in management positions at 19.0 per cent (2015: 18.8 per cent) and the share of women on the supervisory and administrative boards at 17.0 per cent (2015: 20.8 percent) has long moved within a stable range with few fluctuations. Because the number of members of the Board of Directors rose the proportion of women on the Board of Directors increased to 8.7 per cent (from 4.6 per cent in 2015). In 2016, the Bank's employees come from 28 different countries (2015: 26 countries).

The health of its employees is an essential value-adding factor for the economic success of the NORD/LB Group. There is a relationship between the working conditions and the performance of employees that the Bank manages by optimising working conditions and strengthening personal resources. In 2016, the NORD/LB Group made its proactive and preventive support tools more consistent with the help of a professional corporate health management system. Basic offerings, such as workplace integration management, seminars on improving resilience and information on maintaining physical health were supplemented with special measures to make management aware of these issues as well as specific work situation analyses. As a result, despite increasing employee requirements, illness rates in 2016 (the amount of time missed due to illness) was, at 4.7 per cent, within the long-term average (five-year average) (2015: 4.6 per cent).

Family-friendly benefits in the overall package for employees also help to maintain the health of workers. In 2016, ELTERN magazine and statistics company Statista recognised NORD/LB AöR's good offering in the banking and financial services sector in the areas of "Compatibility of family and career" and "Structuring working time", among others.

Qualification of personnel for changes

Because of the increasing requirements imposed on employees of the NORD/LB Group not only in the area of competencies and performance focus, but also in terms of agility, design thinking has gradually been implemented at the NORD/LB Group. Design thinking was first introduced at NORD/LB AöR. In a second step, design thinking was also incorporated in the NORD/LB Group through participation and disseminator functions in order to make an initial contribution to the promotion of agility. As a result, design thinking has become an integral component of junior staff training at NORD/LB AöR since 2016. At NORD/LB Luxembourg, design thinking events enhance the culture of innovation at the Bank.

Sustainability Report

As part of its sustainability strategy, NORD/LB has defined governance, customers, employees, society and the environment as key areas of activity, and it provides annual reports on its activities in these areas in its Group Sustainability Report.

The Group Sustainability Report is prepared in accordance with the requirements of the Global Reporting Initiative (GRI), standard 4.0. The Group Sustainability Report also includes a progress report on the Bank's commitment to the ten principles of the UN Global Compact (UNGC).

In addition to the Group Sustainability Report, NORD/LB provides an annual declaration of compliance with the German Sustainability Code (GSC).

The Group Sustainability Report and the declaration of compliance with the German Sustainability Code can be found on the NORD/LB website (www.nordlb.de/sustainability) by no later than 30 June.

Forecast, Opportunities and Risk Report

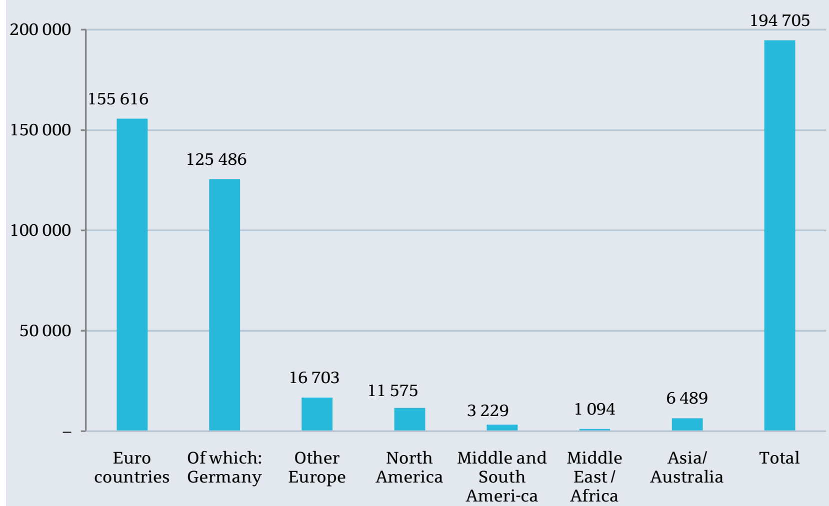
Risks/Lending Business

// The breakdown shows that the Euro Room with a part of 80 per cent is the most important business area.

// Two-thirds of the business is in Germany

// The Exposure of the states Greece, Ireland, Italy, Portugal and Spain shows still 7 billion €. This is 4 per cent of the overall exposure

Total exposue by regions
in € million



// Share of the rating class very good/good on a high level.

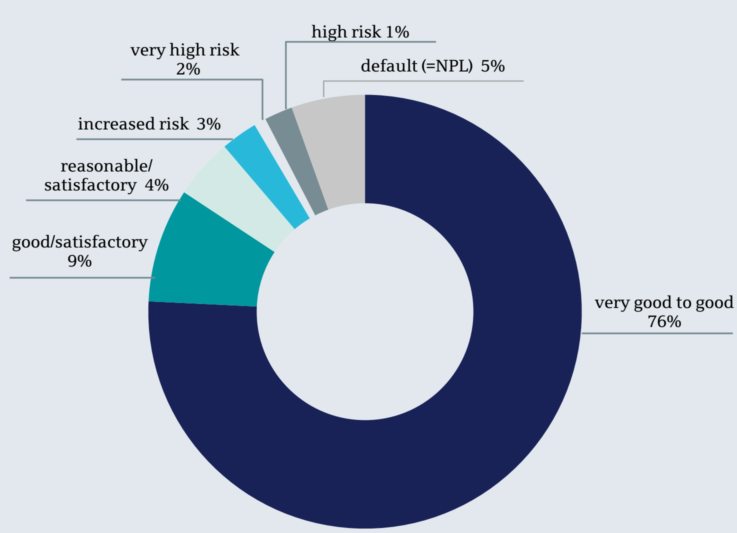
// High share of the business with public administration and financial institutions with good credit rating, mirror image of our risk policy.

// NPL-Exposure is covered with 42 per cent with risk provisioning and before taking securities into account.

// Stable refinancing sources.

// Internal stress tests show as well extemly stable liquidity situation.

Rating structure of total exposure



General Economic Development

Global Economic Outlook

The US economy will return to more dynamic growth this year. The key leading indicators have clearly pointed to growth of late. Against this background, the positive trend on the US labour market will also continue. China is still in the process of transforming its growth model, so economic growth will likely decline slightly again. Japan's domestic economy was less dynamic, dampening the economic outlook for 2017. The eurozone will continue its economic recovery over the next several quarters.

Economic Forecast for Germany and the Eurozone

Economic momentum in Germany and the eurozone had already increased noticeably by the end of 2016. In light of the high levels of economic confidence and consumer sentiment, solid growth is also expected in the first quarter of 2017 as well. However, it is not yet possible to say whether and to what extent political risks will cast a shadow over sentiment over the course of the year. For the time being, though, the most likely scenario is that the recovery will continue this year with a similarly high level of growth as last year. The ECB's continued very expansive monetary policy, moderate energy prices and the relatively weak value of the euro against other currencies are good harbingers of further growth. The outlook for private consumption remain generally positive. Although inflation is clearly on the rise due to base effects, NORD/LB expects an inflation rate of under 2.0 by mid-year. Real wages will therefore likely rise, but not by as much as in previous years. Public-sector spending will also likely expand substantially. Exports will benefit from somewhat higher global economic momentum, but growth will lag behind previous recoveries. Construction is also expected to be robust. With increasing capacity utilisation, investments should generally rise. However, investments in machinery and equipment are likely to be subdued, especially in the first half of the year, as a result of political uncertainties. Economic output will likely increase by 1.5 per cent in 2017 year-on-year. The difference from 2016 is the result of a calendar effect. In 2018, NORD/LB reckons the dynamic upturn will continue, although the political risk factors (Brexit and the new US policies in particular) must be monitored.

The economic outlook for the eurozone is good as well. NORD/LB anticipates GDP growth in 2017 of 1.6 per cent year-on-year. The main growth driver remains the domestic economy and in particular private and public-sector spending. However, significantly higher inflation as a result of base effects will mean lower growth of real disposable income. There will be a noticeable improvement in unemployment, while the pace of the consolidation of public finances will likely be moderate. As was the case in 2016, progress here will likely be mainly cyclical. There are, however, considerable risks to the forecast: In addition to long-term risk factors, such as global terrorism and geopolitical hotspots, the main risks are political. In the first half of 2017, new US President Donald Trump began taking up his official duties, the UK will formally notify the European Council that it is leaving the EU in accordance with Art. 50 para. 2 of the Treaty on European Union (TEU) and key elections will be held in the Netherlands and France (presidential and parliamentary elections). Right-wing populist and anti-EU parties are threatening to make greater inroads in both countries.

Financial Market Development and Interest Rate Forecast

Despite the reversal in interest rates initiated in December 2015 and a second rate hike at the end of 2016, the Federal Reserve will pursue a cautious path of monetary policy normalisation. Based on the latest FOMC statement, it will not pursue a series of quarterly rate increases in 2017. However, because of the good economy and higher inflation NORD/LB expects the Fed to increase rates at least twice in 2017.

In the euro zone, the European Central Bank (ECB) continues to pursue its highly accommodative monetary policy in 2017 in accordance with its announcement from December 2016. Most council members are unconcerned with the latest increase in inflation. Mario Draghi will continue to emphasise the downside risks of the forecast and in looking at the development of prices he will focus more on the core rate and thus domestic price pressure. From April, the ECB will ease off its Expanded Asset Purchase Programme (EAPP) somewhat and return to its original monthly purchase amount of € 60 billion. A rate hike in 2017, however, is extremely unlikely. However, NORD/LB expects a more intensive debate about the tapering process in the second half of the year and a gradual exit from the asset purchase programme starting in 2018.

Against this background, European government bond yields – especially those with longer maturities – have risen sharply. With deposit facility rates stable, money market rates will remain stuck in negative territory. With the normalisation of inflation and without any further political shocks, long term government bond yields should continue rising. From the current viewpoint, German 10-year Bunds seem set to hit just under 1.0 per cent by the end of 2017.

Divergent monetary policies on either side of the Atlantic mean the US dollar will likely continue to remain relatively strong in the short term. However, NORD/LB believes the euro will strengthen somewhat in the medium term, especially with the discussions regarding the exit from ultra expansionary monetary policy looming in the second half of the year outside of and – in particular – within the ECB. On a twelve-month horizon, we could again see the USD/EUR exchange rate at 1.11. political risks are the main uncertainty for the markets this year, so volatility will therefore remain high. Given the forecast exchange rate trend, EUR/USD cross currency basis swaps will likely stabilise between -35 and -45 basis points across the short and medium maturity segments.

Banking Market Development

Within Europe, there are various risk trends that bear monitoring. While credit risks have declined in the overwhelming majority of European countries, there are still a number of structural deficits, particularly in the Italian banking market, and as a result credit defaults and capital problems will continue to rise. There will only be a sustained recovery of all banking markets if non-performing loan portfolios are reduced and banks have a solid capital buffer. Corresponding measures have been initiated in Italy – with intervention by the ECB and the Italian government as well.

Since the Brexit decision, uncertainty has risen, particularly in the UK, but also in countries with stronger networks within Europe and corresponding export dependencies. With respect to the banking sector, the crucial factor will be the extent to which transactions can be conducted with Continental Europe from the UK without membership in the European domestic market. In the meantime, there are plans for moving businesses to continental Europe.

Furthermore, European banks will have to continue to increase their profitability. Against this background, competition is expected to increase further.

Regulatory requirements will continue to increase. These include the requirements for the maintenance of liabilities that can be used for a bail-in and the associated additional regulatory ratios (including minimum requirement for own funds and eligible liabilities (MREL) and, for global systemically important banks, Total Loss Absorbing Capacity (TLAC)).

Shipping

Few market participants doubt that 2017 will be another challenging year for the shipping industry. However, there are some signs of a slight improvement. The International Monetary Fund left its forecast unchanged at the beginning of the year. It anticipates global economic growth in 2017 of 3.4 per cent, with a slight upward trend (3.6 per cent in 2018). The forecasts have even been revised upward slightly for some industrial countries (including Germany, Japan, the USA), although it pointed to increased forecast uncertainty in the USA as a result of political events. The Chinese economy is moving with the official target range, but it appears to be more stable than expected.

The new year brought no improvement to the bulker sector. However, the first quarter is always weak for seasonal reasons. Order books once again point to high delivery volumes in 2017, meaning there will likely be another fleet increase. Positive effects on fleet development as a result of restricted order activity last year are only expected toward the end of 2017 and beginning of 2018. On the whole, the dry bulk sector is expected to recover temporarily (in particular during Q3), but the upside potential will be limited.

Container shipping will face another challenging year in 2017. Overall, some 1.45 million TEU in new tonnage is expected, of which more than 90 per cent will go to vessels of 10,000 TEU capacity or more. Following the consolidation that took place in 2016, 2017 will see the start of newly formed liner alliances (THE Alliance, Ocean Alliance and 2M), which will clearly dominate the key routes (Asia-Europe and Trans-Pacific). Freight rates have recovered somewhat. The end of Hanjin Shipping is generally viewed as a healthy shock in the industry in the escalating battle for market share. This could represent the prerequisite for a certain level of freight rate stability over the year. In the fragmented charter market, however, further disappointements will occur. Cascading effects continue and put pressure on chartes rates.

The announcement by OPEC that it would reduce oil production in 2017, at least somewhat, generated negative sentiment for the tanker sector. Because of the restrained development of the global economy, only a modest rise in global oil demand is expected. Along with fleet capacities that continue to rise, this will reduce the earnings potential in the sector. Rising oil prices in conjunction with increased scrapping will help the offshore industry out of its severe crisis in the medium term.

The situation in the cruise ship niche remains unproblematic. The market continues to enjoy high popularity, which is reflected by a medium term well filled orderbook.

Aircraft

The International Air Transport Association (IATA) anticipates worldwide passenger traffic (Revenue Passenger Kilometers (RPK)) to rise 5.1 per cent in 2017, which is lower than the average growth of 5.7 per cent for the past ten years. IATA also expects net profit for global airlines to drop to USD 29.8 billion (2016 forecast: USD 35.6 billion). This works out to a net margin of around 4.1 per cent (2016 forecast: 5.1 per cent). As in previous years, there are substantial geographical differences predicted in terms of the respective traffic and earnings trends. The Middle East and Asia/Pacific are poised to see the greatest traffic growth (RPK) at 9.0 per cent and 7.0 per cent, respectively. There is uncertainty regarding IATA's predictions, especially because of the rising price of oil, the effect of Brexit and the economic policy of the new US administration.

IATA expects air cargo volume (FTK) demand to continue to rise by 3.5% despite sluggish world trade and the geopolitical developments. Current indicators, such as global purchasing managers' indices, point to an ongoing recovery of air freight in the near future.

Real Estate

Investments in global commercial real estate should remain attractive in 2017. However, political risks will have a greater impact on investment decisions in the future than they did in the past. The ongoing major threat of terrorism continues to create uncertainty in global affairs. In Europe, the ECB's monetary policy will remain a key factor for investment decisions in 2017 as well. The heightened crisis in the eurozone as a result of the Brexit decision in the UK and the failed constitutional referendum in Italy, represents the only fundamental risk factor. In addition, the political landscape in Europe may change as a result of the upcoming elections in France, the Netherlands and Germany. The demand for core properties in Europe by international investors and yield compression will continue in 2017 as well. There may be inflated prices in some locations. The favourable fundamental conditions in Germany will have a positive impact on the real estate market again in 2017. As a result, the outlook for established asset classes remains stable. Transaction volumes of between € 45 and € 50 billion can be expected. Finally, the search for attractive core real estate will be even more challenging for investors in 2017 in view of low yields, an ongoing supply shortage and the potential for rental growth. Consequently, German office properties should remain the favoured asset class.

Group Forecast with Opportunities and Risks Report

Key Planning Assumptions

In line with the NORD/LB Group’s strategic focus, plans for 2017 were once again developed on the basis of the current diversified business model. This can be seen in the financing for various asset classes in the individual business segments in opposing cycles. The planning for this year is also based on the 2017 targets approved by the Managing Board (earnings before risk provisioning, earnings before taxes, supervisory requirements for overall risk exposure, cost trends and total assets). These goals are backed by measures developed by the profit and service centres as part of the decentralised planning process.

The central medium-term economic forecast produced by NORD/LB’s Research serves as the binding premise for all those involved in the decentralised planning process. The outlooks contained in this forecast for the development of the economy, interest rates, exchange rates, price inflation and financial markets are included in NORD/LB’s planning. Interest rates in 2017 are expected to remain at around the previous year’s level. In addition, an average exchange rate of USD/EUR 1.12 is assumed in the planning. NORD/LB Research anticipates GDP growth of 1.0 per cent and a rise in consumer prices of 1.2 per cent for Germany and a slight increase in the iTraxx, which will continue to be driven by market sentiment. Detailed information can be found in the section dealing with general economic developments.

In order to assess future shipping trends, NORD/LB uses independent external forecasts by leading market research institutes. Nevertheless, the volatility in the shipping markets means that there is significant uncertainty about the future forecasts and thus the long-term changes in risk provisioning. Risk provisioning planning is based on valuation models that take account of basic data for different types of ships, such as charter rates, OPEX and commission fees.

The planning of NORD/LB’s total risk exposure and regulatory equity for 2017 considers the relevant equity requirements derived from EU Regulation No. 575/2013 on regulatory requirements for banks and securities firms (CRR) including transitional arrangements arising from legal requirements as well as other individual banking supervisory requirements related to regulatory equity. In NORD/LB’s plan, these regulatory requirements concerning regulatory equity are met in full and continually. At the start of 2017, however, the plan calls for a temporary reduction in the Common Equity Tier 1 capital. The main reasons for this are the negative result after taxes in 2016, and the effects of the complete takeover of Bremer Landesbank.

The NORD/LB Group - Planning for 2017

For 2017, the reduction in the shipping portfolio and the complete integration of Bremer Landesbank represent major challenges for the NORD/LB Group. On the earnings side, significantly lower earnings are expected in 2017 compared to the prior year. This is due to the planned tangible reduction in net interest income. Lower earnings are anticipated owing to the diminishing positive effects from the previous year, such as interest and dividend income from securities in the trading portfolio, significantly lower earnings from interest rate and liquidity management, the resumption of the servicing of silent participations as well as lower earnings due to interest rates from the deposit business, among others. Furthermore, Net commission income (non-recurrence of earnings from the sale of custodian bank activities, high Commission income in the customer business in the previous year) is considerably lower than in the prior year. Profit/loss from financial instruments at fair value will be significantly lower than expected in the plan as the positive special effects through profit and loss from the previous year are not anticipated to impact the valuation gains or losses in 2017. The profit/loss from hedge accounting and profit/loss from investments accounted for using the equity method increased substantially compared with the previous year due to amortisation and depreciation not included in the plan.

Risk provisioning will once again be primarily influenced by the ship portfolio and overall remains high in the 2017 plan, although it is expected to be well below that of the 2016 level. In the other segments, risk provisioning planned for 2017 is set at the amount of imputed covering required, which leads in part to substantially larger risk provisioning in specific segments. This is the main reason why they sometimes cause a considerable decline in the contributions to earnings before taxes and in RoRaCs in the Private and Commercial Customers and Corporate, Aircraft and Real Estate Banking Customers segments. In contrast, the RoRaC for ship customers improved substantially via the planned decrease in risk provisioning. Profit/Loss from financial assets will be notably smaller in the plan for 2017 because the special effects from the prior year, such as reversals of impairment losses and the proceeds from the sale of securities, no longer apply.

In the 2017 plan, Administrative expenses are expected to be slightly above those from the previous year. Investments in selected business cases and the planned internalisation of external resources have led to moderately higher Staff expenses overall in the 2017 plan versus 2016, and Other administrative expenses are clearly below the prior-year level. This is partly offset by the implementation of Group synergies as a result of the integration of Bremer Landesbank.

Other operating profit/loss in the plan is much improved over the previous year as the negative effects from the prior year due to the buyback of own debt securities and to special amortisations for one-ship companies in the basis of consolidation are not included in the plan.

The NORD/LB Group reckons that earnings before taxes will be positive and thus significantly better in 2017 overall on the assumption that risk provisioning will decrease.

The CIR is some 6 percentage points higher in the 2017 plan versus the 2016 plan owing to perceptibly lower earnings as administrative expenses remain nearly constant; at about 3 per cent, RoE is decidedly better than expected.

In 2017 NORD/LB will on the whole pursue a slightly lower total risk exposure amount primarily as a result of the planned portfolio reduction in the ship financing business and outplacement measures with a correspondingly positive impact on the equity ratio.

The following segments clearly differ from the potential development of the bank as a whole in terms of key management indicators:

Earnings before taxes planned for in the Markets segment was not as solid as the previous year. This is essentially due to the positive special effects of the sale of custodian bank activities in 2016. Consequently, Commission income is at an extremely low level in the planning for 2017. The Markets business segment foresees a difficult market situation, which, despite planned business initiatives to boost sales margins, leads to a significantly lower profit/loss from financial instruments at fair value. Owing to persistently low interest rates, the segment reckons that interest income will also fall, with the result that CIR and RoRaC will show significant deterioration in the 2017 planning year.

The NORD/LB Group foresees a positive (albeit moderately smaller than in 2016) contribution to earnings before taxes in the Energy and Infrastructure Customers segment primarily due to considerably lower than expected net commission income. Commission income in financial year 2016 was extraordinarily high owing to the realisation of transactions brokered in 2015, but not realised until 2016 as well as to an unexpected spike in new business in the last quarter of 2016. Administrative expenses are also slated to rise somewhat. The CIR has risen considerably as a result of a drop in earnings and higher administrative expenses. RoRaC is greatly reduced by the decreased result planned.

Opportunities and risks

In today's low-interest environment, there are promising opportunities to boost the Group's income and diversify and further optimise its loan portfolio by offering alternative capital market products through increased cross-selling activities and balance sheet turnover. Institutional investors have the opportunity to invest in the Group's loan portfolio and thus to profit from its strengths in its main asset classes. There continue to be opportunities for the NORD/LB Group as a result of external credit spreads that decrease contrary to projected assumptions, the departure of competitors from the market, an expansion of the Group's good market position in established areas and positive valuation effects owing to key results with correspondingly positive effects on the Group's earnings.

There are general opportunities and risks as a result of deviations from planning assumptions for the economic forecast, such as yield curves, exchange rate forecasts and the economic outlook, or an improvement in or deterioration of the sovereign debt crisis and the corresponding impact on earnings and risk provisioning. Further strengthening of the USD exchange rate toward parity with the EUR would lead to modestly positive income statement effects and a slight increase in total risk exposure at the NORD/LB Group. There are also opportunities and risks in connection with the write-up or write-down of investments, the integration of Bremer Landesbank and the implementation of bank-wide projects in the areas of IT, regulations, costs and internal processes.

There are risks to the NORD/LB Group earnings before taxes and equity ratios with respect to regulatory requirements, such as the results of stress tests, the implementation of IFRS 9, additional capital requirements (e.g. total loss absorbency capacity, minimum requirements for eligible liabilities, internal ratings-based approach/standard approach, fundamental review of the trading book), the amount of bank levies, and expenses for deposit guarantee schemes. There are risks to earnings in 2017 from persistently low interest rates, the possible end of the unrestricted availability of long-term uncovered funding, a potential downgrade of NORD/LB's rating, insufficient availability of the required staff and material resources, and the unpredictability of market disruptions as a result of political or economic developments, developments related to Brexit, terrorist attacks and geopolitical tensions. There will also be future challenges as a result of increasing competition. Competition, including competitors from the institutional environment, will increasingly provide customers with alternative financing opportunities, thus increasing pressure on the NORD/LB Group's future volumes, margins and commissions. In addition, there is a risk of unscheduled repayments, which could lead to lower interest income in the future.

There is a risk that the planned measures cannot be implemented or that it will only be possible to implement them to a limited extent, with a potentially negative impact on earnings before taxes and on NORD/LB's equity capital in the first quarter of 2017 in particular, but throughout the entire year as well.

In addition to general opportunities and risks, NORD/LB also continues to foresee the following segment-specific opportunities and risks:

For the BLSK business in the Private and Corporate Customers segment, there may be risks from a widening of the VW emissions scandal. In addition to the impact on the willingness of regional suppliers to make investments, any cost reductions VW has to make could also have a substantial effect on both the earnings of private customers and government revenue. There is also a risk that fees which had been legal under current case law will be abolished. Ongoing digitalisation is leading to profound changes in banking. Changing customer behaviour is resulting in risks to the Group's current high market share and opportunities to attract new customers or expand market share.

In the Markets segment, there is an opportunity to expand the customer base, exploit earnings potential and gain market share through the planned expansion of institutional customer relationships in Europe, Asia/Australia and Oceania, and North America. However, there is a risk from delaying implementation of the planned business initiatives.

The Bank's earnings performance in the Ship Customers segment continues to be dominated by the shipping crisis. A market recovery in the form of increasing charter rates and market values for ships either will not occur or will only occur at a different time and in a different form than previously anticipated in the Group's planning, with the corresponding risks, but also opportunities for the Group's risk provisioning, earnings performance and equity ratios. Deviations in carrying out the planned implementation of the portfolio in conjunction with market developments could make additional valuation allowances necessary. Further insolvencies of shipping companies may also lead to a deviation from the expected risk provisioning. At the same time, because of the general "investment crisis" there is an opportunity to find opportunistic investors to invest in value-preserving rescue solutions in the event of reorganisations/insolvencies or those willing to invest in attractive new business. The market recovery in the offshore segment may be affected by rising oil prices.

The high level of attractiveness of the aircraft sector for institutional investors presents the opportunity for greater exposure through credit syndication or by issuing special funds and thus generating additional earnings. The establishment of a team of specialists for aircraft financing at the Singapore location will enable the Group to provide direct support to target customers and investors in the Asia/Pacific region, which could open up new business opportunities. It remains to be seen whether aircraft manufacturers, despite the announced production increases, maintain their past discipline in order to avoid supply overhangs and thus keep the value of the delivered fleet stable.

The NORD/LB Group sees an opportunity in the fact that demand for commercial real estate owing to a lack of investment alternatives remains high and that the target real estate markets are still robust, providing attractive business opportunities in the future as well. The Bank has a diversified financing portfolio in terms of its target markets and property classes.

Extended Risk Report

Development of Risk-bearing Capacity in 2016

The utilisation rate in the going concern deteriorated considerably compared to the reference date and is 61 per cent (29 per cent) as of the reporting date. The main reasons for this are the decline in risk capital as a result of taking account of the transitional provisions in accordance with Basel III and the loss processing that was carried out. As the main risk driver, counterparty risk is very important for the risk strategy. A counterparty risk model that takes a consolidated view of credit and investment risks was introduced on 31 December 2016. This changes nothing on the modelling of credit risks. The integration approach is designed so that investment and credit risks are simulated together in order to allow for an integrated view. In addition, a potential deterioration in the quality of investments over the period from the reference date to the end of the risk horizon (one year) is presented.

The utilisation of risk capital in the going concern can be seen in the presentation of the Bank's risk-bearing capacity.

Risk-bearing capacity (in € million)	31 Dec.2016		31 Dec.2015[1]	
Risk capital	**2 116**	**100%**	**4 723**	**100%**
Credit risk[2]	966	46%	1 030	22%
Investment risk	435	21%	262	6%
Market-price risk	87	4%	157	3%
Liquidity risk	91	4%	95	2%
Operational risk[3]	– 294	-14%	– 194	-4%
Other2)	1 285	0%	1 349	0%
Total risk potential	**–**	**1**	**0**	**0**
Risk capital utilisation	**–**	**0%**	**–**	**0%**

[1] The prior-year figures have been adjusted
[2] Due to the integrated model for credit and investment risks (counterparty risk model), the credit and investment risk is presented on a consolidated basis, taking account of counterparty risks, for the first time from 31 December 2016. The prior-year value has been calculated by adding the two amounts.
[3] It includes corrected positions based on a comparison of regulatory and economic loss expectations.

Overall, the risk capital utilisation is below the internally defined maximum value of 80 per cent. Likewise, the risk strategy requirements with respect to the allocated risk capital to risk types are complied with.

In December 2016, the NORD/LB Group was informed of the capital requirements it had to meet as a result of the European Banking Authority's Supervisory Review and Evaluation Process (SREP). The capital requirements have been fully included in the Bank's corporate planning in the form of binding framework specifications.

As part of the adjustment of the Bank's internal scope of control to the Supervisory Review and Evaluation Process (SREP), the Bank's internal risk-bearing capacity model was enhanced in 2016. The conversion to the modified model approach is planned for the first half of 2017. In this connection, there will be a harmonisation of the premises with respect to the ICAAP scope of control with the specifications of the institute-specific SREP assessment. The modified model approach draws on the established core risk management elements (risk strategy, risk inventory) and represents a targeted enhancement of the existing scope of control for risk-bearing capacity.

Credit Risk - Development in 2016

The maximum amount of default risk exposure for on-balance sheet and off-balance sheet financial instruments stood at € 185 billion on the reporting date and fell by 3 per cent in the reporting year. All classes that are relevant to the balance sheet saw declines, but above all Loans and advances to customers, Profit/loss from financial instruments at fair value through profit or loss and Financial assets.

Risk-bearing financial instruments	Maximum default risk 31 Dec.2016	Maximum default risk 31 Dec.2015
Loans and advances to banks	21 746	21 193
Loans and advances to customers	101 844	104 960
Adjustment item for financial instruments hedged in the fair value hedge portfolio	130	91
Financial assets at fair value through profit or loss	12 526	14 035
Positive fair values from hedge accounting derivatives	2 327	2 507
Financial assets	31 574	34 515
Sub-total	**170 147**	**177 301**
Liabilities from guarantees, other indemnity agreements and irrevocable credit commitments	14 579	13 735
Total	**184 726**	**191 036**

In contrast to the following tables on total exposure, which are based on internal data provided to management, the maximum amount of default risk exposure in the table above is reported at carrying amounts. The maximum amount of default risk exposure for the utilisation of irrevocable loan commitments or other off-balance sheet items corresponds to all committed lines.

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 total 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 credit commitments are included proportionally in the total exposure, while collateral provided to the NORD/LB Group is not taken into account. Investments are also included in the total exposure.

Analysis of the total exposure

As at 31 December 2016, the NORD/LB Group's total exposure is € 195 billion and is thus slightly higher than at the end of the prior year (€ 194 billion).

The focus of the total exposure continues to be on the very good to good rating classes.

The classification is based on the standard IFD rating scale, which has been agreed by the banks, savings banks and associations that belong to the "Initiative Finanzstandort Deutschland – IFD (Germany as a financial location). This rating scale is intended to make it easier to compare the rating classes of the individual credit institutions. The rating classes of the 18-level DSGV rating master scale used at the NORD/LB Group can be transferred to the IFD classes.

The Rating Structure table shows the breakdown of the total exposure of the NORD/LB Group by IFD rating class, further broken down by product type.

Rating structure[1)2)3)]	Loans 31 Dec.2016	Securities[4)] 31 Dec.2016	Derivates[5)] 31 Dec.2016	Other[6)] 31 Dec.2016	Total exposure 31 Dec.2016	Total exposure 31 Dec.2015
very good to good	93 424	30 450	7 921	15 714	147 508	146 321
good / satisfactory	13 941	851	354	1 437	16 583	13 902
reasonable / satisfactory	7 452	263	140	881	8 736	9 864
increased risk	4 328	486	104	402	5 319	7 654
high risk	1 573	3	10	168	1 754	3 173
very high risk	3 955	11	29	109	4 104	3 713
default (=NPL)	10 584	–	67	49	10 700	9 089
Total	**135 257**	**32 065**	**8 624**	**18 760**	**194 705**	**193 718**

1) The ratings are assigned on the basis of the initiative for Germany as a financial location (IFD) rating classes.
2) Differences in totals are rounding differences.
3) In contrast to the previous year, the method used to determine individual data for NORD/LB AÖR was switched from HGB to IFRS to improve the presentation of the figures. A restatement of the previous year's figures was not technically possible
4) Includes the securities holdings of third-party issuers (only banking book).
5) Includes derivative financial instruments such as finance swaps, options, futures, forward rate agreements and currency transactions.
6) Includes other products such as pass-through and administered loans.

The items rated in the "very good to good" category rose by 1 per cent in the reporting year. Total exposure ranked in the best rating category (very good to good) remained very high at 76 per cent. This can be explained by the fact that business with public authorities and financing institutions with good credit ratings has always been tremendously important, and it is therefore also a reflection of the NORD/LB Group's risk policy.

While exposure in some rating categories (reasonable / satisfactory to high risk) fell in the reporting year, exposure in the "good / satisfactory" rating category rose 19 per cent and non-performing loans (NPL) some 18 per cent. The sustained shipping crisis is the main reason for the increase in NPLs.

The breakdown of total exposure by industry shows that business conducted with generally relatively low-risk financing institutions and with public authorities accounts for 49 per cent (50 per cent) and still constitutes a significant share of the total exposure.

Industries[1)2)3)] (in € million)	Loans 31 Dec.2016	Securities[4)] 31 Dec.2016	Derivates[5)] 31 Dec.2016	Other[6)] 31 Dec.2016	Total exposure 31 Dec.2016	Total exposure 31 Dec.2015
Financing institutes / insurance companies	32 392	14 505	3 479	8 476	58 851	56 778
Service industries / other	56 391	15 365	2 360	1 643	75 759	78 144
Of which: Land, housing	18 529	7	539	414	19 489	19 583
Of which: Public administration	20 915	15 157	1 249	196	37 517	40 613
Transport / communica-tions	22 609	584	638	339	24 171	26 509
Of which: Shipping	16 553	–	77	74	16 703	18 918
Of which: Aviation	2 974	–	12	–	2 986	3 422
Manufacturing industry	6 314	783	816	350	8 263	6 904
Energy, water and mining	11 125	690	894	6 306	19 014	16 790
Trade, maintenance and repairs	4 112	91	314	256	4 773	4 619
Agriculture, forestry and fishing	794	–	7	1 309	2 111	2 015
Construction	1 519	47	115	81	1 762	1 958
Total	**135 257**	**32 065**	**8 624**	**18 760**	**194 705**	**193 718**

1) The figures are reported, as in the internal reports, by economic criteria.
2) to 6) please see the preceding Rating Structure table.

The breakdown of the total exposure by region shows that the eurozone accounts for a hefty 80 per cent (81 per cent) of total exposure and remains by far the most important business region for the NORD/LB Group. Germany's share of this is 64 per cent (66 per cent).

Regions[1)2)3)] (in € million)	Loans 31 Dec.2016	Securities[4)] 31 Dec.2016	Derivates[5)] 31 Dec.2016	Other[6)] 31 Dec.2016	Total exposure 31 Dec.2016	Total exposure 31 Dec.2015
Euro countries	106 792	25 279	4 977	18 568	155 616	157 146
Of which: Germany	88 426	16 247	3 022	17 791	125 486	128 327
Other Europe	11 699	2 481	2 389	133	16 703	15 121
North America	7 752	3 121	686	16	11 575	10 446
Middle and South Ameri-ca	2 843	356	30	–	3 229	3 557
Middle East / Africa	1 045	–	7	42	1 094	1 250
Asia / Australia	5 125	828	536	–	6 489	6 198
Total	**135 257**	**32 065**	**8 624**	**18 760**	**194 705**	**193 718**

1) The figures are reported, as in the internal reports, by the country in which the borrower is legally domiciled.
2) to 6) please see the preceding Rating Structure table.

Exposure in the countries of Greece, Ireland, Italy, Portugal and Spain remains unchanged at € 7 billion. Their share of the total exposure is 4 per cent. The share of receivables owed by the respective countries, regional governments and municipalities increased slightly to € 1.8 billion (€ 1.7 billion) and is steady at 1 per cent of the total exposure.

Exposure in selected European countries[1)2)] (in € million)	Greece 31 Dec. 2016	Ireland 31 Dec. 2016	Italy 31 Dec. 2016	Portugal 31 Dec. 2016	Spain 31 Dec. 2016	Total 31 Dec. 2016
Sovereign Exposure	–	239	940	348	237	1 764
Of which: CDS	–	217	–	199	–	416
Financing institutes / insurance companies	–	367	166	15	899	1 447
Corporates / Other	6	2 933	436	91	267	3 734
Total	**6**	**3 539**	**1 542**	**454**	**1 403**	**6 945**

1) The figures are reported, as in the internal reports, by the country in which the borrower is legally domiciled.
2) Differences in totals are rounding differences.

Exposure in selected European countries[1)2)] (in € million)	Greece 31 Dec. 2015	Ireland 31 Dec. 2015	Italy 31 Dec. 2015	Portugal 31 Dec. 2015	Spain 31 Dec. 2015	Total 31 Dec. 2015
Sovereign Exposure	–	231	1 038	244	177	1 690
Of which: CDS	–	212	–	198	–	410
Financing institutes / insurance companies	–	432	220	15	1 251	1 918
Corporates / Other	21	2 621	402	94	330	3 468
Total	**21**	**3 284**	**1 661**	**353**	**1 758**	**7 077**

1) The figures are reported, as in the internal reports, by the country in which the borrower is legally domiciled.
2) Differences in totals are rounding differences.

The NORD/LB Group has an exposure of € 1,430 million in Cyprus in the Corporates/other category. This primarily concerns a ship exposure whose economic risk lies outside of Cyprus. NORD/LB does not have sovereign exposure and exposure to financing institutions and insurance companies in Cyprus. In Hungary, the NORD/LB Group has an exposure of € 165 million (€ 112 million Sovereign exposure, € 49 million Corporates/other, € 4 million financing institutions and insurance companies), in Russia € 221 million (€ 90 million Corporates/other, € 131 million Financing institutions/ insurance companies) and in Egypt € 62 million in the Corporates/other category. The exposure in Argentina and Ukraine is of minor significance. NORD/LB is also closely monitoring and analysing developments in the countries mentioned. However, further valuation allowances are not required at this stage. Further details can be found in the Notes to the consolidated financial statements in Note (66) – Disclosures concerning selected European countries.

Sovereign Exposure in selected European countries by maturity[1)2)] (in € million)	Greece 31 Dec. 2016	Ireland 31 Dec. 2016	Italy 31 Dec. 2016	Portugal 31 Dec. 2016	Spain 31 Dec. 2016	Total 31 Dec. 2016
up to 1 year	–	–	25	100	148	**273**
more than 1 up to 5 years	–	239	353	248	74	**913**
more than 5 years	–	–	562	–	16	**578**
Total	**–**	**239**	**940**	**348**	**237**	**1 764**

[1)] The figures are allocated by residual term of the contract and, as in the internal reporting, by the country in which the borrower is legally domiciled.
[2)] Differences in totals are rounding differences.

Sovereign Exposure in selected European countries by maturity[1)2)] (in € million)	Greece 31 Dec. 2015	Ireland 31 Dec. 2015	Italy 31 Dec. 2015	Portugal 31 Dec. 2015	Spain 31 Dec. 2015	Total 31 Dec.. 2015
up to 1 year	–	–	11	–	16	**26**
more than 1 up to 5 years	–	231	366	244	130	**971**
more than 5 years	–	–	662	–	31	**693**
Total	**–**	**231**	**1 038**	**244**	**177**	**1 690**

[1)] The figures are reported, as in the internal reports, by the country in which the borrower is legally domiciled.
[2)] Differences in totals are rounding differences.

In addition to direct exposure, the reported exposure also comprises indirect exposure (primarily credit default swaps). The calculation is based on utilisation (in the case of guarantees, the nominal value, and in the case of securities, the carrying amount) and the credit equivalents resulting from derivatives (including add-ons and in consideration of netting). Irrevocable and revocable credit commitments are included proportionally in the total exposure, while collateral provided to the NORD/LB Group is not taken into account.

Sovereign exposure also includes exposure to regional governments, municipalities and state-affiliated companies with a guarantee of the respective state.

Non-Performing Loans

For acute counterparty risks related to the on-balance-sheet lending business, the NORD/LB Group forms individual valuation allowances (IVA) and flat-rate individual valuation allowances (FIVA) if there is objective evidence of long-term impairments. The valuation allowance requirement is based on the present value of the expected interest and principal payments as well as other proceeds, in particular from realisation of collateral. Risk provisioning for off-balance-sheet business (guarantees, endorsement liabilities and loan commitments) is carried out by forming a provision for risks from the credit business.

The latent counterparty risk of the entire on-balance-sheet and off-balance-sheet lending business for which no specific valuation allowance is formed is taken into account at the NORD/LB Group by forming portfolio valuation allowances (PVA) for impairments that have already occurred, but were not known as of the balance sheet date.

Irrecoverable loans of up to € 10,000 for which there are no valuation allowances are written off directly. Payments for written-off receivables are recognised in profit and loss.

The sustained shipping crisis in 2016 resulted in a further increase in exposures for which value allowances are made and risk provisioning. The NORD/LB Group's portfolio of individual valuation allowances (IVA), flat-rate individual valuation allowances (FIVA) and provisions in the lending business increased mainly as a result of the rise in the valuation allowances for the shipping portfolio of NORD/LB and Bremer Landesbank (see also Note (35) Risk Provisioning in the Consolidated Notes and the Report on the Financial Position). The ratio for the portfolio of IVA, FIVA and provisions in lending business to the maximum default risk from on-balance-sheet and off-balance-sheet financial instruments went from 1.55 per cent to 2.62 per cent in the reporting period.

The NORD/LB Group's portfolio of overdue or impaired financial assets is largely secured by customary bank collateral and other credit enhancements, the value of which is determined in accordance with lending principles. Before collateral is taken into account, 54 per cent (47 per cent) of the gross carrying amount of the NPLs requiring valuation allowances is covered by risk provisioning. In addition to the aforementioned impaired receivables, the NPL portfolio includes all other receivables with ratings of 16 to 18.

Total NPL exposure as a share of total exposure increased during the reporting period and as at 31 December 2016 amounted to 5.5 per cent (4.7 per cent). The impaired exposure in the amount of € 9.3 billion (€ 6.6 billion) is 4.8 per cent (3.4 per cent) of the total exposure.

Industries[1)2)]	Total exposure of impaired receivables[3)]		Specific valuation allowances, collective valuation allowances, provisions for lending business	
(in € 000)	31 Dec.2016	31 Dec.2015	31 Dec.2016	31 Dec.2015
Financing institutes / insurance companies	77 660	63 007	60 398	20 238
Service industries / other	497 080	854 201	227 649	349 596
Transport / communications	8298 890	5318 437	4326 039	2369 921
Manufacturing industry	190 625	97 006	72 041	77 804
Energy, water and mining	172 074	187 129	83 800	92 078
Trade, maintenance and repairs	19 823	18 132	13 036	9 617
Agriculture, forestry and fishing	54 695	36 175	25 880	10 794
Construction	29 729	32 617	26 399	28 614
Total	**9340 577**	**6606 702**	**4835 243**	**2958 662**

1) The figures are reported, as in the internal reports, by economic criteria.
2) Differences in totals are rounding differences.
3) For information purposes: the gross carrying amount in the balance sheet for NPLs requiring valuation allowances amounted to € 8,991 million (€ 6,351 million).

31 Dec.2016	Total exposure of overdue, unimpaired receivables					General
Industries[1)2)] (in € 000)	Up to 1 month	1 up to 3 months	3 up to 6 months	More than 6 months	Total	loan loss provisi-ons
Financing institutes / insurance companies	75 792	–	723	–	76 515	3 394
Service industries / other	235 335	6 666	2 829	16 816	261 646	40 932
Transport / communications	159 161	80 325	82 712	127 633	449 831	144 483
Manufacturing industry	23 564	85	16	4 591	28 257	12 393
Energy, water and mining	414 124	17	–	2 019	416 160	12 406
Trade, maintenance and repairs	24 457	4 575	100	2 364	31 496	5 253
Agriculture, forestry and fishing	25 627	263	1 390	1 111	28 391	6 451
Construction	507	3	–	468	979	3 039
Total	**958 566**	**91 936**	**87 771**	**155 002**	**1293 275**	**228 404**

[1)] As with internal reporting, impairments are allocated on the basis of economic criteria and taking account of the
[2)] provisions of the IFRS accounting regulations.
[3)] Differences in totals are rounding differences.

31 Dec.2015	Total exposure of overdue, unimpaired receivables					General
Industries[1)2)] (in € 000)	Up to 1 month	1 up to 3 months	3 up to 6 months	More than 6 months	Total	loan loss provisi-ons
Financing institutes / insurance companies	770 827	379 495	231 352	72 050	1453 724	3 333
Service industries / other	420 944	220 059	2 363	23 478	666 844	47 690
Transport / communications	294 239	92 983	38 964	365 418	791 605	349 635
Manufacturing industry	95 501	91	8	785	96 384	16 547
Energy, water and mining	255 317	235	–	2 234	257 786	14 074
Trade, maintenance and repairs	41 379	2 165	–	2 863	46 407	5 842
Agriculture, forestry and fishing	41 503	1 180	37	236	42 956	4 954
Construction	17 781	–	13	750	18 544	3 151
	–	–	–	–	–	64
Total	**1937 492**	**696 209**	**272 737**	**467 812**	**3374 250**	**445 290**

[1)] The figures are reported, as in the internal reports, by economic criteria.
[2)] Differences in totals are rounding differences.

Regions[1)2)]	Total exposure of impaired receivables		Specific valuation allowances, collective valuation allowanc-es, provisions for lending business	
(in € 000)	31 Dec.2016	31 Dec.2015	31 Dec.2016	31 Dec.2015
Euro countries	8003 417	5740 983	4323 548	2530 025
Other Europe	146 692	104 001	64 077	60 092
North America	36 054	–	–	–
Middle and South America	11 250	24 538	7 980	12 560
Middle East / Africa	438 435	349 403	186 213	210 536
Asia / Australia	704 729	387 777	253 425	145 448
Total	**9340 577**	**6606 702**	**4835 243**	**2958 662**

1) As with internal reporting, impairments are allocated on the basis of economic criteria and taking account of the provisions of IFRS accounting regulations.
2) Differences in totals are rounding differences.

31 Dec.2016	Total exposure of overdue, unimpaired receivables					Portfolio
Regions[1)2)]	up to 1 month	1 up to	3 up to	More than	Total	valuation
(in € 000)		3 months	6 months	6 months		allowances
Euro countries	829 970	81 379	32 035	153 924	1 097 308	187 873
Other Europe	67 491	–	–	580	68 071	3 660
North America	38 142	4 509	–	498	43 149	6 546
Middle and South America	205	–	–	–	205	4 530
Middle East / Africa	22 558	–	–	–	22 558	1 325
Asia / Australia	200	6 048	55 736	–	61 983	24 470
Total	**958 566**	**91 936**	**87 771**	**155 002**	**1 293 275**	**228 404**

1) The figures are reported, as in the internal reports, by economic criteria.
2) Differences in totals are rounding differences.

31 Dec.2015	Total exposure of overdue, unimpaired receivables					Portfolio
Regions[1)2)]	up to 1 month	1 up to	3 up to	More than	Total	valuation
(in € 000)		3 months	6 months	6 months		allowances
Euro countries	1 772 504	496 886	272 736	375 196	2 917 322	389 915
Other Europe	129 818	199 142	–	36 225	365 185	10 255
North America	31 772	–	–	–	31 772	5 422
Middle and South America	–	–	–	–	–	4 089
Middle East / Africa	–	–	–	–	–	3 737
Asia / Australia	3 399	181	–	56 391	59 971	31 871
Total	**1 937 492**	**696 209**	**272 737**	**467 812**	**3 374 250**	**445 290**

1) The figures are reported, as in the internal reports, by economic criteria.
2) Differences in totals are rounding differences.

Exposure to overdue, unimpaired receivables sank dramatically overall, mainly due to a decline in all time periods. The portfolio of overdue, unimpaired receivables is comprised of 19 per cent (22 per cent) receivables whose agreed interest or principal payments are more than 90 days overdue. The NORD/LB Group considers them to be in default. As regards the 74 per cent (57 per cent) of receivables that are overdue by up to a month, the NORD/LB Group generally assumes that they will be repaid.

The risk provisioning figures presented differ due to differences in the basis of consolidation, non-current assets held for sale and the treatment of PVA on off-balance-sheet liabilities from the values presented in Note (35) Risk Provisioning. The amounts can be reconciled with the help of the Reconcilations table.

Reconciliations[1]	Specific valuation allowances, collective valuation allowances, provisions for lending business		Portfolio valuation allowances	
	31 Dec.2016	31 Dec.2015	31 Dec.2016	31 Dec.2015
Risk report	**4 835**	**2 959**	**228**	**444**
Differing basis of consolidation	– 516	– 438	8	8
Assets held for sale	– 711	–	–	–
General loan loss provisions on off-balance sheet obligations	23	23	– 23	– 23
Consolidated financial statements	**3 631**	**2 544**	**213**	**430**

[3] Differences in totals are rounding differences.

Group companies that represent a material risk directly wrote off bad debts on loans of € 500 million (€ 90 million) in the reporting year. The additions to receivables written off amounted to € 22 million (€ 32 million). Once again, there were no direct write-offs of bad debts with regard to securities in the Loans and Receivables (LaR) category by the NORD/LB Group.

As a result of collateral netting, risk-weighted assets of Group companies which represent a material risk as at 31 December 2016 fell by € 14 billion (€ 14 billion), which corresponds to a share of 23 per cent (20 per cent) of the total risk exposure before risk reduction. (the prior-year figures have been adjusted). This mainly involved financial collateral as well as sureties and guarantees from countries, banks and mortgages to be used for netting.

The NORD/LB Group has not obtained any assets in the period under review by taking possession of collateral held as security or utilising other credit enhancements.

Outlook

Against the background of the ongoing difficult market for ship financing, the NORD/LB Group anticipates that there will once again be a significant need for risk provisioning in 2017. The NORD/LB Group will continue to monitor developments closely and, if necessary, continue measures to strengthen its risk provisioning ratio.

Measures to further optimise the models for quantifying and managing credit risks are planned for 2017; in particular, the integrated risk model for credit and investment risks will be optimised further in 2017.

Investment Risk – Development in 2016

In order to increase earnings and reduce the capital commitment and potential risks from investments, the NORD/LB Group has divested itself of a number of investments since 2005 by conducting a critical assessment of its investment portfolio. This strategy was continued during the reporting year. Moreover, several smaller investments were sold or liquidated.

A counterparty risk model that takes a consolidated view of credit and investment risks was introduced on 31 December 2016. This does not change the modelling of credit risks. The integration approach is designed so that investment and credit risks are simulated together in order to allow for an integrated view.

The risk calculated for the investment portfolio on the basis of the new model totalled € 51 million, with € 21 million for unexpected loss and € 30 million for expected loss, for the going concern in the year under review. Compared to the last reporting date, for which the previous model was used, this represents a decrease of € 61 million.

Below the NORD/LB Asset Management Group's significant investments based on qualitative criteria will be briefly described with regard to risk management and the risk situation:

NORD/LB Asset Management Group

The NORD/LB Asset Management Group is the NORD/LB Group’s central platform for asset management services. This Group included in the year under review NORD/LB Asset Management Holding GmbH, which is responsible for the provision of infrastructure, and NORD/LB Asset Management AG, which is responsible for the portfolio management and administration of special investment funds.

NORD/LB Asset Management AG is a UCITS and AIF investment management company in accordance with the German Capital Investment Code (Kapitalanlagegesetzbuch) and as such has the right to launch public and special investment funds.

The business and risk strategies serve as the basis for risk management at NORD/LB Asset Management AG in accordance with the Minimum Requirements for Risk Management for Investment Companies. NORD/LB Asset Management GmbH is integrated with regard to operational risk into the NORD/LB Group's system, i.e. it conducts annual self-assessments and continually carries out scenario analyses. Coordination in the NORD/LB Group is ensured by participation in regular method boards on operational risk.

The company also has a regular risk inventory meeting. The department heads are required to report on changes in the risk situation at the regular meetings between management and the department heads. In this meeting possible measures for reducing risks are discussed and decided. The Risk Officer of NORD/LB Asset Management AG is responsible for monitoring the implementation of the measures and for reporting all findings to management in the quarterly risk report.

The company’s finance and operational risks are subject to constant monitoring and control by the established management information system.

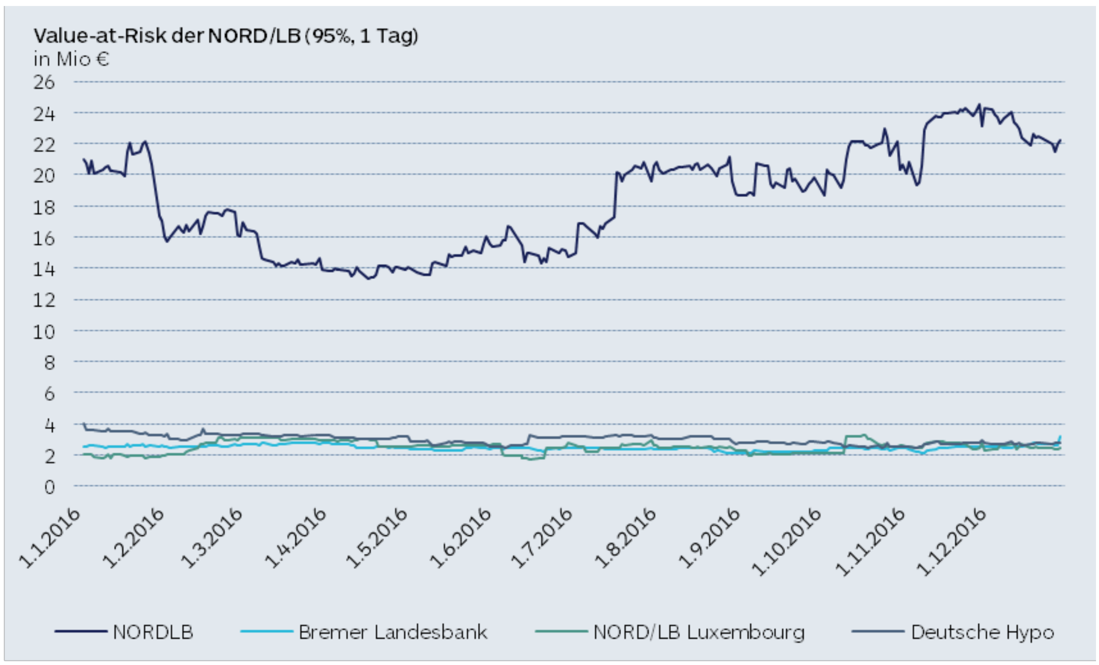
There are currently no material risks in this area that threaten the existence of the Group.

Outlook

The objectives in 2017 include the continued, consistent reduction of investments that are not important for the NORD/LB Group’s business model, the continued expansion of the strict control of investments in terms of the risk-return ratio and the further development of the materiality concept to ensure the strong connection between investment controlling and risk controlling at the overall bank level.

Market Price Risk – Development in 2016

The development of the NORD/LB Group's market-price risk was moderate during the reporting year relative to the allocated economic capital and the limits derived from this.



NORD/LB's annual average utilisation rate of the market-price risk limit at the overall bank level was 56 per cent (60 per cent), with a maximum utilisation of 70 per cent (72 per cent) and a minimum utilisation of 44 per cent (47 per cent).

The VaR, which is calculated daily as an overall total of value-at-risk figures from the material companies from a risk point of view (confidence level of 95 per cent and holding period of one day), fluctuated between € 21 million and € 32 million over the course of the year, with an average value of € 26 million. Compared to 2015 NORD/LB's VAR had fallen to € 22 million as of 31 December 2016. The final figures are reported taking into account correlation effects. The historical simulation method was used throughout the Group.

The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 95 million in the NORD/LB Group as at 31 December 2016 (€ 83 million).

In contrast to regulatory reporting, the figures also include the interest rate and equity risks from the banking book.

Market-price risks[1]	Maximum		Average		Minimum		End-of year risk	
(in € 000)	2016	2015	2016	2015	2016	2015	2016	2015
Interest-rate risk (VaR 95 %, 1day)	36 291	35 395	28 215	30 295	21 870	24 022	20 118	15 335
Currency risk (VaR 95 %, 1day)	2 224	2 552	1 345	1 870	841	839	1 600	558
Share-price and fund-price risk (VaR 95 %, 1day)	3 450	3 148	2 767	2 425	1 429	1 346	1 998	2 076
Volatility risk (VaR 95 %, 1day)	4 231	2 297	2 412	1 486	1 635	385	3 309	1 618
Other add-ons	132	142	87	60	58	–	56	108
Total	32 269	33 435	26 398	29 265	21 313	24 436	18 264	15 445

[4] Maximum, average and minimum are calculated from the VaR totals of the subsidiaries which are material for risk reporting;
[5] the final values are calculated in consolidated form.

In contrast to the credit-spread risks of the liquidity reserve, the credit spread risks of fixed assets are not included in the VaR for market-price risks as part of the going-concern view. NORD/LB's affected credit investment positions and targeted acquisitions were reduced further over the course of 2016. As part of portfolio management, targeted new investments in corporate bonds and corporate credit default swaps were made in the liquidity reserve.

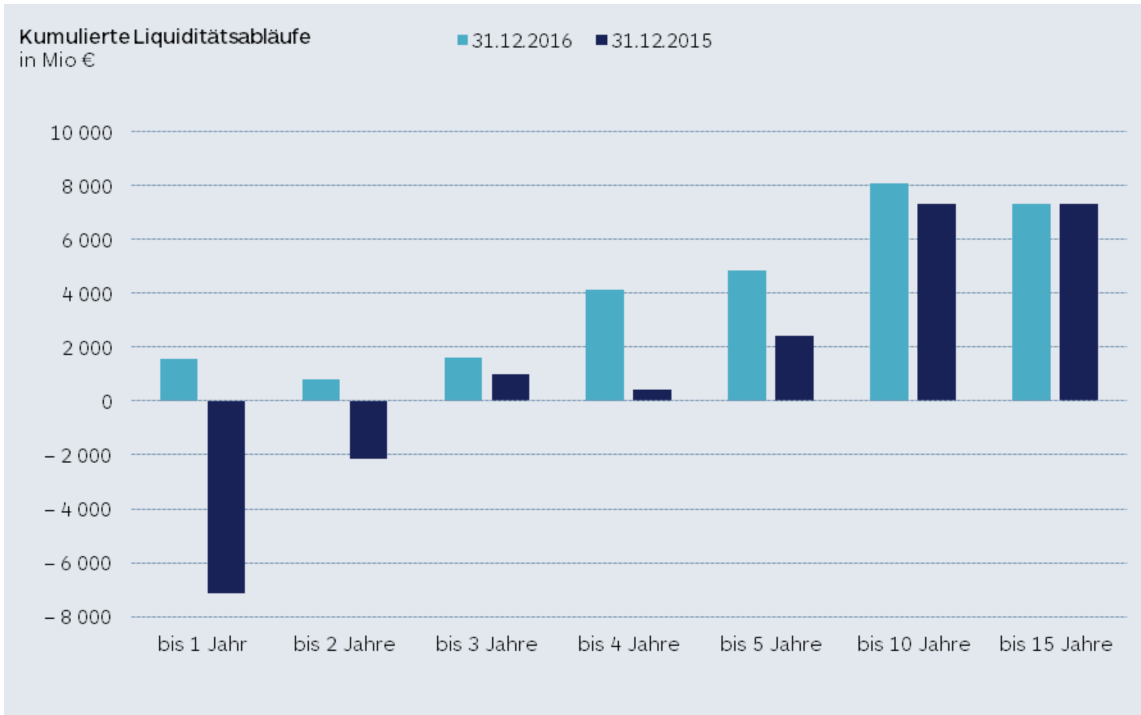
Outlook

The NORD/LB Group will continue to monitor market developments for all relevant asset classes carefully in 2017, as further short-term volatile market movements are expected. However, because of its risk policy, the gradual enhancement of its risk models and the risk management process as well as its focused trading strategy, the NORD/LB Group believes it is well prepared even for turbulent market phases.

Liquidity Risk – Development in 2016

The liquidity situation on the markets continued to ease during the reporting year, in particular as a result of the ongoing measures undertaken by the European Central Bank. However, there are still risks to the stability of the EU as a result of the high level of sovereign debt in some countries, problems in the banking sector and increasing calls to strengthen nation-states.

NORD/LB had a continuous liquidity supply throughout the reporting year. The cumulative liquidity maturity balance sheet as at 31 December 2016 did not have any liquidity gaps as shown by the sampling points. Compared to the previous year-end, the liquidity maturity balance sheet is generally improved. The liquidity gaps are all within the liquidity risk limits derived from the risk-bearing capacity model. During the course of 2016, the NORD/LB Group had sufficient liquidity at all times. At the NORD/LB level, the liquidity risk limits were met at all times during the reporting year of 2016, both when taking all currencies into account and when taking the significant individual currencies into account.



The NORD/LB Group's funding is mainly comprised of liabilities to banks, at 28 per cent (27 per cent); to customers, at 33 per cent (33 per cent); and securitised liabilities, at 20 per cent (20 percent). In addition to unsecured securities, NORD/LB also uses secured securities, including public-sector Pfandbriefe denominated in Euros and US dollars, real estate, and ship and aircraft Pfandbriefe. There is a total of € 39 billion (€ 43 billion) in Pfandbriefe in circulation (including Pfandbriefe issued prior to entry into force of the Pfandbrief Act and Lettres de Gage issued under Luxembourg law), of which public-sector Pfandbriefe make up the largest share.

The NORD/LB Group is active in highly liquid markets and maintains a portfolio of high-quality securities. As at the reporting date, the companies that present a material risk to the NORD/LB Group hold securities worth € 39 billion (€ 41 billion), of which 82 per cent (81 per cent) were suitable for repo transactions with the European Central Bank and the US Federal Reserve.

Through close monitoring of the markets and active liquidity management, the NORD/LB Group ensured that it had sufficient liquidity at all times during the year under review. Thus, the liquidity ratio for companies subject to the German Liquidity Ordinance remained well above the regulatory minimum of 1.00 at all times throughout the year.

Liquidity ratio in accordance with the LiqV[1]	31 Dec.2016	31 Dec.2015
NORD/LB	1,91	1,77
Bremer Landesbank	2,65	1,95
Deutsche Hypo	1,98	1,50

[1] There are no legal requirements that oblige NORD/LB Luxembourg to calculate a comparable key figure.

The liquidity stress tests used for internal management purposes indicate a very satisfactory liquidity situation for NORD/LB as at the reporting date. Likewise, the liquidity buffers pursuant to

MaRisk were maintained for one week and one month. In 2016, the ongoing shipping crisis and, in particular, the impact of Bremer Landesbank were taken into account in the scenarios.

On the whole, the measurement and management processes were expanded further and validated in 2016. As a component of traditional liquidity risk, the intraday risk for target 2 payment transactions was included in the monitoring in the last quarter.

The Liquidity Coverage Ratio (LCR) amounted to 110.3 per cent as at 31 December 2016 (previous year: 100.7 per cent).

Outlook

With an ongoing shipping crisis in a difficult environment for turning a profit (negative interest rates), liquidity management will be faced with the growing challenges of managing liquidity and using liquidity surpluses in a targeted manner in 2017.

Monitoring and controlling liquidity risk at NORD/LB, in particular, the integrated management of internal and external risk ratios will be expanded further. Increased regulatory and internal requirements placed on management and NORD/LB's reporting system will also be significant in 2017.

Operational Risk – Development in 2016

NORD/LB uses the standard approach of CRD IV (Pillar I) to calculate the capital requirement. At Group level, this requirement as at 31 December 2016 amounted to € 409 million.

The NORD/LB Group saw a loss of € 22.4 million in 2016, which is lower than the prior year (€ 19.2 million). The "employee" cause category was clearly dominant. A process for the comprehensive analysis and evaluation of projects was created in order to be able to disclose any future risk concentrations in the Governance, OpRisk and Compliance report.

Adherence to the principles for preventing the financing of terrorists are ensured at the NORD/LB Group as part of the comprehensive protection and prevention measures put in place by Compliance.

Outlook

Integrated operational risk management helps ensure that the transparency of operational risks is increased further and that targeted control is possible.

Regular scenario analyses, which also simulate the effect of externally observed cases within NORD/LB, are used to derive targeted recommendations for action.

The early detection of risks is supported by a comprehensive indicator system.

Overall Assessment

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

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

In addition, the NORD/LB Group was in compliance with the applicable regulatory requirements concerning equity and liquidity at all times in 2016. The total risk exposure amount for the NORD/LB Group was € 59,896 million (equity requirements corresponding to € 4,792 million), with equity totalling € 9,777 million as at 31 December 2016. Likewise, it took appropriate account of the requirements regarding large exposure limits in line with Art. 387 - 403 CRR and Luxembourg law. The NORD/LB Group believes there are currently no risks that jeopardise its status as a going concern.

However, as a result of its considerable loss in financial year 2016, its failure to meet the legal minimum Tier 1 capital ratio and its lack of risk-bearing capacity, constitute a risk to BLB's status as a going concern. BLB's continued existence as a going concern depends on the implementation of synthetic securitisation and regulatory approval of the waiver request it has submitted.

For 2017, the completion of the reduction in the shipping portfolio and the full integration of Bremer Landesbank represent major challenges for the NORD/LB Group.

There are general opportunities and risks as a result of a deviation from planning assumptions, such as the USD/EUR exchange rate and yield curves. Risks could arise for the NORD/LB Group owing to political or economic developments, Brexit's impact, terrorist attacks, geopolitical tensions as well as regulatory requirements such as the results of stress tests, the implementation of IFRS 9 standards and further capital requirements. Moreover, developments in the shipping markets, sustained low interest rates, the possible end of the unrestricted availability of long-term uncovered funding and a rating downgrade, among other things, could negatively impact Group earnings. On the other hand, a more pronounced improvement in the economy, credit spreads that decrease contrary to projected assumptions, the departure of competitors from the market, an expansion of the Group's solid market position in established areas and positive valuation effects from key results would likely positively influence the Bank's results due to increased revenue and lower risk provisioning.

In many markets, competitive pressure is increasing, with effects on margins and new business. However, there are also promising opportunities to boost the Bank's income by offering alternative capital market products through increased cross-selling activities and balance sheet turnover.

Based on current analyses, however, NORD/LB views the foreseeable effects of these influences as manageable and will continue to monitor and analyse developments closely and take appropriate measures where necessary.

Consolidated Financial Statements

Income Statement

	Notes	1 Jan. - 31 Dec.2016 (in € million)	1 Jan. - 31 Dec.2015[1)] (in € million)	Change (in %)
Interest income from assets		7 265	8 269	– 12
Interest expenses from assets		19	7	> 100
Interest expenses from liabilities		5 555	6 310	– 12
Interest income from liabilities		44	22	> 100
Interest expenses	**21**	**1 735**	**1 974**	**– 12**
Loan loss provisions	22	2 956	698	> 100
Commission income		345	340	1
Commission expenses		126	106	19
Net commission income	**23**	**219**	**234**	**– 6**
Trading profit / loss		377	– 82	> 100
Profit / loss from the fair value option		15	218	– 93
Profit / loss from financial instruments at fair value through profit or loss	**24**	**392**	**136**	**> 100**
Profit / loss from hedge accounting	25	23	144	– 84
Profit / loss from financial assets	26	49	72	– 32
Profit / loss from investments accounted for using the equity method	27	– 2	8	> 100
Administrative expenses	28	1 113	1 114	–
Other operating profit / loss	29	– 173	– 97	78
Earnings before reorganisation and taxes		**– 1 826**	**659**	**> 100**
Reorganisation expenses	30	– 39	– 6	> 100
Earnings before reorganisation and taxes		**– 1 865**	**653**	**> 100**
Income taxes	31	94	135	– 30
Consolidated profit		**– 1 959**	**518**	**> 100**
of which: attributable to the owners of NORD/LB		– 1 648	547	
of which: attributable to non-controlling interests		– 311	– 29	

1) To clarify net interest income, interest expenses from assets and interest income from liabilities were recognised separately as of 31 December 2016 for the first time. The previous year's figures were restated accordingly.

Statement of Comprehensive Income

The total comprehensive income of the NORD/LB Group consists of the income and expense recognised in both the income statement (IS) and in other comprehensive income (OCI).

	1 Jan.-31 Dec. 2016 (in € million)	1 Jan.-31 Dec. 2015 (in € million)	Change (in %)
Consolidated profit	**– 1 959**	**518**	**> 100**
Other comprehensive income which is not recycled in the income statement in subsequent periods			
Revaluation of the net liability from defined benefit pension plans	– 262	242	> 100
Investments accounted for using the equity method –Share of other operating profit / loss	–	6	– 100
Deferred taxes	83	– 74	> 100
	– 179	**174**	**> 100**
Other comprehensive income which is recycled in the income statement in subsequent periods on certain conditions			
Increase / decrease from available for sale (AfS) financial instruments			
Unrealised profit / losses	– 68	– 36	89
Transfer due to realisation profit / loss	44	59	– 25
Translation differences of foreign business units			
Unrealised profit / losses	– 90	35	> 100
Changes in value investments accounted for using the equity method recognised directly in equity	15	– 33	> 100
Deferred taxes	46	– 21	> 100
	– 53	**4**	**> 100**
Other profit / loss	**– 232**	**178**	**> 100**
Comprehensive income for the period under review	**– 2 191**	**696**	**> 100**
of which: attributable to the owners of NORD/LB	– 1 862	702	
of which: attributable to non-controlling interests	– 329	– 6	

To see the allocation of deferred taxes to the individual components of the Statement of Comprehensive Income, please see the Notes to the Statement of Comprehensive Income.

Balance Sheet

Assets	Notes	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Cash reserve	32	1 447	872	66
Loans and advances to banks	33	21 747	21 194	3
Loans and advances to customers	34	105 640	107 878	– 2
Risk provisioning	35	– 3 797	– 2 919	30
Balancing items for financial instruments hedged in the fair value hedge portfolio	36	130	91	43
Financial assets at fair value through profit or loss	37	12 526	14 035	– 11
Positive fair values from hedge accounting derivatives	38	2 327	2 507	– 7
Financial assets	39	31 574	34 515	– 9
Investments accounted for using the equity method		285	290	– 2
Property and equipment	40	420	573	– 27
Investment property	41	84	77	9
Intangible assets	42	154	149	3
Assets held for sale	43	421	58	> 100
Current income tax assets	44	42	37	14
Deferred income taxes	44	786	663	19
Other assets	45	1 011	978	3
Total assets		**174 797**	**180 998**	**– 3**

Liabilities	Notes	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Liabilities to banks	46	49 241	48 810	1
Liabilities to customers	47	57 301	60 597	– 5
Securitised liabilities	48	35 815	35 877	–
Balancing items for financial instruments	49	1 033	753	37
Financial liabilities at fair value through profit or loss	50	15 056	16 057	– 6
Negative fair values from hedge accounting derivatives	51	2 945	3 148	– 6
Provisions	52	2 753	2 428	13
Liabilities held for sale	53	19	7	> 100
Current income tax liabilities	54	107	116	– 8
Deferred income taxes	54	126	87	45
Other liabilities	55	376	306	23
Subordinated capital	56	3 984	4 299	– 7
Equity	**57**			
Issued capital		1 607	1 607	–
Capital reserves		3 332	3 332	–
Retained earnings		939	2 493	– 62
Revaluation reserve		375	454	– 17
Currency translation reserve		– 6	– 9	– 33
Equity capital attributable to the owners of NORD/LB		**6 247**	**7 877**	**– 21**
Additional equity		50	50	–
Equity capital attributable to non-controlling interests		– 256	586	> 100
		6 041	**8 513**	**– 29**
Total liabilities and equity		**174 797**	**180 998**	**– 3**

Statement of Changes in Equity

The individual components of equity as well as the development of these components in 2015 and 2016 can be seen in the following Statement of Changes in Equity:

(in € million)	Issued capital	Capital reserves	Retained earnings	Revaluation reserve	Currency translation reserve	Equity attributable to the owners of NORD/LB	Additional equity components	Equity attributable to non-controlling interests	Consolidated equity
Equity as at 1 Jan. 2015	**1 607**	**3 332**	**1 957**	**420**	**– 10**	**7 306**	**–**	**596**	**7 902**
Consolidated profit	–	–	547	–	–	547	–	– 29	518
Increase / decrease from available for sale (AfS) financial instruments	–	–	–	55	– 36	19	–	4	23
Changes in the value of investments for using the equity method	–	–	– 27	–	–	– 27	–	–	– 27
Translation differences of foreign business units	–	–	–	1	37	38	–	– 3	35
Revaluation of the net liability from defined benefit pension plans	–	–	212	–	–	212	–	30	242
Deferred taxes	–	–	– 65	– 22	–	– 87	–	– 8	– 95
Other comprehensive income	**–**	**–**	**120**	**34**	**1**	**155**	**–**	**23**	**178**
Adjusted comprehensive income for the period under preview	**–**	**–**	**667**	**34**	**1**	**702**	**–**	**– 6**	**696**
Distribution	–	–	– 127	–	–	– 127	–	2	– 125
Capital increases / decreases	–	–	–	–	–	–	–	– 7	– 7
Changes in the basis of consolidation	–	–	– 4	–	–	– 4	–	1	– 3
Other changes in capital	–	–	–	–	–	–	50	–	50
Equity as at 31 Dec. 2015	**1 607**	**3 332**	**2 493**	**454**	**– 9**	**7 877**	**50**	**586**	**8 513**

(in € million)	Issued capital	Capital reserves	Retained earnings	Revaluation reserve	Currency translation reserve	Equity attributable to the owners of NORD/LB	Additional equity components	Equity attributable to non-controlling interests	Consolidated equity
Equity as at 1 Jan. 2016	**1 607**	**3 332**	**2 493**	**454**	**– 9**	**7 877**	**50**	**586**	**8 513**
Consolidated profit	–	–	– 1 648	–	–	– 1 648	–	– 311	– 1 959
Increase / decrease from available for sale (AfS) financial instruments	–	–	–	– 119	91	– 28	–	4	– 24
Changes in the value of investments for using the equity method	–	–	10	–	–	10	–	5	15
Translation differences of foreign business units	–	–	–	– 1	– 88	– 89	–	– 1	– 90
Revaluation of the net liability from defined benefit pension plans	–	–	– 225	–	–	– 225	–	– 37	– 262
Deferred taxes	–	–	77	41	–	118	–	11	129
Other comprehensive income	**–**	**–**	**– 138**	**– 79**	**3**	**– 214**	**–**	**– 18**	**– 232**
Adjusted comprehensive income for the period under preview	**–**	**–**	**– 1 786**	**– 79**	**3**	**– 1 862**	**–**	**– 329**	**– 2 191**
Changes in the basis of consolidation	–	–	–	–	–	–	–	33	33
Anticipated purchase of shares	–	–	234	–	–	234	–	– 536	– 302
Other changes in capital	–	–	– 2	–	–	– 2	–	– 10	– 12
Equity as at 31 Dec. 2016	**1 607**	**3 332**	**939**	**375**	**– 6**	**6 247**	**50**	**– 256**	**6 041**

The other changes in capital include reclassifications of reserves to loans and interest payments on additional Tier-1 bonds issued in 2015. Through a contract with minority shareholders, the NORD/LB Group has committed itself to purchasing its own equity instruments, and has already anticipated this purchase in the annual report. For a more detailed explanation, please see Note (57) Equity.

Cash Flow Statement

	1 Jan.-31 Dec. 2016 (in € million)	1 Jan.-31 Dec. 2015 (in € million)	Change (in %)
Consolidated profit for the period	**– 1 959**	**518**	**> 100**
Adjustment for non-cash items			
Depreciation, impairment and write-ups of property and equipment and financial assets	– 19	– 496	– 96
Increase / decrease in provisions	151	– 43	> 100
Gains / losses from the disposal of property and equipment and financial assets	– 27	– 30	– 10
Increase / decrease in other non-cash items	2 896	455	> 100
Other adjustments net	– 1 661	– 1 878	– 12
Sub-total	**– 619**	**– 1 474**	**– 58**
Increase / decrease in assets and liabilities from operating activities after adjustment for non-cash item			
Loans and advances to banks and customers	– 339	2 999	> 100
Trading assets	491	789	– 38
Other assets from operating activities	2 863	10 054	– 72
Liabilities to banks and customers	– 3 083	– 8 122	– 62
Securitised liabilities	– 28	– 4 970	– 99
Other liabilities from operating activities	4	– 696	> 100
Interest received	6 662	7 870	– 15
Dividends received	9	22	– 59
Interest paid	– 4 818	– 5 704	– 16
Income taxes paid	– 62	– 64	– 3
Cash flow from operating activities	**1 080**	**704**	**53**

	1 Jan.-31 Dec. 2016 (in € million)	1 Jan.-31 Dec. 2015 (in € million)	Change (in %)
Cash receipts from the disposal of			
financial assets	6	36	– 83
property and equipment	3	–	–
Payments for acquisition of			
financial assets	– 7	– 1	> 100
property and equipment	– 93	– 77	21
Cash receipts from the disposal of consolidated companies and other business units	71	–	–
Payments for acquisition of consolidated companies and other business units	– 2	–	–
Net increase / decrease in funds from other investing activities	3	–	–
Cash flow from investing activities	**– 19**	**– 42**	**– 55**
Increase in funds from other capital	361	480	– 25
Decrease in funds from other capital	– 669	– 1 119	– 40
Net proceeds from issued additional equity components	–	50	– 100
Interest expenses on subordinated capital	– 196	– 153	28
Dividends paid	–	– 125	– 100
Interest expenses on additional equity components	– 4	–	–
Cash flow from financing activities	**– 508**	**– 867**	**– 41**
Cash and cash equivalents as at 1 January	**872**	**1 064**	**– 18**
Cash flow from operating activities	1 080	704	53
Cash flow from investing activities	– 19	– 42	– 55
Cash flow from financing activities	– 508	– 867	– 41
Total cash flow	**553**	**– 205**	**> 100**
Effects of changes in exchange rates	22	13	69
Cash and cash equivalents as at 31 December	**1 447**	**872**	**66**

With respect to the cash and cash equivalents as at 31 December, please see Note (32) Cash reserve. Please refer to the explanations in the Risk Report for further information regarding the management of liquidity risk in the NORD/LB Group.

Compensation of € 4 million was received for transactions that led to the loss of control of subsidiaries during the year under review. The assets and liabilities of the subsidiaries over which control was lost during the year under review are as follows:

Assets	Loss of control	
(in € million)	31 Dec.2016	31 Dec.2015
Loans and advances to customers	1	–
Financial assets	–	2
Property and equipment	4	5
Other assets	1	–
Total	**6**	**7**

Liabilities	Loss of control	
(in € million)	31 Dec.2016	31 Dec.2015
Other liabilities	3	–
Subordinated capital	3	–
Total	**6**	**–**

Notes to the Consolidated Financial Statements

General Disclosures

(1) Principles for the Preparation of the Consolidated Financial Statements

Norddeutsche Landesbank Girozentrale Hanover, Braunschweig, Magdeburg (NORD/LB) is registered with the Hanover (HRA 26247), Braunschweig (HRA 10261) and Stendal (HRA 22150) local courts. The Consolidated Financial Statements of NORD/LB as at 31 December 2016 were prepared on the basis of Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002 (IAS Regulation) in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) as applicable within the European Union. The standards applied were those published by the end of the financial year and adopted by the European Union with mandatory and applicable status. National requirements contained in § 315a of the German Commercial Code (Handelsgesetzbuch) were also met. NORD/LB as a group under commercial law is referred to below as the NORD/LB Group.

The Consolidated Financial Statements as at 31 December 2016 comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the Notes. Segment reporting is provided in the Notes to the financial statement in Note (19) Segment reporting by business segment and Note (20) Information by geographic features. Reporting on the nature and scope of risks relating to financial instruments under IFRS 7 is provided mainly in the Risk Report which forms part of the Group Management Report.

Assets are generally measured at amortised cost. Notable exceptions include those financial instruments measured at fair value under IAS 39. Accounting and measurement were based on the assumption of a going concern. Earnings and expenses are accrued or deferred pro rata temporis. They are recognised and reported in the period to which they are economically attributable. The main accounting policies are set out below.

The estimates and assessments required for accounting under IFRS are underpinned by assumptions and parameters which, in turn, are based on the exercise of discretion by management as appropriate to the circumstances. Estimates and assessments are continuously reviewed, and are based on experience and additional factors including expectations regarding future events which appear reasonable under the given circumstances. Global developments and the sector-specific environment are also taken into consideration.

Estimates and assessments are made in accordance with the relevant standard and with respect to the following points in particular: determination of fair values of Level 2 and Level 3 financial assets and liabilities, including an assessment of the presence of an active or inactive market (Note (8) Financial Instruments in conjunction with Note (58) Fair Value Hierarchy), measurement of provisions for pensions in respect of the determination of the underlying parameters (Note (15) Provisions for Pensions and Similar Obligations in conjunction with Note (52) Provisions), measurement of risk provisioning in respect of future cash flows (Note (9) Risk provisioning in conjunction with Note (35) Risk provisioning), review of an impairment for joint ventures and associated companies on the basis of corporate value calculations, determination of deferred tax assets in respect of the impairment of unused tax loss (Note (17) Income taxes in conjunction with Note (31) Income taxes, Note (44) Income tax assets and Note (54) Income tax liabilities). Where more extensive estimates were required, the assumptions made are presented. As regards the impact of using assumptions to measure Level 3 financial instruments, reference is made to the relevant information on sensitivity in Note (58) Fair value hierarchy.

Estimates and assessments themselves as well as the underlying assessment factors and estimation methods are regularly compared to events that have actually occurred. 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.

Other than estimates, the following are the main discretionary decisions to be taken by management as regards accounting and measurement in the NORD/LB Group: use of the fair value option for financial instruments (Note (8) Financial instruments in conjunction with Note (37) Financial assets at fair value through profit or loss and Note (50) Financial liabilities at fair value through profit or loss), waiver of categorisation of financial instruments as held to maturity (HtM), waiver of application of the reclassification rules as per IAS 39, distinction between finance leases and operating leases (Note (11) Leases in conjunction with Note (74) Lease agreements), recognition of provisions (Notes (15) Provisions for pensions and similar obligations and (16) Other provisions in conjunction with Note (52) Provisions), presence of assets held for sale (Note (14) Asset held for sale in conjunction with Note (43) Assets held for sale) and assessment of control and significant influence for shares in companies (Note (5) Basis of consolidation in conjunction with Note (80) Disclosures concerning shares in companies).

The reporting currency for the Consolidated financial statement is the euro. All amounts are reported rounded in millions of euros (€ million) unless indicated otherwise. The previous year's figures are shown in brackets.

These Consolidated Financial Statements were signed by the Managing Board on 23 March 2017 and approved for forwarding to the Supervisory Board.

(2) Adjustment of Estimates and Accounting Methods

When modernising the subsidiary accounting used to account for financial instruments under IFRS, the following changes were made to accounting estimates in several Group companies for the first time as at 30 June 2016:

The change in value for hedging transactions in portfolio fair value hedges that results from the reduction in the residual duration and is not related to the hedged risk (hedge amortised cost) has been determined using the method applied to measure the hedge amortised cost of the underlying transaction. This measurement methodology is in contrast to the previous practice, which was based on the effective interest method. When determining the corresponding hedge amortised cost for underlying transactions in portfolio fair value hedges, the interest rate curve is rolled forward from the start to the end of the period, risk-free and arbitrage-free. This approach replaces the previous method of straight-line rollforward from the start to the end of the period. The change in the estimate of interest distribution will avoid future mismatches in the profit/loss from hedge accounting due to the use of different methods of calculating the hedge amortised cost for hedging and underlying transactions. As well as a shift between net interest income and profit/loss from hedge accounting, this new method will impact the balancing items for financial instruments hedged in the portfolio fair value hedge, the revaluation reserve and consequently the consolidated profit and comprehensive income for the period under review.

Furthermore, profits/losses in foreign currency are set in euros on a daily basis, instead of once a month at month's end as hitherto. The change in the estimation method to daily rate-setting will lead to more precise compliance with the standard requirements for foreign currency translation. It will result in a shift between the foreign exchange profit/loss as reported in the trading profit/loss and other items of the Income Statement. Consolidated profit, however, will not be affected.

The effects of the above-mentioned changes in the estimation method on the current period can only be determined to a limited extent because the new subsidiary accounting has only used the revised estimates for interest distribution and rate-setting since 1 January 2016, whereas the old subsidiary accounting with the previously applicable estimates was only used until 31 March 2016. The quantitative effects on future periods are not disclosed because it is impracticable to estimate these effects.

The following effects in the Income Statement and the Statement of Comprehensive Income resulted for the period from 1 January until 31 March 2016 from the changes in estimates:

1 Jan. - 31 Mar. 2016 (in € million)	Prior to adjustment	Adjustment Hegde Amortised Cost	Adjustment results from currency translation	After Adjustment
Interest income from assets	1 911	10	4	1 925
Interest expenses from liabilities	1 454	12	–	1 466
Net interest income	**457**	**– 2**	**4**	**459**
Trading profit/loss	391	–	– 4	387
Profit/loss from financial instruments at fair vlaue throug profit or loss	**258**	**–**	**– 4**	**254**
Profit / loss from hedge accounting	8	– 7	–	1
Consolidated profit	**– 84**	**– 9**	**–**	**– 93**
of which: attributable to the owners of NORD/LB	– 66	– 9	–	– 75
of which: attributable to non-controlling interests	– 18	–	–	– 18
Other comprehensive income	**– 110**	**– 15**		**– 125**
Comprehensive income for the period under review	**– 194**	**– 24**	**–**	**– 218**
of which: attributable to the owners of NORD/LB	– 172	– 24	–	– 196
of which: attributable to non-controlling interests	– 22	–	–	– 22

The following changes occurred in the balance sheet as at 31 March 2016:

31 Mar. 2016 (in € million)	Prior to adjustment	Adjustment Hegde Amortised Cost	After Adjustment
Balancing items for financial instruments hedged in the fair value hedge portfolio	253	3	256
Total assets	**181 904**	**3**	**181 907**
Balancing items for financial instruments hedged in the fair value hedge portfolio	1 142	27	1 169
Equity	**7 706**		
Retained earnings	2 325	– 9	2 316
Revaluation reserve	452	– 15	437
Total liabilities and equity	**181 904**	**3**	**181 907**

When modernising the subsidiary accounting used to account for financial instruments in accordance with IFRS, changes were made to the accounting policies in several Group companies as at 30 June 2016.

Structured derivatives are accounted for in the new subsidiary accounting on a unit basis instead of by component, as has been the case until now. As the components of structured derivatives are parts of a single legal transaction, the combined figure provides more relevant information. This change results in a decrease in total assets. There is no effect on consolidated profit, although there are reclassifications between individual line items in the Income Statement.

The effects from non-recurring payments related primarily to interest-rate swaps and cross-currency swaps as well as non-recurring payments in connection with paid or received option premiums on caps and floors are subdivided in the new subsidiary accounting into an effect from amortisation and an effect from the change in fair value. This is a change from the previous practice of recognising the two together as a change in fair value. In economic terms, non-recurring payments are a means of correcting the profit/loss from current payments reported for these products, so amortisation provides more relevant information. There are no resultant effects on the balance sheet and the consolidated profit. However, reporting in the Income Statement now distinguishes more precisely between the interest income, interest expenses and trading profit/loss items.

Current interest payments from the legs of a swap are now netted in the new subsidiary accounting for reporting in the Income Statement, instead of the previous practice of reporting them on a gross basis. The net-based reporting of interest payments by derivative provides a better reflection of economic circumstances because for a single derivative, no interest income is realised on the assets or no interest expenses are incurred on liabilities. Instead, only interest payments related to the notional value of the derivative are exchanged. There is no effect on consolidated profit, although reporting in the Income Statement now distinguishes more precisely between interest income and interest expenses.

When spot purchases and/or sales of securities are not yet settled and the number of days between the trade date and value date of the transaction is more than usual for the respective type of trading (such items are called false forward transactions in securities), the securities are carried on the balance sheet by class on a net basis. The receivables and liabilities from the securities transactions will continue to be reported on a gross basis if the requirements for netting in the balance sheet are not met. Net-based reporting provides a better reflection of economic conditions because in addition to the legal possibility of offsetting the two items, the actual intention to offset them now also exists as a result of the new technical circumstances. As there were no balances to report, no reclassifications were implemented in the balance sheet as at 31 December 2015.

Retrospective determination of the above-mentioned effects on the Income Statement resulting from the change in accounting policies is not possible for the period from 1 January until 31 December 2015 because the new subsidiary accounting has only processed transactions since 1 January 2016.

The effects resulting from the change in accounting policies for the period from 1 January until 31 December 2016 are included in the following table. They solely affect reporting.

1 Jan. - 31 Dec.2016 (in € million)	Prior to adjustment	Adjustment structured derivatives	Adjustment upfronts	Adjustment interest from swap	After Adjustment
Interest income / -expences from assets	7 513	– 2	25	– 290	7 246
Interest expenses /-income from liabilities	5 744	– 2	59	– 290	5 511
Net interest income	**1 769**	**–**	**– 34**	**–**	**1 735**
Trading profit / loss	343	–	34	–	377
Profit / loss from financial instruments at fair value through profit or loss	**358**	**–**	**34**	**–**	**392**
Consolidated profit	**– 1 959**	**–**	**–**	**–**	**– 1 959**

In der Bilanz zum 31. Dezember 2016 ergeben sich folgende Umgliederungen:

31 Dec.2016 (in € million)	Prior to adjustment	Adjustment structured derivatives	After Adjustment
Financial assets at fair value through profit or loss	14 350	– 1 824	12 526
Financial liabilities at fair value through profit or loss	16 880	– 1 824	15 056

The respective restatements were also taken into account in the following Notes: (21) Net Interest Income, (24) Profit/Loss from Financial Instruments at Fair Value through Profit or Loss, (37) Financial Assets at Fair Value through Profit or Loss, (50) Financial Liabilities at Fair Value through Profit or Loss, (58) Fair Value Hierarchy and (64) Derivative Financial Instruments.

For a receivables portfolio of ship mortgage loans scheduled for disposal on the market during financial 2017 (see Note (43)), the loan loss provisions were adjusted in relation to the prior year and were determined on the basis of anticipated transaction prices. Due to a change to the estimate, this produced an effect of € 66 million in the Income Statement.

(3) Adopted IFRS

These Consolidated Financial Statements take account of all standards, interpretations and their amendments adopted by the EU through its endorsement process, as applicable for the NORD/LB Group in the 2016 reporting period.

In the reporting period, account was taken of the following standards and amendments to standards applicable to the NORD/LB Group for the first time at 1 January 2016:

Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 applicable as from 1 January 2016 explain accounting for the acquisition of interests in joint operations that constitute a business as defined in IFRS 3. All policies defined in IFRS 3 or other standards for the accounting of business combinations are to be applied to the acquired interest, and the corresponding disclosure requirements must also be met.

There are currently no circumstances in the NORD/LB Group to which the amendments to IFRS 11 apply.

Amendments to IAS 1 – Presentation of Financial Statements

The amended standard published on 18 December 2014 implemented the initial proposals under the IASB's initiative to improve disclosures in the Notes. The amendments emphasise the concept of

materiality to facilitate the communication of relevant information in IFRS-based financial statements. This will be achieved by waiving the requirement to disclose immaterial information, by allowing for the possibility of supplementary subtotals and by enabling greater flexibility in the structure of the Notes. Furthermore, the breakdown of Other profit/loss (Other comprehensive income, OCI) in the Statement of Comprehensive Income has been clarified.
The amendments to IAS 1 do not impact the Consolidated Financial Statements of NORD/LB.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable methods of Depreciation and Amortisation
On 12 May 2014, the IASB published amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. These amendments concern appropriate and acceptable methods of presenting the consumption of an asset's future economic benefit. It was clarified that for property, plant and equipment, depreciation based on revenue from goods manufactured using these assets is not appropriate, and that in the case of intangible assets with a limited useful life, it is permitted only in explicitly specified exceptional cases.
As this depreciation method is not used in the NORD/LB Group, the amendments to IAS 16 and IAS 38 have no impact.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions
The amendment to IAS 19 Employee Benefits published in November 2013 specifies the requirements associated with the allocation of employee contributions or third-party contributions to periods of service if the contributions are linked to length of service. Additionally, reliefs are obtained if contributions are independent of the number of years of service.
The amendments to IAS 19 do not require an adjustment of NORD/LB's Consolidated Financial Statements.

Improvements from the IFRS 2010 – 2012 cycle and 2012 – 2014 cycle under the IASB's Annual Improvements Process
The IASB's Annual Improvements Process involves changes to the wording in individual IFRSs to clarify or improve existing regulations. The 2010 – 2012 cycle included amendments to standards IFRS 2, IFRS 3, IFRS 8 and IFRS 13 as well as to IAS 16, IAS 24 and IAS 38. The 2012 – 2014 cycle includes amendments to standards IFRS 5 and IFRS 7 as well as to IAS 19 and IAS 34.
The annual improvements to IFRSs have no major impact on the Consolidated Financial Statements of NORD/LB.
As permitted, there was no early application of the following standards and amendments to standards adopted in European law which must only be implemented for the NORD/LB Consolidated Financial Statements after 31 December 2016:

IFRS 9 – Financial Instruments
Following its adoption in European law in November 2016, IFRS 9 – Financial Instruments is applicable as a mandatory requirement for financial years starting on or after 1 January 2018. As permitted, the NORD/LB Group is refraining from voluntary early application of this standard.
IFRS 9 is expected to substantially impact accounting, measurement and presentation in future Consolidated Financial Statements. The impact of IFRS 9 on the NORD/LB Group is currently under evaluation. To this end, a programme has been set up with projects based on the phases of IFRS 9 in order to implement the necessary specialist, technical and procedural changes in due time.
On publication of the final version of IFRS 9 – Financial Instruments, the following regulatory areas of relevance to the NORD/LB Group will require adaptation:

<u>Classification and measurement of financial assets and financial liabilities</u>
Classification under IAS 39 is based primarily on the type of financial asset (see Note (8) Financial

Instruments), classification under IFRS 9 focuses on the company's intended business purpose and the structure of the financial instrument. IFRS 9 provides for three possible business models for financial instruments: “Hold”, “Hold and sell”, and “Do not hold”. Classification of a financial instrument is also determined by what is known as the cash flow criterion; this is used to examine the financial instrument to determine whether or not the contractual cash flows relate solely to principal and interest payments. Classification and measurement of financial assets is based on the combination of business model and cash flow characteristic.

In general, IFRS 9 provides for measurement of all financial assets at fair value. Subsequent recognition at amortised cost is permitted only if the financial instrument was assigned to a portfolio with the “Hold” business model, and if its cash flows solely represent interest and principal payments on the outstanding capital of the financial instrument at contractually defined points in time. Subsequent recognition with the fair value changes carried in Other profit/loss (Other comprehensive income, OCI) is permitted only if the financial instrument was assigned to a portfolio with the “Hold and sell” business model, and if its cash flows solely represent interest and principal payments on the outstanding capital of the financial instrument at contractually defined points in time. If certain conditions are met, the financial Instruments may be irrevocably designated at fair value upon initial recognition.

If the cash flows do not meet this requirement, the asset must be measured at fair value through profit and loss. Derivatives should generally be measured at fair value through profit and loss. Measurement methods do not change under IFRS 9.

Financial assets – loans

NORD/LB mainly follows the “Hold” business model in its credit business. The “Do not hold” business model is applied for syndication or asset trading portfolios in the credit sector. The scope of these portfolios is currently small in relation to the overall loan book. A decision will be taken on application of the “Hold and sell” business model in the loan business at a later stage of the project.

The NORD/LB Group is conducting an analysis to examine the loan portfolio business and the contract modules currently in use; the aim is to identify components or ancillary agreements of relevance for the classification of transactions as subject to “Mandatory measurement at fair value through profit and loss”. The analysis (currently still in progress) suggests the tentative conclusion that the new IFRS 9 classification model will result in an extension of fair value measurement for the NORD/LB Group's credit sector (albeit limited to specific segments) as compared to the classification under IAS 39. Loans measured hitherto at amortised cost under IAS 39 would thus need to be classified in a fair value category under IFRS 9. In the present status, it is not fully possible to quantify the impact of first application as assessment of the cash flow criterion is not yet complete.

Financial assets – securities

Based on the present situation, the NORD/LB Group plans to apply all three business model versions for securities on the assets side. As the project stands at present, portfolios with an intended long-term investment horizon should be assigned to the “Hold” business model. In the case of portfolios used for short- and/or medium-term liquidity management, assignment to the “Hold and sell” business model is planned on account of their active management and the general lack of an intention to continue holding them. Portfolios intended for trading will continue to be included as before in the “Do not hold” business model.

The NORD/LB Group has also decided to measure all equity instruments at fair value through profit and loss.

Securities with debt characteristics can be measured at amortised cost in the same way as loans if they are carried in the “Hold” business model and the cash flow criterion is met at the same time. Changes to fair value relating to securities with debt characteristics must be recognised in Other profit/loss (Other comprehensive income, OCI) if they are carried in the "Hold and sell" business model and if the cash flow criterion is met at the same time.

The NORD/LB Group currently anticipates basically unchanged use of the option for voluntary fair value measurement, insofar as permitted under IFRS 9.

Due to the classification and measurement requirements of IFRS 9, the NORD/LB Group anticipates that a portion of the securities holding (limited to selected portfolios) recognised directly in equity under IAS 39 will be measured at amortised cost from 2018 onwards. In the present status, it is not fully possible to quantify the impact of first application as allocation of the securities to business models is not yet complete.

Under IFRS 9, unconsolidated investments should basically be measured at fair value through profit and loss as the cash flow criterion is not met. Since the available option of fair value measurement directly in equity is not to be exercised, changes in the value of unconsolidated investments will be recognised on the Income Statement directly in equity under the Revaluation reserve when IFRS 9 is applied for the first time, instead of in the Available for Sale (AfS) classifications under IAS 39. On first application, amounts previously recognised in the Revaluation reserve due to their classification as AfS will be transferred to Retained earnings.

Financial liabilities

The most fundamental change to the existing requirements concerns recognition of profit/loss from instruments in the fair value option. As a general rule, changes to the measurement of financial liabilities induced by credit ratings must, under IFRS 9, be recognised directly in equity under Other profit/loss (Other comprehensive income, OCI); the remaining part of the change in value will continue to be recognised in the Income Statement. The NORD/LB Group does not expect this new regulation to produce measurement or recognition anomalies; based on the present status, therefore, fair value changes affecting the Group's own credit risk for financial liabilities in the fair value option will always be recognised under Other profit/loss (Other comprehensive income, OCI).

Impairments to financial assets

IFRS 9 introduces a new impairment model which aims to provide useful decision-making information more adequately and promptly. The procedure stipulates that expected credit losses should be recognised initially based on an Expected Loss (EL) model, rather than waiting until a credit event actually occurs. According to the new impairment model, those financial instruments, loan commitments and financial guarantees which are not recognised in the balance sheet at fair value through profit and loss will be subdivided into three stages, depending on the change in their credit quality since initial recognition. In stage 1, anticipated credit defaults in the amount of the expected loss are calculated over an observation period of one year. In stages 2 and 3, anticipated credit defaults are calculated over the term of the financial instrument (expected lifetime loss). Stage 3 includes receivables already defaulted, on the basis of the existing IAS 39 procedure and regulatory requirements.

NORD/LB calculates loan loss provisions using the instrument-by-instrument approach. Determination of loan loss provisions should be parameter-based for all portfolios in stages 1 and 2 and for non-significant stage 3 transactions, whereas an expert-based approach is specified for significant stage 3 transactions.

Various criteria are adduced to distinguish between stages 1 and 2. As the concept stands at present, there is (on the one hand) a quantitative criterion for which precisely defined conditions must be cumulatively met. This is supplemented by three qualitative criteria, each of which may trigger a transfer to stage 2 if they are met.

The methodological concept for the use of future-oriented information in the context of scenarios to determine loan loss provisions in the NORD/LB Group has not yet been completed. The new categorisation requirements under IFRS 9 for the business model and assessment of the cash flow criterion will also produce future changes to the composition of the transaction to be considered in the impairment context. The effects of impairment can only be quantified when classification of financial assets has been completed, which is not yet the case for the NORD/LB Group. A reliable estimate of these effects and of the overall impact of loan loss provisions will only be possible as the project continues to advance.

Hedging transactions

The IASB has decided to subdivide hedge accounting into General Hedge Accounting and Macro Hedge Accounting. Macro Hedge Accounting is not covered by the published IFRS 9 and is currently being processed by the IASB as a standalone project.

The IAS 39 regulations on portfolio fair value hedging for interest-rate risks will remain in place until publication of the new regulations on Macro Hedge Accounting. There is an option to apply the standard on General Hedge Accounting as from 1 January 2018 or to continue with the IAS 39 regulations. NORD/LB plans to continue hedge accounting under the existing IAS 39 regulations.

The changed classification requirements under IFRS 9 will also change the composition of underlying transactions in the portfolio fair value hedge for interest-rate risks. The NORD/LB Group expects only insignificant effects from the first application of these changes; specific quantification will only be possible once the classification of the financial assets is completed.

Recognition

In accordance with the IFRS 9 classification and measurement requirements, the NORD/LB Group will gear its financial instruments reporting more towards measurement categories. As permitted, retrospective application of IFRS 9 for reporting will be waived so that IFRS 9 values in 2018 can be compared to prior year values determined for 2017 according to IAS 39 requirements.

IFRS 15 – Revenue from Contracts with Customers

Standards IAS 18 and IAS 11 in force hitherto for realisation of income (and the related interpretations, IFRIC 13, IFRIC 15, IFRS 18 and SIC-31) are to be replaced by IFRS 15 from 2018 onwards. IFRS 15 specifies a new, principles-based five-stage model for income accounting and recognition. Its application will particularly impact the amount of income as well as the timing of its collection and distribution in the Statement of Comprehensive Income. The EU's endorsement was issued in the fourth quarter of 2016, i.e. complete and/or modified retrospective application of the standard is mandatory for reporting periods starting on or after 1 January 2018. Introduction of the standard is unlikely to have a significant impact on the presentation of the assets, financial and income situation of the NORD/LB Group. The impact is currently under review as part of a project to implement IFRS 15 which also considers the clarifications regarding IFRS 15; these have yet to be adopted into European law. However, a reliable quantification of the impact is impossible until this project is completed, so the following is merely an outline:

the standard must basically be applied to all contracts with customers of the NORD/LB Group, but in many cases it is not relevant for the Group because large parts of the income on the Statement of Comprehensive Income are subject to the provisions of other standards. For example, many income items recognised by the NORD/LB Group fall within the scope of IFRS 9. IFRS 15 is mainly

applicable to accounting of commission income, i.e. to the Group's service business.
The focus here is on the following issues (among others): identification of subsequent contract amendments, (more accurate) estimates of variable compensation, regular review of the transaction price and variable compensation, identification of performance obligations for each contract, classification of performance obligations (based on a period versus a point in time), identification of costs associated with contracts which are not distributed at a constant effective interest rate as per IFRS 9 and which may need to be recognised as assets on the asset side, identification of services with a reimbursement clause and balance-sheet recognition of a reimbursement obligation instead of a provision, identification and presentation of asset- and liability-side contract items, and additions to the existing information in the Notes.
On the preparation date of the Consolidated Financial Statements, adoption into European law of the following standards, amendments to standards and interpretations by the EU Commission was still outstanding:

IFRS 16 – Leasing

At 13 January 2016, the IASB published the new IFRS 16 standard on accounting for leases, replacing the previous IAS 17 standard in conjunction with interpretations IFRIC 4, SIC-15 and SIC-27. The scope basically comprises all contracts involving the transfer of the right to use or control an asset for an agreed period in return for a consideration.
Subject to the pending endorsement by the EU, the first mandatory application of IFRS 16 will be for financial years starting on or after 1 January 2019. There are currently no plans for early application together with the full application of IFRS 15, Revenue from Contracts with Customers.
In particular, the new standard impacts the accounting of the NORD/LB Group as lessee, due to elimination of the previous differentiation between finance and operating lease relationships. Under IFRS 16, there will in future be one standard accounting model for lessees; with certain exceptions for short-term leases and leased assets of low value, this model will provide the accounting basis for assets subject to a right of use and leasing liabilities for leases. This will impact the assets, financial and earnings situation of the NORD/LB Group due in particular to a balance sheet extension resulting from the obligation to account for rights of use and liabilities for leases which are currently recognised as operating lease relationships under IAS 17. Division of the expense into a depreciation component and an interest component, using the effective interest method, will also result in a degressive distribution of expenditure, with expense shifted to earlier periods of the lease term.
Detailed analysis and quantification of the impact is currently in progress as part of a project on the implementation of IFRS 16. Potential for exercising the options granted under IFRS 16 is seen primarily in connection with leases for operating and office equipment and residential property leased for short terms. The NORD/LB Group will also make use of the options to recognise lease agreements under Other intangible assets, not as per IFRS 16, and to recognise the cumulative effect in equity on a modified, retrospective basis.

Amendments to IAS 7: Statement of Cash Flows – Disclosure Initiative

The objective of the amendment to IAS 7, applicable as from 1 January 2017, is to improve information about changes to the entity's indebtedness. According to these amendments, an entity must disclose changes to financial liabilities for which cash proceeds and payments are recognised in the Cash Flow Statement under Cash flow from financing activities.
Additional reporting requirements are created for the NORD/LB Consolidated Financial Statements under IAS 7.

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

The changes to IAS 12 aim to clarify how certain regulations should be applied in connection with the recognition of deferred tax assets arising from acquired debt instruments measured at fair value. It is also made clear that for all deductible temporary differences, an overall assessment must generally be made as to whether an adequate taxable profit is likely to be available in future for use in connection with such differences.

Accounting of deferred taxes in the NORD/LB Consolidated Financial Statements already conforms to the amendments, so the amendments to IAS 12 which are to be applied as from 1 January 2017 produce no effects.

Amendments to IAS 40 – Transfers of Investment Property

On 8 December 2016, the IASB published amendments to IAS 40 in order to clarify the guidelines for transfers to or from investment property holdings. It was made clear that a transfer of this sort can only take place in case of changes in use which are appropriately documented, and that this principle also applies for properties under construction or development. The list of documents in IAS 40.57 has been converted into a non-conclusive list. The amendments to IAS 40 enter into effect for financial years beginning on or after 1 January 2018.

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

Verbesserungen der IFRS Zyklus 2014 – 2016 im Rahmen des annual improvements process des IASB

Amendments to three standards (IFRS 1, IFRS 12 and IAS 28) were implemented as part of the Annual Improvement Process. These adjustments in the individual IFRSs entail the elimination of short-term exemptions for first-time users, and they also clarify the existing regulations on the scope of disclosure requirements and the exercise of options. The relevant amendments for NORD/LB must be applied with mandatory effect in the Group for financial years starting on or after 1 January 2017 or 1 January 2018.

No impact on the NORD/LB Consolidated Financial Statements is anticipated from the IFRS' annual improvements.

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

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

These changes are currently expected to have no impact, or no material impact, on NORD/LB's Consolidated Financial Statements.

First implementation of the amendments to standards described above is planned for the date of first application in each case.

(4) Consolidation Fundamentals

The Consolidated Financial Statements of the NORD/LB Group are drawn up according to the Group's standard accounting and measurement policies. They include the financial statements for the parent entity (NORD/LB) and the subsidiaries which it controls. Control is present when a Group company has decision-making powers in respect of the significant business activities of another entity, has an entitlement or right to variable returns, and can influence the amount of such variable returns through its decision-making powers.

As well as its original investments, the NORD/LB Group examines its customer relationships to determine whether controlling interests are present.

Assessment of whether the Group controls project companies financed by borrowing which are in financial difficulties (due, for example, to the sustained difficulties on the shipping market) – and whether it should therefore include such companies as subsidiaries in the Consolidated Financial Statements – constitutes a material discretionary decision. Due to its lending relationship with such companies, the NORD/LB Group is constantly exposed to variable returns. As regards the question of whether the NORD/LB Group controls the company in question, the decisive factors are whether it has power over the company on the basis of its rights arising from the loan agreement, and whether the investors hold positions as principals or agents of NORD/LB within the meaning of IFRS 10. NORD/LB assesses the latter question on the basis of the following three factors: (1) Nature and scope of the investors' participation in the risks and rewards of the company (2) Scope of the decision-making powers, and (3) The Bank's termination rights. The NORD/LB Group re-assesses the consolidation requirement if a credit event (event of default) has occurred or if the company's structure has changed.

Another material discretionary decision is the assessment of whether the NORD/LB Group controls a fund on the basis of its activities as fund manager or capital management company. The NORD/LB Group will regularly meet the first two criteria of the definition of control (decision-making powers and variable returns). The decisive factor regarding the consolidation requirement for funds is whether the Group acts as principal or merely as the agent of the investors because they have delegated their decision-making powers to the NORD/LB Group. This assessment takes account of the scope of the NORD/LB Group's decision-making powers, the investors' termination rights and the Group's total participation in returns from the fund in relation to other investors.

Business combinations were presented according to the acquisition method. For this purpose, all assets and liabilities of subsidiaries were recognised at their fair value, taking account of deferred tax, on acquisition of the controlling influence. Any goodwill resulting from initial consolidation is recognised under Intangible Assets. Goodwill is impairment-tested at least once per year and may be subject to unscheduled depreciation. Shares in the equity of subsidiaries not held by the parent are recognised within Group equity as Equity capital attributable to non-controlling interests, in the amount of the share of identifiable net assets of the acquired entity.

If the subsidiary is a partnership, the non-controlling interests are generally recognised as liabilities.

If the equity of consolidated partnerships is negative on first consolidation, it is allocated in full to the NORD/LB Group. Any previous contractual relationships in existence are deemed terminated when the business combination takes place, and are derecognised as consideration for the business combination.

Intragroup receivables and liabilities, expenses and income are eliminated on consolidation of debt or expense and income. Interim profits/losses within the Group are consolidated as part of the elimination process for interim profit/losses.

The profits/losses of subsidiaries acquired or disposed of during the year are included in the Income Statement accordingly, from the date of acquisition or until the date of disposal.

A joint venture is a joint agreement whereby the parties having joint control of the agreement possess rights to the net assets covered by the agreement.

An associated company (associate) is an entity over which the investor has significant influence.

Joint ventures and associates are recognised in the balance sheet according to the equity method and are reported as Investments accounted for using the equity method. According to the equity method, the NORD/LB Group's shares in the associate or joint venture are initially recognised at cost. The investments are then increased or reduced by the Group's share of the profit obtained or loss incurred, or of the Other profit/loss (Other comprehensive income, OCI) of the associate or joint venture. If the NORD/LB Group's share of the losses of an associate or joint venture equals or exceeds the value of the shares in said entity, no further loss components are recognised unless the Group has entered into legal or constructive obligations, or makes payments in place of the entity recognised at equity.

For transactions between a Group company and a joint venture or associate, profits and losses are eliminated to the extent of the Group's share in the relevant entity.

Deconsolidation takes place at the point in time when there ceases to be a controlling influence over the subsidiary. The assets and liabilities of the subsidiary are derecognised at their carrying amounts. Shares in the former subsidiary without controlling influence are also derecognised. The fair value of the consideration received is recognised. A retained ownership interest in the former subsidiary is recognised at fair value. Differences resulting from recognition and derecognition are recognised in the Consolidated Income Statement. Amounts related to this subsidiary that were carried under Other profit/loss (Other comprehensive income, OCI) in prior periods are rebooked to the Group Income Statement or, if required by other IFRSs, are rebooked directly to Retained earnings.

(5) Basis of Consolidation

In addition to NORD/LB as parent, the Consolidated Financial Statements include 42 (42) subsidiaries in which NORD/LB directly or indirectly holds more than 50 per cent of the voting rights or over which NORD/LB can exercise a controlling influence in another manner. Also included are 2 (2) joint ventures and 11 (12) associated companies in which a significant influence is exercised. Of these companies, 15 (0) subsidiaries and 1 (1) associated company are held for sale.

The basis of consolidation has changed as follows in comparison to 31 December 2015:

The NORD/LB AM ARB EUROPE special fund that was newly founded in May 2016 has been fully consolidated as at 30 June 2016.

The ship located in the Happy Auntie S.A. special purpose entity, fully consolidated hitherto, was sold in September 2016. Disposal of the members' shares of Deutsche Factoring Bank GmbH & Co., recognised hitherto as an associate under IFRS 5, took place in August 2016. Both companies were deconsolidated with effect as of 30 September 2016.

With effect as of 1 October 2016, BGG Bremen GmbH & Co. KG and BGG Marktcarré GmbH & Co. KG, two companies domiciled in Bremen, were newly added to the basis of consolidation as fully consolidated subsidiaries. These two companies are property companies to which real estate already recognised in the Consolidated Financial Statements has been transferred.

With effect as of 31 December 2016, three one-ship companies were added to the basis of consolidation for the first time, namely Ganymede Beteiligungsgesellschaft mbH & Co. KG, Rhea Tankschifffahrtsgesellschaft mbH & Co. KG and Titan Tankschifffahrtsgesellschaft GmbH & Co. KG, each domiciled in Hamburg. The background is the intragroup transfer of ships undergoing restructuring to the companies refinanced by the NORD/LB Group, whose owner should be regarded as a de-facto agent as defined by IFRS 10.

Nordic Stralsund Ltd. was included in the Consolidated Financial Statements for the first time with effect from 31 December 2016. On commencement of the remarketing process, the legal owner of Nordic Stralsund Ltd. should no longer be regarded as the principal in economic terms. The process is basically controlled by NORD/LB which, therefore, has a decisive influence on the company's material business activities due to its capacity as creditor. Due to the business combination with Nordic Stralsund Ltd. the loan relationship is considered as terminated. No loss results from the termination of the loan relationship at fair value because the loan receivable is fully shielded. The loan receivable in the sum of € 7 million was derecognised as consideration for the business combination. There was no cash flow in this transaction. The one-ship company's significant asset is a ship with a market value of € 7 million recognised in Property and equipment under Assets held for sale.

As of 31 December 2016, two fully consolidated entities (NOB Beteiligungs GmbH & Co. KG and Nord-Ostdeutsche Bankbeteiligungs GmbH, each domiciled in Hanover) were withdrawn from the basis of fully consolidated entities. Both subsidiaries were added to the Group parent, NORD/LB, in December 2016.

GEBAB Ocean Shipping II GmbH & Co. KG, Olivia Beteiligungsgesellschaft mbH & Co. KG, MT Baltic Commodore Tankschiffahrtsgesellschaft mbH & Co. KG and MT Nordic Solar Tankschiffahrtsgesellschaft mbH & Co. KG were deconsolidated with effect from 31 December 2016 due to restructuring within the Group. The material assets were transferred to other Group companies subject to consolidation. This results in a deconsolidation loss of - € 19 million.

Other effects resulting from the change in the basis of consolidation did not have a material influence on the assets, financial position and results of operations of the NORD/LB Group.

Information on the subsidiaries, joint ventures and associated companies included in the Consolidated Financial Statements can be found in Note (84) Equity Holdings.

(6) Currency Translation

Monetary assets and liabilities denominated in foreign currency and non-monetary items recognised at fair value are translated at the reference exchange rates of the European Central Bank (ECB reference rates) as on the measurement date. Non-monetary items recognised at cost are measured at historic prices. Expenses and earnings in foreign currency are translated at fair market rates. Foreign exchange differences on monetary items are generally reflected in the Income Statement; non-monetary items are carried according to the recognition of profits and/or losses on such items in Other profit/loss (Other comprehensive income, OCI) or in the Income Statement.

Assets and liabilities of foreign subsidiaries whose functional currency is not the euro are translated at ECB reference exchange rates on the measurement date. With the exception of the revaluation reserve (translated at the closing rate) and the annual profit/loss, equity is translated on the basis of historical exchange rates. Income and expense are translated into the reporting currency at average exchange rates for the period. Resultant exchange differences are recognised as a separate item under OCI. Exchange differences accrued until disposal are included in the disposal profit/loss.

(7) Interest and Commission

Earnings are recognised when it is sufficiently probable that the economic benefits of the transaction will accrue to the NORD/LB Group and that the amounts of earnings and related expenses can be reliably determined. They are measured at the fair value of the consideration received or to be claimed.

Interest on interest-bearing assets and liabilities is realised on a pro rata temporis basis, taking account of the effective interest method, and is recognised in the Interest income or Interest expense position.

In case of impairments of interest-bearing assets, the interest income is determined on the basis of the interest rate used to calculate the impairment (unwinding).

Dividend income is recognised in the Interest income from assets position when the legal right to the dividend comes into being.

Commission income is recognised in the Income Statement at the time when the service is provided. If services are provided across multiple periods, earnings from service transactions are recognised on the balance sheet date according to the degree of completion of the transaction.

(8) Financial Instruments

A financial instrument is defined as a contract which results in a financial asset for one entity and in a financial liability or equity instrument for another entity. The NORD/LB Group's financial instruments are recognised accordingly on the balance sheet. As per the IAS 39 requirements, they are assigned to measurement categories and measured in relation to their classification.

Financial instruments include financial guarantees in accordance with the IAS 39 definition (see Note (76) Other financial obligations).

Additions and disposals of financial instruments

A financial asset or liability is recognised on the balance sheet when the Group becomes a contracting party to the contractual arrangements for the financial instrument. Trade dates and settlement dates generally differ in the case of regular spot purchases or sales of financial assets. An option is available to account for these regular spot purchases or sales as of the trade date (Trade Date Accounting) or the settlement date (Settlement Date Accounting). Trade date accounting is applied in the NORD/LB Group for all financial assets on recognition and disposal.

The IAS 39 disposal requirements are geared to the risks and rewards concept and also to the question of control; when examining derecognition procedures, the measurement of risks and rewards arising from ownership takes precedence over the measurement of the transfer of control.

If risks and rewards are only transferred on a partial basis and control is retained, the continuing involvement approach is applied. In this case, taking account of special accounting and measurement policies, the financial asset is recognised to the extent that corresponds to its continuing involvement (ongoing exposure). The degree of continuing involvement is determined from the extent to which the Group continues to retain the risks and rewards of changes in the value of the transferred asset.

A financial liability (or a part of a financial liability) is derecognised when it has lapsed, i.e. when the liabilities stated in the contract have been met or cancelled, or have expired. Reacquisition of own debt instruments is also covered by derecognition of financial liabilities. Differences between the carrying amount of the liability (including share premiums and discounts) on reacquisition and the purchase price are recognised in profit and loss; on resale at a later date, a new financial liability comes into being with cost of acquisition corresponding to 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.

a) In the same way as financial liabilities, financial assets (or parts thereof) are derecognised if receivables stated in the contract have been settled or cancelled, or have expired. For example, this may be the case if contractual terms and conditions are significantly amended in connection with a restructuring.*Categorisation and measurement*

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

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

ba) Loans and Receivables (LaR)

Derivative financial assets with fixed or determinable payments not quoted on an active market are not allocated to this category if they are not classified as Financial Assets at Fair Value through Profit or Loss (AFV) or Available for Sale (AfS). The LaR category is the most extensive in the Group since the entire traditional credit and loan business is essentially reported here. Subsequent measurement is at amortised cost with application of the effective interest method. On every balance sheet date and in case of indications of potential impairments, Loans and Receivables (LaR) are impairment-tested and valuation allowances are implemented as appropriate (see Notes 9 Risk provisioning, 22 Loan loss provisions in the credit business and 26 Profit/loss from financial assets). Reversals of impairment losses are recognised through profit or loss. The cap on reversals is set by the amortised costs that would have been incurred at the time of measurement without impairments. Interest income is recognised in Net interest income; commission income is recognised in Net commission income.

bb) Held to Maturity (HtM)

Derivative financial assets with fixed or determinable payments and a fixed maturity cannot be allocated to this category if it is intended and possible to hold them to maturity. Allocation to this category is possible if the financial instruments are not classified as Financial Assets at Fair Value through Profit or Loss (AFV), Available for Sale (AfS) or Loans and Receivables (LaR). Subsequent measurement is at amortised cost with application of the effective interest method. The Held to Maturity (HtM) category is not currently used in the NORD/LB Group.

bc) Financial Assets or Financial Liabilities at Fair Value through Profit or Loss (AFV)

This category is divided into two subcategories:

i) Held for Trading (HfT financial instruments held for trading purposes)

This subcategory comprises financial instruments (Trading assets and Trading liabilities) acquired with the intention of sale or re-acquisition in the short term; it includes all derivatives which do not represent hedging instruments for hedge accounting purposes. Trading assets essentially comprise money market instruments, bonds and debt securities, and derivatives with a positive fair value. In particular, Trading liabilities include derivatives with a negative fair value and delivery obligations from short-sales. For subsequent measurement, trading assets and trading liabilities are recognised at fair value through profit and loss. There is no separate amortisation of share premiums and discounts at constant effective interest rates. Interest and dividend income are recognised in Net interest income. Effects due to a change in fair value and commission profit/loss are reported in Trading profit/loss.

ii) Designated at Fair Value through Profit or Loss (DFV)

If certain requirements are met, all financial instruments can be assigned to this subcategory, known as the fair value option. The fair value option is mainly exercised in the Group to avoid or significantly reduce the recognition and measurement incongruences arising from different measurement methods for financial assets and liabilities (e.g. by presenting economic hedging transactions of structured issues and related derivatives). Allocation to this category can also avoid the separation of embedded derivatives in structured products. If individual components of structured products that require separation cannot be measured reliably, the entire structured product should be classified as recognised at fair value through profit and loss. This category is used in some cases because the management and performance measurement of a portfolio are based on the fair value. Further explanations of the nature and scope of application of the fair value option in the Group are given in Notes 37 Financial assets at fair value through profit or loss and 50 Financial liabilities at fair value through profit or loss. Financial instruments for which the fair value option is applied are recognised on subsequent measurement at fair value through profit and loss. There is no separate amortisation of share premiums and discounts at constant effective interest rates. Interest and dividend income are recognised in Net interest income. Profits/losses from the fair value measurement and the commission income are recognised in Profit/loss from financial instruments measured with the fair value option.

bd) Available for Sale (AfS)

All non-derivative financial assets not assigned to any of the above categories are assigned to this category. These are, in particular, bonds and debt securities, shares and investments not measured under IFRS 10, IFRS 11 or IAS 28. Subsequent measurement is at fair value.

If it is not possible to reliably determine the fair value of financial investments in equity instruments such as certain shares or investments for which no price quoted on an active market is available (and derivatives on those which can only be settled by delivery), measurement is at cost of acquisition. The profit/loss from the fair value measurement is recognised under Other profit/loss (Other comprehensive income, OCI). On disposal of the financial asset, the accumulated measurement profit/loss recognised in the revaluation reserve is liquidated and carried in the Income Statement.

Differences between cost of acquisition and the redemption amount for debt instruments are amortised through profit and loss using the effective interest method. Interest is recognised in Net interest income, and commissions are recognised in the Net commission income position.

A valuation allowance (impairment) is made in case of an impairment in value due to credit ratings. The presence of an impairment in value due to credit ratings is tested at least once per year on the basis of specified objective factors. Objective factors in this context are the trigger events listed in IAS 39, including (in particular) major financial difficulties on the part of the issuer or debtor, or breach of contract (e.g. defaulted or delayed interest or principal payments). In the case of equity securities, a substantial decline of fair value to less than the cost of acquisition is an objective indication of an impairment in value, in addition to the durability criterion. In the case of impairments due to credit ratings, the difference between carrying amount and present fair value should be recognised in the Income Statement, and the same applies to the difference between carrying amount and present value of estimated future cash flows in case of measurement at cost of acquisition. For that part of the revaluation corresponding to the impaired amount, reversals of impairment losses relating to debt instruments are recognised through profit and loss in the Income Statement; the excess is recognised under Other profit/loss (Other comprehensive income, OCI). Reversals of impairment losses relating to equity instruments measured at fair value are always carried under Other profit/loss (Other comprehensive income, OCI). Reversals of impairment losses relating to equity instruments measured at acquisition cost are not permitted.

be) Other Liabilities (OL)

This category includes, in particular, Liabilities to banks and customers, Securitised liabilities and Subordinated capital, insofar as such liabilities were not designated for measurement at fair value under the fair value option. Subsequent measurement is at amortised cost with application of the effective interest method. Interest expenses are recognised in Net interest income; commission expenses are recognised in Net commission income.

Book values and net gains or losses per measurement category are shown in Notes 59 and 60.

c) Reclassification

IAS 39 requirements state that reclassifications of financial instruments from category HfT (Trading assets) to categories LaR, HtM and AfS are permitted under certain circumstances, as are reclassifications from category AfS to categories LaR and HtM. No use is made of these reclassification options in the NORD/LB Group.

d) Determination ofFair Value

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

The fair value of financial instruments as per IAS 39 in conjunction with IFRS 13 reflects the price at which an asset can be sold or a liability can be transferred on the basis of a normal transaction between market participants on the measurement date, i.e. the fair value is a market-related value and is not entity-specific. According to IFRS 13, the fair value is either the price that can be observed directly or a price determined with a measurement method which would be obtained on the basis of a normal transaction, i.e. a disposal or transfer, on the principal market or the most advantageous market on the measurement date. It is therefore an exit price, i.e. 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 measurement method. This also applies if the price on another market is potentially more advantageous.

da) Financial instruments recognised at fair value on the balance sheet

The NORD/LB Group applies the three-stage fair value hierarchy using the Level 1, Level 2 and Level 3 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 whose input data has a significant influence on the fair value measurement.

Level 1

The fair value hierarchy states 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. If no market prices or prices actually traded on the OTC market are available, executable prices quoted by dealers or brokers are used in the measurement to determine the value. Quotes from other banks or market makers are applied whenever observable sources of prices other than exchanges are used. The instruments in these circumstances are then assigned to Level 1 if there is an active market for these broker quotations, i.e. if only minor bid-ask spreads exist and there are several price suppliers with only marginally differing prices. If the broker quotations are for (mixed) prices or if the price is set on an inactive market, the instruments are assigned not to Level 1 but to Level 2 of the measurement hierarchy, insofar as the quotations relate to binding offers or observable prices and/or market transactions.

Level 1 prices are used without any adjustment. Level 1 financial instruments include trading assets and liabilities, financial instruments designated at fair value, financial assets recognised at fair value, other assets and other liabilities.

Level 2

If no price quotes on an active market are available, the fair value is calculated using recognised measurement methods or models or through external pricing services, provided that the measurement in such cases makes either full or significant use of observable input data such as spread curves (Level 2). To measure financial instruments in these situations, use is made of measurement methods that are established on the market under normal market conditions (e.g. discounted cash flow methods and the Hull & White model for options) and whose calculations are fundamentally based on inputs available on an active market. A requirement here is that variables which market participants would have taken into account in the pricing are included in the measurement process. Wherever possible, the respective inputs are taken from the 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. The inputs for the models are always chosen using prevailing market methods.

In the case of securities on the assets side of the balance sheet for which there is no active market and for which market prices can no longer be used, fair value is determined for measurement purposes using discounted-cash-flows. With the discounted cash flow method, all payments are discounted using the risk-free interest-rate curve adjusted for 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). Financial instruments in the NORD/LB Group to be measured in this manner are identified on the basis of individual securities and a subsequent separation into active and inactive markets. Changes in market assessments are consistently included in the measurement. Several divisions in the Group identify, analyse and assess financial instruments on inactive markets. This approach ensures that inactivity is assessed in the most objective manner possible. The measurement model for financial instruments for which listed prices on active markets cannot be used is based on term-specific interest rates, the credit rating of the respective issuer and, where applicable, further components such as foreign currency surcharges.

Level 2 financial instruments include trading assets and liabilities, hedge accounting derivatives, financial instruments designated at fair value, financial assets recognised at fair value, and assets designated as held for sale.

Level 3

Financial instruments for which there is no active market, which cannot be measured on the basis of market prices and cannot be fully measured on the basis of observable market parameters, are allocated to Level 3. In comparison and in differentiation to Level 2 measurement, Level 3 measurement generally uses both institution-specific models and market-based discounted cash flow models as well as significant volumes of data which are not observable on the market. The inputs used in these methods include (for example) assumptions about cash flows, loss estimates and the discount rate, and are determined as far as possible on a near-market basis.

Loans designated for syndication and associated derivatives are assigned to Level 3. Level 3 measurement is also used for equity structures. In overall terms, Level 3 financial instruments include trading assets and liabilities, financial instruments designated at fair value, financial assets recognised at fair value, and assets designated as held for sale.

Establishing Fair Values

All measurement models applied in the Group are reviewed periodically. The fair values are subject to internal controls and processes in the NORD/LB Group. These controls and procedures are carried out and coordinated in the Finance and/or Risk

Control Divisions. Models, input data and resultant fair values are reviewed regularly.

All relevant factors are taken into account appropriately when determining value. These factors include the bid-ask spread, counterparty risk and business-typical discounting factors. The mid-market price in the bid-ask spread is always used for measurement. This particularly impacts financial instruments such as securities or liabilities with fair values based on prices listed on active markets and 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.

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 balance sheet transactions using the relative credit adjustment approach.

No listed prices are generally available for OTC market derivatives; their fair values are therefore determined using other measurement methods. The fair values are initially measured using cash flow models, disregarding the credit default risk. For a correct fair value measurement, both the counterparty credit default risk (CVA) and our own credit default risk (DVA) must be taken into account by means of an add-on procedure.

The NORD/LB Group measures collateralised OTC derivatives primarily in accordance with the current market standard of overnight index swap discounting (OIS discounting). This means that collateralised derivatives are no longer discounted using the tenor-specific interest rate, but instead with the OIS interest-rate curve. Uncollateralised derivatives continue to be discounted with the tenor-specific interest rate to establish their fair value.

In addition, the NORD/LB Group applied a funding valuation adjustment (FVA) for the first time in the first quarter of 2016. This adjustment represents the market-implied refinancing costs for uncollateralised derivative positions. This produces an effect of € -15 million on the trading profit/loss for the reporting period.

db) Financial instruments recognised at fair value for disclosure purposes

As regards financial instruments whose fair value is determined solely for disclosure purposes, the same requirements apply to the determination of fair value as for financial instruments whose fair value is carried on the balance sheet. Such financial instruments include, for example, the cash reserve, loans/advances and liabilities to banks and customers, certain debt securities and company shares, together with securitised liabilities and subordinated capital.

For the cash reserve as well as short-term loans/advances and liabilities to banks and customers (demand deposits), the notional value is taken as the fair value on account of the short-term nature of these items.

In the same way as for financial instruments recognised on the balance sheet at fair value, various forms of measurement are used in practice for securities and liabilities (e.g. market or comparative prices, or measurement models). The discounted cash flow model is generally used. In this case, the value is often determined with the help of a risk-free yield curve adjusted for risk premiums and other components as relevant. For liabilities, NORD/LB's own credit default risk is taken as the risk premium. Appropriate assignment to levels in the existing fair value hierarchy is based on the significance of the input data.

No observable market prices are available for long-term loans/advances and liabilities to banks and customers or for deposits, since there are no observable primary or secondary markets. The fair value for these financial instruments is determined with the help of recognised measurement methods (discounted cash flow model). Input data for this model are the risk-free interest rate, a risk premium and (as appropriate) additional premiums to cover administrative and equity costs.

Further information on the fair value hierarchy and the fair values of financial instruments is given in Note (58) Fair value hierarchy.

e) Measurement of investments not falling under IFRS 10, IFRS 11 oder IAS 28

Investments not falling under IFRS 10, IFRS 11 or IAS 28 are measured at fair value. If the fair value cannot reliably be determined for financial investments in equity instruments for which no quoted price is available on an active market, measurement is at cost of acquisition.

If investments are traded on an active market, the market/stock exchange price is used to determine the fair value. If it is impossible to refer to prices quoted on active markets, the fair value may be determined using recognised measurement methods. These include the capitalised earnings value method generally used in the NORD/LB Group. This method is assigned to Level 3 in the fair value hierarchy as per IFRS 13 (see Note (58) Fair value hierarchy).

With the capitalised earnings value method, the fair value is determined from the present value of future net inflows to the shareholders associated with ownership in the company (present value of future profits).

The net earnings of shareholders, which are discounted to calculate the income value, relate primarily to the distributions of financial surpluses generated by the company. The basis for determining the fair value of an investment comprises a forecast of the earnings performance in the current year, detailed planning for the following year and, where appropriate, medium-term planning for the subsequent period of up to four years (planning phase I). For subsequent years beyond the horizon of planning phase I, perpetuity of the undertaking is generally assumed. For this purpose, a perpetual annuity is calculated to reflect the sustainable situation of the investee (planning phase II). These expected future profits are discounted as of the balance sheet date, taking account of anticipated distributions.

The discount rate applied reflects the return from an adequate alternative investment (in respect of maturity and risk) to the investment in the investee and is derived on the basis of a capital market model. It comprises the components of the risk-free interest rate as per the basic curve and the risk premium due to the uncertainty of future financial surpluses. In this case, the risk premium is the product of an average market risk premium and the beta factor, which expresses the specific risk structure of the measured entity. The beta factor, as a relative measure, describes the extent to which the yield of the respective share in the investee follows changes in the yield of the market portfolio.

In order to value investments in companies which are not listed on the stock exchange, comparison groups of similar securities traded on the stock exchange are formed and for each individual value, the beta factor is calculated in relation to the most extensive national index in each case. In brief: the beta factor of the comparison group calculated in this way is a significant multiplier to determine value when calculating the capitalisation interest.

f) Structured products

Structured products comprise two components: a host contract (e.g. security) and one or more embedded derivative financial instruments (embedded derivatives such as swaps, futures or caps). Both components are the object of only one agreement regarding the structured product, so these products form one legal entity and cannot be treated separately from one another, due to the single contract.

According to IAS 39, an embedded derivative should be separated from the host contract and recognised on the balance sheet as a separate derivative if certain criteria are met.

In the NORD/LB Group, financial instruments requiring separation are measured and recognised separately unless they are assigned to category AFV. The host contract is accounted for and measured by applying the requirements of the category to which the financial instrument is assigned. The embedded derivative is accounted for and measured under Trading assets or Trading liabilities, or as a hedging derivative, recognised in profit/loss at fair value.

In light of the low interest rate environment, NORD/LB has included interest rate cap agreements in loan contracts. In this case, the variable interest component (benchmark interest rate) is calculated with a minimum specific percentage rate per year (floor clause).

For accounting purposes, this is an embedded derivative (floor), which (according to IAS 39.AG33 (b)) should not be recognised separately from the host contract (loan) if the interest rate cap agreements are not leveraged in relation to the host contract and are out of the money on acquisition.

At the NORD/LB Group, the basic principle for loans of this type is that the agreed customer interest rate must be equal to or less than the prevailing market interest rate. In the NORD/LB Group, the floor has no leverage effect in relation to the host contract.

In accordance with IAS 39.AG 33 (b), therefore, there is basically no obligation to separate the embedded derivative (floor) from the host contract (loan).

g) Hedge accounting (accounting for hedging transactions)

Hedge accounting denotes the accounting presentation of economic hedging transactions. For the purposes of hedge accounting under IAS 39, hedging relationships are formed between underlying and hedging transactions. The aim is to avoid or reduce fluctuations in the annual profit/loss and equity due to the use of different measurement approaches for underlying and hedging transactions.

Three basic forms of hedges are differentiated, and each requires different treatment for hedge accounting purposes. The fair-value hedge involves hedging (parts of) assets or liabilities against changes to the fair value resulting from the interest-rate risk. The Group's issue and lending transactions, as well as its liquidity management securities portfolios, are particularly exposed to a value fluctuation risk of this sort if such securities are interest bearing. Both individual transactions and portfolios are hedged with fair-value hedges. Changes to fair values arising from the assets or liabilities are hedged in euros and US dollars in single-currency portfolios.

Interest-rate swaps are used to hedge the interest-rate risk in portfolios. Individual transactions are hedged with interest-rate swaps and/or cross-currency interest-rate swaps.

The other two basic forms, cash flow hedges and hedges of a net investment in a foreign operation, are not currently used in the NORD/LB Group.

Hedging relationships may only be reported in accordance with the Hedge Accounting rules if the restrictive conditions under IAS 39 are met. The Hedge Accounting requirements, and in particular the proof of effective hedging, must be met on all balance sheet dates and for all hedging relationships. Prospective effectiveness testing in the Group is carried out with the critical term matching, market data shift and regression methods. In the majority of cases, the modified dollar offset method is applied in the Group for retrospective effectiveness tests. This method takes account of the problem of small numbers in the case of minor changes in the value of underlying transactions and hedge transactions by means of additional tolerance limits. Deutsche Hypo uses the regression method to carry out the retrospective effectiveness test.

As regards the retrospective effectiveness test in the portfolio fair value hedge, disposals from the hedged portfolios of underlying transactions are treated according to the bottom-layer method.

In accordance with the rules of fair value hedge accounting, derivative financial instruments used for hedging purposes are recognised at fair value and are shown on the balance sheet as positive or negative fair values from hedge-accounting derivatives (Note (38) and Note (51) Positive/Negative fair values from hedge accounting derivatives). Measurement changes are recognised in the Income Statement (Note (25) Profit/Loss from hedge accounting). For the hedged asset or liability, the changes in fair value resulting from the hedged risk are also recognised in profit/loss in the Profit/loss from hedge accounting position.

When employing hedge accounting for financial instruments in the AfS category, the portion of any change in fair value relating to the hedged interest-rate risk is recognised through profit or loss under Profit/loss from hedge accounting, while the portion of a change in fair value that is not related to the hedged risk is recognised in the Revaluation reserve.

For the purposes of micro fair value hedge accounting, financial instruments measured at amortised cost are corrected on both the asset and liability sides of the balance sheet by the change in fair value attributable to the hedged risk (hedge adjustment).

In portfolio fair value hedge accounting, fair value changes to the asset- and liability-side underlying transactions relating to the hedged risk are recognised in the balancing item for financial instruments hedged in the fair value hedge portfolio, on the assets or liabilities side of the balance sheet respectively. Underlying transactions of asset-side AfS holdings continue to be reported under Financial assets at full fair value. The portfolio fair value hedge currently contains items on both the asset and liability sides.

A hedging relationship ends when the underlying or hedging transaction expires, is disposed of or exercised, or when the hedge accounting requirements cease to be met; as regards underlying transactions in effective hedges, see Note (67).

h) Securities repo and lending transactions

In genuine securities repurchase (repo) transactions, the transfer of the security sold under a repurchase agreement ("repoed") does not result in a derecognition, since the transferor entity essentially retains all risks and rewards related to ownership of the subject of the repo. The transferred asset should therefore continue to be recognised in the seller's accounting and measured according to the respective category. The payment received is to be recognised on the liabilities side as a financial liability (under Liabilities to banks or customers, depending on the counterparty). Agreed interest payments are recognised in Net interest income according to their maturity.

Accordingly, reverse repo transactions are recognised in the balance sheet as Loans and advances to banks or customers, and are assigned to the LaR category. Those securities bought under repurchase agreements on which the financial transaction is based are not shown in the balance sheet. Interest arising from such transactions is carried under Net interest income, according to maturity.

No non-genuine security sale and repurchase agreements were concluded in the NORD/LB Group.

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

Regarding the scope and volume of securities sale/repurchase (repo) and lending transactions, reference is made to Note (63) Transfer and derecognition of financial assets.

i) Financial guarantees

The net method is used for financial guarantees issued and recognised in the NORD/LB Group. For this purpose, initial recognition is at fair value, which is zero because present-value entitlements and obligations generally balance one another out. The fair value is not subsequently rolled forward. Premium payments received are recognised in the Income Statement. Provisions in accordance with IAS 37 are formed in case of pending utilisation. Financial guarantees received are taken into account as collateral for the risk analysis of related assets, if they are recoverable.

j) Securitisations

Various financial assets from the credit business are securitised. For this purpose, use may be made of the synthetic securitisation method, or of the possibility of a "true sale" to Special Purpose Entities (SPE) which, for their part, issue securities to investors (true-sale securitisation). Interest and principal payments relating to the securities are directly linked to the performance of the underlying receivable and not to that of the issuer.

Balance-sheet treatment of transactions of this type depends on the type and method of securitisation. In case of synthetic securitisation, the assets remain on the balance sheet and are recognised together with concluded credit derivatives as per the IAS 39 requirements. For true-sale securitisation, the assets are derecognised if and when the risks and rewards of said assets have (almost) been transferred in full to the SPE. If (almost) all risks and rewards from the assets have neither been transferred nor retained and if the NORD/LB Group still has title to the assets, they remain in the NORD/LB Group's balance sheet to the extent that the Group continues to participate in the risks and rewards (continuing involvement). If the SPE is consolidated, the assets remain on the consolidated balance sheet.

(9) Risk Provisioning

Specific valuation allowances, collective valuation allowances and portfolio valuation allowances are created in order to take account of the risks arising from the on-balance-sheet lending business.

Impairment testing of all significant receivables takes place at individual transaction level. In this context, loan loss provisions cover all identifiable credit rating risks through the formation of specific valuation allowances. Formation of a valuation allowance is required if observable criteria indicate that not all contractually agreed interest and principal payments or other obligations will be met promptly. Significant criteria for the existence of an impairment include default or delay on interest and principal payments in excess of 90 days or major financial difficulties on the part of the debtor, such as computed and actual insolvency or sustained negative development of a restructuring. These criteria also include concessions by the lender such as exemption from interest, waiver of claim or deferral of principal payments as well as the threat of insolvency or other restructuring processes.

For ship financing, significant indications of an impairment in value generally include the deferral of interest and/or principal payments, concessions (including, in particular, the grant of restructuring loans to support the borrower's liquidity or individual ships) and the risk of insolvency.

The specific valuation allowance is quantified as the difference between carrying amount and recoverable amount as the present value of all expected cash flows.

The expected cash flows may result from principal and/or interest payments plus payments from the liquidation of collateral less liquidation costs. If the amount obtainable is below the carrying amount, a specific valuation allowance is formed in the amount of the difference. Estimation of the level of loan loss provisions to be formed is frequently based on information that is partially provisional (e.g. planned restructuring of the borrower) or subject to fluctuation (e.g. collateral values of ships and real estate). This increases the uncertainty of estimates in respect of key parameters for loan loss provisions. The greatest uncertainty attaches to the estimate of expected cash flows, which depend on the macroeconomic environment, economic trends, the borrower and the sector. Assumptions made undergo regular review and are adapted to changes in circumstances as necessary.

If there are indications of impairments to non-significant receivables, such receivables are combined in strictly demarcated portfolios with similar risk structures; they are measured according to standard methodology and are subject to collective valuation allowances as appropriate. The calculation is based on historic probabilities of default and loss rates.

A portfolio valuation allowance is formed to cover impairments which have taken place but are as yet unidentified. This calculation is also based on historic probabilities of default and loss rates; the portfolio-specific loss identification period factor (LIP factor) is also taken into account.

Parameters used to determine the collective valuation allowance and the portfolio valuation allowance are derived from the Basel II system.

The total for risk provisioning for on-balance sheet receivables is recognised as a separate position on the asset side of the balance sheet.

Loan loss provisions for off-balance-sheet business (guarantees, endorsement liabilities and loan commitments) are taken into account by forming a provision for risks from the credit business.

Uncollectable receivables for which no specific valuation allowances are in place are written off directly. Cash inflows for written-off receivables are recognised through profit and loss.

If reasons for impairment are present, financial assets are subject solely to direct depreciation; the profit/loss components are carried as financial assets under Profit/loss from financial assets.

(10) Property and Equipment

Property and equipment is recognised on acquisition, at cost. Subsequent costs are capitalised provided that they result in a significant improvement of the asset and increase its future economic benefit. Depreciable property and equipment is recognised on the balance sheet as per subsequent measurement, less scheduled straight-line amortisation and depreciation according to its economic life. Impairments are applied at the amount at which the carrying amount exceeds the higher amount of fair value less cost of disposal and value in use of the asset. If the reasons for the impairment no longer apply, write-ups (reversals) are implemented up to a maximum of cost less depreciation. Scheduled depreciations are recognised in Administrative expenses, and impairments as well as reversals of impairment losses are recognised under Other operating profit/loss. Property and equipment is depreciated over the following periods:

	Property and equipment
Land and buildings	10-50
Operating and office equipment	3-25
Ships	25
Other property and equipment 3 –	3-25

(11) Leases

Under IAS 17, leases must be classified as Finance Leases or Operating Leases at the start of the lease. If all risks and rewards of ownership are essentially transferred to the lessee, the lease agreement must be classified as a finance lease; the leased asset is accounted for by the lessee. If all risks and rewards of ownership are not essentially transferred to the lessee, the lease must be classified as an operating lease; the leased asset is accounted for by the lessor.

Finance Lease

If the NORD/LB Group serves as the lessee, the leased asset is capitalised at fair value or at the present value of the future minimum lease payments, provided that this is lower than the fair value; at the same time, an obligation for future rental payments due is recognised as a liability. Initial direct costs incurred are capitalised together with the asset (item leased). The asset is carried under Property and equipment, Investment property or Intangible assets; the liability (lease payments still due) is carried under Liabilities to banks or customers.

If the NORD/LB Group serves as the lessor, a receivable in the sum of the lessee's payment obligations arising from the lease is recognised on the balance sheet on commencement of the lease term. The receivable is recognised at net investment value (difference between gross investment in the lease and unearned financial income) and is carried under Loans and advances to banks or customers. Any ancillary costs are distributed over the contract term.

Leasing payments under the terms of the finance lease are split into a principal component and an interest component. The principal component is deducted from the receivables directly in equity. The interest component is carried through profit and loss in Net interest income.

Operating Lease

If the Group serves as the lessee in the case of an operating lease, the leasing payments made are recognised as an expense under Administrative expenses. Initial direct costs (such as experts' fees) are immediately recognised in profit and loss.

(12) Investment property

Investment properties comprise land and buildings/parts thereof held to obtain rental income and/or for capital appreciation purposes. Properties with third-party use exceeding 20 per cent of the basic rental area are examined to determine whether the part used by third parties can be separated. If not, the entire property is recognised on the balance sheet under Property and equipment.

Investment property is carried at cost upon acquisition; transaction costs are included in the initial measurement. Subsequent costs are capitalised provided that they result in a significant improvement of the asset and increase its future economic benefit.

Subsequent measurement of investment properties takes account of scheduled straight-line depreciation. Impairments are applied at the amount at which the carrying amount exceeds the higher amount of fair value less cost of disposal and value in use of the asset. If the reasons for the impairment no longer apply, a write-up is implemented up to a maximum of cost less depreciation. Scheduled depreciations are recognised in Administrative expenses, and impairments as well as reversals of impairment losses are recognised under Other operating profit/loss.

Investment properties are depreciated over a period of 6 to 50 years. In the majority of cases, the discounted cash flow method is applied to determine the fair value of investment properties. No measurements by independent valuers took place.

(13) Intangible Assets

The main items recognised under Intangible assets are acquired and internally developed software.

Intangible assets acquired by the Group are recognised on the balance sheet at cost of acquisition. Internally developed intangible assets are capitalised at cost if inflow of economic benefits is likely and expenses can be determined reliably. If capitalisation criteria are not met, costs are recognised immediately through profit and loss. Capitalised costs of internally developed software comprise expenses on internal and external services incurred during the development phase which are directly attributable (for customising and testing activities in particular). Subsequent costs are capitalised provided that they result in a significant improvement of the asset and increase its future economic benefit. For intangible assets with a finite useful life, scheduled straight-line depreciation is taken into account according to the economic life. Impairments are applied to intangible assets with a finite useful life at the amount at which the carrying amount exceeds the higher amount of fair value less cost of disposal and value in use of the asset. Reversals of impairment losses are implemented when the reasons for the impairments no longer apply, but they may not exceed cost less depreciation. Scheduled depreciations are recognised in Administrative expenses, and impairments as well as reversals of impairment losses are recognised under Other operating profit/loss.

Intangible assets with a finite useful life are depreciated over a period of 3 to 15 years. Intangible assets with indefinite useful lives are impairment-tested at least once per year, in the fourth quarter.

(14) Assets Held for Sale

Non-current assets or disposal groups for which the carrying amount is primarily realised through a sale and not through operational use are recognisedin separate balance sheet items if they can be disposed of immediately in their present condition and if disposal is highly probable. Disposal is deemed highly probable if the responsible level of management has decided on a plan for the sale and an active start has been made on the search for a buyer and on implementing the plan. In addition, non-current assets or disposal groups must actually be offered for acquisition at a price that is appropriately proportionate to the present fair value. In addition, the disposal should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The relevant assets are measured at fair value less costs of disposal, if this figure is lower than the carrying amount. Non-current assets classified as held for sale are no longer subject to scheduled depreciation as from the reclassification date. Impairment losses resulting from non-current assets and disposal groups held for sale are, however, taken into account.

Assets and/or disposal groups held for sale also include discontinued operations. A discontinued operation is a component of an entity classified as held for sale which represents a separate major line of business or geographical business segment, part of a plan to dispose of such a component, or a subsidiary acquired solely for resale.

No business segments were discontinued in 2016 or 2015.

(15) Provisions for Pensions and similar Obligations

Under IAS 19 – Employee benefits, direct and indirect pension liabilities from defined benefit pension plans are determined as at the balance sheet date by independent actuaries according to the Projected Unit Credit Method (PUC). Plan assets invested to cover defined benefit pension commitments and similar retirement benefits are measured at their fair values and offset against the corresponding obligations. Rights to reimbursement from provident funds are also measured at fair value.

Differences between the financial and biometric assumptions adopted and developments that actually take place (known as actuarial gains and losses) and the difference between expected and actual return on plan assets result in revaluation of the net liability from defined benefit pension plans. The resultant gains and losses are recognised under Other profit/loss (Other comprehensive income, OCI) in the year during which they arise.

The balance of defined benefit pension commitments and similar retirement benefits, together with plan assets (net pension liability) accrue interest at the discount rate used as the basis for measuring the gross pension liability. The resultant net interest expense is recognised in the Income Statement under Net interest income. Other expenses due to pension commitments paid out and similar retirement benefits resulting primarily from entitlements earned in the financial year must be taken into account under Administrative expenses on the Income Statement.

To determine the present value of defined benefit obligations, the actuarial interest rate determined according to the Mercer-Yield-Curve-Approach (MYC) (Discount Rate) for high-quality corporate bonds and anticipated future salary and pension increase rates are taken into account in addition to the biometric assumptions. The 2005 G Reference Tables by Klaus Heubeck were used to map mortality and disability. Gains or losses from the reduction or settlement of a defined benefit plan are recognised through profit or loss at the time of such reduction or settlement. Determination of the defined benefit obligation is based on the following actuarial assumptions:

(in %)	31 Dec.2016	31 Dec.2015
Domestic		
Actuarial interest rate	1,95	2,65
Increase in salaries	2,00	2,00
Increase in pensions (contingent on the occupational pension scheme)	2,75/2,87/1,00/2,0/2,50/3,50	2,75/2,87/1,00/2,0/2,50/3,50
Cost increase rate for allowance payments	3,50	3,50
Mortality, invalidity, etc.	Based on Heubeck mortality tables 2005 G	Based on Heubeck mortality tables 2005 G
Abroad (weighted parameters)		
Actuarial interest rate	2,69	3,74
Increase in salaries	2,71	2,61
Increase in pensions	3,26	2,84
Mortality, invalidity, etc.	USA RP-2014, GB S1PMA Light/S1PFA light base tables with CMI 2014 projections basis LUX DAV 2004 R	USA RP-2014, GB S1PMA Light/S1PFA light base tables with CMI 2014 projections basis LUX DAV 2004 R
Inflation	3,31	3,15

(16) Other Provisions

Further provisions are formed for uncertain liabilities to third parties and imminent losses on pending transactions if a present legal or constructive obligation results from an event in the past, utilisation thereof is likely and the amount can be reliably determined. Provisions are measured according to the best estimate of the amount rationally required to meet the present obligation (or to transfer the obligation to an independent third party) on the balance sheet date. Management is responsible for this estimate. Empirical values from similar transactions and (as relevant) expert reports or comments by specialists are included for this purpose. Risks and uncertainties are taken into account by measuring the obligation on the basis of the most probable event from a bandwidth of potential events. Future events which could influence the amount required to meet an obligation are taken into account if there are objective indications that they could occur. Provisions are discounted provided that the effect is significant.

(17) Income Taxes

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

Deferred tax assets and liabilities are calculated from the difference between the carrying amount of an asset or liability on the balance sheet and the corresponding tax base. On account of the temporary differences, deferred tax assets and liabilities are likely to result in effects due to income tax reliefs or burdens in future periods. They are measured using the tax rates expected to be valid for the period in which an asset is realised or a liability is met. Entity-specific tax rates (and tax rules) are applied for this purpose, as valid or adopted on the balance sheet date.

A deferred tax asset is recognised for the carryforward of unused tax losses and unused tax credits only to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Current income tax assets and liabilities, and deferred tax assets and liabilities, are offset if the prerequisites for offsetting are met. No discounting is applied. Depending on the treatment of the underlying element, deferred tax assets and/or liabilities are recognised either in the Income Statement or in Other profit/loss (Other comprehensive income, OCI).

Income tax assets and liabilities are recognised separately on the balance sheet, divided into actual and deferred assets and liabilities for the reporting year. The carrying amount of a deferred tax asset is impairment-tested as of each balance sheet date.

Income tax expense or income is recognised in the Income taxes position in the Group's Income Statement.

(18) Subordinated Capital

The Subordinated capital item consists of securitised and unsecuritised subordinated liabilities, participatory capital and silent participations. Due to the contractual termination provisions, silent participations in the NORD/LB Group should basically be classified as debt capital, in keeping with the requirements of IAS 32. Under the German Commercial Code (HGB), all silent participations represent equity. In accordance with CRR regulatory requirements, silent participations are largely eligible as own funds.

Subordinated capital is generally recognised on the balance sheet at amortised cost. Share premiums and discounts are distributed over the term in accordance with the effective interest method, and are recognised under Net interest income in the Income Statement. Deferred interest not yet due is allocated direct to the corresponding items in Subordinated capital.

Segment Reporting

The segment reporting provides information on the operational business segments of the Group. The segment reporting below is based on IFRS 8, Operating Segments, in accordance with the management approach. The segment information under IFRS is presented on the basis of internal reporting, in the same way this information is regularly reported within the Group to assess performance and make decisions on the allocation of resources to segments. The segment reporting includes a restatement of the prior year's figures to reflect the new allocation key for portfolio-based valuation allowances that has been applied to the business segments starting from 2016. The allocation of portfolio-based valuation allowances strengthens the holistic approach to risk provisioning implemented in the business model. At the same time, this change decreases costs in the Group Controlling/Others segment and thus increases transparency as regards profit/loss.

Segment reporting by business segment

The segments are defined as the customer or product groups which reflect the organisational structures and therefore the internal management of the Group. Calculations are based on the internal data of Group companies. Internal control focuses on the operational units' earnings before tax (EBT).

An important criterion for the formation of segments is the greatest possible homogeneity of the customers aggregated in the segment in relation to financing and investment requirements and products demanded. There are no identifiable dependencies on individual customers. The product ranges offered in the segments are described in the disclosures below, and the earnings generated with these products are shown in the overview. The product range offered comprises classical lending business and syndicate business, savings and giro products, securities, currency and derivative transactions, complex structured financing solutions, private banking products, liquidity and risk management, as well as services such as account management, payment transactions, securities business, brokering, documentary business, loan processing, sureties, guarantees and advisory services for asset management.

Net interest income generated by the individual segments is calculated according to the market-interest-rate method. This process involves calculating the contribution from the interest rate conditions for each customer transaction by comparing the customer conditions with the maturity-congruent market interest rate for a fictitious comparable transaction applicable at the time the transaction is completed. This market interest rate is also the cost rate used by Treasury for the balancing positions. As a result, interest income and interest expenses are not reported on a gross basis. The financing result from committed equity is allocated to the market segments.

The Bank allocates every interest-bearing customer transaction to the balancing positions in Treasury, as the central coordinating division. There are no direct business relations between the market divisions in the Bank. Inter-segment earnings are therefore not included in the internal reporting.

Segment expenses comprise primary expenses, expenses allocated on the basis of cost and service charging, and allocated overhead costs. Risk provisioning is allocated to the segments according to actual costs incurred. In addition to specific valuation allowances, portfolio-based valuation allowances have also been reported here since 1 January 2016. The previous year's figures were restated accordingly.

Income related to the overall Bank, such as profit/loss from hedge accounting and financial assets, is not allocated to the Bank's operational business segments. Instead, it is reported in the Group Controlling/Others segment.

The segment report includes not only figures from the Income Statement but also the total risk exposure amounts to be allocated, segment assets and liabilities, committed capital as well as the following metrics: Cost-Income Ratio (CIR), Return on Risk-adjusted Capital (RoRaC) and Return on Equity (RoE). The total risk exposure amounts of the business segments show the risk-weighted assets (RWA) to be allocated in accordance with the European Capital Requirements Regulation (CRR) and the European Capital Requirements Directive IV (CRD IV), including shortfall equivalents, as averages in the reporting period. The total risk exposure amount for the Group shows the RWA in accordance with CRR/CRD IV as at the reporting date. The cost-income ratio is defined as the ratio between administrative expenses and the sum total of the following income items: Net interest income, Net commission income, Profit/loss from financial instruments at fair value through profit and loss, Profit/loss from hedge accounting, Profit/loss from investments accounted for using the equity method and Other operating profit/loss.

Calculation of RoRaC in the segments concerns the contribution to profit/loss before tax on committed capital (in this case, 9 per cent of the higher value of the RWA limit and the amount utilised).

Committed capital in the segments is determined on the basis of average annual values. The reconciling amount between the committed capital reported in the business segments and the long-term equity in the Group under commercial law is included in the Reconciliations segment. A reconciliation of long-term equity under commercial law to equity reported in the balance sheet is shown separately at the end of the segment overview.

The following business segments are reported separately in the segment reporting:

Private and Commercial Customers

This segment includes business with private, individual, commercial and small-business customers as well as business with middle-market corporate customers in the Braunschweig region. The product range for the Private and Commercial Customers segment is based on the savings bank finance concept and comprises all customary banking services and products for account and lending business, savings and investment business, and the provision of internet banking and direct brokerage. Expanded services for wealthy private customers include the integrated advisory approach based on asset structure analysis, financial planning, asset succession, inheritance and foundation management. The product range also includes investment loans and start-up advice for the middle-market company business.

Corporate Customers

The Corporate Customers segment includes not only the entire NORD/LB business with corporate customers in the core regions (without the former Braunschweig region) and neighbouring regions, but also the Agricultural Banking and Housing Divisions.

The Bank is a full-service provider that offers banking products and services. These services include traditional transaction management, tailored corporate financing, management of interest and currency risk, and solutions for company pension schemes. In addition, comprehensive solutions are developed in the segment for complex corporate financing needs and for the strategic positioning of corporate customers. Professional concept-based liquidity and risk management, structuring of equity measures and innovative financing instruments supplement the product range.

Markets

The Markets segment covers the financial market activities undertaken on behalf of customers in Germany, the foreign branches and in the Group companies. The Savings Bank Network Division comprises transactions with the public sector, institutional business with associated savings banks and syndicated business transacted with associated savings banks.

The segment's offerings comprise alternative products detached from retail banking including derivatives, e.g. debt securities of special types which are not standardised as regards interest and repayment, but instead offer alternatives in terms of returns and the manner or timing of repayment (structured securities). The secondary business includes sales and trading for securities of all types. Tailored solutions for institutional customers are also offered; these include structuring of special funds, pool fund solutions, portfolio management mandates and institutional public funds.

The product range also includes offerings which the savings banks request as direct customers for their own trading business or to complete the product range in their own business with private or corporate customers. Examples include private banking products, investment products such as open-end or closed-end funds (real estate, aircraft), and products for individual asset management or inheritance/foundation management.

The Energy and Infrastructure Customers, Ship Customers, Aircraft Customers and Real Estate Banking Customers segments offer traditional lending products, innovative products and financial engineering, usually irrespective of the specific industry. The main focus is on financing for specific purposes.

Energy and Infrastructure Customers

This business segment brings together the global business relationships with customers of the Group companies NORD/LB and Bremer Landesbank in the Infrastructure, Energy (including renewables in particular) and Leasing Divisions. The product offering primarily comprises project financing related to a specific project or asset and tailored to meet individual needs. The structure of such financing is developed in the light of specific political and economic risks, legal and tax factors, social determinants and optimal equity structures. The aim is to tailor project requirements and cash flows to the respective customers.

Ship Customers

The national and international ship finance activities of NORD/LB and Bremer Landesbank are reported in this segment. The project requirements of customers in the Ship Customers segment are met with short- to long-term financing, including equity pre-financing, interim finance, construction period finance (short- and medium-term) and financing to completion (long-term). Ships are financed by providing loans or guarantees on an asset-related and (normally) asset-backed basis. Products such as swaps, options, futures or forward transactions complete the product range.

Aircraft Customers

NORD/LB'S national and international activities in aircraft finance are reported in this segment. Aircraft finance focuses on asset-based financing of passenger aircraft from reputable manufacturers. The target customers – airlines and leasing companies – are offered the NORD/LB Group's extensive expertise in core products coupled with tailored financing solutions. This segment also finances covered export business.

Real Estate Banking Customers

NORD/LB's and Deutsche Hypo's national and international financing of commercial real estate and Bremer Landesbank's financing of community-interest properties are aggregated in this segment. The focus is usually on structured financing for large-volume commercial real estate projects and portfolios in Germany and abroad. Both interim finance for new construction projects and long-term loans for existing properties are offered.

Group Controlling/Others

This segment covers all other performance data directly related to business activities such as: Group companies not included in the segments; components of income at overall Bank level that are not allocated to the segments; profit/loss from financial instruments (in particular from central measurement effects), financial assets and hedge accounting that is not reported in profit/loss for the business segments; projects covering the entire Bank; consolidation items; profit/loss from management of the interest-rate risk; disposition of balancing items, liquidity management and self-induced assets (in particular Treasury and Bank Asset Allocation); and alternative investment products (Credit Asset Management). Other operating profit/loss includes items such as the bank levy.

Reconciliations

This section shows two types of activity: reconciling items between internal accounting and the consolidated figures in the Income Statement, and reclassifications of profit and loss items that are reported differently for internal control purposes and in the external reporting. The shortfall determined in the calculation of the regulatory capital requirement is converted into risk-weighted assets within internal reporting and assigned to the operational units; the resultant adjustment item for the regulatory risk-weighted assets report flows into the reconciliation.

Regions

Regional distribution of income before loan loss provisions, earnings before taxes, segment assets and segment liabilities is based on the domicile of the branch or Group company concerned. Consolidation-related circumstances are shown separately.

(19) Segment Reporting by Business Segment

1 Jan. - 31 Dec. (in € million)	Private and Commercial Customers	Corporate Customers	Markets	Energy and Infrastructure Customers	Ship Customers	Aircraft Customers	Real Estate Banking Customers	Group Management/ Others	Reconciliations	NORD/LB Group
Net interest income before loan loss provisions	183	347	181	203	360	106	221	157	– 22	1 735
Loan loss provisions	– 3	79	– 1	35	2 940	–	– 3	– 90	1	2 956
Net interest income after loan loss provisions	**185**	**268**	**182**	**168**	**– 2 580**	**106**	**224**	**247**	**– 23**	**– 1 222**
Net commission income	58	60	84	101	24	22	4	– 65	– 68	219
Profit / loss from financial instruments at fair value through profit or loss	1	17	74	7	2	3	10	267	11	392
Profit / loss from hedge accounting	–	–	–	–	–	–	–	23	–	23
Profit / loss from financial assets	–	–	–	–	–	–	–	46	3	49
Profit / loss from investments accounted for using equity method	2	–	–	–	–	–	–	– 3	– 1	– 2
Administrative expenses	190	146	139	97	111	27	65	359	– 21	1 113
Other operating profit / loss	– 11	2	2	3	2	–	–	– 142	– 28	– 173
Profit / Loss before reorganisation and taxes	**47**	**200**	**203**	**182**	**– 2 663**	**104**	**173**	**14**	**– 86**	**– 1 826**
Reorganisation expenses	–	–	–	–	–	–	–	– 39	–	– 39
Earnings before taxes (EBT)	**47**	**200**	**203**	**182**	**– 2 663**	**104**	**173**	**– 25**	**– 86**	**– 1 865**
Taxes	–	–	–	–	–	–	–	–	93	93
Consolidated profit	**47**	**200**	**203**	**182**	**– 2 663**	**104**	**173**	**– 25**	**– 179**	**– 1 959**
Segment assets	7 172	23 616	39 023	17 128	18 069	8 345	14 634	49 551	– 2 743	174 797
of which: investments at equity	44	–	–	–	–	–	–	240	–	285
Segment liabilities	7 049	8 451	50 988	3 429	2 911	778	400	100 582	209	174 797
Total risk exposure amount	4 187	12 779	4 367	7 846	20 504	5 068	5 800	6 797	– 7 452	59 896
Capital employed	377	1 150	389	706	1 843	456	522	1 217	963	7 624
CIR	81,2%	34,4%	40,8%	31,0%	28,6%	20,7%	27,6%	0,0%	0,0%	50,7%
RoRaC/RoE	11,9%	16,1%	44,0%	22,8%	-114,7%	22,8%	23,5%	0,0%	0,0%	-24,5%

1 Jan. - 31 Dec.2015 (in € million)	Private and Commercial Customers	Corporate Customers	Markets	Energy and Infrastructure Customers	Ship Customers	Aircraft Customers	Real Estate Banking Customers	Group Management/ Others	Reconciliations	NORD/LB Group
Net interest income before loan loss provisions	208	337	214	195	422	116	232	110	140	1 974
Loan loss provisions	– 1	20	–	22	840	– 1	– 28	– 145	– 9	698
Net interest income after loan loss provisions	**209**	**317**	**214**	**173**	**– 418**	**117**	**259**	**255**	**149**	**1 276**
Net commission income	58	62	72	70	46	18	–	– 49	– 44	234
Profit / loss from financial instruments at fair value through profit or loss	1	16	19	5	18	3	5	96	– 26	136
Profit / loss from hedge accounting	–	–	–	–	–	–	–	144	–	144
Profit / loss from financial assets	–	–	–	–	–	–	–	79	– 7	72
Profit / loss from investments accounted for using equity method	2	–	–	–	–	–	–	6	–	8
Administrative expenses	193	148	146	97	116	25	68	306	17	1 114
Other operating profit / loss	– 13	1	4	5	–	– 1	–	– 44	– 49	– 97
Profit / Loss before reorganisation and taxes	**65**	**248**	**162**	**156**	**– 470**	**113**	**198**	**182**	**6**	**659**
Reorganisation expenses	–	–	–	–	–	–	–	– 6	–	– 6
Earnings before taxes (EBT)	**65**	**248**	**162**	**156**	**– 470**	**113**	**198**	**175**	**6**	**653**
Taxes	–	–	–	–	–	–	–	–	135	135
Consolidated profit	**65**	**248**	**162**	**156**	**– 470**	**113**	**198**	**175**	**– 129**	**518**
Segment assets	7 343	22 407	38 472	16 772	21 273	8 260	15 193	51 716	– 439	180 998
of which: investments at equity	45	–	–	–	–	–	–	245	–	290
Segment liabilities	7 457	9 003	48 100	3 599	4 585	763	469	103 588	3 434	180 998
Total risk exposure amount	4 201	12 383	5 040	7 974	31 533	5 111	6 708	12 597	– 21 872	63 675
Capital employed	378	1 114	445	718	2 838	460	604	1 695	– 711	7 541
CIR	75,3%	35,6%	47,4%	35,2%	23,8%	18,1%	28,5%	0,0%	0,0%	46,4%
RoRaC/RoE	15,2%	19,8%	36,0%	20,1%	-16,6%	24,5%	22,0%	0,0%	0,0%	8,7%

(in € million)	31 Dec.2016	31 Dec.2015
Long-term equity under commercial law	7 624	7 541
Revaluation reserve	376	455
Silent participations in reported equity	– 1 959	518
Reported equity	**6 041**	**8 513**

[1] Reconciliation of long-term equity under commercial law to reported equity.
[2] RoRaC at the business level:
Earnings before taxes/committed Tier 1 capital (9 per cent of the higher value of the RWA limit or the utilisation).

RoE at the company level:
Earnings before taxes/long-term equity under commercial law
(= reported equity - revaluation reserve
earnings after taxes).

The tables may include minor differences that occur in the reproduction of mathematical operations.

(20) Segment Reporting by geographical Segment

1 Jan. - 31 Dec.2016 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolidation	NORD/LB Group
Earnings before risk provisioning [1]	1 877	230	96	68	– 76	2 194
Earnings before taxes (EBT)	– 2 641	184	58	37	497	– 1 865
Segment assets	172 429	19 485	6 910	3 335	– 27 361	174 797
Segment liabilities	174 116	17 797	6 910	3 335	– 27 361	174 797
Total risk exposure amount	53 381	8 485	2 706	2 095	– 6 771	59 896
Capital employed	6 614	578	244	189	–	7 624
CIR	57,0%	35,6%	39,5%	27,7%		50,7%
RoRaC/RoE2) [2]	-39,9%	31,8%	23,8%	19,5%		-24,5%

1 Jan. - 31 Dec.2015 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolidation	NORD/LB Group
Earnings before risk provisioning [1]	2 339	211	97	65	– 312	2 400
Earnings before taxes (EBT)	516	95	58	43	– 59	653
Segment assets	179 248	22 295	5 069	3 721	– 29 336	180 998
Segment liabilities	180 738	20 806	5 069	3 721	– 29 336	180 998
Total risk exposure amount	56 854	7 057	3 335	1 858	– 5 429	63 675
Capital employed	6 474	633	234	199	–	7 541
CIR	45,0%	43,1%	41,5%	27,6%		46,4%
RoRaC/RoE2) [2]	8,0%	15,0%	24,9%	21,6%		8,7%

[1] Earnings before risk provisioning are defined as the sum of income, net commission income, profit/loss from financial instruments at fair value through profit and loss, profit/loss from hedge accounting, profit/loss from investments accounted for using the equity method and other operating profit/loss.
[2] RoRaC at the business level:
Earnings before taxes/committed core capital
(9% of the higher value of the RWA limit and the utilisation)

RoE at the company level:
(earnings before taxes)/long-term equity under commercial law (= reported equity – revaluation reserve – earnings after taxes)

The tables may include minor differences that occur in the reproduction of mathematical operations.

Note to the Income Statement

(21) Net Interest Income

Interest income and interest expenses comprise interest received and paid, deferred interest and pro-rata reversals of premiums and discounts relating to financial instruments. Given that silent participations are classified as debt under IAS 32 under certain circumstances, payments to silent partners are recognised in net interest income.

	1 Jan. - 31 Dec. 2016 (in € million)	1 Jan. - 31 Dec. 2015[1] (in € million)	Change (in %)
Interest income			
Interest income from lending and money market transactions	3 304	3 668	– 10
Interest income from debt securities and other fixed-interest securities	529	654	– 19
Interest income from financial instruments at fair value			
Interest income from trading profit / loss and hedge accounting derivatives	2 661	3 260	– 18
Interest income from fair value option	35	51	– 31
Current income			
from shares and other non fixed-interest securities	3	4	– 25
from investments	9	18	– 50
Interest income from other amortisations	710	611	16
Other interest income and similar income	14	3	> 100
	7 265	**8 269**	**– 12**
Negativ interest income	**19**	**7**	**> 100**
Interest expense			
Interest expenses from lending and money market transactions	1 390	1 630	– 15
Interest expenses from securitised liabilities	458	586	– 22
Interest expenses from financial instruments at fair value			
Interest expenses from trading profit / loss and hedge accounting derivatives	2 590	3 003	– 14
Interest expenses from fair value option	255	271	– 6
Interest expenses from subordinated capital	172	248	– 31
Interest expenses from other amortisations	628	511	23
Interest expenses from provisions and liabilities	56	55	2
Other interest expenses and similar expenses	6	6	–
	5 555	**6 310**	**– 12**
Positiv interest expenses	**44**	**22**	**100**
Total	**1 735**	**1 974**	**– 12**

[1] To clarify net interest income, interest expenses from assets and interest income from liabilities were recognised separately as at 31 December 2016 for the first time. The previous year's figures were restated accordingly.Interest income from lending and money market transactions includes interest income relating to impaired loans (unwinding) amounting to € 77 million (€ 76 million).

Interest income includes income from financial instruments at € 4,524 million (€ 4,926 million), which is not measured at fair value through profit and loss. € 2,604 million of the interest expenses (€ 2,953 million) pertains to financial instruments not measured at fair value through profit and loss.

The interest expenses from assets and the interest income from liabilities relates to the Group's lending and money market business.

(22) Loan loss Provisions

	1 Jan. - 31 Dec. 2016 (in € million)	1 Jan. - 31 Dec. 2015 (in € million)	Change (in %)
Income from provisions for lending business			
Reversal of specific valuation allowances	417	533	– 22
Reversal of collective valuation allowances	3	3	–
Reversal of portfolio valuation allowances	283	203	39
Reversal of loan loss provisions	32	35	– 9
Additions to receivables written off	22	32	– 31
	757	**806**	**– 6**
Expenses for provisions for lending business			
Allocation to specific valuation allowances	3 119	1 259	> 100
Allocation to collective valuation allowances	3	3	–
Allocation to portfolio valuation allowances	66	136	– 51
Allocation to loan loss provisions	25	16	56
Direct write-offs of bad debts	500	90	> 100
	3 713	**1 504**	**> 100**
Total	**2 956**	**698**	**> 100**

(23) Net Commission Income

	1 Jan. - 31 Dec. 2016 (in € million)	1 Jan. - 31 Dec. 2015 (in € million)	Change (in %)
Commission income			
Lending and guarantee business	140	141	– 1
Account management and payment transactions	42	42	–
Trust activities	4	4	–
Security transactions and custody service	38	47	– 19
Brokerage business	40	38	5
Other commission income	81	68	19
	345	**340**	**1**
Commission expense			
Lending and guarantee business	94	70	34
Account management and payment transactions	3	3	–
Security transactions and custody service	20	25	– 20
Brokerage business	5	4	25
Other commission expenses	4	4	–
	126	**106**	**19**
Total	**219**	**234**	**– 6**

Commission income includes income from financial instruments not measured at fair value through profit and loss and amounting to € 220 million (€ 229 million). Commission expenses include expenses from financial instruments not measured at fair value through profit and loss and amounting to € 117 million (€ 97 million). Furthermore, commission expenses also include guarantee premiums totalling € 74 million (€ 51 million), which relate to the hedging of default risks from lending receivables derived from securitisation vehicles sponsored by the NORD/LB Group (see also Note (76) Other Financial Obligations and Note (80) Disclosures concerning Shares in Companies).

(24) Profit/Loss from Financial Instruments at Fair Value through Profit or Loss

	1 Jan. - 31 Dec. 2016 (in € million)	1 Jan. - 31 Dec. 2015 (in € million)	Change (in %)
Trading profit / loss			
Profit / loss from debt securities and other fixed-interest securities	60	– 30	> 100
Profit / loss from shares and other non fixed-interest securities	– 3	1	> 100
Profit / loss from derivatives			
Interest-rate risks	140	– 85	> 100
Currency risks	73	122	– 40
Share-price and other price risks	– 5	16	> 100
Credit derivatives	27	21	29
Profit / loss from receivables held for trading	55	– 88	> 100
Result from other trading transactions	–	12	– 100
	347	**– 31**	**> 100**
Foreign exchange result	31	– 51	> 100
Other income	– 1	–	–
	377	**– 82**	**> 100**
Profit / loss from the fair value option			
Profit / loss from receivables to customers and banks	4	– 7	> 100
Profit / loss from debt securities and other fixed-interest securities	8	32	– 75
Profit / loss from liabilties to banks and customers	– 30[1)]	219	> 100
Profit / loss from securitised liabilties	33[1)]	– 27	> 100
Profit / loss from subordinated capital	–	1	– 100
	15	**218**	**– 93**
Total	**392**	**136**	**> 100**

[1)] Different allocation to previous year.

Net commission income from trading activities totalling € -1 million (€ 0 million) is recognised under other comprehensive income.

(25) Profit/Loss from Hedge Accounting

The profit/loss from hedge accounting includes netted fair value changes of underlying transactions relating to the hedged risk and netted fair value changes of hedging instruments in effective fair value hedge transactions.

	1 Jan. -31 Dec. 2016 (in € million)	1 Jan. -31 Dec. 2015 (in € million)	Change (in %)
Profit / loss from micro fair value hedges			
from hedged underlying transactions	28	308	– 91
from derivatives employed as hedging instruments	– 21	– 272	– 92
	7	**36**	**– 81**
Profit / loss from portfolio fair value hedges			
from hedged underlying transactions	– 113	105	> 100
from derivatives employed as hedging instruments	129	3	> 100
	16	**108**	**– 85**
Total	**23**	**144**	**– 84**

(26) Profit/Loss from Financial Assets

Profit/loss from financial assets shows the profits/losses from disposals and the valuation results recognised through profit and loss relating to securities and shares in companies in the financial asset portfolio.

	1 Jan.-31 Dec. 2016 (in € million)	1 Jan.-31 Dec. 2015 (in € million)	Change (in %)
Profit / loss from financial assets classified as LaR	**7**	**– 3**	**> 100**
Profit / loss from financial assets classified as AfS (excluding investments)			
Profit/ loss from the disposal of			
debt securities and other fixed-interest securities	– 6	63	> 100
shares and other non fixed-interest securities	2	18	– 89
Other financial assets classified as AfS	–	– 8	– 100
Profit / loss from allowances for losses on			
debt securities and other fixed-interest securities	62	– 9	> 100
shares and other non fixed-interest securities	– 4	– 11	– 64
Other financial assets classified as AfS	– 14	– 1	> 100
	40	**52**	**– 23**
Profit / loss from shares in companies (not consolidated)	**2**	**23**	**– 91**
Total	**49**	**72**	**– 32**

(27) Profit/Loss from Shares in Companies accounted for using the Equity Method

The profit/loss from shares in companies accounted for using the equity method is shown below. It contains the contributions to earnings from joint ventures and associates through profit and loss, measured using the equity method.

	1 Jan.-31 Dec. 2016 (in € million)	1 Jan.-31 Dec. 2015 (in € million)	Change (in %)
Shares in joint ventures			
Earnings	1	2	– 50
Expenses	–	1	– 100
	1	**1**	**–**
Shares in associated companies			
Earnings	42	34	24
Expenses	45	27	67
	– 3	**7**	**> 100**
Total	**– 2**	**8**	**> 100**

(28) Administrative Expenses

	1 Jan.-31 Dec. 2016 (in € million)	1 Jan.-31 Dec. 2015 (in € million)	Change (in %)
Staff expenses			
Wages and salaries	418	457	– 9
Social insurance contributions	62	64	– 3
Expenditure on pension schemes and other benefits	52	59	– 12
Other staff expenses	5	7	– 29
	537	**587**	**– 9**
Other administrative expenses			
Costs for IT and communications	250	207	21
Building occupancy costs	42	43	– 2
Expenses for marketing, communications and entertainment	21	23	– 9
Personnel-related material expenses	23	21	10
Costs for legal, auditing, appraisal and consulting services	95	81	17
Levies and contributions	36	44	– 18
Expenses for operating and office equipment	5	5	–
Other services	2	1	100
Other administrative expenses	35	33	6
	509	**458**	**11**
Other administrative expenses			
Property and equipment	32	36	– 11
Intangible assets	32	32	–
Investment properties	2	1	100
Sonstige planmäßige Abschreibungen	1	–	–
	67	**69**	**– 3**
Total	**1 113**	**1 114**	**–**

Staff expenses include expenses for defined contribution plans amounting to € 2 million (€ 1 million).

(29) Other operating Profit/Loss

	1 Jan.-31 Dec. 2016 (in € million)	1 Jan.-31 Dec. 2015 (in € million)	Change (in %)
Other operating income			
from the reversal of provisions	4	8	– 50
from other business	300	208	44
	304	**216**	**41**
Other operating expenses			
from allocation to provisions	1	18	– 94
from other business	476	295	61
	477	**313**	**52**
Total	**– 173**	**– 97**	**78**

Income from other business includes income from the derecognition of receivables (€ 167 million (€ 66 million)), income from the chartering of ships relating to restructuring commitments in lending business (€ 40 million (€ 57 million)), and rental income from investment property (€ 10 million (€ 10 million)). The income also includes cost reimbursements (€ 10 million (€ 10 million)), and income from buying back own debt securities (€ 1 million (€ 6 million)).

Expenses from other business primarily include expenses from the disposal of liabilities to banks and customers (€ 164 million (€ 75 million)).

Expenses from other business also comprise impairments amounting to € 96 million (€ 14 million). The latter are predominantly due to the lower market values of ships as a result of the ongoing crisis in the ship market. Other items under expenses from other business include expenses from the buyback of own debt securities (€ 59 million (€ 24 million)), the bank levy (€ 55 million (€ 54 million)), expenses to realise charter revenue from ships (€ 33 million (€ 33 million)) and expenses from the disposal of receivables (€ 8 million (€ 2 million)).

(30) Reorganisation Expenses

Reorganisation expenses relate to measures aimed at securing the long-term future and maintaining the competitiveness of the NORD/LB Group. The material and staff costs included in these expenses are reported separately due to their importance. The need for reorganisation is related to the efficiency improvement programme launched in 2011 and the takeover of Bremer Landesbank. These expenses amounting to a total of € 39 million (€ 6 million) comprise expenses from the allocation to restructuring or reorganisation provisions. € 34 million (€ 0 million) is derived from measures connected with the takeover of Bremer Landesbank, which is mainly staff costs, and €8 million (€ 6 million) from expenses for contracted agreements on the termination of employment contracts. Reorganisation provisions were reversed in the amount of € 3 million (€ 0 million). The items recognised under reorganisation expenses are non-recurring in nature and are not part of the ordinary business activities of the NORD/LB Group.

(31) Income Taxes

	1 Jan.-31 Dec. 2016 (in € million)	1 Jan.-31 Dec. 2015 (in € million)	Change (in %)
Current taxes on income and earnings			
Tax expenses for the current year	46	127	– 64
Tax expenses for previous years	3	1	> 100
	49	**128**	**– 62**
Deferred taxes			
Deferred taxes due to the accrual / reversal of temporary differences and tax losses / tax credits not previously considered	35	73	– 52
Deferred taxes due to changes in tax legislation / tax rates	– 4	– 6	– 33
Deferred taxes due to temporary differences in previous periods not previously considered	14	– 60	> 100
	45	**7**	**> 100**
Total	**94**	**135**	**– 30**

The current tax expense for the reporting year was reduced by € 3 million (€ 31 million) due to the utilisation of tax losses previously not taken into account. Deferred taxes include income from tax losses previously not recognised, tax credits and temporary differences of € 0 million (€ 33 million).

The following tax reconciliation shows an analysis of the difference between anticipated income tax expenditure, as derived from applying the German income tax rate to IFRS earnings before taxes, and the income tax expenditure actually reported.

(in € million)	1 Jan.-31 Dec. 2016	1 Jan.-31 Dec. 2015
IFRS earnings before taxes	**– 1 865**	**653**
Anticipated income tax expenditure	– 597	206
Effects of reconciliation:		
Effects of differing tax rates	– 4	– 13
Taxes from previous years reported in the reporting period	17	– 59
Effects of changes in tax rates	– 4	– 6
Non-creditable income taxes	5	1
Non-deductible operational expenditure	68	60
Effects of tax-free earnings	– 15	– 30
Effect of permanent accounting-related effects	– 3	5
Effects of write-ups / write-downs / recognition adjustments	628	– 33
Other effects	– 1	4
Reported income tax expenses	**94**	**135**

Anticipated income tax expenditure in the tax reconciliation statement is calculated using the corporate tax rate of 15.0 per cent plus the solidarity surcharge of 5.5 per cent and the average trade tax rate of roughly 16.2 per cent as valid in Germany in 2016. The income tax rate for Germany is therefore 32.0 per cent (31.5 percent).

The deferred taxes of Group entities in Germany are measured using the tax rate valid on the reporting date and/or the future tax rate of 32.0 per cent (32.0 percent).

The impacts of deviating tax rates are caused by the different tax rates applied in the various countries. The effects of write-ups, write-downs and corrections also include the effects of the subsequent increase or decrease in loss carry forwards and of unrecognised deferred tax assets on temporary differences and loss carry forwards.

Notes to the Statement of Comprehensive Income

The income tax effects are as follows on the individual components of other comprehensive income (OCI):

	1 Jan. - 31 Dec.2016			1 Jan. - 31 Dec.2015		
(in € million)	Amount before taxes	Income tax effect	Amount after taxes	Amount before taxes	Income tax effect	Amount after taxes
Revaluation of the net liability from defined benefit pension plans	– 262	83	– 179	242	– 74	168
Changes in value for investments accounted for using the equity method recognised directly in equity	15	–	15	– 27	–	– 27
Increase / decrease from available for sale (AfS) financial instruments	– 24	46	22	23	– 21	2
Translation differences of foreign business units	– 90	–	– 90	35	–	35
Other	**– 361**	**129**	**– 232**	**273**	**– 95**	**178**

Notes to the Balance Sheet

(32) Cash Reserve

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Cash on hand	59	96	– 39
Balances with central banks	1 388	776	79
Total	**1 447**	**872**	**60**

Balances with the Deutsche Bundesbank account for € 615 million (€ 597 million) of the balances with central banks.

(33) Loans and Advances to Banks

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Loans and advances resulting from money market transactions			
German banks	3 859	2 509	54
Foreign banks	2 934	2 873	2
	6 793	**5 382**	**26**
Other loans and advances			
German banks			
Due on demand	1 137	856	33
With a fixed term or period of notice	11 282	11 957	– 6
Foreign Banks			
Due on demand	1 949	1 857	5
With a fixed term or period of notice	586	1 142	– 49
	14 954	**15 812**	**– 5**
Total	**21 747**	**21 194**	**3**

(34) Loans and Advances toCustomers

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Loans and advances resulting from money market transactions			
Domestic customers	1 080	1 207	– 11
Customers abroad	1 050	310	> 100
	2 130	**1 517**	**40**
Other loans and advances			
Domestic customers			
Due on demand	2 036	3 233	– 37
With a fixed term or period of notice	68 861	71 836	– 4
Customers abroad			
Due on demand	906	730	24
With a fixed term or period of notice	31 707	30 562	4
	103 510	**106 361**	**– 3**
Total	**105 640**	**107 878**	**– 2**

(35) Risk Provisioning

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Specific valuation allowance			
Domestic customers	3 027	1 948	55
Customers abroad	550	534	3
	3 577	**2 482**	**44**
Collective valuation allowances			
Domestic customers	7	7	–
	7	**7**	**–**
Portfolio valuation allowances			
Foreign banks	1	1	–
Domestic customers	171	365	– 53
Customers abroad	41	64	– 36
	213	**430**	**– 50**
Total	**3 797**	**2 919**	**30**

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

	Specific valuation allowances		Collective valuation allowances		Portfolio valuation allowances		Loan loss provisions		Total	
(in € million)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
1 January	**2 482**	**2 243**	**7**	**7**	**430**	**497**	**55**	**74**	**2 974**	**2 821**
Allocations	3 119	1 259	3	3	66	136	25	16	3 213	1 414
Reversals	417	533	3	3	283	203	32	35	735	774
Utilisation	862	455	–	–	–	–	–	–	862	455
Unwinding	– 77	– 76	–	–	–	–	– 1	– 1	– 78	– 77
Effects of changes of foreign exchange rates and other changes	– 668	95	–	–	–	–	–	1	– 668	96
Changes of the basis of consolidation	–	– 51	–	–	–	–	–	–	–	– 51
31 December	**3 577**	**2 482**	**7**	**7**	**213**	**430**	**47**	**55**	**3 844**	**2 974**

The changes from foreign exchange rates and specific impairments include reclassifications under IFRS 5 amounting to € 711 million (€ 0 million).

(36) Balancing Items for Financial Instruments hedged in the Portfolio Fair Value Hedge

This item includes fair-value changes to assets attributable to the hedged risk, where there is a portfolio fair value hedge for such assets

(37) Financial Assets at Fair Value through Profit or Loss

This item includes trading assets (HfT) and designated financial assets reported at fair value (DFV). The Group's trading activities comprise trading in debt securities and other fixed-interest securities, shares and other non-fixed-interest securities, and derivative financial instruments not used in hedge accounting.

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Trading assets			
Debt securities and other fixed-interest securities			
Money market instruments			
issued by public-sector borrowers	140	–	–
Bonds and debt securities			
issued by public-sector borrowers	588	444	32
issued by other borrowers	1 629	1 371	19
	2 357	**1 815**	**30**
Shares and other non fixed-interest securities			
Shares	1	63	– 98
	1	**63**	**– 98**
Positive fair values from derivatives			
Interest-rate risks	4 963	7 035	– 29
Currency risks	564	577	– 2
Share-price and other price risks	3	10	– 70
Credit derivatives	29	24	21
	5 559	**7 646**	**– 27**
Trading portfolio claims	3 143	2 729	15
	11 060	**12 253**	**– 10**
Financial assets as at fair value through profit or loss			
Loans and advances to banks and customers	203	200	1
Debt securities and other fixed-interest securities	1 263	1 582	– 20
	1 466	**1 782**	**– 18**
Total	**12 526**	**14 035**	**– 11**

The maximum default risk for receivables designated at fair value is € 203 million (€ 200 million). The change in fair value, which can be attributed to changes in the credit risk of receivables designated at fair value, amounted to € 11 million (€ 8 million) in the reporting period and a cumulative change of € 10 million (€ 1 million).

The fair value change triggered by credit risk is determined by considering the difference between two fair values that are calculated using market data valid at the start of the year. This difference stems solely from the change in the relevant spread curves during the reporting year.

(38) Positive Fair Values from Hedge Accounting Derivates

This item comprises positive fair values of hedging instruments in effective micro and portfolio fair value hedging relationships.

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Micro fair value hedge derivatives	1 576	1 882	– 16
Portfolio fair value hedge derivatives	751	625	20
Total	**2 327**	**2 507**	**– 7**

(39) Financial Assets

Financial assets include all debt securities classified as available for sale (AfS) and other fixed-interest securities, shares and other non-fixed-interest securities, shares in companies which are not measured in accordance with IFRS 10, IFRS 11 or IAS 28 and financial assets classified as loans and receivables (LaR).

Investments in the equity of other companies and silent participations and participatory capital with loss sharing are allocated to the AfS category.

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Financial assets classified as LaR	**2 755**	**3 423**	**– 20**
Debt securities and other fixed-interest securities			
issued by public-sector borrowers	1 474	432	> 100
issued by other borrowers	1 281	2 991	– 57
Financial assets classified as AfS	**28 819**	**31 092**	**– 7**
Debt securities and other fixed-interest securities			
issued by public-sector borrowers	14 597	16 299	– 10
issued by other borrowers	13 614	14 194	– 4
	28 211	**30 493**	**– 7**
Shares and other non fixed-interest securities			
Shares	76	60	27
Investment certificates	103	98	5
Participation certificates	3	3	–
	182	**161**	**13**
Shares in companies - not consolidated	313	301	4
Other financial assets classified as AfS	113	137	– 18
	426	**438**	**– 3**
Total	**31 574**	**34 515**	**– 9**

(40) Property and Equipment

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Land and buildings	334	283	18
Operating and office equipment	56	45	24
Ships	29	200	– 86
Other property and equipment	1	45	– 98
Total	**420**	**573**	– 27

Changes to property, plant and equipment are presented under Note (41) Investment property.

(41) Investment Property

Investment property has a total carrying amount of € 84 million (€ 77 million). The corresponding fair value amounts to € 120 million (€ 108 million) and in accordance with the fair value hierarchy under IFRS 13 is split between Level 2 at € 118 million (€ 102 million) and Level 3 at € 2 million (€ 6 million).

The profit/loss from investment property is as follows:

(in € million)	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2015
Rental income	10	10
Direct operating expenses	3	5

The cost and accumulated depreciation for property, plant and equipment and for investment property are as follows

	Land and buildings	Operating and office equipment	Ship	Other property equipment	**Total**	Investment property
Cost as at 1 January 2015	**636**	**246**	**298**	**23**	**1 203**	**85**
Additions	–	6	16	22	**44**	1
	–	–	13	–	**13**	–
Disposals	3	19	–	–	**22**	–
Changes from currency translation	–	1	13	–	**14**	–
Totals 31 December 2015	**633**	**234**	**327**	**45**	**1 239**	**86**
Accumulated depreciation as at 1 January 2015	**341**	**193**	**100**	**–**	**634**	**5**
Depreciation	11	15	11	–	**37**	2
Impairments (non-scheduled)	–	–	12	–	**12**	2
Disposals	2	19	–	–	**21**	–
Changes from foreign exchange rates	–	–	4	–	**4**	–
Totals 31 December 2015	**350**	**189**	**127**	**–**	**666**	**9**
Closing balance as at 31 December 2015	**283**	**45**	**200**	**45**	**573**	**77**
Cost as at 1 January 2016	**633**	**234**	**327**	**45**	**1 239**	**86**
Additions	–	21	–	31	**52**	–
Disposals	2	6	267	–	**275**	6
Transfers	58	2	–	– 75	**– 15**	17
Change from the basis of consolidation	–	–	–	–	**–**	–
Changes from foreign exchange rates	–	–	2	–	**2**	–
Totals 31 December 2016	**689**	**251**	**62**	**1**	**1 003**	**97**
Accumulated depreciation as at 1 January 2015	**350**	**189**	**127**	**–**	**666**	**9**
Depreciation	11	11	10	–	**32**	2
Impairments (non-scheduled)	–	–	92	–	**92**	2
Disposals	2	5	196	–	**203**	4
Totals 31 December 2016	**355**	**195**	**33**	**–**	**583**	**13**
Closing balance as at 31 December 2016	**334**	**56**	**29**	**1**	**420**	**84**

€ 0 million (€ 1 million) of the additions to investment property pertains to one acquisition. The reclassifications stem from a transfer from land and buildings to investment property. The disposals from ships amounting to € 267 million (€ 0 million) relate to reclassifications under IFRS 5. € 55 million (€ 0 million) under impairment is attributable to reclassifications under IFRS 5.

(42) Intangible Assets

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Software			
Purchased	61	25	> 100
Internally generated	45	19	> 100
	106	**44**	**> 100**
Intangible assets under development	16	85	– 81
Leasing assets			
Leasing Property from Finance Lease	4	–	–
	4	**–**	**–**
Other intangible assets	28	20	40
Total	**154**	**149**	**3**

Intangible assets under development refer primarily to purchased software. Fully amortised software is still used. The increase in purchased and in internally developed software is mainly due to the reclassification of intangible assets under development. In the previous year, leased assets under finance leases were recognised in intangible assets under development.

Impairment on intangible assets amounting to € 2 million (€ 0 million) stems from internally developed software.

The NORD/LB Group has intangible assets with indefinite useful lives amounting to € 7 million (€ 7 million).

NORD/LB Group's main intangible assets are listed below:

	Carrying amount (in € million)		Remaining depreciation period (in years)	
	31 Dec.2016	31 Dec.2015	31 Dec.2016	31 Dec.2015
IT applications [1)]	49	45	12	unlimited
Internally developed software [1)]	49	46	10	11
Brand name	4	4	unlimited	unlimited

[1)] The amounts include both completed intangible assets and intangible assets under construction

Intangible assets changed as follows:

(in € million)	Software Purcha-sed	Software Internally generated	Leasing-Items from Finance Lease	Other Purcha-sed	Other Internally generated	**Total**
Cost as at 1 January 2015	**123**	**243**	**–**	**60**	**17**	**443**
Additions	17	–	–	25	9	**51**
Disposals	13	–	–	–	–	**13**
Totals 31 December 2015	**127**	**243**	**–**	**85**	**26**	**481**
Accumulated depreciation as at 1 January 2015	**98**	**201**	**–**	**–**	**5**	**304**
Scheduled Depreciation	9	23	–	–	1	**33**
Additions	5	–	–	–	–	**5**
Totals 31 December 2015	**102**	**224**	**–**	**–**	**6**	**332**
Closing balance as at 31 December 2015	**25**	**19**	**–**	**85**	**20**	**149**
Cost as at 1 January 2016	**127**	**243**	**–**	**85**	**26**	**481**
Additions	14	9	–	7	8	**38**
Disposals	5	–	–	–	–	**5**
Transfers	35	36	5	– 76	–	**–**
Totals 31 December 2016	**171**	**288**	**5**	**16**	**34**	**514**
Accumulated depreciation as at 1 January 2016	**102**	**224**	**–**	**–**	**6**	**332**
Depreciation	12	19	–	–	–	**31**
Depreciation (non-scheduled deprecia-tion)	2	–	–	–	–	**2**
Additions	5	–	–	–	–	**5**
Totals 31 December 2016	**110**	**243**	**1**	**–**	**6**	**360**
Closing balance as at 31 December 2016	**61**	**45**	**4**	**16**	**28**	**154**

(43) Assets Held for Sale

Assets held for sale in accordance with IFRS 5 break down as follows:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Loans and advances to banks and customers	1 001	1	> 100
Risk provisioning	711	–	–
Financial assets at fair value through profit or loss	–	1	– 100
Financial assets	10	–	–
Investments accounted for using the equity method	6	36	– 83
Property and equipment	108	18	> 100
Other assets	7	2	> 100
Total	**421**	**58**	**> 100**

In the reporting year the NORD/LB Group decided to scale back its portfolio of ship mortgage loans. The non-performing portfolio of loans and advances that is designated for sale and forms part of loans and advances to customers totalled € 1,001 million (€ 0 million). Loans and advances for sale are still measured in accordance with IAS 39. Expected transaction prices are used to assess risk provisioning. The lrisk provisioning allocated amounted to € 711 million (€ 0 million). The aim is to sell the loans and advances belonging to the Ship Customers segment during the 2017 financial year.

Financial assets held for sale amounting to € 10 million (€ 0 million) refer to shares in two investments from the Group Controlling/Others segment. They were classified as held for sale in early September and the end of October 2016 for the first time. One investment was disposed of on 1 January 2017. The sale of the other investment is planned for the first half of 2017.

Under investments in companies accounted for using the equity method, an investment in an associate was recognised, which has been classified as held for sale since 16 September 2016. It belongs to the Group Controlling/Others segment. The sale was carried out in January 2017.

The shares in another associate previously recognised under assets held for sale were sold on 18 August 2016. They belonged to the Group Controlling/Others segment and the resultant profit totalling € 36 million was reported under other operating profit/loss.

Property, plant and equipment designated as held for sale include three ships from the Ship Customers segment, which were initially consolidated and reported at fair value as at 31 December 2014 and 3 December 2015. Impairment charges of € 7 million (€ 10 million) were recognised under other operating profit/loss in accordance with IFRS 5.20. The sale of two ships was completed in January 2017, and the third ship is to be sold in the first quarter of 2017.

At the end of the restructuring process a ship was sold on 14 September 2016 that had previously been reported as property, plant and equipment under non-current assets held for sale. It belonged to the Group Controlling/Others segment. A loss of € 3 million was incurred on the sale.

Assets held for sale also contain twelve fully consolidated subsidiaries and special-purpose entities, all of which represent an individual disposal group. One subsidiary is an investment from the Private Customers segment that was sold in January 2017 for strategic reasons. The other eleven subsidiaries are one-ship companies from the Group Controlling/Others segment, whose main assets are the ships recognised under property, plant and equipment amounting to € 91 million (€ 0 million) in total. Impairment of € 55 million (€ 0 million) was recognised on these under other operating profit/loss in accordance with IFRS 5.20. Otherwise they are mainly other assets and other liabilities.

(44) Income Tax Assets

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Current income tax assets	42	37	14
Deferred tax assets	786	663	19
Total	**828**	**700**	**18**

Deferred tax assets reflect potential relief on income taxes from temporary differences in the values of assets and liabilities between the IFRS consolidated balance sheet and tax values in accordance with the tax regulations of the Group companies. Deferred tax assets recognised under other comprehensive income (OCI) totalled € 224 million (€ 141 million) as at 31 December 2016.

Deferred income tax assets were established in respect of the following balance sheet items and tax losses not yet utilised:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Assets			
Loans and advances to banks	6	9	– 33
Loans and advances to customers	77	148	– 48
Financial assets at fair value through profit or loss	148	99	49
Fair values from hedge accounting derivatives	758	722	5
Intangible assets	33	39	– 15
Property and equipment	67	69	– 3
Other assets	249	182	37
Liabilities			
Liabilities to Customers	412	446	– 8
Securitised Liabilities	63	83	– 24
Financial liabilities at fair value through profit or loss	314	361	– 13
Fair values from hedge accounting derivatives	917	967	– 5
Provisions	789	709	11
Other liabilities	47	129	– 64
Tax loss carried forward	–	9	– 100
Total	**3 880**	**3 972**	**– 2**
Net	3 094	3 309	– 6
Total	**786**	**663**	**19**

In addition to deferred taxes recognised in the income statement, netted deferred income tax assets include € 2 million (€ 2 million) from other assets and € 222 million (€ 139 million) from provisions, which are recognised in other comprehensive income (OCI). For loss carry forwards from corporate tax amounting to € 632 million (€ 0 million) and from trade tax amounting to € 680 million (€ 0 million), the limited planning period and the insufficient probability of use as a result meant that no deferred tax assets were recognised as at 31 December 2016. Tax losses carried forward totalling € 2 million (€ 0 million) lapse in the next five years, while of the current tax losses carried forward, € 435 million (corporate tax) and € 478 million (trade tax) can be used indefinitely.

No deferred taxes were recognised for temporary differences that can be carried forward without any limits amounting to € 1,315 million (€ 0 million).

(45) Other Assets

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Loans and advances on interim accounts	150	153	– 2
Collection documents	7	–	–
refund claims to provident fund NORD/LB	503	503	–
Rights to reimbursement from defined benefit plans	15	16	– 6
Other assets including prepaid expenses	336	306	10
Total	**1 011**	**978**	**3**

The loans and advances on interim accounts primarily relate to loans and advances in lending business and transactions on payment accounts.

NORD/LB AöR transferred some of its pension obligations to the provident fund (Unterstützungkasse) Norddeutsche Landesbank Girozentrale Hannover/Braunschweig e. V., Hanover. Due to an existing agency agreement with the provident fund, however, NORD/LB will continue to make pension payments and on this basis has a reimbursement right from the fund. NORD/LB AöR's rights to reimbursement from the fund equates to the fair value of the assets transferred to the fund by NORD/LB AöR for the purpose of making the pension payments. Please refer to Note (52) Provisions for details on the changes in the reimbursement claim.

Reimbursement claims from defined benefit plans include allocated provisions for pensions to the benefit of people outside the Group.

A total of € 262 million (€ 220 million) from other assets relates to initial margins paid.

(46) Liabilities to Banks

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Deposits from other banks			
German banks	2 798	2 169	29
Foreign banks	1 546	1 236	25
	4 344	**3 405**	**28**
Liabilities resulting from money market transactions			
German banks	9 558	9 971	– 4
Foreign banks	10 248	10 150	1
	19 806	**20 121**	**– 2**
Other liabilities			
German banks			
Due on demand	387	2 751	– 86
With a fixed term or period of notice	23 714	21 062	13
Foreign banks			
Due on demand	518	759	– 32
With a fixed term or period of notice	472	712	– 34
	25 091	**25 284**	**– 1**
Total	**49 241**	**48 810**	**1**

(47) Liabilities to Customers

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Savings deposits			
With an agreed notice period of three months			
Domestic customers	1 204	1 293	– 7
Customers abroad	12	13	– 8
With an agreed notice period of more than three months			
Domestic customers	25	34	– 26
Customers abroad	1	1	–
	1 242	**1 341**	**– 7**
Liabilities resulting from money market transactions			
Domestic customers	12 672	12 254	3
Customers abroad	2 924	3 141	– 7
	15 596	**15 395**	**1**
Other liabilities			
Domestic costumers			
Due on demand	13 196	16 519	– 20
With a fixed term or period of notice	24 295	24 496	– 1
Customers abroad			
Due on demand	1 101	713	54
With a fixed term or period of notice	1 871	2 133	– 12
	40 463	**43 861**	**– 8**
Total	**57 301**	**60 597**	**– 5**

(48) Securitised Liabilities

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Issued debt securities			
Mortgage bonds	10 806	10 968	– 1
Municipal debentures	9 073	10 472	– 13
Other debt securities	15 071	12 618	19
	34 950	**34 058**	**3**
Money market instruments			
Commercial paper	579	1 452	– 60
Certificates of deposit	286	367	– 22
	865	**1 819**	**– 52**
Total	**35 815**	**35 877**	**–**

Repurchased debt securities issued by the Bank itself amounting to € 5,797 million (€ 4,720 million) were deducted directly from securitised liabilities.

(49) Balancing Items for Financial Instruments hedged in the Portfolio Fair Value Hedge

This item includes fair value changes to financial liabilities in portfolio fair value hedges for transactions classified as other liabilities (OL); the fair value changes are attributable to the hedged risk.

(50) Financial Liabilities at Fair Value through Profit or Loss

This item includes trading liabilities (HfT) and designated financial liabilities reported at fair value (DFV).

The trading liabilities include negative fair values from derivative financial instruments that are not used in hedge accounting, and delivery obligations from short-sales of securities.

The category of financial liabilities designated at fair value includes liabilities to banks and customers and securitised liabilities.

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Trading liabilities			
Negative fair values from derivatives relating to			
interest rate risks	3 863	5 915	– 35
currency risks	1 834	1 808	1
share-price and other price risks	2	8	– 75
credit derivatives	6	11	– 45
	5 705	**7 742**	**– 26**
Delivery obligations from short-sales	96	12	> 100
	5 801	**7 754**	**– 25**
Financial liabilities designated at fair value			
Liabilities to banks and customers	6 381	6 098	5
Securitised liabilities	2 874	2 205	30
	9 255	**8 303**	**11**
Total	**15 056**	**16 057**	**– 6**

The change in the liabilities designated at fair value, which is caused by changes in the credit risk, amounts to € -60 million (€ 15 million) in the reporting year and a cumulative € -3 million (€ -68 million).

The fair value adjustment triggered by the credit risk is determined based on differences. The amount in question is derived from the difference between the fair value determined on the reporting date based on current market figures and the current NORD/LB spread curves, and the fair value calculated using current market data and the NORD/LB spread curves used in the previous reporting period.

The carrying amount of liabilities designated at fair value as at 31 December 2016 is € 749 million higher (€ 599 million) than the corresponding repayment amount. The difference largely includes effects of compounding effects from zero-coupon bond issues, which arise due to the typically discounted payments for zero-coupon bonds and their repayment at nominal value.

(51) Negative Fair Values from Hedge accounting Derivatives

This item comprises negative fair values of hedging instruments in effective micro and portfolio fair value hedging transactions.

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Micro fair value hedge derivatives	2 682	2 871	– 7
Portfolio fair value hedge derivatives	263	277	– 5
Total	**2 945**	**3 148**	**– 6**

(52) Provisions

Provisions are broken down as follows:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Provisions for pensions and other obligations	**2 433**	**2 122**	**15**
Other provisions			
Provisions in lending business	47	55	– 15
Provisions for restructuring measures	4	5	– 20
Provisions for uncertain liabilities	269	246	9
	320	**306**	**5**
Total	**2 753**	**2 428**	**13**

The € 311 million increase in provisions for pensions and similar obligations is due to the 2.65 per cent reduction in the actuarial interest rate to 1.95 per cent on 31 December 2016, and the resulting reduction in the discounting effect.

Pensions and similar Obligations

Die Nettoverbindlichkeit aus einem leistungsorientierten Plan leitet sich wie folgt her:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Present value of defined benefit obligations	2 629	2 332	13
Less fair value of plan assets	– 196	– 210	– 7
Total	**2 433**	**2 122**	**15**

In the NORD/LB Group, there are both defined benefit pension commitments and, to a lesser extent, defined contribution pension commitments.

Description of the Pension Plans

The NORD/LB Group's corporate pension plan is based on multiple pension systems. Firstly, employees acquire an entitlement to pension claims through a defined contribution paid by the Group to external pension funds (defined contribution plan). The pension claims are based on yearly benefit components, whose amount depends on the individual annual pensionable salary. The pension contributions are recognised as a current expense using the accounting standards in accordance with IAS 19 for defined contribution plans. Pension provisions are not recognised.

Employees also acquire entitlements to pension claims where the pension benefit is defined, and depends on factors like expected salary and wage increases, age, length of employment and pension trend forecasts (defined benefit plan). Essentially, these are different pension components, and depending on possible insurance claims, pensions for a reduction in earning capacity and surviving dependants may be granted alongside the old-age pension. The plan assets for pension commitments are backed by plan assets in the form of payment instruments/equivalents and by fixed-interest securities. There are also claims to benefit payments.

There are defined benefit pension claims from direct commitments and indirect commitments. Payments from direct pension claims are made directly by NORD/LB, while payments from indirect pension claims are made by the legally independent provident fund Norddeutsche Landesbank Girozentrale Hannover/Braunschweig e. V., Hannover, or by the provident fund of Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen ("provident funds"). The management bodies for the provident funds are made up of employer and employee representatives from the NORD/LB Group. The funds are endowed with a lump-sum or partially reinsured, and are provided with liquid assets by NORD/LB and Bremer Landesbank by law to fulfil their pension payments. As guarantor institutions for the pension obligations, NORD/LB and Bremer Landesbank also bear subsidiary liability for the fulfilment of payments from the provident funds. With respect to NORD/LB AöR's provident fund, NORD/LB AöR enjoys a right of reimbursement equivalent to the fair value of the fund's assets. NORD/LB reports this right of reimbursement under Other Assets (Note (45)). At Bremer Landesbank, the assets of the provident fund are netted with the pension obligations of Bremer Landesbank, since the requirements for netting are met.

There are multiple different pension schemes in the NORD/LB Group, in which the commitments are based on service agreements grounded in collective bargaining agreements or on individual contractual commitments. The primary pension schemes are the total pension commitments as per German civil service law, known as VO 1973 and VO 2000. For these pension systems, the accounting provisions from IAS 19 for defined benefit plans are used.

Since 1 January 2000, the defined-benefit pension commitment based on VO 2000 is also applied to members of the Managing Board. Beyond the pension components acquired on a pro-rata basis, additional initial components are also committed, depending on the committee member's function and the number of times they have been reappointed as a member of the Managing Board. Managing Board members who joined the company before 1 January 2000 received an individual total pension commitment in accordance with regulations in place up to 31 December 1999.

Neither VO 1973 nor VO 2000 apply to any other employees. VO 2000 was closed most recently, effective as at 31 December 2013.

Since 1 January 2014, the pension commitments for new employees of NORD/LB AöR through the BVV Bankenversicherungsverein des Bankgewerbes a.G. (Banking Insurance Association for the Banking Industry) in Berlin, known as the BVV, are structured as a reinsured provident fund.

Furthermore, all bank employees have the option to finance an additional old-age pension through deferred remuneration via the BVV Bankenversicherungsverein des Bankgewerbes a.G. (pension fund).

Risks from defined Benefit Pension Plans

The NORD/LB Group is exposed to various risks in connection with the defined benefit pension plans.

As a public-law institution, NORD/LB was subject to guarantor liability up to and including 17 July 2001. As a result, creditors, and thus the employees as well with respect to their pension claims, have a claim for fulfilment of their demands against the guarantors of the public-law institution. On 17 July 2001, guarantor liability for savings banks and state banks (Landesbanken) was abolished by the European Commission. As such, all pension commitments agreed upon up to that time fall under guarantor liability without limitation. Also included under guarantor liability are all pension commitments issued up to 18 July 2005, insofar as the pension benefits could be claimed before 31 December 2015. All pension commitments agreed upon since 18 July 2001 and all commitments not covered under the transitional regulations, are secured against insolvency by NORD/LB in exchange for a contribution payment to the Pensionssicherungsverein (Pension Security Association).

Both the obligations from defined-benefit pension commitments and the plan assets may be subject to fluctuations over time. This may have a positive or negative effect on funded status. Fluctuations in defined-benefit pension obligations result primarily from changes in financial assumptions and from actuarial interest rates, but also from changes in demographic assumptions like changes in life expectancy. Due to the structuring of existing pension commitments, the amount of the promised payments depends (among other factors) on the changes in pensionable income, the contribution assessment ceiling in the statutory pension insurance system, and the social security pension. Insofar as these assessment parameters evolve differently to what was predicted in the calculation of provisions, there may be a need for supplementary financing. The NORD/LB Group reviews the scheduling of pension payments on a regular basis (liquidity management) and its investment strategy and investment amounts. The basis for determining investment and pension payment amounts for each closing date is drawn from the actuarial reports. The majority of the investment volume is placed in payment instruments/equivalents, and to a small extent in long-term government bonds with a rating of at least AA that are quoted on an active market. Investments are made in short-term, highly fungible other investments at the same level as the pension payments. The risk of rate change is reduced as much as possible by the smoothly rolling character of investments in debt instruments (government bonds). Market and investment risk is countered by observing a minimum rating (AA) for investments and by the type of investments (mainly government bonds). Liquidity risk management, due in part to pension payments, is described in the risk report.

With regard to the provident funds, the various management bodies have established the framework conditions for investing funds in their respective capital investment guidelines. For both funds, investments to finance pension benefits are overwhelmingly made in low-risk forms of investment (NORD/LB debt instruments, interest-rate hedge transactions with NORD/LB and liquid assets and claims from reinsurance policies). The management bodies can delegate the management of fund assets to third parties.

Joint Schemes for multiple Employers

The NORD/LB Group, along with other financial institutions in Germany, is a member company of the BVV Versorgungskasse des Bankgewerbes e.V. (Banking Industry Pension Fund), or BVV. Both the Group as an employer and eligible employees make regular old-age pension contributions to the BVV. The BVV's rates provide for fixed pension payments with profit sharing. The BVV is subject to subsidiary employer liability with respect to its own employees.

The Group classifies the BVV plan as a defined benefit plan, and treats it as a defined contribution plan for accounting purposes, since the available information is not sufficient for accounting as a defined benefit plan. NORD/LB evaluates the likelihood of a claim on the subsidiary liability as extremely small, and therefore does not establish either a contingent liability or a provision.

The net liability from the defined benefit obligation shows the following transition from the opening to the closing balance for the period, accounting for the effects of the items listed below:

(in € million)	Defined benefit obligation 2016	2015	Fair value of plan assets 2016	2015	Negative balance (net indebtness) 2016	2015	Change (in %)
Opening balance	**2 332**	**2 550**	**210**	**71**	**2 122**	**2 479**	**– 14**
Current service cost	43	51	–	–	43	51	– 16
Interest expense	61	56	– 6	– 2	67	58	16
Additional accounting current service costs	–	1	–	–	–	1	– 100
Change from Consolidation	– 1	– 2	–	– 1	– 1	– 1	–
Effects from settlements / assignments (compensation payments)	–	– 9	–	– 4	–	– 5	– 100
Increase / decrease resulting from changes in foreign exchanges rates	– 5	3	– 5	2	–	1	– 100
Benefits paid	– 71	– 71	– 20	– 17	– 51	– 54	– 6
Employer contributions	–	–	2	160	– 2	– 160	– 99
	2 359	**2 579**	**193**	**213**	**2 166**	**2 366**	**– 8**
Revaluation							
Adjustments made on the basis of experience	– 63	– 14	–	–	– 63	– 14	> 100
Profit / losses from the change in demographic assumptions	8	–	–	–	8	–	–
Profit / losses from the change in financial assumptions	325	– 233	–	–	325	– 233	> 100
Without interest income	–	–	3	– 3	– 3	3	> 100
Closing balance	**2 629**	**2 332**	**196**	**210**	**2 433**	**2 122**	**15**

In addition to the pension commitments, the present value of the defined benefit obligation includes commitments to benefit payments of € 246 million (€ 194 million).

The defined benefit obligation is divided as at the reporting date into amounts of € 2,114 million (€ 1,858 million) from defined benefit plans which are not financed through a fund, and amounts of € 515 million (€ 476 million) from defined benefit plans which are fully or partially financed from a fund.

The fair value of plan assets is structured as follows:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Equity instruments			
active market	20	16	25
Debt instruments			
active market	44	35	26
inactive market	–	– 1	– 100
	44	**34**	**29**
Payment/ cash equivalent	92	134	– 31
Other assets			
active market	40	26	54
	40	**26**	**54**
Total	**196**	**210**	**– 7**

The fair value of plan assets includes own debt instruments, amounting to € 1 million (€ 1 million). Other assets contain asset values of reinsurance policies totalling € 20 million (€ 13 million).

The fair value of the reimbursement right vis-à-vis NORD/LB's provident fund changed as follows:

(in € million)	2016	2015	Change (in %)
Opening balance 1 January	**503**	**–**	**–**
Benefits paid on reimbursement	– 39	– 12	> 100
Capital contribution by owner companies	27	519	– 95
Capital reimbursement to owner companies	–	–	–
Calculated interest income on reimbursement	13	2	> 100
Revaluation (OCI)	– 1	– 6	– 83
Other changes in value (P&L)	–	–	–
Closing balance 31 December	**503**	**503**	**–**

The following overview shows the maturity dates of the expected undiscounted defined-benefit obligations:

	Pensions expenses 31 Dec.2016	Pensions expenses 31 Dec.2015
Less than 1 year	– 70	– 66
between 1 and 2 years	– 70	– 68
between 2 and 3 years	– 72	– 70
between 3 and 4 years	– 74	– 72
between 4 and 5 years	– 77	– 75
Total	**– 363**	**– 351**

The duration of the defined-benefit pension obligation is 20 (20) years, and is reviewed annually by an actuarial appraiser.

The contribution payments for defined benefit plans, including interest expenses for the defined benefit obligations, are expected to be € 12 million (€ 1 million) in the next reporting period.

Due to actuarial assumptions, the defined benefit obligation is subject to changes. The following sensitivity analysis shows the effects of the specified changes to each assumption on the amount of the defined benefit obligation, based on the premises that there are no correlations and all other assumptions remain unchanged.

(in € million)	Increase 31 Dec.2016	Decline 31 Dec.2016	Increase 31 Dec.2015	Decline 31 Dec.2015
Actuarial interest rate	279	240	232	201
Wages	31	31	29	28
Pensions	70	63	62	59
Cost increase rate for allowance payments	58	44	43	33
Mortality, invalidity, etc.	124	125	104	105

For the actuarial interest rate, a sensitivity of -/+ 0.5 (0.5) per cent was assumed; for wage and pension trends -/+ 0.25 (0.25) per cent each; and 1 (1) per cent for benefits. In determining the effect on the total amount of obligations that arises when life expectancy increases, mortality probabilities were reduced to 90 (90) percent. For the 20 to 70 years of age range, this procedure leads to an increase in life expectancy of 0.8 to 1.2 years (0.8 to 1.2 years); an increase of 0.4 to 0.8 years (0.4 to 0.8 years) in the range from 70 to 90 years of age; and an increase of less than 0.4 years (0.4 years) for ages above roughly 80 years. Due to issues of significance, only a sensitivity analysis focused on Germany was performed.

The other provisions changed as follows during the annual reporting period:

(in € million)	Provisions in lending business	Provisions for reorganisation	Provisions for uncertain liabilities: Provisions for liabilities to personnel	Provisions for uncertain liabilities: Other provisions for uncertain liabilities	Total
1 January	**55**	**5**	**148**	**98**	**306**
Utilisation	–	2	27	16	45
Resolutions	32	–	10	4	46
Reversals	25	1	51	24	101
Allocations	–	–	3	1	4
Changes from unwinding and foreign exchange rates	– 1	–	1	–	–
31 December	**47**	**4**	**166**	**103**	**320**

The provisions for reorganisation measures are related to the implementation of the business model initiated in 2005.

Among the provisions for obligations from the human resources division, € 102 million (€ 81 million) in provisions are recognised due to restructuring or reorganisation measures resulting from action connected to the takeover of Bremer Landesbank and an efficiency improvement programme launched in 2011 (see also Note (30) Reorganisation expenses). In addition, from the provisions for obligations from the human resources division, € 16 million (€ 19 million) pertains to provisions due to early retirement schemes, and € 5 million (€ 4 million) to provisions for anniversary payments.

The other provisions for uncertain liabilities include € 43 million (€ 54 million) in provisions for process and recourse risks. Uncertainties with regard to the amount and timing of these provisions arise from a lack of empirical data and the substantial differences among the underlying situations.

The other provisions are mostly long-term.

(53) Liabilities held for Sale

This item contains liabilities amounting to € 18 million (€ 6 million) and provisions totalling € 1 million (€ 1 million) from companies held for sale.

(54) Income Tax Liabilities

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Current Income tax liabilities	107	116	– 8
Deferred tax liabilities	126	87	45
Total	**233**	**203**	**15**

The current income tax liabilities include payment obligations from current income taxes to domestic and foreign tax authorities.

Deferred tax liabilities reflect the potential income tax burden from temporary differences in the values of assets and liabilities between the IFRS consolidated balance sheet and tax values in accordance with the tax regulations of the Group companies. Deferred tax liabilities recognised under other comprehensive income (OCI) totalled € 54 million (€ 100 million) as at 31 December 2016.

The deferred tax liabilities are related to the following balance sheet items:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Assets			
Loans and advances to banks	1	63	– 98
Loans and advances to customers	298	292	2
Risk Provisioning	132	92	43
Financial assets at fair value through profit or loss	247	137	80
Fair values from hedge accounting derivatives	674	701	– 4
Financial assets	468	437	7
Intangible assets	18	21	– 14
Property and equipment	21	22	– 5
Other assets	166	169	– 2
Liabilities			
Liabilities to banks	6	6	–
Liabilities to customers	67	166	– 60
Securitised liabilities	10	11	– 9
Financial liabilities at fair value through profit or loss	1 081	1 213	– 11
Provisions	2	2	–
Other liabilities	29	64	– 55
Total	**3 220**	**3 396**	**– 5**
Net	3 094	3 309	– 6
Total	**126**	**87**	**45**

In addition to the deferred taxes recognised in the income statement, the deferred tax liabilities from financial assets include € 54 million (€ 100 million) established via other comprehensive income.

(55) Other Liabilities

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Liabilities resulting from unsettled invoices	49	41	20
Liabilities from premiums	1	1	–
Liabilities from short-term employee remuneration	22	61	– 64
Deferred income	12	10	20
Liabilities from payable taxes and social insurance contributions	13	20	– 35
Liabilities from interim accounts	180	75	> 100
Other liabilities	99	98	1
Total	**376**	**306**	**23**

Liabilities from short-term employee remuneration are comprised of residual holiday entitlements.

The liabilities from interim accounts primarily relate to liabilities in lending business and transactions on payment accounts.

(56) Subordinated Capital

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Subordinated liabilities	3 385	3 101	9
Participatory capital	64	152	– 58
Silent participations	535	1 046	– 49
Total	**3 984**	**4 299**	**– 7**

Subordinated liabilities are repaid only after the claims of all senior creditors have been settled. At € 2,558 million (€ 2,605 million) as at the reporting date, they meet the conditions of Article 63 of Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation (CRR)) for eligibility as Tier 2 capital as per Article 62 CRR. The interest expense for subordinated liabilities is € 156 million (€ 156 million).

Participatory capital consists solely of registered participatory capital. The interest expense for participatory capital is € 4 million (€ 9 million).

Due to their contractual definition and their economic nature, silent participations are debt capital as per IAS 32. Due to NORD/LB's negative annual result, its valuation was reviewed as per IAS 39 AG8. As at the reporting date, the silent participations were valued at nominal value. Of the silent participations, € 401 million (€ 401 million) essentially satisfies the conditions of Article 63 CRR for long-term qualification as Tier 2 capital as per Article 62 CRR. In derogation from this, however, silent participations are proportionally allocated to the additional Tier 1 capital as per Article 51 CRR until no later than the end of 2021 (in accordance with the transitional regulations in force as per Article 484 (4) CRR, in connection with §31 of the German Solvency Regulation. As at the reporting date, this proportion was at most 60 per cent (70 percent) of the sum of the regulatory carrying amounts of silent participations available as at 31 December 2012, i.e. a maximum of € 532 million (€ 620 million). Since the total amount of silent participations falls short of this maximum proportion as at the reporting date, all existing silent participations can be allocated to the additional Tier 1 capital as at the reporting date. The interest expense for silent participations is € 12 million (€ 83 million). The actual allocation of subordinated capital to regulatory own funds also depends on other conditions (e.g. residual terms); the details can be found in the regulatory disclosure on equity.

(57) Equity

Breakdown of equity:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Issued capital	1 607	1 607	–
Capital reserves	3 332	3 332	–
Retained Earnings	939	2 493	– 62
Revaluation reserve	375	454	– 17
Currency translation reserve	– 6	– 9	– 33
Equity capital attributable to the owners of NORD/LB	6 247	7 877	– 21
Additional Equity components	50	50	–
Equity capital attributable to non-controlling interests	– 256	586	> 100
Total	**6 041**	**8 513**	**– 29**

As at 31 December 2016, the owners participating in NORD/LB's issued capital are the federal states of Lower Saxony at 59.13 per cent (59.13 percent) and Saxony-Anhalt at 5.57 per cent (5.57 percent), the Savings Banks Association of Lower Saxony (SVN) at 26.36 per cent (26.36 percent), the Holding Association of the Savings Banks of Saxony-Anhalt (SBV Sachsen-Anhalt) at 5.28 per cent (5.28 percent), and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania (SZV Mecklenburg-Vorpommern) at 3.66 per cent (3.66 percent).

The capital reserve contains the amounts (premium) paid in connection with capital increases by the owners of NORD/LB through the issued capital and silent participations of € 10 million (€ 10 million) in total, which due to their economic nature constitute equity capital as per IAS 32. The profit participation for silent participations is € 0 million (€ 1 million).

Included in retained earnings are the earnings retained in the Group in previous reporting years, the transfers from the annual profit minus the shares of other shareholders, the effects of the revaluation of the net liability from defined benefit pension plans, and the proportional change in equity of shares in the company recognised according to the equity method. The revaluation reserve contains the effects from the valuation of financial instruments in the Available for Sale (AfS) category.

The currency translation reserve contains the effects resulting from use of the modified reporting date rate method in translating annual reports from foreign business units with a functional currency other than the euro.

The amount under additional equity totalling € 50million (€ 50 million) relates to a tranche of additional Tier-1 bonds issued by the NORD/LB Group (AT1 bonds). These AT1 bonds, issued on 29 June 2015, establish unsecured subordinate liabilities and have no final maturity date.

The bonds include a fixed interest rate of 8.5 per cent in the first five years, and then switch to a variable interest phase.

NORD/LB has the right to partially or completely skip interest payments at its own discretion, especially (but not exclusively) if this is necessary to prevent the Common Equity Tier 1 capital ratio of Bremer Landesbank from dropping below the minimum CET1 ratio, or to comply with a request from the relevant supervisory authority. Skipped interest payments are not repaid. Failure to make an interest payment does not entitle the creditors to terminate the debt securities, and does not represent a default for Bremer Landesbank.

Subject to the prior approval of the relevant supervisory authority, the debt securities can be terminated completely, but not partially, for the first time on 29 June 2020, and thereafter on each interest payment date, and paid back at their repayment amount plus interest accrued up to the repayment date. However, early termination for regulatory or tax reasons is possible at any time under certain conditions.

The repayment and nominal amount of the bond may be reduced when a triggering event occurs. One such trigger occurs if the Common Equity Tier 1 capital ratio of the issuing consolidated company falls under 5.125 per cent (the minimum CET1 ratio). The triggering event can occur at any time, and the relevant Common Equity Tier 1 capital ratio is not determined solely with regard to particular reference dates. Before performing a write-down, the nominal amount and the repayment amount for each debt security can be written up again up to the full amount of the original nominal amount (provided that it has not been previously paid back or purchased and devalued) in each of the business years following the reduction, as long as a corresponding annual net profit is available and therefore no annual net loss would be created or increased.

Creditors are not entitled to terminate the debt securities.

As per IAS 32, AT1 bonds are equity instruments, since these financial instruments do not contain any contractual obligation to deliver liquid assets (or other asset) to another company. The AT1 bonds have neither a final maturity date nor an early repayment option for the bondholder. Furthermore, they are interest-bearing debt securities for which the issuing Group company has the right to skip interest payments at its own discretion and not make the skipped interest payments at a later date. The AT1 bonds confer neither voting rights nor a residual interest in the net assets of the Group. AT1 bonds are a separate type of financial instrument that are recognised separately within equity.

The accounting treatment of payments to AT1 bonds is based on the instrument's classification as an equity instrument. Disbursements to holders of equity instruments are to be deducted directly from equity, and not recognised in the income statement. As such, this also applies to interest payments on the AT1 bonds.

The NORD/LB Group legally holds a 54.83 per cent share in its subsidiary, Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale, Bremen (Bremer Landesbank). A share of 45.17 per cent is held by non-controlling shareholders. On 7 November 2016, NORD/LB concluded a contract with the non-controlling shareholders on the purchase of the remaining shares in the company. The contract is classified as a forward purchase agreement. Therefore, NORD/LB has already anticipated the acquisition of the non-controlling shares in the annual report as at the reporting date of 31 December 2016: A financial liability was recognised for the obligation to purchase its own equity instruments. The shares of the non-controlling shareholders were derecognised from equity. The difference between the equity capital attributable to non-controlling interests and the purchase price was transferred to retained earnings. The anticipated purchase was presented in a separate row in the statement of changes in equity.

No dividend was paid for 2015. Nor is any dividend planned for 2016.

Notes to the Cash Flow Statement

The cash flow statement shows how cash and cash equivalents for the reporting year were changed by cash flows from operating activities, investment activities and financing activities.

Cash and cash equivalents are defined here as a cash reserve (cash on hand and balances with central banks).

The cash flow from operating activities is determined by the indirect method based on consolidated profit. The expenses and income to be allocated or deducted, respectively, are those that were no-cash items in the reporting year. In addition, all expenses and income that were cash items, but not allocated to operating activities, are eliminated. These payments are taken into account in the cash flow from investment activities or financing activities.

In accordance with the IASB's recommendations, payment transactions from loans and advances to banks and customers, from securities in the trading portfolio, from liabilities to banks and customers, and from securitised liabilities are recognised under cash flow from operating activities.

The cash flow from investment activities includes payment transactions for the investment and securities portfolio under financial assets and payments and receipts for property, plant and equipment and the acquisition of subsidiaries.

The cash flow from financing activities includes cash flows from changes in capital, interest payments on subordinated capital, and dividend payments to the owners of the parent company NORD/LB.

Please refer to the explanations in the Risk Report for further information regarding the management of liquidity risk in the NORD/LB Group.

Other Disclosures

Notes to Financial Instruments

(58) Fair Value Hierarchy

The fair values of financial instruments are compared with their carrying amounts in the following table.

(in € million)	31 Dec. 2016 Fair Value	31 Dec. 2016 Carrying amount	31 Dec. 2016 Diffe-rence	31 Dec. 2015[3] Fair Value	31 Dec. 2015[3] Carrying amount	31 Dec. 2015[3] Diffe-rence
Assets						
Cash reserve	1 447	1 447	–	872	872	–
Loans and advances to banks	22 270	21 747	523	21 842	21 194	648
Loans and advances to customers	104 810	105 640	– 830	108 607	107 878	729
Risk provisioning	–[1]	– 3 797	3 797	–[1]	– 2 919	2 919
Sub-total of loans and advances to banks/customers (net after loan loss provisions)	**127 080**	**123 590**	**3 490**	**130 449**	**126 153**	**4 296**
Balancing items for financial instruments hedged in the fair value hedge portfolio	–[2]	130	– 130	–[2]	91	– 91
Financial assets at fair value through profit or loss	12 526	12 526	–	14 035	14 035	–
Positive fair values from hedge accounting derivatives	2 327	2 327	–	2 507	2 507	–
Financial assets not reported at fair value	2 575	2 794	– 219	3 205	3 471	– 266
Financial assets reported at fair value	28 780	28 780	–	31 044	31 044	–
For sale certain financial assets not recorded at fair value	291	291	–	74	38	36
For sale certain financial assets recorded at fair value	130	130	–	20	20	–
Other assets not reported at fair value	26	26	–	35	35	–
Other assets reported at fair value	13	13	–	36	36	–
Total	**175 195**	**172 054**	**3 141**	**182 277**	**178 302**	**3 975**

[1] Amounts relating to risk provisioning are shown in the corresponding fair values of loans and advances to banks and loans and advances to customers.
[2] Amounts relating to the assets and liabilities item "Adjustment item for financial instruments hedged in the fair value hedge" are shown in the fair values of the hedged financial instruments.
[3] In contrast to the previous year, the investment properties figures are shown in Note (41).

	31 Dec. 2016			31 Dec. 2015		
	Fair Value	Carrying amount	Diffe-rence	Fair Value	Carrying amount	Diffe-rence
Liabilities						
Liabilities to banks	49 869	49 241	628	49 439	48 810	629
Liabilities to customers	60 285	57 301	2 984	63 622	60 597	3 025
Securitised liabilities	36 325	35 815	510	36 330	35 877	453
Balancing items for financial instruments hedged in the fair value hedge portfolio	–[2]	1 033	– 1 033	–[2]	753	– 753
Financial liabilities at fair value through profit or loss	15 056	15 056	–	16 057	16 057	–
Negative fair values from hedge accounting derivatives	2 945	2 945	–	3 148	3 148	–
For sale certain financial liabilities not recorded at fair value	19	19	–	7	7	–
Other liabilities not reported at fair value	3	3	–	29	29	–
Other liabilities reported at fair value	1	1	–	1	1	–
Subordinated capital	4 164	3 984	180	4 726	4 299	427
Total	**168 667**	**165 398**	**3 269**	**173 359**	**169 578**	**3 781**

[1] Amounts relating to risk provisioning are shown in the corresponding fair values of loans and advances to banks and loans and advances to customers.
[2] Amounts relating to the assets and liabilities item “Adjustment item for financial instruments hedged in the fair value hedge” are shown in the fair values of the hedged financial instruments.

It was not possible to reliably determine a fair value for € 39 million (€ 48 million) of financial instruments because there is no active market for these financial instruments and the necessary estimates are not possible within reasonable fluctuation ranges and appropriate probabilities of occurrence. These are mainly investments.

The Group intends to retain full ownership of these financial instruments.

The following table shows the breakdown of assets and liabilities recognised at fair value based on the fair value hierarchy:

(in € million)	Level 1 31 Dec. 2016	31 Dec. 2015	Level 2 31 Dec. 2016	31 Dec. 2015	Level 3 31 Dec. 2016	31 Dec. 2015	Total 31 Dec. 2016	31 Dec. 2015
Assets								
Assets held for trading	1 103	725	9 613	11 463	344	65	11 060	12 253
Debt securities and other fixed-interest securities	1 102	662	1 255	1 153	–	–	2 357	1 815
Shares and other non fixed-interest securities	1	63	–	–	–	–	1	63
Positive fair values from derivatives	–	–	5 559	7 645	–	1	5 559	7 646
Interest-rate risks	–	–	4 963	7 035	–	–	4 963	7 035
Currency risks	–	–	564	576	–	1	564	577
Share-price and other price risks	–	–	3	10	–	–	3	10
Credit derivatives	–	–	29	24	–	–	29	24
Trading portfolio claims	–	–	2 799	2 665	344	64	3 143	2 729
Financial assets as at fair value through profit or loss	854	946	612	836	–	–	1 466	1 782
Loans and advances to customers	–	–	203	200	–	–	203	200
Financial assets	854	946	409	636	–	–	1 263	1 582
Debt securities and other fixed-interest securities	854	946	409	636	–	–	1 263	1 582
Positive fair values from hedge accounting derivatives	–	–	2 327	2 507	–	–	2 327	2 507
Positive fair values from employed micro fair value hedge derivatives	–	–	1 576	1 882	–	–	1 576	1 882
Interest-rate risks	–	–	1 520	1 836	–	–	1 520	1 836
Currency risks	–	–	56	46	–	–	56	46
Positive fair values from employed portfolio fair value hedge derivatives	–	–	751	625	–	–	751	625
Interest-rate risks	–	–	751	625	–	–	751	625
Financial assets at fair value	9 207	11 234	19 204	19 437	369	373	28 780	31 044
Debt securities and other fixed-interest securities	9 011	11 059	19 197	19 430	3	4	28 211	30 493
Shares and other non fixed-interest securities	182	161	–	–	–	–	182	161
Shares in companies (not consolidat-ed)	14	14	7	7	253	232	274	253
Other financial assets classified as AfS	–	–	–	–	113	137	113	137
For Sale certain financial assets record-ed at fair value	–	–	121	20	9	–	130	20
Other assets recorded at for value	13	16	–	20	–	–	13	36
Total	**11 177**	**12 921**	**31 877**	**34 283**	**722**	**438**	**43 776**	**47 642**

(in € million)	Level 1 31 Dec. 2016	31 Dec. 2015	Level 2 31 Dec. 2016	31 Dec. 2015	Level 3 31 Dec. 2016	31 Dec. 2015	Total 31 Dec. 2016	31 Dec. 2015
Liabilities								
Trading liabilities	74	11	5 725	7 742	2	1	5 801	7 754
Negative fair values from derivatives relating to	2	3	5 701	7 738	2	1	5 705	7 742
Interest-rate risks	1	–	3 861	5 915	1	–	3 863	5 915
Currency risks	–	–	1 834	1 807	–	1	1 834	1 808
Share-price and other price risks	1	3	1	5	–	–	2	8
Credit derivatives	–	–	5	11	1	–	6	11
Delivery obligations from short-sales and other trading assets	72	8	24	4	–	–	96	12
Financial liabilities reported at fair value	–	22	9 235	8 277	20	4	9 255	8 303
Liabilities to banks	–	–	442	442	–	–	442	442
Liabilities to customers	–	–	5 939	5 656	–	–	5 939	5 656
Securitised liabilities	–	22	2 854	2 179	20	4	2 874	2 205
Negative Fair Values aus Hedge-Accounting-Derivaten	–	–	2 945	3 148	–	–	2 945	3 148
Negative fair values from employed micro fair value hedge derivatives	–	–	2 682	2 871	–	–	2 682	2 871
Interest-rate risks	–	–	2 385	2 497	–	–	2 385	2 497
Currency risks	–	–	297	374	–	–	297	374
Negative fair values from employed portfolio fair value hedge derivatives	–	–	263	277	–	–	263	277
Interest-rate risks	–	–	263	277	–	–	263	277
Other liabilities recorded at fair value	1	1	–	–	–	–	1	1
Total	**75**	**34**	**17 905**	**19 167**	**22**	**5**	**18 002**	**19 206**

The Level 3 financial assets currently recognised at fair value are measured using the counterparty price.

For assets held for sale and reported at fair value and liabilities held for sale and reported at fair value these are non-recurring fair value measurements (see Note (43) Assets held for sale and Note (53) Liabilities held for sale).

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

2016 (in € million)	from Level 1 to Level 2	from Level 1 to Level 3	from Level 2 to Level 1	from Level 2 to Level 3	from Level 3 to Level 1	from Level 3 to Level 2
Assets						
Assets held for trading	22	–	13	–	–	–
Debt securities and other fixed-interest securities	22	–	13	–	–	–
Financial assets as at fair value through profit or loss	–	–	25	–	–	–
Financial assets	–	–	25	–	–	–
Debt securities and other fixed-interest securities	–	–	25	–	–	–
Financial assets at fair value	1 024	–	951	–	–	–
Debt securities and other fixed-interest securities	1 024	–	951	–	–	–
Liabilities						
Financial liabilities reported at fair value	15	–	–	16	–	–
Securitised liabilities	15	–	–	16	–	–

2015 (in € million)	from Level 1 to Level 2	from Level 1 to Level 3	from Level 2 to Level 1	from Level 2 to Level 3	from Level 3 to Level 1	from Level 3 to Level 2
Assets						
Assets held for trading	–	–	36	–	–	–
Debt securities and other fixed-interest securities	–	–	36	–	–	–
Financial assets as at fair value through profit or loss	188	–	23	–	–	76
Financial assets	188	–	23	–	–	76
Debt securities and other fixed-interest securities	188	–	23	–	–	–
Financial assets at fair value	535	–	2 270	–	–	–
Debt securities and other fixed-interest securities	535	–	2 270	–	–	–
Liabilities						
Financial liabilities reported at fair value	11	–	16	–	5	–
Securitised liabilities	11	–	16	–	5	–

An initial assessment regarding the level of financial instruments under assets takes place on an individual transaction basis in accordance with HFA 47. This regulation specifies how financial instruments are to be classified in the various levels and stipulates, for example, that (mixed) prices calculated by price service agencies on the basis of reported prices are to be allocated to Level 2. Broker quotations must originate from an active market in order to be allocated to Level 1. If there are only a few broker quotations or if these have large bid-ask spreads or major price differences between them, it is assumed that the market is inactive.

Most transfers between levels as at the reporting date compared to 31 December 2015 took place between Level 1 and Level 2. The transfer from Level 2 to 3 amounting to € 16 million (€ 0 million) under financial assets in the DFV category is attributable to the capital measure (spin-off) of an underlying asset and the associated change in measurement method.

The transfer date for the transfer between the individual levels is the end of the reporting period. Financial assets and liabilities in Level 3 of the fair value hierarchy changed as follows:

	Trading assets	
	Loans and advances to trading and other trading assets	
(in € million)	2016	2015
1 January	**64**	**197**
Effect on the income statement[1]	5	– 15
Addition from purchase or issuance	338	57
Disposal from sale	57	85
Repayment/ exercise	6	90
31 December	**344**	**64**
Profit / losses result from measurement effects, realization and deferred interest and are shown in the respective items in the income statement[1]	6	– 15

[2] The effects reported include measurement gains/losses, realised profit/loss and deferred interest; these are reported in the income statement under the items (21) Net interest income and (24) Profit/loss from financial instruments at fair value through profit or loss.

	Financial assets at fair value					
	Fixed-income and book entry securities		Shares in companies (not consolidated)		Other financial assets classified as AfS	
(in € million)	2016	2015	2016	2015	2016	2015
1 January	**4**	**5**	**232**	**231**	**137**	**129**
Effect on the income statement[1]	–	–	–	15	– 16	– 1
Effect on the equity capital	–	–	11	5	–	–
Addition from purchase or issuance	–	–	27	15	–	9
Disposal from sale	–	1	17	34	7	–
Repayment / exercise	1	–	–	–	1	–
Disposal to Level 1 and 2	–	–	–	–	–	–
31 December	**3**	**4**	**253**	**232**	**113**	**137**
Profit / losses result from measurement effects, realisation and deferred interest and are shown in the respective items in the income statement[1]	–	–	–	–	– 12	–

[1] The effects reported include measurement gains/losses, realised profit/loss and deferred interest; these are reported in the income statement under the items (21) Net interest income and (26) Profit/loss from financial assets.

(in € million)	Assets held for sale reported at fair value 2016	2015
1 January	**–**	**–**
Addition from purchase or issuance	**9**	**–**
31 December	**9**	**–**

	Trading liabilities					
	Negative fair values from derivatives relating to Currency risks		Negative fair values from derivative currency risk		Negative fair values from derivatives relating to Credit derivatives	
(in € million)	2016	2015	2016	2015	2016	2015
1 January	**–**	**16**	**1**	**1**	**–**	**–**
Effect on the income statement	–	–	– 1	–	–	–
Addition from purchase or issuance	1	–	–	–	1	–
Disposal from sale	–	16	–	–	–	–
31 December	**1**	**–**	**–**	**1**	**1**	**–**

[1] The effects reported include measurement gains/losses, realised profit/loss and deferred interest; these are reported in the income statement under the items (21) Net interest income and (24) Profit/loss from financial instruments at fair value through profit or loss.

	Designated financial liabilities reported at fair value	
	Securitsed liabilities	
(in € million)	2016	2015
1 January	**4**	**9**
Addition from Level 2	16	–
Disposal to Level 1	–	5
31 December	**20**	**4**

The fair values of the financial instruments in Level 3 were determined using the following significant input data not observable on the market.

Product	Fair Value 31 Dec. 2016	Significant non-observable input data in the fair value measurement	Spread of the used input data	Weighted average
Interest-bearing bonds (assets)	3	Fair Value	-	-
Interest-bearing bond (liabilities)	– 20	historical volatilities	7-202 %	30%
Participations	253	Discount rate	5-9 %	8%
Silent participations	113	Discount rate	4-15 %	11%
Loans	344	Rating	Rating Class (25er DSGV-Skala) 3-16	Averaged Rating 9
Derivatives (liabilities)	– 2	Rating	Rating Class (25er DSGV-Skala) 4-14	Averaged Rating 12
For sale certain financial assets recorded at fair value	9	Fair Value	-	-

A significant input that cannot be observed in the market used in the Level 3 fair value measurement of interest-bearing securities is the fair value itself. Due to a lack of market data the measurement uses counterparty prices that qualify as Level 3 inputs. The sensitivity of the fair value measurement is approximated via a price change of 10 per cent and totals € 0.3 million (€ 0.4 million). The above-mentioned amount would have a corresponding effect on other comprehensive income (OCI).

A significant input that cannot be observed in the market used in the fair value measurement of investments is the discount rate. Major changes in this input result in a significantly higher or lower fair value. The sensitivity of the fair value measurement was analysed by increasing and decreasing the discount rate by 50 basis points. This analysis showed that an imputed change in the assumed parameter would result in a change of € 14.3 million (€ 7.8 million) in the fair value of the investments in Level 3, with a corresponding effect on other comprehensive income (OCI).

A significant input that cannot be observed in the market used in the fair value measurement of silent participations is the discount rate. Major changes in this input result in a significantly higher or lower fair value. The sensitivity of the fair value measurement was analysed by increasing and decreasing the discount rate by 100 basis points. This analysis showed that an imputed change in the assumed parameter would result in a change of € 2.5 million (€ 3.5 million) in the fair value of the silent participations in Level 3, with a corresponding effect on other comprehensive income (OCI).

A significant input that cannot be observed in the market used in the fair value measurement of loans is the internal rating. Major changes in this input result in a significantly higher or lower fair value. The sensitivity of the fair value measurement was analysed by increasing and decreasing the rating by one rating class. This analysis showed that an imputed change in the assumed parameter would result in a change of € 2.1 million (€ 0.1 million) in the fair value of the loans in Level 3, with a corresponding effect on the income statement.

There are currently no derivatives that have been measured as part of syndicated loans and allocated to Level 3. This means it is an interest or credit derivative.

A significant input that cannot be observed in the market used in the fair value measurement of these derivatives is the rating. Major changes in the rating result in a significantly higher or lower fair value. The sensitivity of the fair value measurement was analysed by increasing and decreasing the rating by one level. This analysis showed that an imputed change in the rating would result in a change of € 0.2 million (€ 0 million) in the fair value of the derivatives in Level 3, with a corresponding effect on the income statement.

Interest-bearing securities, investments and silent participations are mainly reported under financial assets, while derivatives and loans are reported under financial assets and liabilities at fair value through profit or loss.

There are no relevant correlations between significant Level 3 inputs used in the fair value measurement of Level 3 financial instruments. As a result, there is no impact on the fair value.

If values are specified in the notes on fair values for assets and liabilities that are not measured at fair value in the balance sheet, they are to be classified in the fair value hierarchy. The classification can be taken from the following table.

	Level 1		Level 2		Level 3		Total	
(in € million)	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015[1]	31 Dec. 2016	31 Dec. 2015[1]	31 Dec. 2016	31 Dec. 2015
Assets								
Cash reserve	1 444	817	3	–	–	55	1 447	872
Loans and advances to banks	605	785	231	258	21 434	20 799	22 270	21 842
Mortage loans	–	–	–	–	52	17	52	17
Public-sector loans	–	–	–	–	674	5 154	674	5 154
Mortage-backed loans	–	–	–	–	14	42	14	42
Other loans	–	–	231	258	11 496	8 382	11 727	8 640
Current account and forward contracts	538	715	–	–	9 140	6 386	9 678	7 101
Other advances to banks	67	70	–	–	58	818	125	888
Loans and advances to customers	3	78	2 329	1 042	102 478	107 487	104 810	108 607
Mortage loans	–	–	–	–	18 455	14 052	18 455	14 052
Public-sector loans	–	–	980	960	27 349	29 119	28 329	30 079
Mortage-backed loans	–	–	–	–	10 039	5 204	10 039	5 204
Other loans	–	–	62	82	41 734	53 879	41 796	53 961
Current account and forward contracts	3	78	–	–	4 901	5 135	4 904	5 213
Other advances to customers	–	–	1 287	–	–	98	1 287	98
Financial assets not reported at fair value	12	–	2 563	3 184	–	21	2 575	3 205
Debt securities and other fixed-interest securities	12	–	2 525	3 184	–	21	2 537	3 205
Shares in companies (not consolidated)	–	–	38	–	–	–	38	–
For Sale certain financial assets not recorded at fair value	–	–	5	74	286	–	291	74
Other assets reported at fair value	–	–	–	–	26	35	26	35
Total	**2 064**	**1 680**	**5 131**	**4 558**	**124 224**	**128 397**	**131 419**	**134 635**

[1] In contrast to the previous year, the investment properties figures are shown in Note (41).

(in € million)	Level 1 31 Dec. 2016	Level 1 31 Dec. 2015	Level 2 31 Dec. 2016	Level 2 31 Dec. 2015	Level 3 31 Dec. 2016	Level 3 31 Dec. 2015	Total 31 Dec. 2016	Total 31 Dec. 2015
Liabilities								
Liabilities to banks	342	512	3 951	3 659	45 576	45 268	49 869	49 439
Liabilties to customers	677	282	9 813	10 277	49 795	53 063	60 285	63 622
Securitsed liabilities	4 444	3 427	31 881	31 145	–	1 758	36 325	36 330
Issued debt securities	4 444	3 427	29 466	30 413	–	1 758	33 910	35 598
Money market instruments	–	–	1 124	732	–	–	1 124	732
Other securitised liabilities	–	–	1 291	–	–	–	1 291	–
For sale certain financial liabilities not recorded at fair value	–	7	19	–	–	–	19	7
Other financial liabilities not reported at fair value	–	1	1	–	2	28	3	29
Subordinated capital	207	344	2 955	2 797	1 002	1 585	4 164	4 726
Subordinated liabilities	–	–	2 812	2 630	894	855	3 706	3 485
Participatory capital	–	–	64	88	–	62	64	150
Silent participations	207	344	79	79	108	660	394	1 083
Other subordinated capital	–	–	–	–	–	8	–	8
Total	**5 670**	**4 573**	**48 620**	**47 878**	**96 375**	**101 702**	**150 665**	**154 153**

(59) Carrying Amounts by Measurement Category

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Assets			
Financial assets held for trading	11 060	12 253	– 10
Financial assets designated at fair value	1 466	1 782	– 18
Available for sale assets	28 828	31 092	– 7
Loans and receivables	126 636	129 613	– 2
Total	**167 990**	**174 740**	**– 4**
Liabilities			
Financial liabilities held for trading	5 801	7 754	– 25
Financial liabilities designated at fair value	9 255	8 303	11
Other liabilities	146 344	149 612	– 2
Total	**161 400**	**165 669**	**– 3**

Hedging instruments for hedge accounting in the sense of IAS 39 are not included, and nor is the cash reserve, since they are not assigned to any measurement category.

(60) Net Gains or Losses by Measurement Category

	1 Jan. - 31 Dec. 2016 (in € million)	1 Jan. - 31 Dec. 2015 (in € million)	Change (in %)
Financial Instruments Held for Trading	377	– 82	> 100
Financial Instruments designated at Fair Value through Profit or Loss	15	218	– 93
Available for Sale Assets	42	76	– 45
Loans and Receivables	– 2 784	– 617	> 100
Other Liabilities	– 223	– 96	> 100
Total	**– 2 573**	**– 501**	**> 100**

The Financial Instruments Held for Trading category applies exclusively to trading profit/loss, while the result from the fair value option is included in the Financial Instruments Designated at Fair Value through Profit or Loss category. The Available for Sale category contains the profit/loss from financial assets in the AfS category and profit/loss from shares in companies that are not consolidated. The Loans and Receivables category consists of loan loss provisions, profit/loss from LaR financial assets and profit/loss from the disposal of loans and advances. The other liabilities category contains income and expenses from the repurchase of own liabilities.

The net gains or losses from the measurement categories of Financial Instruments Held for Trading and Financial Instruments Designated at Fair Value through Profit or Loss contain the net commission income from the individual transactions. Profit/loss from hedge accounting is not included in the net income since it is not assigned to any of the categories.

(61) Impairments/Reversals of Impairment by Measurement Category

	1 Jan. - 31 Dec. 2016 (in € million)	1 Jan. - 31 Dec. 2015 (in € million)	Change (in %)
Available for Sale Assets			
Profit / loss from impairment of financial assets classified as AfS	44	– 21	> 100
Profit / loss from shares in not consilidated companies	– 3	– 7	– 57
	41	**– 28**	**> 100**
Loans and Receivables			
Profit / loss from impairment of financial assets classified as AfS	2	–	–
Profit / loss from impairment of advances	– 2 963	– 718	> 100
	– 2 961	**– 718**	**> 100**
Total	**– 2 920**	**– 746**	**> 100**

(62) Offsetting of Financial Assets and Financial Liabilities

The effects or potential effects of rights of set-off in connection with financial assets and liabilities can be found in the following table.

31 Dec.2016 (in € million)	Gross amount before balancing	Amount of the financially balancing	Net amount after balancing	Master netting arrangements and other without financially balancing: Financial instruments	Collaterals: Securities collateral	Collaterals: Cash collateral	Net amount
Assets							
Offsetting of current accounts	5 519	4 143	1 376	–	–	–	1 376
Derivatives	12 627	4 968	7 659	3 863	–	768	3 028
Securities lending and repos	2 971	–	2 971	2 049	893	–	29
Liabilities							
Offsetting of current accounts	14 947	4 143	10 804	–	–	–	10 804
Derivatives	13 594	4 961	8 633	3 863	–	3 543	1 227
Securities lending and repos	12 371	–	12 371	2 049	10 298	5	19

31 Dec.2015 (in € million)	Gross amount before balancing	Amount of the financially balancing	Net amount after balancing	Master netting arrangements and other without financially balancing: Financial instruments	Collaterals: Securities collateral	Collaterals: Cash collateral	Net amount
Assets							
Offsetting of current accounts	4 336	2 748	1 588	–	–	–	1 588
Derivatives	13 740	3 835	9 905	6 208	–	939	2 758
Securities lending and repos	2 160	–	2 160	1 917	243	–	–
Liabilities							
Offsetting of current accounts	14 925	2 743	12 182	–	–	–	12 182
Derivatives	14 755	3 900	10 855	6 208	–	2 736	1 911
Securities lending and repos	9 534	–	9 534	1 917	7 597	4	16

In the NORD/LB Group, the netting of unconditional liabilities due on demand to an account holder is grouped under the offsetting of current accounts measured at amortised cost with loans and advances due on demand to the same account holder in the sense of §10 RechKredV. This holds insofar as it has been agreed for the calculation of interest and commissions that the account holder is treated the same way as if the postings are made via a single account. Offsetting is performed in accordance with IAS 32.42. There is no offsetting of loans and advances and liabilities in multiple currencies.

Transactions involving derivative financial instruments and securities lending and repurchase transactions, are generally performed on the basis of bilateral framework contracts concluded with the counterparty. Such contracts provide only for limited rights to offset the loans and advances and liabilities reported as amortised costs and the collateral provided and accepted at fair value, e.g. in case of contract infringement or in case of insolvency. There is therefore no current right to offset as per IAS 32.42.

Selected derivative financial instruments are concluded with central counterparties (clearing houses). For these financial instruments measured at fair value, there is a corresponding offset of loans and advances and liabilities reported at amortised cost and of collateral provided and received at fair value in accordance with IAS 32.42.

(63) Transfer and Derecognition of Financial Assets

The remaining risks and opportunities at NORD/LB from transferred financial assets and associated liabilities are presented below. This overview also shows the extent to which the purchasers' rights of recourse applies exclusively to the respective assets transferred.

31 Dec.2016	Full recognitionof financial assets despite transfer		The transferee's right of recourse relates only to the respective transferred assets		
(in € million)	Asset value of the assets	Asset value of the appropriate liabilities	Fair value of the assets	Fair value of the appropriate liabilities	Net position
Financial assets at fair value through profit or loss	427	138	151	138	13
Financial assets not reported at fair value	44	–	–	–	–
Financial assets reported at fair value	10 155	8 330	7 105	5 077	2 028
Total	**10 626**	**8 468**	**7 256**	**5 215**	**2 041**

31 Dec.2015 (in € million)	Full recognition of financial assets despite transfer		The transferee's right of recourse relates only to the respective transferred assets		
	Asset value of the assets	Asset value of the appropriate liabilities	Fair value of the assets	Fair value of the appropriate liabilities	Net position
Financial assets at fair value through profit or loss	3	3	3	3	–
Financial assets reported at fair value	7 981	7 706	4 160	3 886	274
Total	**7 984**	**7 709**	**4 163**	**3 889**	**274**

Transferred financial assets within the items 'assets measured at fair value through profit or loss' and 'financial assets reported at fair value' are primarily genuine securities repurchase transactions and securities lending transactions. These are still listed in the consolidated balance sheet, since the interest, credit-rating, and other significant risks and opportunities from value appreciation and interest income remain within the NORD/LB Group. The collateral provided is subject to title transfer, i.e. the assignee can generally proceed as an owner and in particular can utilise it in the form of transfers or pledges. In the case of securities collateral, securities of the same type and quality must be delivered or returned unencumbered. When securities collateral is provided, the collateral provided may not be returned in the form of liquid assets without the consent of the assignor.

(64) Derivative Financial Instruments

The NORD/LB Group uses derivative financial instruments for hedging purposes as part of its asset/liability management. There is also trading in derivative financial transactions.

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. Unlike their presentation in the balance sheet, the market values are stated prior to offsetting in the balance sheet in accordance with IAS 32.42.

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

	Nominal values		Fair value positive		Fair value negative	
(in € million)	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Interest-rate risk						
Interest rate swaps	273 416	262 327	11 883	12 441	10 827	10 743
FRAs	6 367	4 850	–	1	1	–
Interest options						
Call	1 955	3 566	116	700	1	2
Put	5 683	7 421	28	28	490	1 631
Caps, floors	5 699	5 991	86	71	38	47
Stock exchange contracts	81	677	–	–	1	–
Other forward interest rate transactions	1 980	2 261	90	90	169	167
	295 181	**287 093**	**12 203**	**13 331**	**11 527**	**12 590**
Currency risk						
Forward exchange contracts	30 536	22 624	295	240	319	223
Currency swaps and interest rate / currency swaps	26 912	27 349	318	373	1 803	1 946
Currency options						
Call	361	245	3	9	4	2
Put	361	251	4	2	2	9
	58 170	**50 469**	**620**	**624**	**2 128**	**2 180**
Share price and other price risks						
Share price and other price risks	73	121	2	6	1	5
Stock options						
Call	47	31	–	4	–	–
Stock exchange contracts	93	48	1	–	1	3
	213	**200**	**3**	**10**	**2**	**8**
Credit risk						
Assignor	81	192	–	1	–	–
Assignee	2 677	2 702	29	23	6	11
	2 758	**2 894**	**29**	**24**	**6**	**11**
Total	**356 322**	**340 656**	**12 855**	**13 989**	**13 663**	**14 789**

In der nachstehenden Tabelle sind die Restlaufzeiten der derivativen Finanzinstrumente angegeben.

Nominal values	Interest-rate risk		Currency risk		Share price and other price risk		Credit risk	
(in € million)	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Up to 3 months	17 804	17 836	24 969	16 897	80	69	146	59
More than 3 months up to 1 year	26 344	32 799	9 824	10 274	98	74	202	332
More than 1 year up to 5 years	104 560	101 404	12 624	13 485	35	53	2 410	2 502
More than 5 years	146 473	135 054	10 753	9 813	–	4	–	1
Total	**295 181**	**287 093**	**58 170**	**50 469**	**213**	**200**	**2 758**	**2 894**

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

The following table shows the nominal values and the positive and negative gross market values of the derivative transactions broken down by their respective counterparties.

	Nominal values		Fair value positive		Fair value negative	
(in € million)	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Banks in the OECD	147 544	159 369	5 476	7 042	8 022	9 717
Banks outside the OECD	273	605	2	3	3	4
Public institutions in the OECD	6 001	6 030	348	435	122	167
Other counterparties (including stock exchange contracts)	202 504	174 652	7 029	6 509	5 516	4 901
Total	**356 322**	**340 656**	**12 855**	**13 989**	**13 663**	**14 789**

(65) Concessions due to Financial Difficulties

Financial assets can be restructured for various reasons, including changes in market conditions, customer loyalty and other factors, and their contractual conditions can also be amended.

The NORD/LB Group also restructures or modifies contractual conditions of financial assets to enable borrowers to continue servicing fully or partially in spite of current or expected financial difficulties. These concessions are made if it is assumed that the borrower can fulfil the modified conditions in line with the contract.

Under these concessions the NORD/LB Group grants the borrower better contractual conditions than previously agreed which would not have been offered to comparable clients.

The adjustment of contractual conditions includes term extensions, changes to payment dates for interest and repayments and adjustments to covenants.

31 Dec.2016 (in € million)	Gross carrying amount of exposures with forbearance measures		Accumulated impairment	
	Performing Exposure with borbearance measuries	Non-Performing Exposure with borbearance measuries	Performing Exposure with borbearance measuries	Non-Performing Exposure with borbearance measuries
Loans and advances	**2 584**	**8 236**	**13**	**2 700**
Other financial companies	–	172	–	143
Non-financing institutes	2 535	8 049	13	2 554
Budgets	49	15	–	3
Debt instruments at amortised cost	**2 584**	**8 236**	**13**	**2 700**
Debt instruments other than held for trading	**2 584**	**8 236**	**13**	**2 700**
Loan commitments given	18	45	–	–

31 Dec.2015 (in € million)	Gross carrying amount of exposures with forbearance measures		Accumulated impairment	
	Performing Exposure with borbearance measuries	Non-Performing Exposure with borbearance measuries	Performing Exposure with borbearance measuries	Non-Performing Exposure with borbearance measuries
Loans and advances	**3 535**	**7 281**	**29**	**2 396**
Other financial companies	5	149	–	99
Non-financing institutes	3 481	7 114	29	2 288
Budgets	49	18	–	9
Debt instruments at amortised cost	**3 535**	**7 281**	**29**	**2 396**
Debt instruments other than held for trading	**3 535**	**7 281**	**29**	**2 396**
Loan commitments given	48	32	1	–

(66) Disclosures concerning Selected Countries

The following table shows, in contrast to the exposures in the risk report (see the management report), the values recognised in the balance sheet for transactions relating to selected countries (including credit derivatives). The disclosures by country include regional governments, municipalities and state-related companies.

(in € million)	Financial instruments held for trading 31 Dec. 2016	Financial instruments held for trading 31 Dec. 2015	Financial instruments designated at fair value 31 Dec. 2016	Financial instruments designated at fair value 31 Dec. 2015	Available for sale assets 31 Dec. 2016	Available for sale assets 31 Dec. 2015
Ireland						
Country	–	9	–	–	23	22
Financing institutes / insurance companies	– 13	13	–	–	33	24
Companies / other	45	37	–	–	1	–
	32	**59**	**–**	**–**	**57**	**46**
Italy						
Country	4	–	86	84	920	1 071
Financing institutes / insurance companies	– 2	1	–	–	86	124
Companies / other	6	4	–	–	84	90
	8	**5**	**86**	**84**	**1 090**	**1 285**
Portugal						
Country	– 1	– 2	–	–	149	51
Financing institutes / insurance companies	– 1	– 1	–	–	1	1
Companies / other	–	–	–	–	13	–
	– 2	**– 3**	**–**	**–**	**163**	**52**
Slowenia						
Country	–	4	–	–	2	–
	–	**4**	**–**	**–**	**2**	**–**
Spain						
Country	34	1	–	–	198	138
Financing institutes / insurance companies	23	17	–	–	910	1 239
Companies / other	8	9	–	–	41	28
	65	**27**	**–**	**–**	**1 149**	**1 405**
Hungary						
Country	–	–	–	–	112	113
	–	**–**	**–**	**–**	**112**	**113**
Cyprus						
Companies / other	8	1	–	–	–	–
	8	**1**	**–**	**–**	**–**	**–**
Total	**111**	**93**	**86**	**84**	**2 573**	**2 901**

For financial instruments categorised as available for sale with a cost totalling € 2,330 million (€ 2,582 million), the cumulative valuation result reported in equity for the selected countries totals € 102 million (€ 118 million). In addition to this, there were no write-downs (€ 1 million) recognised in the income statement for the period.

	Loans and Receivables							
	Gross book value		Specific valuation allowances		General loan loss provisions		Fair value	
(in € million)	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Egypt								
Companies / other	44	–	–	–	–	–	45	–
	44	**–**	**–**	**–**	**–**	**–**	**45**	**–**
Greece								
Companies / other	6	21	–	–	–	– 1	6	19
	6	**21**	**–**	**–**	**–**	**– 1**	**6**	**19**
Ireland								
Financing institutes / insurance companies	126	193	–	–	–	–	127	198
Companies / other	2 499	2 332	–	–	2	– 2	2 524	2 148
	2 625	**2 525**	**–**	**–**	**2**	**– 2**	**2 651**	**2 346**
Italy								
Financing institutes / insurance companies	78	83	–	–	–	–	63	69
Companies / other	290	213	–	–	–	–	291	216
	368	**296**	**–**	**–**	**–**	**–**	**354**	**285**
Portugal								
Companies / other	21	25	–	–	–	–	21	25
	21	**25**	**–**	**–**	**–**	**–**	**21**	**25**
Russia								
Financing institutes / insurance companies	131	148	–	–	–	–	131	148
Companies / other	66	43	–	–	–	–	63	41
	197	**191**	**–**	**–**	**–**	**–**	**194**	**189**

	Loans and Receivables							
	Gross book value		Specific valuation allowances		General loan loss provisions		Fair value	
(in € million)	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Spain								
Country	51	52	–	– 4	–	–	53	54
Financing institutes / insurance companies	69	84	–	–	–	–	69	84
Companies / other	168	249	30	24	–	–	166	254
	288	**385**	**30**	**20**	**–**	**–**	**288**	**392**
Hungary								
Financing institutes / insurance companies	5	1	–	–	–	–	5	1
Companies / other	27	33	–	–	–	–	27	32
	32	**34**	**–**	**–**	**–**	**–**	**32**	**33**
Cyprus								
Companies / other	1 053	1 072	31	– 49	20	6	844	779
	1 053	**1 072**	**31**	**– 49**	**20**	**6**	**844**	**779**
Total	**4 634**	**4 549**	**61**	**– 29**	**22**	**3**	**4 435**	**4 068**

The nominal value of credit derivatives relating to the selected countries in the NORD/LB Group's portfolio is € 812 million (€ 567 million). Of this amount, sovereigns account for € 378 million (€ 378 million), financing institutes/insurance companies for € 341 million (€ 125 million) and companies/others for € 94 million (€ 64 million). The Group acts as both a provider and recipient of collateral. The netted fair value of the credit derivatives is € -1 million (€ -4 million).

(67) Underlying Transactions in Effective Hedges

Financial assets and liabilities that are underlying transactions in a hedging transaction under IAS 39 are still recognised together with the unsecured transactions in the relevant balance sheet items, since the hedging does not change the type and function of the underlying transaction. However, the balance sheet recognition of the financial instruments otherwise reported at amortised cost (LaR and OL categories) is corrected by the change in fair value attributable to the hedged risk. For the portfolio fair value hedges, these changes in fair value are reported in a separate balance sheet item. Financial instruments in the AfS category continue to be reported at the full fair value.

For information purposes, the financial assets and liabilities that are hedged underlying transactions in an effective micro fair value hedging relationship are listed below:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Assets			
Loans and advances to banks	617	755	– 18
Loans and advances to customers	8 419	7 849	7
Financial assets	7 734	8 473	– 9
Total	**16 770**	**17 077**	**– 2**
Liabilities			
Liabilities to banks	928	642	45
Liabilties to customers	6 081	6 935	– 12
Securitsed liabilities	9 262	9 504	– 3
Subordinated capital	201	153	31
Total	**16 472**	**17 234**	**– 4**

For information purposes, the financial assets and liabilities that are hedged underlying transactions in an effective portfolio fair value hedging relationship are listed below:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Assets			
Loans and advances to customers	11 999	15 612	– 23
Financial assets	1 635	1 299	26
Total	**13 634**	**16 911**	**– 19**
Liabilities			
Securitsed liabilities	21 830	25 201	– 13
Total	**21 830**	**25 201**	**– 13**

(68) Residual Terms of Financial Liabilities

31 Dec.2016 (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 to banks	14 208	6 054	5 862	12 086	13 513	51 723
Liabilties to customers	22 765	3 221	6 986	12 166	16 932	62 070
Securitsed liabilities	865	688	7 213	24 807	6 283	39 856
Financial liabilities at fair value through profit or loss (no derivatives)	46	178	258	2 044	10 701	13 227
Negative fair values from derivatives held for trading	437	380	1 268	4 319	3 460	9 864
Negative fair values from hedge accounting derivatives	94	119	421	1 675	1 931	4 240
Liabilities held for sale (financial assets only)	3	–	16	–	–	19
Other liabilities (financial assets only)	2	1	–	–	–	3
Subordinated capital	17	10	477	1 508	2 950	4 962
Financial guarantees	6 087	38	54	570	171	6 920
Irrevocable credit commitments	5 971	57	487	1 788	2 150	10 453
Total	**50 495**	**10 746**	**23 042**	**60 963**	**58 091**	**203 337**

31 Dec.2015 (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 to banks	13 076	6 893	8 195	11 126	10 970	50 260
Liabilties to customers	23 458	5 667	8 764	9 824	17 013	64 726
Securitsed liabilities	1 928	945	6 391	25 123	5 971	40 358
Financial liabilities at fair value through profit or loss (no derivatives)	235	141	824	1 949	8 693	11 842
Negative fair values from derivatives held for trading	235	284	1 328	3 918	4 654	10 419
Negative fair values from hedge accounting derivatives	95	99	518	1 685	1 526	3 923
Liabilities held for sale (financial assets only)	5	–	3	–	–	8
Other liabilities (financial assets only)	–	1	–	–	–	1
Subordinated capital	2	4	806	1 780	2 731	5 323
Financial guarantees	5 333	38	8	573	246	6 198
Irrevocable credit commitments	5 489	37	314	2 835	734	9 409
Total	**49 856**	**14 109**	**27 151**	**58 813**	**52 538**	**202 467**

The residual term of the undiscounted financial liabilities is defined as the period between the reporting date for the annual report and the contractual maturity date.

(69) The NORD/LB Group as Assignor and Assignee

The following assets have been transferred as collateral for liabilities (carrying amounts):

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Loans and advances to banks	12 668	13 833	– 8
Loans and advances to customers	33 969	34 321	– 1
Financial assets at fair value through profit or loss	822	364	> 100
Financial assets	13 075	12 402	5
Total	**60 534**	**60 920**	**– 1**

Collateral has been provided for borrowing undertaken within the scope of genuine repos (repurchase transactions). In addition, collateral was provided for refinancing funds borrowed for specific purposes, such as the cover assets included in the cover pool of the NORD/LB Group's Pfandbrief banks and the loans underlying the securitisation transactions. Collateral was also deposited for securities lending transactions, and for transactions with clearing brokers and on stock exchanges.

The amount of the financial assets provided as collateral for which the assignee has the right by contract or custom to sell or repledge the collateral is € 9,373 million (€ 7,016 million). They consist primarily of cash collateral or securities collateral.

For the following liabilities, assets were transferred as collateral in the specified amounts:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Liabilities to banks	12 363	10 117	22
Liabilties to customers	6 627	7 939	– 17
Securitsed liabilities	17 573	18 886	– 7
Financial liabilities at fair value through profit or loss	7 421	13 578	– 45
Negative fair values from hedge accounting derivatives	487	563	– 13
Total	**44 471**	**51 083**	**– 13**

For collateral received, particularly in the context of securities repurchase and lending transactions that may be repledged or resold even if the assignor does not default, the fair value is € 2,655 million (€ 2,100 million).

Collateral that can be repledged or resold, even if the assignor does not default, was used. The repayment obligation at current market values is € 1,624 million (€ 1,282 million).

Securities repurchase and lending transactions are monitored with regard to collateralisation through daily measurement of the transactions. If a shortfall occurs, the assignee can require the assignor to provide additional collateral to increase the coverage level, provided that a specific threshold value specified in the contract is exceeded. If the assignor has provided collateral and if the market situation changes in such a way that surplus cover occurs, the assignor has the right to demand that the assignee release collateral, provided that a specific threshold value specified in the contract is exceeded. The collateral provided is subject to title transfer, i.e. the assignee can generally proceed as an owner and in particular can utilise it in the form of transfers or pledges. In the case of securities collateral, securities of the same type and quality must be delivered or returned unencumbered. When securities collateral is provided, the collateral provided may not be returned in the form of liquid assets without the consent of the assignor.

Other Notes

(70) Equity Management

Equity management for the NORD/LB Group is handled by the Group parent company, NORD/LB. The goal is to ensure adequate capital in both a quantitative and qualitative sense, achieve an appropriate return on equity, and long-term compliance with minimum regulatory capital requirements at Group level. In the reporting period, the equity items relevant for equity management were the “long-term equity under commercial law” derived from the reported equity capital as a parameter for measuring the return on equity; the regulatory Common Equity Tier 1 capital as per Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR), taking into account the transitional regulations specified therein until the end of 2017; the Common Equity Tier 1 capital as per the CRR without taking the transitional regulations into account; the regulatory Tier 1 capital as per the CRR; and the eligible own funds under the regulatory provisions of the CRR.

For regulatory equity items, statutory minimum equity ratios apply, as do capital buffers which grow incrementally until 2019; for each of these, the numerator is the equity item, and the denominator is the corresponding total risk exposure as per Article 92 (3) of the CRR. In the 2016 reporting year, the minimum equity ratios pursuant to the CRR were as follows: regulatory Common Equity Tier 1 capital 4.5 percent, regulatory Tier 1 capital 6.0 per cent and regulatory own funds 8.0 percent. In 2016, the required capital conservation buffer was 0.625 percent. In addition, as the supervisory authority responsible for NORD/LB at Group level in 2016, the European Central Bank (ECB) imposed an individual minimum ratio with regard to the Common Equity Tier 1 capital as a requirement from the Supervisory Review and Evaluation Process (SREP), in accordance with CRR and taking the transitional regulations into account. As at the reporting date, this minimum ratio was 9.75 per cent. The capital conservation buffer was already included in this value.

With effect from the start of 2017, the ECB modified the definition and amount of this minimum ratio. Henceforth, the SREP requirement applies to the total capital ratio, and its value for the NORD/LB Group is 10.25 per cent from 1 January 2017 onwards. This requirement comprises a statutory minimum total capital ratio of 8.0 per cent as per CRR, and an additional requirement of 2.25 per cent consisting entirely of Common Equity Tier 1 capital (the "Pillar 2 Requirement", P2R).

In addition to the SREP total capital requirement, the Bank must maintain a combined capital buffer requirement of 1.58 per cent in 2017, consisting of the statutory capital conservation buffer of 1.25 per cent and – as a systemically important bank in the country – the capital buffer of 0.33 per cent for systemically important institutions. Consequently, the outcome as at 1 January 2017 is an overall requirement of 11.83 per cent for the total capital ratio.

Since both capital buffers, like the P2R, must be covered in the form of Common Equity Tier 1 capital, this results in a Common Equity Tier 1 capital ratio of 8.33 per cent (based on the minimum capital ratio as per CRR of 4.5 percent, the additional requirement of 2.25 percent, and the combined capital buffer requirement of 1.58 percent).

In the reporting year, NORD/LB met the statutory minimum equity ratios at both Group and individual institution level and the individual minimum equity ratio imposed by the ECB in respect of Common Equity Tier 1 capital at all times (see Note (71) Regulatory Data).

Alongside these regulatory provisions, internal target equity ratios have been established at Group level for some of the equity items listed above, and each of those ratios are higher. For example, at Group level, a target rate of 11.5 per cent applies for the Common Equity Tier 1 capital ratio, following the logic of the CRR including transitional regulations.

The core mission of equity management in the 2016 reporting year was the further optimisation of the equity structure and ongoing equity management, with the goal of achieving the internal target equity ratios while also continuing to comply with the regulatory minimum equity ratios prescribed both by law and individually by banking regulatory authorities.

Furthermore, estimates and forecasts of important equity items and the associated ratios are performed regularly and in response to specific needs in the context of equity management. Changes in them are reported to the management, the supervisory committees and Bank's owners, and to the banking regulatory authorities. If these analyses reveal a need for action, corrective measures are taken with regard to the total risk exposure or – in coordination with the bank owners – optimisation measures targeting individual equity items are taken.

Equity management will continue to face a diverse range of requirements in the future as well, due especially to new regulations, individual minimum equity requirements from banking regulatory authorities, and other regulatory requirements (e.g. stress tests). For instance, as part of a change to the CRR announced by the European Commission, a new capital class will be introduced, which, in the context of a potential liquidation of financial institutions, will primarily be oriented towards regulatory equity and then towards other liabilities, and for which individual minimum requirements will be imposed by the resolution authorities. These requirements would represent an additional relevant parameter for equity management in the future, and would likely require modifications in the Group’s capital structure.

(71) Regulatory Data

The following consolidated regulatory capital data for the Group were calculated as at the reporting date in accordance with the provisions of Regulation (EU) No. 575/2013 on prudential requirements for banks and investment firms (CRR).

(in € million)	31 Dec.2016	31 Dec.2015
Total risk exposure amount	**59 896**	**63 675**
Capital requirements for credit risk	4 145	4 352
Capital requirements for operational risks	409	419
Capital requirements for market risks	166	251
Capital requirements for loan amount adjustments	72	73
Capital requirements	**4 792**	**5 095**

The following schedule shows the composition of regulatory equity for the Group in accordance with Article 25 et. seq. of the CRR:

(in € million)	31 Dec.2016	31 Dec.2015
Paid-up capital including premium	4 930	4 930
Reserves	1 439	2 908
Eligible components of CET 1 capital at subsidiaries	207	837
Other components of CET 1 capital	– 68	36
– Deductible items (from CET 1 capital)	– 580	– 964
Adjustments due to transition rules	825	573
Common Equity Tier 1 capital	**6 752**	**8 320**
Grandfathered AT1 instruments	451	451
Eligible components of AT 1 capital at subsidiaries	24	–
Adjustments due to transition rules	– 105	– 331
Additional Tier 1 capital	369	120
Tier 1 capital	**7 122**	**8 440**
Paid-up instruments of Tier 2 capital	2 568	2 616
Eligible components of Tier 2 capital at subsidiaries	282	270
Other components of Tier 2 capital	267	–
– Deductible items (from Tier 2 capital)	– 10	– 25
Adjustments due to transition rules	– 452	– 654
Tier 2 capital	**2 656**	**2 207**
Own funds	**9 777**	**10 647**

(in %)	31 Dec.2016	31 Dec.2015
Common equity tier 1 capital ratio	11,27%	13,07%
Tier 1 capital ratio	11,89%	13,25%
Total capital ratio	16,32%	16,72%

The tables may include minor differences that occur in the reproduction of mathematical operations.

(72) Foreign Currency Volume

As at 31 December 2016 and 31 December 2015 the NORD/LB Group had the following financial assets and liabilities in foreign currencies:

(in € million)	USD	GBP	JPY	Other	Total 31 Dec.2016	Total 31 Dec.2015
Assets						
Loans and advances to banks	308	19	14	115	456	753
Loans and advances to customers	23 970	3 944	173	1 998	30 085	32 343
Risk provisioning	– 1 848	– 3	–	– 8	– 1 859	– 1 440
Financial assets at fair value through profit or loss	13 926	1 875	320	2 378	18 499	17 013
Financial assets	2 897	434	285	711	4 327	5 180
Other	791	269	30	43	1 133	252
Total	**40 044**	**6 538**	**822**	**5 237**	**52 641**	**54 101**
Liabilities						
Liabilities to banks	7 365	742	1	285	8 393	7 913
Liabilties to customers	3 155	265	5	627	4 052	4 223
Securitsed liabilities	2 578	130	381	562	3 651	4 182
Financial liabilities at fair value through profit or loss	25 948	4 248	362	2 784	33 342	34 591
Other	1 404	92	41	92	1 629	2 247
Total	**40 450**	**5 477**	**790**	**4 350**	**51 067**	**53 156**

Exchange rate risks are eliminated by concluding countertrades with matching terms.

(73) Longer-term Assets and Liabilities

For balance sheet items that contain both short-term and long-term assets, the assets and liabilities that are realised or settled after more than twelve months are shown below.

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Assets			
Loans and advances to banks	11 001	11 896	– 8
Loans and advances to customers	83 776	84 584	– 1
Balancing items for financial instruments hedged in the fair value hedge portfolio	62	–	–
Assets held for trading	8 990	12 962	– 31
Loans and advances to customers reported	199	196	2
Financial assets reported at fair value	377	384	– 2
Positive fair values from hedge accounting	3 488	3 661	– 5
Financial assets classified as LaR	2 614	3 194	– 18
Financial assets classified as AfS	23 714	24 174	– 2
Other assets	–	23	– 100
Total	**134 221**	**141 074**	**– 5**
Liabilities			
Liabilities to banks	23 277	20 915	11
Liabilities to customers	24 950	23 953	4
Securitised liabilities	30 281	29 982	1
Balancing items for financial instruments hedged in the fair value hedge portfolio	237	–	–
Liabilities held for trading	8 509	9 118	– 7
Liabilities to banks reported at fair value	440	424	4
Liabilities to customers reported at fair value	5 829	5 529	5
Securitised liabilities reported at fair value	2 090	1 942	8
Negative fair values from hedge accounting derivatives	3 914	3 665	7
Provisions	79	71	11
Other liabilities	2	–	–
Subordinated capital	3 265	3 203	2
Total	**102 873**	**98 802**	**4**

(74) Lease Agreements

The NORD/LB Group appears as a lessee in the context of operating lease agreements.

There are service contracts about IT infrastructure services and real estate containing operating lease agreements. A term ending on 30 June 2020 has been agreed upon for the IT infrastructure framework contract. In addition to termination for good cause, there is also the possibility of extraordinary termination. Price adjustments are possible on a yearly basis. Renewal and purchase options, and restrictions in the sense of IAS 17.35d(iii), are not included in the contract.

The real estate leases are primarily based at the Hanover, Hamburg and Braunschweig locations. The average lease period for real estate is five years.

Furthermore, there is a major lease for a building at the Hanover location with a term of 13 years in the context of the operating lease agreements. The leasing agreement can be renewed up to two times. Lease payment adjustments are possible.

The future minimum lease payments from the Group's operating lease agreements are categorised as follows:

	31 Dec.2016 (in € million)	31 Dec.2015[1)] (in € million)	Change (in %)
Future minimum leasing lease payments up to 1 year	19	18	6
Future minimum leasing lease payments more than 1 year up to 5 years	54	65	– 17
Future minimum leasing lease payments more than 5 years	39	44	– 11
Total future minimum leasing lease payments	**112**	**127**	**– 12**

[1)] Recognition of real estate lease agreements under IAS 17 expanded in 2016 and retrospectively for 2015.

In the context of the operating lease agreements, minimum lease payments of € 19 million (€ 18 million) were recognised as an expense in the reporting year. Future income of € 5 million (€ 5 million) is expected from non-terminable sub-lease agreements.

Finance lease agreements for which the lessee role lies in the NORD/LB Group were entered into to the following extent.

There is a contract for the leasing and maintenance of a standard software package which includes an option to buy a licence for the standard software package (minimum lease payments € 4 million). For a contract concluded without a fixed term, termination is possible on 31 December of each calendar year. The NORD/LB Group appears as a lessor in the context of finance lease agreements. NORD/LB has purchased water pipelines that were leased in the context of a finance lease agreement. The borrower is obligated to make an annual variable lease payment. The borrower can buy back the leased property during the leasing period or at the end of the leasing period. The term is 30 years and ends in the year 2035.

In addition, leasing agreements relating to the vehicle fleet were extended in 2016.

The following table shows the transition of the present value of outstanding minimum lease payments to gross and net investment in the Group's finance lease agreements:

	31.12.2016 (in Mio €)	31.12.2015 (in Mio €)	Veränderung (in %)
Present value of outstanding minimum lease Payments up to 1 year	8	7	14
Present value of outstanding minimum lease Payments more than 1 year up to 5 years	22	26	– 15
Present value of outstanding minimum lease Payments more than 5 years	18	22	– 18
Total present value of outstanding minimum lease payments	**48**	**55**	**– 13**
Plus interest	17	22	– 23
Total minimum lease payments	**65**	**77**	**– 16**
Total minimum lease payments	**65**	**77**	**– 16**
Of which: up to 1 year	8	8	–
Of which: 1 year to 5 years	23	28	– 18
Of which: more than 5 years	34	42	– 19
Less financial income not yet realised	1	1	–
Net investment	**64**	**77**	**– 17**

The minimum lease payments guarantee residual values of € 5 million (€ 7 million).

(75) Contingent Liabilities and Other Obligations

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Contingent liabilities			
Liabilities from guarantees and other indemnity agreements	4 114	4 271	– 4
	4 114	**4 271**	**– 4**
Other obligations			
Irrevocable credit commitments	10 418	9 409	11
Total	**14 532**	**13 680**	**6**

Liabilities from guarantees and indemnity agreements include credit guarantees, trade-related guarantees and contingent liabilities from other guarantees and indemnity agreements.
NORD/LB ensures that the following companies are able to meet their obligations:

- Deutsche Hypothekenbank (Actiengesellschaft), Hanover, Germany
- Nieba GmbH, Hanover, Germany
- NORD/LB Luxembourg S.A. Covered Bond Bank, Luxembourg-Findel/Luxembourg
- NORD/LB Asset Management Holding GmbH, Hanover, Germany
- Skandifinanz AG, Zurich, Switzerland.

Information on uncertainty concerning the amount or the timing of outflows of capital and on possible equalisation payments is not given for reasons of practicality.

(76) Other Financial Obligations

The Group vouches for the obligations of the Sparkassenverband Niedersachsen (Association of the Savings Banks of Lower Saxony) resulting from its membership in the Deutscher Sparkassen- und Giroverband (German Association of Savings Banks and Girobanks) and the DekaBank Deutsche Girozentrale. In addition joint liability has been assumed for DekaBank Deutsche Girozentrale with the other shareholders of this bank for legacy liabilities established prior to 18 July 2005 within the scope of the guarantor function.
Furthermore, NORD/LB together with Sparkassenverband Niedersachsen (SVN) and Landesbank Berlin Holding AG act as guarantor for LBS Norddeutsche Landesbausparkasse Berlin-Hannover.
In connection with the acquisition of Deutsche Hypothekenbank (Actiengesellschaft), as the guarantor of the deposit security reserve for landesbanks and clearing centres, the Group is obliged to reimburse Deutscher Sparkassen- and Giroverband e. V. all expenditures including interest and interest lost for supporting measures which cannot be paid from the fund established for Deutsche Hypothekenbank (Actiengesellschaft) in accordance with the agreement concluded between Deutscher Sparkassen- und Giroverband e.V. and Deutsche Hypothekenbank (Actiengesellschaft) on 19 December 2008.
Additionally, it is obliged to release the Association of German Banks (Bundesverband deutscher Banken e.V.) from all losses which were a result of the measures in accordance with § 2 (2) of the statute of the "Einlagensicherungsfond" (deposit protection fund) for Deutsche Hypothekenbank (Actiengesellschaft). The participation of Deutsche Hypothekenbank (Actiengesellschaft) in the German banks' deposit protection fund was terminated as at 31 December 2008. In accordance with § 6 (8) of the statute of the deposit protection fund, the Group may still be liable for commitments previously entered into by Deutsche Hypothekenbank (Actiengesellschaft).

Due to its investment in Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig, NORD/LB is liable to the effect that the limited partners have released the general partner from liability.

In a joint participating interest with other limited partners in Immobilien Development und Beteiligungsgesellschaft Niedersachsen mbH IDB&Co. – Objekt Zietenterrassen – KG, one limited partner has indemnified the general partner from liability. Within this relationship, the Group assumes 50 per cent of the possible obligations from this declaration of liability.

With regard to the inclusion of the shares in FinanzIT GmbH, Frankfurt am Main, the withdrawing partners NORD/LB, Bremer Landesbank and Landesbank Saar have committed, together with the remaining partners of FinanzIT, to bear the risks of the company from the time up to their withdrawal, provided they have actually occurred and are not already covered by provisions which have already been made.

There is an obligation towards two companies (two companies) to grant a shareholder loan amounting to € 2 million (€ 2 million).

The Group is also obliged to make additional contributions up to an amount of € 55 million (€ 70 million) to the security reserve for Landesbanks and clearing centres. In the event of a need for support, these subsequent contributions could be collected immediately.

Payment obligations for shares and other interests amounted to € 14 million (€ 23 million) as at year end.

In 2015, subsidiary company Bremer Landesbank securitised a portfolio of lending receivables from the asset classes of renewable energies, corporate customers, community properties, commercial properties and ships amounting to € 2,060 million for capital relief purposes. By means of a guarantee contract, the default risk of the mezzanine tranche (amounting to an initial € 106 million) was transferred to an external third party. Losses on the first loss tranche are borne by Bremer Landesbank itself. Bremer Landesbank pays an annual premium on the outstanding mezzanine tranche, which is recognised under commission expenses. A premium of € 11 million was recognised in the reporting year. The contractual residual term of the guarantee is 11 years. Fee payments of € 11 million are expected for the following year.

In the reporting year Bremer Landesbank carried out another synthetic securitisation transaction for relief of regulatory capital. The current transaction is based on a credit portfolio from the asset classes of renewable energies, corporate customers, community properties, commercial properties and leasing amounting to € 3,159 million. To transfer the default risk from the first-loss tranche (amounting to an initial € 94 million), a guarantee contract was concluded with a private institutional guarantor as at 30 June 2016. Bremer Landesbank pays an annual premium for the first-loss tranche, which is recognised under commission expenses. A premium of € 6 million was recognised in the reporting year. Fee payments of € 12 million are expected for the following year.

In 2016, the Group securitised a portfolio of lending receivables amounting to € 11,222 million to reduce the charge on regulatory capital. The default risk from the mezzanine tranche (amounting to an initial € 478 million) was transferred to an external third party by means of a financial guarantee. Losses on the first loss tranche are borne by the Group itself. An annual premium is paid for the outstanding mezzanine tranche, which is recognised under commission expenses. This resulted in a financial charge of € 46 million (€ 53 million) in 2016. In subsequent years the fees will fall steadily until the guarantee ends.

To free up regulatory capital the Group securitised two portfolios comprising lending receivables as at the reporting date amounting to € 865 million (€ 509 million) and € 610 million (€ 735 million). The default risks from the mezzanine tranches were transferred to external third parties by means of financial guarantees and total € 51 million (€ 27 million) and € 26 million (€ 35 million) as at the reporting date. Losses on the first-loss tranche are borne by the Group itself. Premiums are payable for the outstanding mezzanine tranches, which are recognised under commission expenses. This resulted in financial charges of € 2 million (€ 2 million) and € 2 million (€ 3 million) in 2016. For the coming year an expense of € 4 million is expected in net commission income for a transaction increased by € 32 million, and an expense of € 1 million for the other. Both transactions fall due by 29 March 2052.

As long as and provided that it is not yet possible to use the respective guarantee to settle losses exceeding the respective first loss to be borne by the NORD/LB Group, no claim for compensation can be enforced against the respective guarantors. The collateralisation effect of the guarantees is thus accounted for by the Group on a net basis. This means the Group initially calculates valuation allowances for the lending receivables without taking the collateralisation effect of the respective guarantee into account. If the impairments exceed the respective first loss of the Group, the collateralisation effect is recognised when valuing the lending receivables.

A framework contract was concluded with Wincor Nixdorf International GmbH, Paderborn governing collaboration in the area of information technology. The contract, which pools IT infrastructure services with one service provider, runs to 30 June 2020. The annual costs are volume-dependent; the value of the contract over the entire term is approximately € 53 million.

In accordance with the Restructuring Fund Regulation (RstruktFV), the Group is required to pay a bank levy. On 1 January 2015, the Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 with regard to ex ante contributions to resolution financing arrangements entered into force. The Regulation supplements the EU Bank Recovery and Resolution Directive (BRRD; Directive 2014/59/EU).

As a member of the deposit security reserve for Landesbanks which belongs to the Savings Banks Finance Group security system and owing to the European bank levy, NORD/LB is obliged to pay annual contributions. The obligations to make contributions until 2024 and any obligations to make additional payments represent a risk to NORD/LB's financial position.

An annual contribution of € 13 million, which is reported in other administrative expenses, was due to the deposit security reserve.

(77) Subordinated Assets

Assets can be considered subordinated if, in the case of the borrower's liquidation or insolvency, they are fulfilled as claims only after the claims of the other creditors. The following subordinated assets are included under balance sheet assets:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Loans and advances to banks and customers	30	35	– 14
Financial assets at fair value through profit or loss	14	17	– 18
Financial assets	658	934	– 30
Total	**702**	**986**	**– 29**

(78) Trust Activities

In accordance with IFRS regulations, trust activities are not shown in the consolidated balance sheet, but they exist in the Group. The Group's trust activities are categorised as follows:

	31 Dec.2016 (in € million)	31 Dec.2015 (in € million)	Change (in %)
Assets held in trust			
Loans and advances to customers	43	57	– 25
Other assets held in trust	117	46	> 100
Total	**160**	**103**	**55**
Liabilities held in trust			
Liabilities to banks	31	40	– 23
Liabilities to customers	12	17	– 29
Other liabilities held in trust	117	46	> 100
Total	**160**	**103**	**55**

Related Parties

(79) Number of Employees

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

	Male 1 Jan. - 31 Dec. 2016	Male 1 Jan. - 31 Dec. 2015	Female 1 Jan. - 31 Dec. 2016	Female 1 Jan. - 31 Dec. 2015	Total 1 Jan. - 31 Dec. 2016	Total 1 Jan. - 31 Dec. 2015
NORD/LB	1 998	2 005	1 993	2 065	3 991	4 070
Teilkonzern Bremer Landesbank	556	559	513	535	1 069	1 094
Teilkonzern NORD/LB Luxemburg	126	122	61	60	187	182
Deutsche Hypothekenbank	221	221	174	169	395	390
Other	183	123	206	164	389	287
Group	**3 084**	**3 030**	**2 947**	**2 993**	**6 031**	**6 023**

(80) Disclosures concerning Shares in Companies

Consolididated Subsidiaries

Of the 42 (42) subsidiaries included in the consolidated financial statements, 24 (25) are structured companies. As at the reporting date 31 December 2016, non-controlling shareholders legally held a 45.17 per cent share in their subsidiary, Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale, Bremen (Bremer Landesbank). The amount of the capital share corresponds to the voting right share. Based on a contract with shareholders NORD/LB committed in the 2016 financial year to buy the non-controlling shares, and accrued the purchase in the accounts (see Note (57) Equity). Thus there were no significant, non-controlling shares in subsidiaries as at the reporting date. Statutory, contractual or regulatory restrictions and property rights of non-controlling shares, can limit the NORD/LB Group in its ability to gain access to Group assets, or to transfer them freely between Group companies and settle the Group's liabilities.

Within the NORD/LB Group, there are restrictions on collateral provided, plan assets as per IAS 19 and the minimum liquidity reserve. With regard to the restrictions on collateral provided, refer to Note (69) 'The NORD/LB Group as assignor and assignee'. The information on collateral provided also includes the cover assets included in the cover pool of the NORD/LB Group's Pfandbrief banks and loans pooled on the basis of securitisation transactions.

Restrictions on the plan assets can be found in Note (52) Provisions.

As at the reporting date there were legally still significant shares in subsidiary Bremer Landesbank attributable to non-controlling interests. Restrictions due to these shareholders' property rights exist insofar as, alongside the articles of incorporation, a treaty regulates the extent to which changes in share ownership and the ownership structure are subject to additional regulations, such as certain majority requirements. In connection with NORD/LB's takeover of all shares in Bremer Landesbank, these shareholders' existing property rights as at 31 December 2016 ceased to apply, effective on 1 January 2017.

As indicated in Note (4) Consolidation principles, structured companies are consolidated when the relationship between the Group and the structured companies shows that they are controlled by the Group.

As at the reporting date, one (one) structured company, Conduit Hannover Funding Company LLC (Hannover Funding), was consolidated, and the Group is contractually obligated to provide financial assistance to that company. The Hannover Funding purchases receivables from corporate customers and finances those transactions by issuing commercial paper. NORD/LB guarantees the company a liquidity facility so that Hannover Funding can fall back on NORD/LB in the event of financing and liquidity shortages. This arrangement is regulated by the Liquidity Asset Purchase Agreement. By contractual agreement, NORD/LB cannot access Hannover Funding's assets or liabilities.

Furthermore, the Group has provided financial support to 16 (15) consolidated structured shipping companies in the reporting period, although it is not contractually obligated to do so. The support payments relate to deferral agreements and to the waiver of special rights of termination in the context of loan restructuring measures, and amount to € 318 million (€ 184 million).

Assoziierte Unternehmen und Gemeinschaftsunternehmen

Among the 11 (12) associates and 2 (2) joint venture companies included in the consolidated financial statements, one (one) associate is of major importance to the Group due to its share in earnings and its share in overall earnings. As at the reporting date, NORD/LB holds the following shares in that company:

Registered office and name	Nature of the relationship	Shareholding (in %)		Voting rights (in %)	
		31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
LBS Norddeutsche Landesbausparkasse Berlin-Hannover; Hannover	Bausparkasse with strategic signification	44,00	44,00	44,00	44,00

The following table presents financial information from the IFRS financial statements of LBS Norddeutsche Landesbausparkasse, Berlin-Hanover, Hanover, (LBS) after updated adjustments through use of the equity method as per IAS 28.32-35.

(in € million)	LBS 31 Dec.2016	31 Dec.2015
Interest income	224	251
Interest expenses	105	116
Commission income	37	45
Commission expenses	50	61
Trading profit / loss	6	– 2
Other income / expenses	– 5	– 31
Profit / loss from continuing operations	**21**	**34**
Other comprehensive income	24	– 61
Comprehensive income	**45**	**– 27**
Short-term assets	801	856
Long-term assets	7 021	7 160
Short-term liabilities	670	856
Long-term liabilities	6 483	6 536
Net assets	**669**	**624**
Of which: NORD/LB Group's share	294	274
Accumulated unscheduled write-downs to the investment book value	233	206
Carrying amount of NORD/LB Group's share	**61**	**68**

No dividends were paid by LBS in either 2016 or 2015. The following table provides summarised financial information on the non-significant associates viewed individually:

(in € million)	31 Dec.2016	31 Dec.2015
Carrying amount of the shares of non-significant associated companies	177	180
NORD/LB Group's share in		
Profit/loss from continuing operations	14	18
Comprehensive income	**14**	**18**

The following table provides summarised financial information on the non-significant joint venture companies viewed individually:

(in € million)	31 Dec.2016	31 Dec.2015
Carrying amount of the shares of non-significant joint ventures	47	42
NORD/LB Group's share in		
Profit / loss from continuing operations	1	1
Comprehensive income	**1**	**1**

As at the reporting date, contingent liabilities to associates amounted to € 56 million (€ 56 million):

Non-consolidated structured companies

The NORD/LB Group is involved in structured companies that are not included as subsidiaries in the consolidated balance sheet. Structured companies are companies designed in such a way that voting rights and similar rights are not the dominant factor in determining who controls these companies. For example, this is the case when voting rights only apply to administrative tasks, and the relevant activities are managed through contractual agreements.

The NORD/LB Group includes structured companies in the form of securitisation companies, investment companies, leasing companies and other credit-financed project and property companies.

The subject of this note is structured companies that the Group does not consolidate because they do not have voting rights, contractual rights, financing agreements or other resources.

Securitisation companies

Securitisation companies invest financial resources in diversified asset pools. Among others, these include fixed-interest securities, corporate loans, private and commercial property loans and credit card debts. The securitisation vehicles finance these purchases by issuing various tranches of debt and equity instruments for which repayment is tied to the performance of the vehicle's assets. The Group can transfer assets synthetically or in reality to securitisation companies and make these liquid assets available in the form of financing.

Investment companies

The NORD/LB Group invests in funds sponsored by third parties. A Group company can also exercise the function of a fund manager, a capital management company, or another function. Financing of the fund is generally collateralised with the assets underlying the fund. A Group company can also provide a fund with start-up financing in the form of seed money.

Leasing companies

The NORD/LB Group acts as a lender for companies that were founded solely for the purpose of acquiring or developing various commercial properties, usually through well-known leasing companies. The financing is collateralised with the property being financed. The leasing companies are typically operated under the legal form of a GmbH & Co. KG. Due to existing contractual agreements, these are mainly controlled by the respective lessees. Financing of leasing companies also occurs in the domain of project financing and in the context of aeroplane acquisitions.

Project and property companies

The Group makes financing available for structured companies that typically hold one asset each, e.g. a real estate property or an aeroplane. In many cases, these structured companies take the legal form of a partnership. The equity of these companies is very small in comparison with the debt financing provided.

Shares in structured companies

The Group's shares in non-consolidated structured companies consist of contractual or non-contractual commitments to those companies, through which the Group is exposed to variable returns from the performance of the structured companies. Examples of shares in non-consolidated structured companies include debt or equity instruments, liquidity facilities, guarantees and various derivative instruments through which the Group absorbs risks from structured entities.

Shares in non-consolidated structured companies contain no instruments through which the Group exclusively transfers risks to the structured company. For example, if the Group buys credit default swaps from non-consolidated structured companies whose purpose is to transfer credit risks to an investor, the Group transfers this risk to the structured company and no longer bears it itself. A credit default swap of this kind therefore does not represent a share in a structured company.

Income from shares in structured companies

The Group generates income from fund-related asset management services that are oriented towards the change in fund assets' value and are also partially performance-based. Interest income is generated through financing of structured companies. All income resulting from derivatives trading with structured companies and changes in the values of the securities held are recognised in the income statement under the "Trading profit/loss" item.

Size of structured entities

The size of a structured company is determined by the type of the structured company's business activities. It can therefore be determined differently from one company to the next. The NORD/LB Group considers the following parameters as appropriate indicators for the size of the structured entities:

- Securitisation companies: current total volume of tranches issued
- Funds: assets
- Leasing/property companies: total assets of the leasing/property company
- Other companies: sum of all assets

Maximum risk of loss

The maximum possible risk of loss is the maximum loss that the Group might have to recognise in the income statement and in the statement of comprehensive income from its involvement in non-consolidated structured companies. Collateral and hedging relationships are ignored in determining this figure, as is the likelihood of a loss occurring. Therefore, the maximum possible risk of loss need not be equal to the economic risk.
The maximum possible risk of loss is determined according to the type of involvement in a structured company. The maximum possible risk of loss from receivables from lending transactions, including debt securities, is the carrying amount indicated in the balance sheet. The same is true for trade assets and for ABS, MBS and CDO items. The maximum possible loss from off-balance-sheet transactions, such as guarantees, liquidity facilities and loan commitments, is equal to their nominal value. The maximum possible risk of loss for derivatives is equal to their nominal value as well.
For each type of non-consolidated structured company, the following table shows the carrying amount of the Group's shares that are recognised in the Group's balance sheet and the previously defined maximum possible loss that could result from those shares. It also gives an indication of the size of the non-consolidated structured companies. These values do not represent the Group's economic risk from these commitments, since they do not take account of any collateral or hedging transactions.

31 Dec.2016 (in € million)	Securitisation companies (lender)	Securitisation companies (lenders)	Investment companies	Leasing companies	Property and project finance	Other	Total
Size of the non-consolidated structured company	679	23 480	35 232	12 893	487	17	72 788
Loans and advances to customers	25	3	–	2 063	36	20	2 147
Risk provisioning	–	–	–	– 1	–	– 20	– 21
Financial assets at fair value through profit or loss	–	106	–	7	–	–	113
Positive fair values from hedge accounting derivatives	–	–	–	–	–	–	–
Financial assets	–	689	100	–	–	6	795
Other assets	–	–	17	–	–	–	17
Assets reported in the balance sheet of the NORD/LB Group	**25**	**798**	**117**	**2 069**	**36**	**6**	**3 051**
Liabilities to banks	–	–	–	3	5	–	8
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	–
Liabilities reported in the balance sheet of the NORD/LB Group	**–**	**–**	**–**	**3**	**5**	**–**	8
Off-balance-sheet positions	–	1	–	69	–	1	71
Maximum risk of loss	25	800	125	2 227	36	7	3 220

31 Dec.2015 (in € million)	Securi-tisation companies (lender)	Securi-tisation companies (lenders)	Invest-ment compa-nies	Leasing compa-nies	Property and project finance	Other	Total
Size of the non-con solidated struc-tured company	75	51 510	57 216	4 893	512	64	114 270
Loans and ad-vances to custom-ers	129	263	95	2 036	15	34	2 572
Risk provisioning	–	–	–	– 20	–	–	– 20
Financial assets at fair value through profit or loss	–	110	24	14	–	–	148
Positive fair values from hedge accounting derivatives	–	–	–	–	–	–	–
Financial assets	–	1 073	71	15	10	6	1 175
Other assets	–	–	17	–	–	–	17
Assets reported in the balance sheet of the NORD/LB Group	**129**	**1 446**	**207**	**2 045**	**25**	**40**	**3 892**
Liabilities to banks	–	4	426	22	3	–	455
Financial liabili-ties at fair value through profit or loss	–	2	11	–	–	–	13
Liabilities re-ported in the balance sheet of the NORD/LB Group	**–**	**6**	**437**	**22**	**3**	**–**	468
Off-balance-sheet positions	–	1	–	84	–	–	85
Maximum risk of loss	129	1 540	1 875	2 367	30	40	5 981

The NORD/LB Group is considered as the sponsor of a structured company if market participants justifiably associate it with the structured company. Sponsorship is deemed to occur in the NORD/LB Group if

- the NORD/LB Group was involved in founding the structured company, and participated in its design and defining its objectives;
- the structured company's name contains components that establish a connection to the NORD/LB Group;
- the management of the structured company's assets and liabilities is based on a strategy developed by the Group, or
- the NORD/LB Group had issued or purchased the assets before they were transferred into the structured company (i.e. NORD/LB is the originator of the structured company).

There is no income in the reporting period from sponsored non-consolidated structured companies in which the NORD/LB Group has no shares as at the reporting date.

Since 2012 the NORD/LB Group has sponsored a securitisation vehicle to which default risks from lending receivables amounting to € 32 million were transferred in the 2016 financial year by means of a financial guarantee (see Note (76) Other financial obligations).

Additionally, another securitisation vehicle has been sponsored since 2016 by Bremer Landesbank, which was also involved in setting it up. Credit default risks totalling € 94 million were transferred to a structured unit by means of a financial guarantee (see Note (76) Other financial obligations).

(81) Related Parties

All consolidated and non-consolidated subsidiaries, associates and joint ventures, subsidiaries of joint ventures and associates qualify as related legal entities. Other related parties of the NORD/LB Group are the owners of NORD/LB, its subsidiaries and joint ventures, and provident funds and companies controlled by related entities or under joint management. Natural persons deemed to be related as per IAS 24 are the members of the Managing Board, the Supervisory Board and committees of NORD/LB, as the parent company, and their immediate families.

Dealings with related companies and persons are carried out at normal market terms and conditions. The volume of transactions with related parties in 2015 and 2016 (not including those to be eliminated under consolidation) can be seen in the following lists:

31 Dec.2016 (in € million)	Companies with significant influence	Subsidaries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Assets						
Loans and advances to banks	**–**	**–**	**–**	**249**	**–**	**59**
Of which: money market transcations	–	–	–	87	–	–
Of which: loans	–	–	–	155	–	59
Other loans	–	–	–	155	–	59
Loans and advances to customers	**2 387**	**7**	**–**	**327**	**1**	**487**
Of which: money market transcations	–	–	–	12	–	–
Of which: loans	2 376	7	–	315	1	487
Public-sector loans	2 258	–	–	14	–	468
Mortage-backed loans	–	2	–	93	1	4
Other loans	118	5	–	208	–	15
Financial assets at fair value through profit or loss	**290**	**–**	**–**	**49**	**–**	**40**
of which: Debt securities and other fixed-interest securities	103	–	–	–	–	–
Of which: Positive fair values from derivatives	64	–	–	49	–	1
Of which: Trading portfolio claims	123	–	–	–	–	39
Positive fair values from hedge accounting derivatives	**134**	**–**	**–**	**–**	**–**	**–**
Financial assets	**1 323**	**–**	**–**	**17**	**–**	**–**
Of which: Debt securities and other fixed-interest securities	1 323	–	–	–	–	–
Of which: Shares and other non fixed-interest securities	–	–	–	17	–	–
Total	**4 134**	**7**	**–**	**642**	**1**	**586**

31 Dec.2016 (in € million)	Companies with significant influence	Subsi-daries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Liabilities						
Liabilities to banks	**–**	**–**	**–**	**343**	**–**	**119**
Of which: deposits from other banks	–	–	–	–	–	30
Liabilities to customers	**984**	**46**	**1**	**305**	**4**	**757**
Of which: saving deposits	–	–	–	–	1	–
Of which: money market transcations	612	1	–	36	–	109
Securitised liabilities	**–**	**–**	**–**	**–**	**–**	**1**
Financial liabilities at fair value through profit or loss	**84**	**–**	**–**	**8**	**–**	**285**
Of which: negative fair values from derivatives	59	–	–	8	–	–
Subordinated capital	**1**	**129**	**–**	**–**	**–**	**15**
Total	**1 069**	**175**	**1**	**656**	**4**	**1 177**
Guarantees / sureties received	308	–	–	–	–	–
Guarantees / sureties granted	–	–	–	35	–	3

1 Jan. - 31 Dec.2016 (in € million)	Companies with significant influence	Subsi-daries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Interest expenses	41	8	–	20	–	18
Interest income	125	–	–	12	–	23
Other income and expenses	– 7	–	–	– 3	– 6	6
Total	**77**	**– 8**	**–**	**– 11**	**– 6**	**11**

31 Dec.2015 (in € million)	Companies with significant influence	Subsi-daries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Assets						
Loans and advances to banks	**–**	**–**	**–**	**276**	**–**	**247**
Of which: money market transcations	–	–	–	116	–	20
Of which: loans	–	–	–	160	–	227
Public-sector loans	–	–	–	–	–	13
Other loans	–	–	–	160	–	214
Loans and advances to customers	**2 575**	**6**	**–**	**314**	**1**	**655**
Of which: money market transcations	177	–	–	13	–	–
Of which: loans	2 352	6	–	300	1	655
Public-sector loans	2 270	–	–	15	–	643
Mortage-backed loans	–	5	–	89	1	4
Other loans	82	1	–	196	–	8
Financial assets at fair value through profit or loss	**343**	**–**	**–**	**74**	**–**	**27**
of which: Debt securities and other fixed-interest securities	62	–	–	–	–	–
Of which: Positive fair values from derivatives	115	–	–	74	–	2
Of which: Trading portfolio claims	166	–	–	–	–	25
Positive fair values from hedge accounting derivatives	**97**	**–**	**–**	**–**	**–**	**–**
Financial assets	**1 892**	**–**	**–**	**16**	**–**	**–**
Of which: Debt securities and other fixed-interest securities	1 892	–	–	–	–	–
Of which: Shares and other non fixed-interest securities	–	–	–	16	–	–
Total	**4 907**	**6**	**–**	**680**	**1**	**929**

31 Dec.2015 (in € million)	Companies with significant influence	Subsi-daries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Liabilities						
Liabilities to banks	**–**	**17**	**–**	**346**	**–**	**113**
Liabilities to customers	**1 397**	**32**	**–**	**368**	**5**	**863**
Of which: saving deposits	–	–	–	–	1	–
Of which: money market transcations	893	1	–	44	–	159
Securitised liabilities	**–**	**–**	**–**	**–**	**–**	**2**
Financial liabilities at fair value through profit or loss	**47**	**–**	**–**	**1**	**–**	**156**
Of which: negative fair values from derivatives	22	–	–	1	–	28
Negative fair values from hedge accounting derivatives	**8**	**–**	**–**	**–**	**–**	**–**
Subordinated capital	**1**	**588**	**–**	**–**	**–**	**15**
Total	**1 453**	**637**	**–**	**715**	**5**	**1 149**
Guarantees / sureties received	371	–	–	–	–	–
Guarantees / sureties granted	–	–	–	14	–	11

1 Jan. - 31 Dec.2015 (in € million)	Companies with significant influence	Subsi-daries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Interest expenses	32	59	–	35	–	8
Interest income	126	–	–	33	–	32
Commission income	–	–	–	1	–	–
Other income and expenses	3	–	–	–	– 6	4
Total	**97**	**– 59**	**–**	**– 1**	**– 6**	**28**

As at the reporting date there are impairments for loans and advances to associates amounting to € 2 million (€ 2 million). The following table shows the maximum balances for NORD/LB transactions with related companies and persons in the reporting period and the previous year.

(in € million)	31 Dec.2016	31 Dec.2015
Assets		
Loans and advances to banks	457	567
Loans and advances to customers	3 362	4 335
Other unsettled assets	2 481	2 449
Total	**6 300**	**7 351**
Liabilities		
Liabilities to banks	484	506
Liabilties to customers	2 832	2 665
Other unsettled assets	554	999
Total	**3 870**	**4 170**
Guarantees and sureties received	410	423
Guarantees and sureties granted	38	32

Key personnel are remunerated as follows:

(in € million)	31 Dec.2016	31 Dec.2015
Employment-related payments due in the short term	5	5
Post-employment payments	1	1
Other long-term benefits	–	1
Total remuneration	**6**	**7**

Total remuneration and loans to executive bodies in accordance with commercial regulations are shown in Note (82) Remuneration of and loans to governing bodies.

(82) Remuneration of and Loans to Governing Bodies

(in € million)	1 Jan. - 31 Dec. 2016	1 Jan. - 31 Dec. 2015
Total emoluments paid to active members of governing bodies		
Managing Board	5	5
Total emoluments paid to former members of governing bodies and their dependants		
Managing Board	4	4

Total remuneration to active members of the Supervisory Board was € 479 thousand (€ 468 thousand). In the reporting year, remuneration of € 488 thousand (€ 842 thousand) was granted which was dependent on the occurrence or discontinuation of future conditions, and for which the commitment was issued in the years 2013 – 2015.

In 2016, commitments were made amounting to € 575 thousand (€ 592 thousand) for remuneration which is dependent on the occurrence or discontinuation of future conditions.

The loans and advance payments granted to the members of the Managing Board and the Supervisory Board amounted to € 324 thousand (€ 613 thousand) and € 95 thousand (€ 35 thousand), respectively.

Of the loans and advance payments granted to the members of the Managing Board and the Supervisory Board, € 25 thousand was paid back in the reporting year.

There are pension obligations of € 64 million (€ 58 million) to former members of the Managing Board and their surviving dependants.

(83) Group Auditor's Fees

(in € 000)	1 Jan. - 31 Dec. 2016
Group Auditor's Fees for	
The statutory audit	14 854
Other audit-related services	1 017
Tax advisory services	44
Other services	1 007

(84) Equity Holdings

The list of shareholdings shows all companies included in the consolidated financial statements, the non-consolidated subsidiaries, joint ventures and associates, and other shareholdings of 20 per cent or more. The information on the companies was taken from the most recent annual report available for each of them.

Company name and registered office	Shares (%) direct	Shares (%) indirect
a) In den Konzernabschluss eingezogene Unternehmen		
aa) In den Konzernabschluss einbezogene Tochtergesellschaften		
BGG Bremen GmbH & Co. KG, Bremen	100,00	–
BGG Marktcarré GmbH & Co. KG, Bremen	100,00	–
BLB Immobilien GmbH, Bremen	100,00	–
BLB Leasing GmbH, Oldenburg	100,00	–
Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale -, Bremen	–	54,83
Bremische Grundstücks-GmbH, Bremen	100,00	–
Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover [2)]	–	100,00
KreditServices Nord GmbH, Braunschweig [2)]	–	100,00
Nieba GmbH, Hannover [2)]	–	100,00
NORD/FM Norddeutsche Facility Management GmbH, Hannover [2)]	–	100,00
NORD/LB Asset Management AG, Hannover	100,00	–
NORD/LB Asset Management Holding GmbH, Hannover	–	100,00
NORD/LB Luxembourg S.A. Covered Bond Bank, Luxemburg-Findel / Luxemburg	–	100,00
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen	100,00	–
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	100,00	–
TLN-Beteiligung Anstalt des öffentlichen Rechts & Co. KG, Hannover	–	100,00

Company name and registered office	Shares (%) indirect	Shares (%) direct
ab) Special Purpose Entities included in the consolidated financial statements		
DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Pullach im Isartal	–	–
Fürstenberg Capital Erste GmbH, Fürstenberg	–	–
Fürstenberg Capital II. GmbH, Fürstenberg	–	–
GEBAB Ocean Shipping III GmbH & Co. KG, Hamburg	–	–
Hannover Funding Company LLC, Dover (Delaware) / USA	–	–
KMU Shipping Invest GmbH, Hamburg	–	–
NORD/LB Objekt Magdeburg GmbH & Co. KG, Pullach i. Isartal	–	–
"PRIMAVERA" Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
"QUADRIGA" Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
ac) Investment funds included in the consolidated financial statements		
NORD/LB AM ALCO	–	100.00
NORD/LB AM ARB Europe [3)]	100.00	–

Company name and registered office	Shares (%) indirect	Shares (%) direct
ad) Companies / investment funds accounted for in the consolidated financial statements using the equity method		
Joint Ventures		
caplantic GmbH, Hannover	–	45.00
Bremische Wohnungsbaubeteiligungsgesellschaft mbH, Bremen	50.00	–
Associated companies	–	–
Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	32.26	–
BREBAU GmbH, Bremen	48.84	–
GSG Oldenburg Bau- und Wohngesellschaft mit beschränkter Haftung, Oldenburg	22.22	–
LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hanover	–	44.00
LINOVO Productions GmbH & Co. KG, Pöcking	–	45.17
NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hanover	–	28.66
Öffentliche Lebensversicherung Braunschweig, Braunschweig [12)]	–	75.00
Öffentliche Sachversicherung Braunschweig, Braunschweig[12)]	–	75.00
Toto-Lotto Niedersachsen GmbH, Hannover	49.85	–
Investmentfonds	–	–
Lazard-Sparkassen Rendite-Plus-Fonds	49.18	–
ae) After IFRS 5 valuated companies		
Subsidiaries		
NORD/LB Vermögensmanagement Luxembourg S.A., Luxemburg-Findel / Luxemburg [3)]	–	100.00
Special Purpose Entities		
Beteiligungs- Kommanditgesellschaft MS "Buxmelody" Verwaltungs- und Bereederungs GmbH & Co., Buxtehude	–	–
Ganymede Beteiligungsgesellschaft mbH & Co.KG, Hamburg	–	–
MT "BALTIC CHAMPION" Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MT "NORDIC SCORPIUS" Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MT "NORDIC STAR" Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
MS "HEDDA SCHULTE" Shipping GmbH & Co. KG, Hamburg	–	–
Nordic Buxtehude Schifffahrtsgesellschaft mbH & Co. KG	–	–
Nordic Stade Schifffahrtsgesellschaft mbH & Co. KG	–	–
Nordic Stralsund Ltd., Majuro / Marshallinseln	–	–
"OLYMPIA" Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
"PANDORA" Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
Proud Parents Investment Co., Majuro / Marshallinseln	–	–
Rhea Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
Titan Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
Associated companies	–	–
SALEG Sachsen-Anhaltinische-Landesentwicklungsgesellschaft mbH, Magdeburg [5)]	–	56.61

Company name and registered office	Share of capital held (in %)	Equity[1] (in € 000)	Profit/Loss (in € 000)
b) Companies not included in the consolidated financial statements with an equity capital of greater or equal +/-€ 1 million			
BGG Oldenburg GmbH & Co. KG, Bremen	100.00	9 750,00	687,00
Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [2) 10)]	100.00	9 061,43	–
Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig[10)]	66.67	1 568,72	– 15,59
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen	100.00	1 858,00	889,00
LBT Holding Corporation Inc., Wilmington (Delaware) / USA[10)]	100.00	7 577,49	– 1 845,61
NBN Grundstücks- und Verwaltungs-GmbH, Hannover [10)]	100.00	1 716,88	1 048,25
NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hannover [10)]	90.00	2 566,49	– 13,58
Norddeutsche Investitionen Beteiligungsgesellschaft mbH, Hannover [10)]	100.00	15 290,15	– 1,16
NORD/LB RP Investments LLC, Wilmington (Delaware) / USA [10)]	100.00	8 729,51	196,27
Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/ Weser [2) 10)]	98.00	3 088,20	–
Skandifinanz AG, Zürich / Schweiz [10)]	100.00	12 477,88	– 1 489,90
Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [10)]	100.00	1 278,23	–
c) Capital share of greater or equal 20 % in companies with an equity capital of greater or equal +/– € 1 million			
Joint Ventures/ associated companies / other			
Adler Funding LLC, Dover (Delaware) / USA [10)]	21.88	10 046,60	– 414,90
Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen[10)]	49.00	1 145,34	1 142,14
Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode[10)]	50.00	3 500,00	432,67
Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [10)]	20.89	16 149,80	194,09
Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [10)]	20.44	14 948,95	93,05
Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [10)]	20.46	12 011,20	571,02
Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. - Objekt Zietenterrassen - KG, Göttingen [6) 10)]	52.56	6 926,99	231,73
INI International Neuroscience Institute Hannover GmbH, Hannover [9) 10)]	22.70	– 8 640,53	4 869,92
LUNI Productions GmbH & Co. KG, Pöcking [9) 10)]	24.29	– 115 829,36	– 110,41
Medicis Nexus GmbH & Co. KG, Icking [7) 11)]	66.01	7 511,12	– 913,37
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [10)]	26.00	13 485,41	879,84
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hannover [10)]	39.82	12 235,60	759,30
NBV Beteiligungs-GmbH, Hannover [10)]	42.66	15 083,84	2 112,74
Öffentliche Versicherung Bremen, Bremen [10)]	20.00	5 907,15	857,15
Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [10) 13)]	100.00	171 127,15	147 871,62
Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [10)]	21.72	19 402,86	313,71

Company name and registered office	Share of capital held (in %)
d) Subsidiaries not included in the consolidated financial statements with an equity capital of greater or equal +/– € 1 million	
BLBI Beteiligungs-GmbH, Bremen	100.00
Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn, Bremen	100.00
City Center Magdeburg Hasselbach-Passage Grundstücksgesellschaft mbH, Hannover	100.00
FL FINANZ-LEASING GmbH, Wiesbaden	58.00
Galimondo S.a.r.l., Luxemburg-Findel, Luxemburg	100.00
GBH Beteiligungs-GmbH, Bremen [3)]	100.00
MALIBO GmbH & Co. Unternehmensbeteiligungs KG, Pullach im Isartal	77.81
NORD/Advisors Norddeutsche Financial & Strategic Advisors GmbH, Hannover	100.00
NORD/LB G-MTN S.A., Luxemburg-Findel / Luxemburg	100.00
NORD/LB Informationstechnologie GmbH, Hannover [2)]	100.00
NORD/LB Project Holding Ltd., London / Großbritannien	100.00
PLM Grundstücksverwaltung Gesellschaft mit beschränkter Haftung, Hannover	100.00
Ricklinger Kreisel Beteiligungs GmbH, Hannover	100.00
SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main	100.00
Themis 1 Inc., Wilmington (Delaware) / USA	100.00
Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hannover	72.70
Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Tiefgarage Stade Vermietungs KG, Hannover	90.00

Comments:
[1)] Equity as defined in §§ 266 and 272 of the German Commercial Code (deutsches Handelsgesetzbuch – HGB) less outstanding capital contributions.
[2)] A profit/loss transfer agreement is in place with the company.
[3)] Established in the financial year.
[4)] This company is classified as a joint venture because of the joint management.
[5)] This company is classified as an associate due to the potential voting rights of third parties.
[6)] Not classified as subsidiary due to voting right share of 50.00 percent.
[7)] This company is classified as an other investment due to the rebuttal of the control definition and the significant influence.
[8)] Data on equity and profit/loss omitted in accordance with § 313 (2) 4 sentence 3 of the German Commercial Code.
[9)] The company does not have excessive debt.
[10)] Data is available as at 31 December 2015.
[11)] Data is available as at 31 December 2014.
[12)] This company is classified as an associate due to its structure under company law.
[13)] Not subject to consolidation under IFRS 10.4 (b).

(85) Events after the Reporting Date

Effective as at 1 January 2017, NORD/LB acquired the outstanding non-controlling interests (45.2 percent) of Bremer Landesbank and now owns 100 per cent (54.8 percent) of shares in Bremer Landesbank. Effective on the same date, a controlling agreement with a loss compensation obligation was concluded between NORD/LB and BLB, and a unrestricted comfort letter was issued in favour of BLB.

Triggered by risk provisioning in the shipping segment adjusted to changed income expectations resulting from a further deterioration in the market situation, Bremer Landesbank posted a net loss of about € 1.4 billion before taxes in 2016. Subsequently, a capital increase of € 400 million became necessary, along with an advance resolution of an additional € 200 million. This strengthens Bremer Landesbank's capital reserve and increases the regulatory capital ratios with the goal of keeping the capital and the risk-bearing capacity of Bremer Landesbank intact to an appropriate extent.

As additional prospective relief measures in the context of capital requirements, an application was filed with the relevant regulatory authority in January 2017 for the recognition of a waiver as per § 2a (1) and (2) of the German Banking Act (Kreditwesengesetz – KWG) in conjunction with Article 7 (1) CRR in favour of Bremer Landesbank.

The German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung – DPR) announced in its letter of 19 January 2017 that it intends to perform a review of the consolidated financial statements as at 31 December 2015 and the associated Group management report for the 2015 financial year because of the "risk provisioning" item, in accordance with § 342b (2), sentence three, no. 2 of the German Commercial Code (Inspection upon request of the Federal Financial Supervisory Authority). No reasonable estimate can be made with regard to the financial effects resulting from the initiation of this review in the 2017 financial year because the type and scope of the largely internal resources that will be committed to it cannot yet be reliably estimated.

Statement and Audit

Auditor's Opinion

We have audited the consolidated financial statements prepared by Norddeutsche Landesbank - Girozentrale -, Hanover, Braunschweig and Magdeburg (NORD/LB), which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement, the consolidated notes and the Group management report for the financial year from 1 January to 31 December 2016. The Managing Board of NORD/LB is responsible for preparing the consolidated financial statements and the Group management report in accordance with IFRS, as adopted in the EU, the additional requirements of commercial law pursuant to § 315a (1) of the German Commercial Code and the additional provisions of the statutes. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany – IDW). These standards require that we plan and conduct the audit such that misstatements and breaches materially affecting the presentation of the financial position and financial performance in the consolidated financial statements and in the Group management report are detected with reasonable assurance, taking into account generally accepted accounting principles. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in determining audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes an assessment of the annual reports of the companies included in the consolidated financial statements, defining the scope of consolidation, the accounting and consolidation principles applied and the significant estimates made by management and an evaluation of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion and based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted in the EU, with the additional requirements of commercial law pursuant to § 315a (1) of the German Commercial Code and with the additional provisions of the statutes, and provides a true and fair view of the financial position and financial performance of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, complies with statutory requirements, provides an accurate view of the position of the Group overall and accurately presents the opportunities and risks concerning its future direction.

Hannover, 27 March 2017
KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer
Auditor

Leitz
Auditor

Responsibility Statement

We declare that to the best of our knowledge and in accordance with applicable accounting principles, the consolidated financial statements provide a true and fair view of the Group's financial position and financial performance and that the Group management report presents a true and fair view of the performance of the business, including the operating results and the position of the Group, and also describes the significant opportunities and risks relating to the probable direction of the Group.

Hannover / Braunschweig / Magdeburg, 23 March 2017

Norddeutsche Landesbank Girozentrale

The Managing Board

Bürkle	Brouzi	Dieng
Dr. Holm	Schulz	Tallner

Further Information

Country-by-Country Reporting in accordance with § 26a of the German Banking Act as at 31 December 2016

The requirement for country-by-country reporting as contained in Article 89 of EU Directive 2013/36/EU (Capital Requirements Directive – CRD IV) was transposed into German law by the German Banking Act and had to be met in full for the first time for 2014, in accordance with § 64r of the German Banking Act. In this report the revenues generated, the number of employees, the profit or loss before taxes, the taxes on profit or loss and the state aid received from each EU Member State and from third countries are reported on a non-consolidated basis for companies included in the IFRS consolidated financial statements by way of full consolidation. Under revenue, the earnings before taxes included in the IFRS consolidated financial statements are stated before the recognition of consolidation effects, risk provisioning and administrative expenses, and do not include other operating expenses. The number of employees is the average number of employees during the reporting period. The profit or loss before income taxes and the taxes on profit or loss are stated before taking consolidation effects into account. The taxes on profit or loss are based on current and deferred tax expenses and income. The NORD/LB Group has not received any state aid through the EU state aid proceedings.

	Number of employees	Turnover (in € million)	Profit/loss before tax (in € million)	Taxes on profits and losses (in € million)	Received public aids
Germany	5 567	2 242	– 2 352	14	–
China	19	4	0	1	–
Great Britain	80	69	65	12	–
Luxembourg	216	156	101	25	–
Singapore	74	67	36	5	–
USA	75	97	58	14	–

	Type of activity	Country	Location
Beteiligungs- Kommanditgesellschaft MS "Buxmelody" Verwaltungs- und Bereederungs GmbH & Co.	Other company	Germany	Buxtehude
BGG Bremen GmbH & Co. KG	Other company	Germany	Bremen
BGG Marktcarré GmbH & Co. KG	Other company	Germany	Bremen
BLB Immobilien GmbH	Other company	Germany	Bremen
BLB Leasing GmbH	Financial services institution	Germany	Oldenburg
Bremer Landesbank Kreditanstalt Oldenburg -Girozentrale-	Bank	Germany	Bremen
Bremische Grundstücks-GmbH	Other company	Germany	Bremen
DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	Provider of financial services	Germany	Pullach i. Isartal
Deutsche Hypothekenbank (Actien-Gesellschaft)	Bank	Germany	Hanover
Fürstenberg Capital Erste GmbH	Other company	Germany	Fürstenberg
Fürstenberg Capital II. GmbH	Other company	Germany	Fürstenberg
Ganymede Beteiligungsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
GEBAB Ocean Shipping II GmbH & Co. KG	Other company	Germany	Hamburg
GEBAB Ocean Shipping III GmbH & Co. KG	Other company	Germany	Hamburg
Hannover Funding Company LLC	Finance company	USA	Dover (Delaware)
Happy Auntie S.A., Majuro	Other company	Marshallislands	Majuro
KMU Shipping Invest GmbH	Other company	Germany	Hamburg
KreditServices Nord GmbH	Provider of financial services	Germany	Braunschweig
MS "Hedda Schulte" Shipping GmbH & Co. KG	Other company	Germany	Hamburg
MT "BALTIC CHAMPION" Tankschiffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
MT "BALTIC COMMODORE" Tankschiffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
MT "NORDIC SCORPIUS" Tankschiffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
MT "NORDIC SOLAR" Tankschiffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
MT "NORDIC STAR" Tankschiffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
Nieba GmbH	Finance company	Germany	Hanover
NOB Beteiligungs GmbH & Co. KG	Finance company	Germany	Hanover
Norddeutsche Landesbank Girozentrale	Bank	Germany	Hanover
Norddeutsche Landesbank Girozentrale Niederlassung London	Bank	United Kingdom	London
Norddeutsche Landesbank Girozentrale Niederlassung New York	Bank	USA	New York
Norddeutsche Landesbank Girozentrale Niederlassung Shanghai	Bank	China	Shanghai
Norddeutsche Landesbank Girozentrale Niederlassung Singapur	Bank	Singapore	Singapore

	Type of activity	Country	Location
Nordic Buxtehude Schifffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
Nordic Stade Schifffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
Nordic Stralsund Ltd., Majuro (Marshallinseln)	Other company	Marshallis- lands	Majuro
NORD/FM Norddeutsche Facility Management GmbH	Other company	Germany	Hanover
NORD/LB AM ALCO	Other company	Germany	Hanover
NORD/LB AM ARB EUROPE	Other company	Germany	Hanover
NORD/LB Asset Management AG	Investment company	Germany	Hanover
NORD/LB Asset Management Holding GmbH	Finance company	Germany	Hanover
NORD/LB Luxembourg S.A. Covered Bond Bank	Bank	Luxembourg	Luxembourg- Findel
NORD/LB Objekt Magdeburg GmbH & Co. KG	Provider of financial services	Germany	Pullach i. Isartal
NORD/LB Vermögensmanagement Luxembourg S.A.	Financial services institution	Luxembourg	Luxembourg- Findel
Nord-Ostdeutsche Bankbeteiligungs GmbH	Finance company	Germany	Hanover
NORDWEST VERMÖGEN Bremische Grund- stücks-GmbH & Co. KG	Other company	Germany	Bremen
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG	Other company	Germany	Bremen
"OLIVIA" Beteiligungsgesellschaft mbH & Co. KG	Other company	Germany	Elsfleth
"OLYMPIA" Beteiligungsgesellschaft mbH & Co. KG	Other company	Germany	Elsfleth
"PANDORA" Beteiligungsgesellschaft mbH & Co. KG	Other company	Germany	Elsfleth
"PRIMAVERA" Beteiligungsgesellschaft mbH & Co. KG	Other company	Germany	Elsfleth
"QUADRIGA" Beteiligungsgesellschaft mbH & Co. KG	Other company	Germany	Elsfleth
Proud Parents Investment Co., Majuro	Other company	Marshallis- lands	Majuro
Rhea Tankschifffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
Titan Tankschifffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
TLN Beteiligung Anstalt des öffentlichen Rechts & Co KG	Finance company	Germany	Hanover

The average return on capital is -1.12 percent. This is calculated from the earnings after tax and the total assets in the IFRS consolidated financial statements as at 31 December 2016.

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 our business and are beyond our control. These include, in particular, trends in the 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 today. NORD/LB accepts no responsibility for the forward-looking statements and also does not intend to update or correct them if developments materialise that are different to those expected.

Facts and Figures

Establishment
Merger into Norddeutsche Landesbank Girozentrale on 1 July 1970

Predecessor institutions
Niedersächsische Landesbank – Girozentrale –
(established in 1917)
Herzogliches Leyhaus
(established in 1765) (from which Braunschweigische Staatsbank emerged in 1919)
Hannoversche Landeskreditanstalt
(established in 1840)
Niedersächsische Wohnungskreditanstalt Stadtschaft (established in 1918)

Legal foundations
State Treaty of 22 August 2007 between the State of Lower Saxony, the State of Saxony-Anhalt and the State of Mecklenburg-Western Pomerania concerning Norddeutsche Landesbank Girozentrale, in the version of the Amendment to the State Treaty of 12 July 2011, which entered into force on 31 December 2011.

Statutes of Norddeutsche Landesbank Girozentrale in accordance with the resolution of the Owners' Meeting of 9 December 2013. These Statutes entered into force on 1 January 2014.

Legal form
Public-law institution with legal capacity

Owners
State of Lower Saxony
Niedersächsischer Sparkassen-
und Giroverband
State of Saxony-Anhalt
Sparkassenbeteiligungsverband
Saxony-Anhalt
Sparkassenbeteiligungszweckverband
Mecklenburg-Western Pomerania

Governing bodies
Managing Board
Supervisory Board
Owners' Meeting

Supervision
State of Lower Saxony through the Lower Saxony Minister of Finance, in consultation with the Saxony-Anhalt Ministry of Finance

Managing Board
Thomas S. Bürkle (Chairman)
Ulrike Brouzi
Christoph Dieng
Dr Hinrich Holm
Christoph Schulz
Günter Tallner

General representatives
Carsten Hünken
Dr Ulf Meier
Christoph Trestler

Registered office of the Bank
Hanover (head office)
Friedrichswall 10
30159 Hanover

Braunschweig
Friedrich-Wilhelm-Platz
38100 Braunschweig

Magdeburg
Breiter Weg 7
39104 Magdeburg

Development banks
Investitionsbank Sachsen-Anhalt
Domplatz 12
39104 Magdeburg

Landesförderinstitut Mecklenburg-Vorpommern
Werkstraße 213
19061 Schwerin

Branches in Germany

Hanover Branch
Georgsplatz 1
30159 Hanover

Düsseldorf Branch
Königsallee 63-65
40215 Düsseldorf

Hamburg Branch
Brodschrangen 4
20457 Hamburg

Magdeburg Branch
Landesbank for Saxony-Anhalt
Breiter Weg 7
39104 Magdeburg

Munich Branch
Widenmayerstraße 15
80538 München

Schwerin Branch
Graf-Schack-Allee 10/10A
19053 Schwerin

Stuttgart Branch
Kronprinzstraße 11
70173 Stuttgart

Branches worldwide
(in alphabetical order)

NORD/LB London
One Wood Street
London EC2V 7WT
United Kingdom

NORD/LB New York
1114, Avenue of the Americas
20th Floor
New York, New York 10036

NORD/LB Shanghai
15F, China Insurance Building
166 East Lujiazui Road
Pudong New District
Shanghai 200120
PR China

NORD/LB Singapore
CapitaGreen
138 Market Street
36-03
Singapore 048946

Locations of Deutsche Hypo in Germany and worldwide
http://www.deutsche-hypo.de/en/about-us/locations
Branches of Braunschweigische Landessparkasse
www.blsk.de

Investments
www.nordlb.de/die-nordlb/ueberuns/beteiligungen/

Bremer Landesbank Kreditanstalt
Oldenburg Girozentrale
Domshof 26
28195 Bremen

Deutsche Hypothekenbank
(Actiengesellschaft)
Osterstraße 31
30159 Hanover

Nieba GmbH*
Friedrichswall 10
30159 Hanover

** with investment holding*
DekaBank Dt. Girozentrale
Mainzer Landstraße 16
60325 Frankfurt am Main

NORD/LB Asset Management
Holding GmbH*
Prinzenstraße 12
30159 Hanover

** with subsidiary*
NORD/LB Asset Management AG
Prinzenstraße 12
30159 Hanover

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

LBS Norddeutsche Landesbausparkasse Berlin-Hannover
Kattenbrookstrift 33
30539 Hanover

Öffentliche Sachversicherung Braunschweig
Öffentliche Lebensversicherung
Braunschweig
Theodor-Heuss-Straße 10
38122 Braunschweig

Toto Lotto Niedersachsen GmbH
Am TÜV 2+4
30519 Hanover

Supervisory Board of Norddeutsche Landesbank

Chairman
Peter-Jürgen Schneider
Minister
Lower Saxony Ministry of Finance

1st Deputy Chairman
Thomas Mang
President
Sparkassenverband, Lower Saxony

2nd Deputy Chairman
André Schröder
Minister
Ministry of Finance
Saxony-Anhalt

Members
Frank Berg
Chairman of the Managing Board
OstseeSparkasse Rostock

Norbert Dierkes
Chairman of the Managing Board
Sparkasse Jerichower Land

Edda Döpke
Bank employee
NORD/LB Norddeutsche Landesbank Girozentrale

Dr Elke Eller
Head of HR and Director of Human Resources
TUI AG

Frank Hildebrandt
Bank employee
NORD/LB Norddeutsche Landesbank Girozentrale

Prof. Dr Susanne Knorre
Management Consultant

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Mayor of the
Hanseatic City of Lüneburg

Ulrich Markurth
Mayor of
Braunschweig

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Sparkasse Emsland

Antje Niewisch-Lennartz
Justice Minister
of Lower Saxony

Frank Oppermann
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NORD/LB Norddeutsche Landesbank Girozentrale

Freddy Pedersen
Trade union secretary
ver.di Vereinte Dienstleistungsgewerkschaft

Jörg Reinbrecht
Trade union secretary
ver.di Bezirk Hannover

Stefanie Rieke
Bank employee
NORD/LB Norddeutsche Landesbank Girozentrale

Felix von Nathusius
Businessman

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Thomas Mang
President
Sparkassenverband, Lower Saxony

1st Deputy Chairman
Frank Berg
Chairman of the Managing Board
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2nd Deputy Chairman
Frank Bannert
District Administrator
Saalekreis District

State of Mecklenburg-Western-Pomerania
Rolf Christiansen
District Administrator
Ludwigslust-Parchim District

State of Lower Saxony
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Deputy Assistant Under-Secretary
Lower Saxony Ministry of Finance

Frank Doods
State Secretary
Lower Saxony Ministry of Finance

State of Saxony-Anhalt
Dr Ingolf Lange
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Ministry of Finance
Saxony-Anhalt

Michael Richter
State Secretary
Ministry of Finance
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Sparkassenbeteiligungsverband, Saxony-Anhalt
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Sparkassenverband, *Lower Saxony*
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Sparkasse Verden

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Managing Director
Richard Borek GmbH & Co. KG

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Sole Shareholder
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Paolo Dell‘ Antonio

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Öffentliche Versicherung Braunschweig

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Porta Service & Beratungs GmbH & Co. KG

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Concordia Versicherungen

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ABG Projektentwicklungs GmbH

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Chairman of the Boards
Mecklenburgische Versicherungsgruppe

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Felix Schoeller Holding GmbH & Co. KG

Dr Karl Gerhold
Managing Director
Getec Energie Holding GmbH

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Gothaer Versicherungsbank VVaG

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Kaufmännische Krankenkasse - KKH

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Saxony-Anhalt

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Stiebel Eltron GmbH & Co. KG

Berend van der Velde
Stand-alone entity
Berend van der Velde Agriculture Company

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Deutsche Messe AG

Lorenz von Schröder
Chairman of the Managing Board
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MKN Maschienenfabrik Kurt Neubauer
GmbH & Co. KG

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Madsack Mediengruppe

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Ministry of Finance
Saxony-Anhalt

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Kreissparkasse Soltau

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Chairman of the Managing Board
Kreissparkasse Grafschaft Bentheim zu Nordhorn

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Sparkasse Jerichower Land

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Helmstedt District

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SPD Parliamentary Party in Parliament of Lower Saxony

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Lower Saxony Ministry of Finance

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SPD Parliamentary Party in Parliament of Lower Saxony

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FDP Parliamentary Party in Parliament of Lower Saxony

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CDU Parliamentary Party in Parliament of Lower Saxony

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Manfred Hugo
Retired District Administrator

Hauke Jagau
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Hanover Region

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Head of State Chancellery
Lower Saxony State Chancellery

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Lower Saxony Ministry of Finance

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Bündnis 90/Die Grünen Parliamentary Party

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Hartmut Tölle
District Chairman
German Federation of Trade Unions
Lower Saxony-Bremen-Saxony-Anhalt

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Lower Saxony Association of Cities and Municipalities

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Office of Regional Development, Braunschweig

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Altmarkkreis Salzwedel District

Advisory Board for Agricultural Lending

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Christian Meyer
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Lower Saxony Ministry of Food, Agriculture and Consumer Protection

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Sparkasse Gifhorn-Wolfsburg

Olaf Feuerborn
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Bauernverband Sachsen-Anahalt e.V.

Frank Finkmann
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Kreissparkasse Melle

Kurt Fromme
Managing Director
Wilhelm Fromme Landhandel GmbH + Co. KG

Hermann Hermeling
Chairman of Landvolk Lingener Land

Werner Hilse
President
Landvolk Niedersachsen

Dr Harald Isermeyer
Farmer

Kurt-Henning Klamroth
President
Bauernbund Sachsen-Anhalt e. V.

Detlef Kurrek
President
Bauernverband Mecklenburg-Vorpommern e.V.

Diplom-Volkswirt Leif Raszat
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Saalesparkasse

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Getreide AG

Dr. Peter Sanftleben
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Mecklenburg-Western Pomerania Ministry for Agriculture, Environment and Consumer Protection

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Gerhard Schwetje
President
Chamber of Agriculture Lower Saxony

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Saxony-Anhalt Ministry for Environment, Agriculture and Energy

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Sparkasse Uecker-Randow

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District Administrator
Saalekreis District

Deputy Chairman

Michael Richter
State Secretary
Ministry of Finance
Saxony-Anhalt

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Leader of Parliamentary Party
CDU Parliamentary Party in Saxony-Anhalt Parliament

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Norbert Dierkes
Chairman of the Managing Board
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Jörg Felgner

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AFD Parliamentary Party in Saxony-Anhalt Parliament

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Mansfeld-Südharz District

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Industriebau Wernigerode GmbH

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Die Linke, Parliamentary Party in Saxony-Anhalt Parliament

Dr Ralf-Peter Weber
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Regional Advisory Board for Mecklenburg-Western Pomerania

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District Administrator
Ludwigslust-Parchim District

Deputy Chairman

Dr Peter Zeggel
Managing Director
Avella GmbH

Members

Dr.-Ing. Alexander Badrow
Mayor
Hansestadt Stralsund

Frank Berg
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OstseeSparkasse Rostock

Dr Reinhard Dettmann
Mayor of
Teterow

Dipl.-Ing. Christian Koos
Managing Director
SWS Stadtwerke Stralsund GmbH

Matthias Köpp
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Landkreistag Mecklenburg-Vorpommern e.V.

Kai Lorenzen
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Sparkasse Mecklenburg-Schwerin

Oliver Schindler
Managing Director
Sweet Tec GmbH

Dr Barbara Syrbe
District Administrator
Vorpommern-Greifswald District

Bernd Werdermann
Managing Director
Gerüstbau und Bauhandwerksbetrieb Bernd Werdermann

Annett Zahn
Chair of the Managing Board
Sparkasse Uecker-Randow

Administrative Board of Braunschweigische Landessparkasse

Chairman

Ulrich Markurth
Mayor of
Braunschweig

1st Deputy Chairperson

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District Administrator
Holzminden District

2nd Deputy Chairman

Thomas Mang
President
Sparkassenverband, Lower Saxony

Members

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Helmstedt District

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Mayor of
Salzgitter

Freddy Pedersen
Deputy Managing Director
ver.di Vereinte Dienstleistungsgewerkschaft

Stefanie Rieke
Bank employee
Saxony-Anhalt Development Bank

Christiana Steinbrügge
District Administrator
Wolfenbüttel District

Klaus Wendroth
Chairman, CDU Parliamentary Party

Glossary

Amortised cost

Amount at which financial assets or liabilities are measured on initial recognition less repayments, including or less accumulated amortisation of any discount or premium using the effective interest method and less any allowances for impairment.

Asset Backed Securities (ABS)

Tradeable interest-bearing securities whose interest payments and capital repayments are covered and serviced by financial assets secured by collateral.

Assets held for trading (HfT)

Financial assets acquired for the purpose of selling in the short term and derivative financial instruments that are not hedging instruments in an effective hedging transaction.

Available for Sale (AfS), financial assets available for sale

Non-derivative financial assets which are not allocated to any other IAS 39 measurement category or assets which have been classified as available for sale. Until derecognition, changes in the fair value are recognised directly in other comprehensive income (OCI).

Backtesting

Method for monitoring the quality of value-at-risk models involving a retrospective comparison of losses calculated in the value-at-risk approach with the losses actually incurred.

Capital Requirements Regulation

The Capital Requirements Regulation (CRR), which under Basel III contains requirements for the capital adequacy of banks, banking groups, financial holding groups, mixed financial holding groups, and which adopts the individual regulations implemented in the previous German Solvency Regulation (Solvabilitätsverordnung).

Confidence level

In the value-at-risk model, the confidence level describes the probability that a potential loss will not exceed an upper loss limit defined by the corresponding value-at-risk amount.

Deferred taxes

If values stated in the tax balance sheet differ from the carrying amounts of assets and liabilities in the IFRS balance sheet, and if these differences are temporary from a tax perspective, amounts of income tax payable in the future or amounts of income tax receivable in the future are recognised as deferred taxes.

Derivative or derivative financial instrument

Derivatives or derivative financial instruments are financial assets or liabilities whose value changes based on a defined underlying asset (interest rate, currency, share, etc.) and which require no or only a small initial investment and are settled on a future date.

Effective interest method

Method for calculating the amortised cost of financial assets or liabilities and the allocation of interest income and expense to the respective periods. The effective interest rate is the interest rate used for discounting estimated future cash receipts and payments over the expected life of financial instruments to their exact net carrying amount.

Embedded derivatives

Structured products comprise a host contract and one or more embedded derivative financial instruments. All components are the object of only one agreement regarding the structured product, so they form one legal unit and may not be traded separately due to the single agreement. Embedded derivatives are reported as separate financial instruments under certain circumstances.

Equity method

Measurement method where shares in associates and joint ventures are initially recognised at cost, and are then adjusted in subsequent periods in accordance with the change in the investor's share of the net assets of the associate.

Expected loss

Expected loss is the loss expected within a year. In the case of the Bank's credit portfolio, for example, it can be calculated based on available loss data.

Fair value

The price at which an asset can be sold or a liability transferred in an ordinary transaction between market participants on the measurement date.

Financial instrument

A financial instrument is defined as a contract that results in a financial asset for one entity and in a financial liability or equity instrument for another entity.

Goodwill

Future economic benefits from assets resulting from business combinations which cannot be individually identified and separately recognised.

Hedge accounting

Presentation on the balance sheet of hedging relationships comprising underlying transactions and hedging investments in order to avoid or reduce volatility in the income statement and in equity resulting from different measurements of underlying transactions and hedging investments.

Hedging instrument

Derivative or (when hedging currency risks) non-derivative financial instruments which are expected to produce a fair value or cash flows to compensate for changes in the fair value or cash flow of a designated underlying transaction.

Hedged item

Financial assets or liabilities, fixed liabilities, future expected transactions and those highly likely to occur, or net investments in foreign operations that expose a company to the risk of a change in fair value or in future cash flows, and that are designated as part of an effective hedging transaction.

Impairment

If the carrying amount of an asset exceeds its recoverable amount or if there is objective evidence of impairment of a financial asset and this loss event has a measurable impact on the estimated future cash flows, the value of the asset should be written down.

Investments held to maturity (HtM)

Non-derivative financial assets listed on an active market with fixed or determinable payments and a fixed maturity, where it is intended and possible to hold them to maturity. The Held to Maturity (HtM) category is not currently used in the NORD/LB Group.

Investment Properties

Land or buildings held solely to generate rental income or for the purpose of capital appreciation.

Level 1, Level 2, Level 3

The respective levels of the fair value hierarchy are determined by the input data used to measure financial assets (Level 1: measurement based on market prices and stock prices; Level 2: …, Level 3: …), and reflects the market proximity of the variables included in establishing the fair value.

Liabilities held for trading (HfT)

Financial liabilities undertaken for the purpose of repurchasing in the short term and derivative financial instruments that are not hedging instruments in an effective hedging transaction.

Loans and Receivables (LaR)

Non-derivative financial assets with fixed or determinable payments that are not listed in an active market.

Other financial liabilities (OL), other financial obligations

All non-derivative financial liabilities which are not held for trading purposes, are not designated at fair value through profit or loss by exercising the fair value option, or are not part of an effective hedging transaction. These are generally measured at amortised cost.

Rating

Standardised assessment of the creditworthiness of a security or borrower, carried out in an internal, generally model-based detailed risk assessment (internal rating) or by an independent rating agency (external rating).

Securitisation

During securitisation, receivables are pooled and where applicable transferred to a special purpose entity which is refinanced through the issuing of securities.

Stress test

Method that models the effects of unscheduled but plausible possible events.

Total risk exposure amount

The total risk exposure amount in accordance with Art. 92 (3) CRR is the denominator of the ratio used to calculate equity indicators. It comprises the risk-weighted exposure amounts for credit and dilution risk, the counterparty risk arising from the trading book business, market-price risks, the CVA risk (credit valuation adjustments) and the operational risk. The term "total risk exposure amount" was introduced with the CRR and replaces the term "total capital requirement". The term risk-weighted assets (RWA) is also commonly used.

Unexpected loss

Measure to quantify a risk as a potential difference between potential and expected future loss (expected loss), where the potential future loss is dependent on the confidence level chosen.

Value-at-Risk (VaR)

Value at Risk is the potential future loss that is not exceeded during a specific period and at a specific confidence level.

Volatility

Measures fluctuations (e.g. exchange-rate fluctuations for securities or currencies). A higher degree of volatility shows wider fluctuations in the observation period and infers that risk may be higher in future.

Financial assets or liabilities designated at fair value through profit or loss (DFV)

Under certain circumstances, financial assets and liabilities may be irrevocably designated at fair value through profit or loss upon initial recognition (fair value option). Recognition and measurement inconsistencies can thus be avoided or significantly reduced.

Report of the Supervisory Board

The Managing Board of the Bank regularly informed the Supervisory Board and the committees set up by the Supervisory Board about business performance and the position of NORD/LB AöR and the Group. The Supervisory Board and its committees adopted resolutions on business matters presented to them and on other issues requiring decisions by these executive bodies in accordance with the statutes and regulations relating to these articles.

The Supervisory Board also looked closely at NORD/LB AöR's business and risk policy. Fundamental issues concerning business policy and operational areas were discussed in detail at several meetings. The Supervisory Board also looked at the Savings Banks Finance Group security system and resolved to acquire all shares of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale.
The annual report and the consolidated financial statements of NORD/LB for the 2016 financial year were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, which issued an unqualified audit opinion. The auditors also took part in the meeting of the Supervisory Board to discuss the annual report, which was held on 3 April 2017, and reported on the findings of their audit.

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. In its meeting on 3 April 2017 the Supervisory Board adopted NORD/LB AöR's annual report for 2016 and approved the consolidated financial statements for 2016. The Supervisory Board also recommended to the Owners' Meeting to discharge the Managing Board.

The following left the Supervisory Board:
on 25 April 2016 Jens Bullerjahn
on 31 May 2016 Ilse Thonagel
Frank Klingebiel
on 30 September 2016 Ralf Dörries

The following were appointed to the Supervisory Board:
on 1 January 2016 Ludwig Momann
on 25 April 2016 André Schröder
on 1 June 2016 Stefanie Rieke
Ulrich Markurth
on 1 October 2016 Frank Oppermann

The Supervisory Board would like to thank the Bank's Managing Board for its cooperation based on mutual trust and the Bank's employees for the work they carried out in 2016.

Hanover / Braunschweig / Magdeburg
April 2017

Peter-Jürgen Schneider
Minister of Finance
State of Lower Saxony

Report of the Owners' Meeting

In the reporting year the Owners' Meeting performed the duties assigned to it by the state treaty and by the statutes. The Owners' Meeting discharged the Managing Board and the Supervisory Board.

Furthermore, the Owners' Meeting decided on capital measures in its meetings in 2016 and consulted on the acquisition of all shares of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale.

The following left the Owners' Meeting:
on 31 May 2016 Rolf Christiansen

The following were appointed to the Owners' Meeting:
on 1 January 2016 Silke Korthals
on 1 January 2017 Rolf Christiansen

The Owners' Meeting thanks the Supervisory Board, the Managing Board and the Bank's employees for their work.

Hanover / Braunschweig / Magdeburg
April 2017

Thomas Mang
President
Sparkassenverband Niedersachse

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Financial calendar 2017:

30 May 2017	Release of results as at 31 March 2017
30 August 2017	Release of results as at 30 June 2017
29 November 2017	Release of results as at 30 September 2017

Die norddeutsche Art.

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