NORD/LB

Die norddeutsche Art.

Annual Report 2017

NORD/LB at a Glance

Income Statement	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Net interest income	1 417	1 735	– 18
Loan loss provisions	986	2 956	– 67
Net commission income	112	219	– 49
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	354	415	– 15
Profit/loss from financial assets	147	49	> 100
Profit/loss from investments accounted for using the equity method	38	– 2	> 100
Administrative expenses	1 185	1 113	6
Other operating profit/loss	383	– 173	> 100
Earnings before reorganisation and taxes	**280**	**– 1 826**	**> 100**
Reorganisation expenses	85	39	> 100
Earnings before taxes	**195**	**– 1 865**	**> 100**
Income taxes	60	94	– 36
Consolidated profit	**135**	**– 1 959**	**> 100**

Key figures	1 Jan. - 31 Dec. 2017 (in %)	1 Jan. - 31 Dec. 2016 (in %)	Change (in %)
Cost-Income-Ratio (CIR)	51.4%	50.7%	1
Return-on-Equity (RoE)	3.4%	-24.7%	> 100

Balance sheet figures	31 Dec. 2017 (in € million)	31 Dec. 2016[1] (in € million)	Change (in %)
Total assets	165 379	174 732	– 5
Customer deposits	56 466	57 301	– 1
Customer loans	95 115	105 640	– 10
Equity	6 193	5 976	4

Regulatory key figures	31 Dec. 2017	31 Dec. 2016	Change (in %)
Common equity tier 1 capital (in € million)	5 696	6 752	– 16
Tier 1 capital (in € million)	6 122	7 122	– 14
Tier 2 capital (in € million)	2 227	2 656	– 16
Own funds (in € million)	8 349	9 777	– 15
Total risk exposure amount (in € million)	46 884	59 896	– 22
Common equity tier 1 capital ratio (in %)	12.15%	11.27%	8
Total capital ratio (in %)	17.81%	16.32%	9

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

[1] The previous year's figures were restated at individual items; for more information see Note (2) Restatement of previous year's figures.

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

Preface by the Chairman of the Managing Board

Dear reader,

2017 was a ground-breaking year for NORD/LB. Although we started the year with losses from 2016 running into the billions, we still managed to achieve all of the goals we set for ourselves in 2017. The first of these was the return to profitability. We turned a profit despite the ongoing shipping crisis and risk provisioning still being exceptionally high in this segment. And even despite persistently low interest rates, which also drag down our earnings.

Secondly, we succeeded in noticeably raising our capital ratios, which had fallen as a result of the losses we sustained in 2016. This was made possible by further scaling back our risk-weighted assets and as a result of the profit we made in 2017. Thirdly, we were able to downsize our ship finance portfolio much more quickly than we originally planned. And fourthly, we managed to merge Bremer Landesbank with NORD/LB in record time.

But as pleased as we are with what we achieved in 2017, we know we still have to work hard to make NORD/LB future-ready. The merger with Bremer Landesbank was just the first step in our One Bank transformation programme, which will serve to make our entire Group leaner and even more resilient. In view of the ever growing web of supervisory requirements, reinforcing our capital ratios continues to be a top priority.

That the Bank was able to reach its goals in 2017 is primarily due to its proven and successful business model. This model combines our deep roots in the regional economy of Northern Germany with our superior expertise in various special financing segments. And most of all we owe our success to our close business ties with our customers, who are NORD/LB’s greatest asset. With the myriad challenges banks are faced with today, it is one of NORD/LB’s biggest strengths that we never forget: our customers are always our main focus.

Kind regards,

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

[Source: Lower Saxony Ministry of Finance / H. Stauch]

Reinhold Hilbers
Minister of Finance,
State of Lower Saxony, and Chairman
of the Supervisory Board of NORD/LB
Hanover

Preface by the Chairman of the Supervisory Board

Dear reader,

In today's world, banks are faced with enormous challenges. Interest-rate margins are dropping, competition is becoming tougher, regulatory requirements are continually increasing and advancing digitalisation is disrupting established business models. This is why NORD/LB initiated a large-scale transformation programme in 2016 to make the Group future-ready. Administrative expenses are set to decrease significantly, as all Group structures and units have been reviewed. Although the programme is supposed to run until the end of 2020, it already saw its first series of successes in 2017.

So far we have fully merged the independent subsidiary Bremer Landesbank (BLB) with NORD/LB. This has perceptibly changed the face of the Group. The merger will significantly enhance synergies, while the Bank will maintain a strong presence in the former BLB locations in Bremen and Oldenburg. NORD/LB will continue to finance commercial real estate under Deutsche Hypo banks. We have joined forces with Warburg Bank in order to further develop our subsidiary NORD/LB Asset Management.

The Group's transformation will continue over the next few years, with particular attention focused on streamlining work processes, completely overhauling IT and developing digital solutions for NORD/LB's business segments. These focal points continue to dovetail with the North German economy's specific strengths: financial solutions for agriculture, the maritime industry, the aerospace industry and project financing for renewable energies, just to name a few key areas. To this can be added small and medium-sized corporate customers, network business with savings banks, the capital market business as well as private and commercial customers. The Bank's broad focus will continue to be one of its particular strengths in the future as well.

Kind regards,

Reinhold Hilbers
Minister of Finance for Lower Saxony
Chairman of the Supervisory Board of NORD/LB Norddeutsche Landesbank

Managing Board of the NORD/LB

Photo: from left to right

Mr Tallner
Corporate Customers, Structured Finance, Maritime Industries, Aircraft Finance, Commercial Real Estate, Relationship America with the New York branch office

Mr Dieng
Credit Risk Management, Risk Controlling, Special Credit Management, Shipping Portfolio Optimisation, Research/Economy, Landesförderinstitut Mecklenburg-Vorpommern, Relationship Mecklenburg-Western Pomerania and UK with London branch office

Mr Bürkle
Chairman of the Managing Board
Bank Management and Transformation, Managing Board staff/Legal/Investments, Group Organisation/HR, Audit, Corporate Communication

Mrs Brouzi
Finances/Tax, Group IT, Corporate Services, Compliance/Group Security

Dr Holm
Deputy Chairman of the Managing Board
Markets, Treasury, Savings Banks Network, Corporate Finance, Bank-Assets Allocation, Corporate Sales, Credit Asset Management, Investitionsbank Sachsen-Anhalt and Relationship Saxony-Anhalt and Asia with branch offices in Singapore and Shanghai

Mr Schulz
Chairman of the Managing Board of the Braunschweigische Landessparkasse
BLSK Corporate Customers, Private and Commercial Customers at BLSK and outside of their business areas, BLSK Process Management as well as Marketing & Sales Management and Relationship BLSK

Combined Management Report

In contrast to the previous year, the management report for NORD/LB Norddeutsche Landesbank Girozentrale (abbreviated in this document as NORD/LB or Bank) has been combined with the management report for the NORD/LB Group to provide greater clarity as per § 315 para. 5 of the German Commercial Code (HGB) in conjunction with § 298 para. 2 of the HGB. The annual financial statement and the consolidated financial statements of NORD/LB (including the combined management report) are jointly filed with the operator of the German Federal Gazette (Bundesanzeiger) and published in the German Federal Gazette. The annual financial statements and the consolidated financial statements for NORD/LB are also available for download on the internet at www.nordlb.com.

The following information in the combined management report basically refers to the NORD/LB Group; where significant differences to the bank exist, separate explanations are given.

The Group – Basic Information

Business Model

NORD/LB Norddeutsche Landesbank Girozentrale (abbreviated in this document as NORD/LB or the Bank) is a public-law institution with legal capacity and registered offices in Hanover, Braunschweig and Magdeburg. The Bank's owners are the federal states of Lower Saxony and Saxony-Anhalt, the Savings Banks Association of Lower Saxony, (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 issued capital amounts to € 1,607 million, with the federal state of Lower Saxony holding 59.13 per cent (of which about 38.11 per cent [previous year: 33.44 per cent] is held in trust for the federal-state-owned Hannoversche Beteiligungsgesellschaft mbH, Hanover), the federal state of Saxony-Anhalt holding 5.57 per cent, the SVN 26.36 per cent, the Holding Association of the Savings Banks of Saxony-Anhalt 5.28 per cent and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania 3.66 per cent.

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. Bremer Landesbank (BLB), a subsidiary which was previously fully consolidated, numbers among the Bank's branches since the merger of 31 August with effect from 1 January 2017. The branches in the key financial and trading centres of New York and Singapore play a significant role in NORD/LB's foreign business activities. Foreign branches are also maintained in London and Shanghai. 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 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 (clearing centre). The Bank also handles development on behalf of the federal states through the Investitionsbank Sachsen-Anhalt, Magdeburg (part of NORD/LB) and through the Landesförderinstitut Mecklenburg-Vorpommern, Schwerin (a business segment of NORD/LB).

NORD/LB acts as a central bank for the savings banks in Mecklenburg-Western Pomerania, Saxony-Anhalt and Lower Saxony. It also provides all services for savings banks in other German federal states such as Schleswig-Holstein.

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 synergy effects, reinforcing the customer divisions and bundling service offerings. The NORD/LB Group comprises, among others:

- Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover (referred to below as: Deutsche Hypo) and
- Norddeutsche Landesbank Luxembourg S.A. Covered Bond Bank, Luxembourg-Findel (referred to below as: NORD/LB Luxembourg).

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:

Segment / Location	BLSK	NORD/LB Hannover	NORD/LB Bremen	NORD/LB Oldenburg	NORD/LB Hamburg
Private Customers	●	●			
Private Customers in Branches	●	●	●	●	●
Retail Customers	●	●			●
Private Banking	●	●	●	●	●
Corporate Customers	●	●			

While NORD/LB uses its own name when serving customers in Hanover, Hamburg, Bremen and Oldenburg, in the Braunschweig region it operates under the “Braunschweigische Landessparkasse” (BLSK) brand.

In Braunschweig and in the parts of the former Duchy of Brunswick that are today part of Lower Saxony, BLSK operates within NORD/LB as an institution with partial legal capacity that has its own market identity. Within the scope of these responsibilities, BLSK offers banking and financial services of all sorts.

Braunschweigische Landessparkasse is a sales savings bank with an extensive presence in 91 locations in the three areas of Braunschweig, North/East (branches in Helmstedt, Vorsfelde, Wolfenbüttel and Bad Harzburg) and South/West (branches in Salzgitter, Seesen and Holzminden). The BLSK customer and service centre directly serves customers location-wide.

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

In addition, extended services in high-end customer groups ranging from the former Bremer Landesbank's award-winning asset management services, (from 1 February 2018 NORD/LB Bremen), tandem support for Corporate and Commercial Customers at BLSK and NORD/LB, through to entrepreneur banking at the former Bremer Landesbank. In Private Banking and in the Commercial Customers segment, the NORD/LB Group positions itself in the respective locations as the first choice in the market.

The former Bremer Landesbank's Private Customers division (from 1 February 2018: NORD/LB Bremen) 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

The NORD/LB Group conducts its corporate customers business in its core region (excluding the business territory covered by Braunschweigische Landessparkasse) and at other selected locations around Germany. This comprises SME customers as well as agricultural banking and housing. As regards network business, NORD/LB supports the savings banks and their customers with an extensive range of products as part of syndicate business. Since the time of the merger of NORD/LB with Bremer Landesbank, social housing has been allocated to the Corporate Customers business segment.

NORD/LB provides its corporate customers with a variety of traditional banking products and banking 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.

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, 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 with all kinds of securities.

The Markets segment focuses on 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 load. NORD/LB is also integrated within nationwide projects to advance the development of collaboration with municipalities.

For institutional customers, the NORD/LB Asset Management Holding 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 in various sectors: infrastructure, energy (including renewables in particular) and leasing. The central locations of this strategic segment are Hanover, Bremen, Oldenburg 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 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 has been an active player in this business segment 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 and public hospital buildings and transport infrastructure development. NORD/LB supports its customers with professional expertise and many years of local industry knowledge, from the beginning of tenders right through to the end of the contract.

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. Growing the number of worldwide advisory mandates and bringing in new institutional structuring partners are modernising tried-and-tested structures and opening up new earnings opportunities.

Ship Customers

This segment, comprising asset-related ship financing, operates mainly from Hanover and Bremen with support from branches in Hamburg, Singapore and New York. 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 complemented with a range of additional services that make it possible for 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 to scale back ship financing exposure considerably (to € 12 – 14 billion) by the end of 2018. By 31 December 2017 it had already been reduced to € 12.1 billion. A new segment was created for this purpose in which the previous capabilities which had been distributed amongst several units were consolidated for restructuring and for the management of troubled ship loans.

Ship financing nevertheless remains one of NORD/LB's core segments. The aim is to maintain the NORD/LB's positioning as an 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 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 structures, 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. This outstanding position is to be exploited in the global market and further expanded. This business segment is based in Hanover, and is supported by other sales units in New York and Singapore.

The range of products embraces traditional and innovative financing types with a focus on operating leases and portfolio transactions. Alongside credit products, the segment increasingly 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 three years, know-how has been extended to include helicopter financing. Active portfolio management and optimisation through appropriate outplacement and funding instruments are used to successfully reinforce the segment's already excellent position.

Real Estate Customers

Commercial real estate financing by Deutsche Hypo is pooled with NORD/LB's maturing holdings in the Real Estate Customers segment. It essentially comprises structured financing for complex commercial real estate projects and portfolios in Germany and the European target markets of the UK, France, the Benelux, Spain and Poland. The client base comprises professional real estate investors with regular 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.

Deutsche Hypo, a real estate bank in Germany with a European focus, serves as the competence centre for commercial real estate financing within the business segment. Thanks to its standalone market presence, the Bank 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.

The Social Housing segment no longer belongs to the Real Estate Customer business segment. Since the time of the merger of NORD/LB with Bremer Landesbank at the beginning of 2017, Social Housing has been allocated to the Corporate Customers business segment.

Group Management / Other

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 Group 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. Here the Bank will position itself on the capital market as one of the leading providers of alternative assets and asset management capabilities. The CAM segment is responsible for managing and optimising the NORD/LB loan book. With the assistance of structured products, the Bank's risk-reward profile will continue to be improved.

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.

Outline of the Control System

The NORD/LB Group's integrated control system offers a comprehensive overview of the Bank's profitability, equity, risk, liquidity and asset quality. The central aim is to optimise the Bank's profitability while simultaneously ensuring adequate capital and liquidity. The focus is on standardised and integrated management reporting during the year that includes both deviation analyses and extrapolations as at each quarter and year-end, with utilisation of early warning and restructuring thresholds. For this reason, the previous internal reporting was expanded at the start of financial year 2017 to include an integrated management and restructuring cockpit.

Another key control instrument is the annual strategy and planning process. In spring, the Managing Board confirms or revises the strategic objectives, which are then used to set the targets for the following year's planning in autumn. The planning is synchronised during a top-down/bottom-up process. Decisions on planning for the following year are made by the competent committees at year's end.

Profitability management is based on a multi-step contribution margin analysis at Group segment and Group company level. They key figures that are applied consistently in order to assess profitability are: earnings before taxes, the cost-income ratio (CIR) and return on equity (RoE) and, at the segment level, return on risk-adjusted capital (RoRaC). Thus, these key figures continue to represent the most significant financial performance indicators for assessing the development of Group segments in accordance with DRS 20.

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

At Group level, the Common Equity Tier 1 capital ratio (Common Equity Tier 1 capital / total risk exposure amount) is a further key indicator of performance. Details regarding the ratios used during capital management and the measures taken can be found in the chapter “Equity management”. The leverage ratio and the absolute variables required to calculate these key figures are also included. The primary objective is to ensure adherence over the long term to the defined internal objectives and all regulatory requirements.

Given the need to provide evidence of adequate capital, the risks incurred are continuously reviewed to ensure that they are covered by the available risk capital at all times. This includes management of risk-bearing capacity, taking account of the utilisation of risk capital by risk potential. The risk-bearing capacity calculation is supplemented with stress tests in order to provide an in-depth analysis. A detailed description of risk management can be found in the section of the same name.

The overarching goal of liquidity risk management and monitoring is to ensure NORD/LB's payment and refinancing ability at all times. Liquidity risks are limited on the basis of defined scenarios and the key limits are monitored daily. Further information can be found in the description of risk management and in the risk report.
Asset quality is assessed on the basis of the asset's exposure in default as a share of NORD/LB's total exposure (non-performing loan ratio), and also with the help of the risk ratio, in which risk provisioning is offset by the total risk exposure amount plus the shortfall equivalent.

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 they are 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 material companies is determined in an investment analysis which is described in more detail in the section on investment risk. The companies are included in risk reports as per the transparency method. The result is that NORD/LB Group's risk reporting is based on individual risks relating to Group companies of material relevance. This includes the NORD/LB parent company and its subsidiaries:

- Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover (abbreviated as: Deutsche Hypo) and
- NORD/LB Luxembourg S.A. Covered Bond Bank (abbreviated as: NORD/LB Luxembourg).

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

Determining which Group companies are of material relevance takes account of companies consolidated under IFRS as well as companies in the regulatory basis of consolidation.

In view of the future requirements under “BCBS 239 Risk data aggregation and reporting”, risk reporting is carried out according to the Management Approach. Internal and external risk reporting is essentially based on the same terms, methods and data.

General Risk Management

Basic Information

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. Internal risk reporting provides information to the decision-makers at the NORD/LB Group on the risks that the Group has taken on in order to manage and monitor these risks in line with strategy and the situation and to be able to react in a timely and suitable manner to special situations. For external risk reporting, there are legal requirements, such as the “Guidelines on internal Governance” issued by the European Banking Authority (EBA), that must also be met.

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.
An integrated approach to credit and investment risk has been employed since 31 December 2016. As NORD/LB is positioned as a lending bank, counterparty risks are by far the most significant, with market-price risks featuring prominently. Another material type of risk is liquidity risk. Operational risk is important in this respect but is secondary to the others. Material risk types have thus been identified as counterparty risk, market-price 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 the NORD/LB Group's risk management system. The material risk types take account of all relevant risks. The risks are generally presented in risk reports after the application of risk mitigation measures. 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 the 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 analogous 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 that time. The prerequisite for this is the control and profit/loss transfer agreement concluded for an indefinite period between Deutsche Hypo and NORD/LB. Once the merger of Norddeutsche Landesbank - Girozentrale - (NORD/LB) with Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale - (BLB) became effective, all rights and obligations of BLB were transferred to NORD/LB by way of universal succession retroactively as of 1 January 2017. In the third quarter, the European Central Bank (ECB) approved NORD/LB's request for a capital waiver for parent companies (known as a "parent waiver") in accordance with § 2a para. 1 and 2 KWG in conjunction with Art. 7 para. 3 CRR. Due to the altered processes at the individual bank level at NORD/LB AöR, the application of the parent waiver establishes a key pre-requisite for the simplification of the Group structure and is in line with the "One Bank" programme.

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 material companies of the NORD/LB Group. This document contains both the risk strategy of the NORD/LB Group as well as the specific details of the individual institutions within the framework of the risk inventory for companies that have been identified as material.
The individual strategies of the material companies are integrated into the risk strategy for the NORD/LB Group and are no longer shown separately. The risk strategies of the companies of material relevance 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. NORD/LB's risk strategy for the NORD/LB Group includes statements on the principles of risk policy, the organisation of risk management and on risk sub-strategies relating to material risk types.
Based on the overall risk profile of the individual institutions, the risk appetite is defined on a superordinate basis at Group level, taking account of risk-bearing capacity as a core element of the risk strategy. The uniform Group risk-bearing capacity model of NORD/LB represents as an overall bank management instrument the operational procedure for managing and limiting material risks, and in conjunction with the

specified escalation processes, provides continuous assurance of capital adequacy, taking account of internal and external requirements. Crucial for providing evidence of the appropriate capital adequacy is the examination of the risk-bearing capacity results under the premise of business continuation (business case) at an underlying confidence level of 99.9 per cent. The evaluation of risk appetite takes into consideration both normative (capital requirements of the Supervisory Review and Evaluation Process) as well as economic constraints. The normative perspective required by the supervisory authorities is sufficiently covered in the business case in connection with quarterly reporting to the capital planning authority and the medium-term capital and risk planning with basic and stress projections.

The maximum allocation of risk capital to the material risk types is also determined within the scope of the risk strategies based on the risk-bearing capacity model (RBC model). Most of the cover pool is allocated to counterparty risks, reflecting the NORD/LB Group’s focus on customer-oriented lending business. Capital was allocated for the NORD/LB Group and also consistently for NORD/LB Luxembourg.

The purpose of the risk strategies is to ensure all material risk types are managed efficiently and presented in a transparent manner to management, the supervisory bodies and other third parties with a justified interest. On this basis, companies in the NORD/LB Group of material relevance 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.

The restructuring plan agreed between the European Union (EU) and the NORD/LB Group in 2012 ended during the middle of the year under review without any subsequent demands made by the EU. All agreements made were fully met by NORD/LB in due time.

Structure and Organisation

Responsibility for the NORD/LB Group's risk management lies with the Managing Board of NORD/LB, which determines the Group’s risk strategy and then discusses it with NORD/LB’s supervisory board. 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.

NORD/LB's 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 with the specific aspects of the individual institutions.

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.

The NORD/LB Group's Risk Management also includes various other bodies.

- **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 the respective specialist departments at NORD/LB and at the Deutsche Hypo and NORD/LB Luxembourg subsidiaries.
- **Group Risk Committee:** The Group Risk Committee (GRC) is chaired by the Chief Risk Officer (CRO) of NORD/LB. The Managing Board is responsible for the Direct Report Credit Risk Management. Permanent members with voting rights for NORD/LB are the CRO and Chief Operating Officer (COO), the Direct Reports Risk

Controlling, Credit Risk Management, Special Credit Management, Shipping Portfolio Optimisation (SPO), heads of NORD/LB's market departments as well as the CROs of the subsidiaries Deutsche Hypo and NORD/LB Luxembourg. The body can be expanded in the GRC as needed, particularly for representatives of the relevant market divisions as members with voting rights. At the invitation of the chairperson, other guests may attend the GRC meetings depending on the topics. The Direct Reports Research/Economy and Compliance/ Group Security at NORD/LB may attend the entire GRC meeting as guests. As a rule, guests do not have voting rights. 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:** The Credit-Asset Liability Committee (ALCO) serves as an advisory body for the Managing Board with regard to managing the credit portfolio (including the 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. Moreover, the possible implications for strategy and ongoing business development are 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 Direct Reports of Credit Asset Management, Corporate Customers, Maritime Industries, Aircraft Financing, Structured Finance, Credit Risk Management, 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 (consulting for investment strategies) as well as the Risk Round Table (addresses governance, operational risk and compliance issues).

The purpose of the structure and organisation of risk management in the NORD/LB Group is to meet the requirements of the Single Supervisory Mechanism (SSM), the relevant EBA Guidelines and 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 adequacy and effectiveness 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 (counterparty, liquidity, market price 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, taking account of the relevant conditions. The institutions collaborate with one another as needed.

The main objective of the NPP is to identify, analyse and assess all potential risks for NORD/LB prior to starting the 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 (RBC)

The RBC model is geared towards continuously guaranteeing the survival of the NORD/LB Group and covers assessments at various consideration levels. In this context, differences in the scope of recorded risks and differences in quantification are taken into consideration with the reconciliation of risk potential with capital adequacy at the relevant consideration levels. 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 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 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 competent committees are informed promptly about the risk-bearing capacity of the companies that are material for NORD/LB Group companies and of the NORD/LB Group overall.

Crucial for providing evidence of the appropriate capital adequacy is the examination of the business case. 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.

As a hypothetical wind-up scenario, the resolution case provides another economic perspective with the character of an additional strict auxiliary condition, taking account of creditor protection within a wind-up scenario. Risks are quantified similarly to the business case under the premise of the maximum type of capital requirements for risks under Pillar I and Pillar II, but include credit-spread risk in the trading book as well as unrealised losses from securities in the trading book.

Direct management impetus stems from the business case. Risk concentrations are also factored in when determining risk-bearing capacity. The NORD/LB Group’s understanding of

risk concentrations is that they represent clusters of risk positions that react in the same way when specific developments or a specific event occur. In line with strategic direction, concentrations within a risk type derive primarily from credit risks (as sub-category of counterparty risk) and may occur at borrower, country or sector level. The NORD/LB Group uses various limit models and stress tests to identify and monitor risk concentrations. Stress tests considerations are normally carried out across risk types and therefore contain assumptions on diversification and concentration within individual (intra-risk specific) and between (inter-risk specific) the material risk types under consideration. In the form of a serious economic downturn, the recession scenario forms a fixed element within the NORD/LB Group's stress test programme and is reported quarterly as part of risk reporting.
In addition to the "Risk Report" and the "Finance and Risk Compass" the Managing Board is informed of risks relating to the Pfandbrief business on a quarterly basis. These reports meet the requirements of § 27 of the Covered Bond Act (Pfandbriefgesetz).

Counterparty Risk
During the reporting period credit and investment risks are combined in a consolidated examination of counterparty risk by simulating both risk types in relation to a joint counterparty risk model. This has not changed the previous modelling of credit risks itself. In addition, a potential deterioration in the quality of investments over the period from the reference date to the end of the one-year risk horizon is presented.

Credit Risk
Credit risk 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. Different customer groups and products are diversified on account of the NORD/LB Group's fundamental purpose as a universal bank. The content of the credit risk sub-strategy is structured so that the relevant business segments are developed in line with existing funding principles, the requirements for market profile and by taking market events and the current credit portfolio structure into account. For the responsible market division, the funding principles represent binding guidelines for new business on credit and capital markets (including

rating scores of target counterparties). In terms of business initiatives, the funding principles are designed to help actual pre-selection and do not pre-empt the final individual case decision. New lending business focuses on concluding agreements with customers/projects that have good credit ratings. The NORD/LB Group also concentrates on business with counterparties of good standing in the capital market business. The NORD/LB Group conducts business with customers/counterparties below the credit rating criteria after careful consideration of the 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.

At regional level, the NORD/LB Group focuses mainly on business in Germany. For foreign lending, the focus is on developed countries and selected emerging markets. The Bank's foreign activities must also 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); risk-weighted assets are also split evenly between the structured finance and granular businesses. Overall, no business segment should account for more than 25 per cent of the portfolio's risk-weighted assets or income.

As part of the implementation of the ECB guidelines for distressed loans, which went into effect when it was published in March 2017, the NORD/LB Group developed an NPL strategy in 2017. Under this strategy, portfolios with a significant NPL volume are closely monitored. Currently, this only applies to the shipping portfolio. The strategic priority for the shipping portfolio that is non-performing is to reduce the volume while preserving value through the following measures: restructuring, supporting ship sales and re-marketing. The NPL strategy will be reviewed on an annual basis to ensure that it is up to date.

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 apart from ship financing by Special Credit Management (SCM) at NORD/LB. The separate Shipping Portfolio Optimisation (SPO) unit processes non-performing exposures or those requiring restructuring and intensively monitors distressed ship loans. Loans with a rating of 11 on the rating master scale of the German Savings Banks Association (Deutscher Sparkassen- und Giroverband (DSGV)) (allocation to the "high risk" category or worse as defined by the Initiative for Germany as a Financial Centre, (Initiative Finanzstandort Deutschland (IFD)), must be reported to SCM/SPO. Other defined risk indicators (e.g. suspicion of behaviour detrimental for creditors, initiation of restructuring processes) may also trigger a reporting obligation. 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. Similar to the procedure for ship exposures, the SPO division decides whether it will assume full responsibility or commence coaching. From a rating of 16 (allocation to IFD risk category of "Default" [non-performing loans]), SCM or the SPO division 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, the GRC recommends various instruments to the Managing Board, such as ordering an acquisition stop, limiting national, industrial or counterparty-related concentrations or placing exposures or subportfolios. 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.

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

The functions that had previously been decentralised in the Controlling organisational unit and which are needed for the ship financing portfolio's systematic income and risk management unit were bundled in the ship financing portfolio. The responsibilities of the units assigned to the Finance Controlling department include controlling functions at portfolio level, such as planning or forecasts, the modelling of individual exposures, reporting to the ship segment as well as developing a data centre function. The unit can also be contacted for any and all controlling issues involving the ship segment.

Following the merger of Bremer Landesbank with NORD/LB, the Bremer Landesbank loan processes will be aligned with those of NORD/LB.

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 consolidated counterparty 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. The limits are geared to the NORD/LB Group’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 with regard to securitisations is restricted to new business with selected customers and receivables financing with internal funding offered through the conduit of Hannover Funding LLC.

To reduce the burden of regulatory capital requirements, NORD/LB made an initial one-time increase for one of the existing Hanseatic Flag transactions in the reporting year. The guarantees amount to EUR 140.4 million (previous year EUR 94 million).

Furthermore, in 2017 NORD/LB backed the initial retained first-loss tranche of EUR 103.3 million of the current “Northvest” transaction by means of a guarantee.

Also in the year under review, NORD/LB originated a new synthetic securitisation (Northvest 2) for a credit portfolio with an initial volume of some EUR 10.1 billion consisting of the assets classes: energy and infrastructure customers, corporate and commercial lending, aircraft financing, real estate and ship financing. In order to hedge the credit risks in the credit portfolio, a guarantee with an initial volume of some EUR 503.1 million was concluded with a private investor with effect from December 2017. The contractual term of this guarantee is 15 years plus a maximum period of two years for processing uncompleted liquidation cases.

During the reporting period, Deutsche Hypo and NORD/LB Luxembourg did not originate any new securitisations nor did they enter into any new securitisation positions.

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 quantified Group-wide using a consolidated counterparty risk model for different confidence levels and a time frame of one year. The model used by the NORD/LB Group includes correlations and concentrations in the risk assessment, and is subject to annual review and validation.

The counterparty 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 counterparty risk model uses a simulation method that also takes account 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 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.

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

Risk Controlling is responsible for assessing the risk situation for the Finance and Risk Compass report which includes the presentation and analyses of all other material structural features and parameters required for managing the NORD/LB Group's 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).

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. However, for the other investments which do not serve as product suppliers or service providers, 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 Bank Management & Transformation, 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. The treatment of investments is further differentiated during this review. The material investments of NORD/LB Luxembourg and Deutsche Hypo are included in internal and external overview reporting at the level of individual risk types. Significant and other investments are shown as investment risk. Significant investments are subject to a more in-depth analysis by the divisions involved in Investment Management than other investments are.

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. The extended Group Managing Board and Group Control Committees were generally utilised for managing all material investments in the year under review. With the integration of Bremer Landesbank, they were no longer relevant and were dissolved at the end of 2017 and beginning of 2018.

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. 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 among other things an analysis of current developments regarding strengths and weaknesses of significant and important investments.

The Finance and Risk Compass also includes quarterly reports on material and significant investments. Furthermore, realised or anticipated profit/loss from investments is reported monthly to Finance/Tax. Also on a monthly basis, NORD/LB’s Managing Board receives a report on the profit/loss and profitability of the NORD/LB Group's largest investments consolidated under commercial law.

Information on the risk situation regarding investments is incorporated into the quarterly Finance and Risk Compass. 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.

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). Interest-rate risk also includes, in particular, the risk from changes in interest basis spreads, from changes in yield curves as well as 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 also includes the credit-spread risk, while the specific interest-rate risk 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 possibility 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.

To calculate the regulatory capital requirements, NORD/LB uses an internal risk model approved by the supervisory authorities for general interest-rate risk, volatility risk, general and specific share-price risk and for currency risks. The standard approach is applied for specific interest-rate risk.

In principle, subsidiaries Deutsche Hypo and NORD/LB Luxembourg use the standard approach. For the capital requirements for general interest-rate risk, NORD/LB Luxembourg uses the duration method. Neither subsidiary has any capital requirements resulting from currency risks according to the regulatory threshold pursuant to art. 351 CRR. Share-price risks are not relevant here either.

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. No transactions are 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 create significant credit-spread risks Group-wide. 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 meets on a monthly basis at NORD level and quarterly at NORD/LB Group level during the reporting period. 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, Finance/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, 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 Risk Controlling which, in accordance with MaRisk, operates independently of the divisions responsible for market-risk control, both in terms of function and organisation; 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 Risk Controlling.

The market risks of 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. The positions of the former Bremer Landesbank were fully integrated into NORD/LB AöR’s market-price risk key figures on 1 September 2017.

Control and Monitoring

For internal control and monitoring of market risks, including limiting, Value-at-Risk (VaR) methods (present-value approach) are generally employed for all significant portfolios in the NORD/LB Group. This is rounded out with an Earnings-at-Risk (EaR) procedure for the interest-rate risks in the banking book. The limit for market-price risks is derived from the RBC model for each individual institution, allocated by Managing Board resolution to the Head of Financial Markets, and it is he who delegates to the subordinate organisational units.

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. A unilateral confidence level of 95 per cent and a holding period of one trading day are used throughout the Group. On the last day of each quarter, an additional VaR calculation is prepared to determine the risk-bearing capacity for the NORD/LB Group at an underlying confidence level of 99.9 per cent and a holding period of one year.

The daily VaR calculation is based on historical changes to risk factors over the previous twelve months, while for the calculation of the risk-bearing capacity, changes from the entire history available are used. 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 means of 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 amount of the VaR. Additional validation analyses are also performed annually.

In addition to VaR, stress-test analyses are used to examine the impact of extreme market changes on risk positions. The stress parameters 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) for the Hanover office and at all foreign branch offices. For the remaining types of risks and locations, the standard procedure is used.

EaR key figures are also calculated monthly based on historically derived scenarios. Interest income, assuming the reinvestment of expiring positions, is initially calculated in a basic scenario depicting the interest rate trend and then simulated using the changed market assumptions.

Reporting

According to MaRisk provisions, in the companies of material relevance 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, there is normally a weekly report which also takes into account the credit-spread risks for buy-and-hold positions which are not recognised at fair value.

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.

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. The breakdown of liquidity risk comprises two types of sub-risk: traditional liquidity risk (also includes 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 funding 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 refinancing risk, which is explicitly relevant for an institution's long-term liquidity situation and is crucial in case of liquidity gaps, there can also be a “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 the NORD/LB Group. 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, the NORD/LB Group 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 funding sources is also strengthened by Pfandbrief issues and retail deposits.

Structure and Organisation

In addition to Treasury, the trading divisions of Markets and Bank Asset Allocation as well as 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 (Group ALCO). In addition, it reports to this committee on the liquidity-spread risk and issues recommendations for action regarding ongoing strategic disposition planning as appropriate.

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

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 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; 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 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 in the non-investment grade segment 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 refinancing opportunities, assumptions are made in accordance with the market situation which 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. Securities are allocated based on a detailed security category concept to one of eleven main categories, with one to eight subcategories (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 for the material Group companies is prepared. 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

The NORD/LB Group calculates the utilisation of volume structure limits for the various maturity bands based on a liquidity maturity balance sheet for the entire position, which essentially reflects the standard case. Liquidity risk is estimated as part of the 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, a reduced amount of position liquidities and an increased utilisation of credit commitments is 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 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, 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.

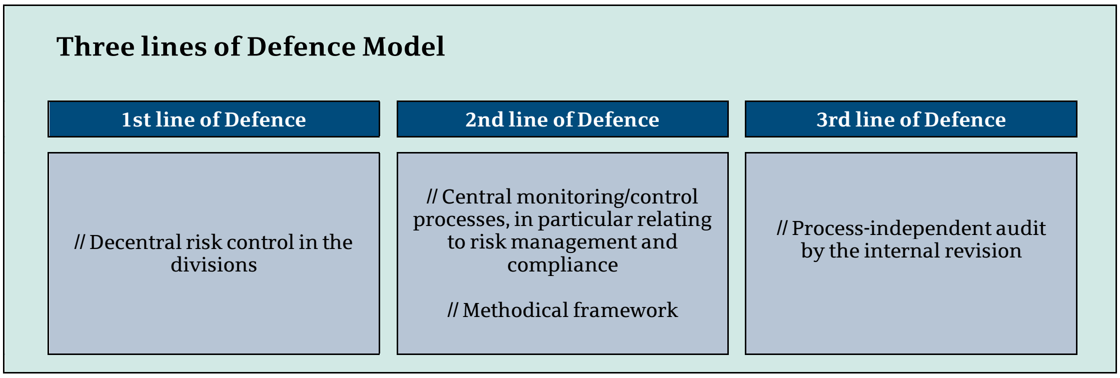
In accordance with this definition, legal risks, risks due to a change in law, compliance risks, outsourcing risks, insourcing risks, conduct risk, fraud risks, model risks, IT risks and vulnerabilities in contingency and crisis management are included in operational risk, together with personnel risks.

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

- early identification of operational risk
- avoidance, transfer or reduction, where this makes economic sense
- taking account of operational risk in corporate decisions
- compliance with relevant legal requirements
- avoidance of future losses with a strong risk culture, which includes an open approach to operational risks
- business continuity and contingency plans to limit loss 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

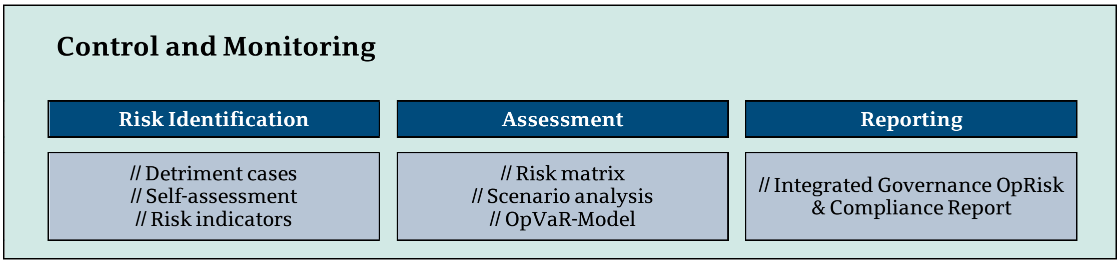
Risk management for operational risks is based on the "three lines of defence" model. Responsibility for managing operational risks is decentralised within the given framework and lies with the divisions (first line of defence). Downstream control processes are in place as part of risk management and 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).



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 in an integrated governance, OpRisk & compliance report. The method-based consolidation process will continue to be refined.

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 ICS process 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 key 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



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.

Established as part of integrated OpRisk management, the Risk Round Table is a central committee offering a platform where significant OpRisk issues and methods can be discussed at management level across divisional boundaries and thus enable comprehensive management initiatives. It focuses on operational risks, including process, IT, personnel, legal, outsourcing and compliance risks as well as security and contingency management.

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. In addition, Compliance works to ensure legal provisions and requirements are fulfilled 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.

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

The NORD/LB Group'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. NORD/LB’s Finance/Tax division is responsible for preparing NORD/LB’s annual report and consolidated financial statements, including the combined management report, in compliance with legal requirements. 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 has built up organisationally independent accounting processes and has its own accounting-related control processes.

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

The reported data for all of the subsidiaries in the basis of consolidation are also processed in a SAP module, which at the same time also records the consolidated financial statement measures (e.g. receivables, liabilities, expenses and income as well as capital consolidations). The consolidated financial statements that are generated for NORD/LB via this process then undergo a quality assurance procedure.

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

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 (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.

Reputation Risk

Definition and Strategy

Reputational 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, investors, employees or the owners. Step-in risk is a subsidiary component of reputational risk. It refers to the risk of a conduit bank or other non-banks receiving financial support to help them out of financial difficulties when no contractual obligation for such an occurrence is in place or the financial support exceeds the existing contractual obligation. The purpose of this support is to avoid potential reputational risks.

NORD/LB aims to maintain and continually expand the trust of its 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
- recognise early and reduce arising and existing reputational risk
- securely manage reputational risk that has arisen.

Management

The conduct of every employee has an impact on the bank's reputation. Therefore, responsibility for the appropriate management of reputational risks also lies with each individual employee. As well as Corporate Communications, key players in this regard are Sustainability Management, Compliance, and Risk Controlling. As part of the management of reputational risks, a compilation is made of how reputational risks are dealt with.

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 which direct and govern the economic, environmental and social aspects of business (ESG guidelines, sustainability guidelines).
- Guidelines for external communication
- Overall guidelines to prevent money laundering, the financing of terrorism and other criminal offences (fraud) as well as compliance with financial sanctions / embargoes at the NORD/LB Group
- Code of Conduct and Ethical Principles for the NORD/LB Group

Mechanisms such as defined audit steps and checklists in control processes should help to identify and safely control reputational issues. An ad-hoc committee is convened for urgent situations in which the Group's reputation is at risk, but for which proper procedure cannot be followed due to time pressure.

Employees are made aware of specific issues and any current situations through web-based training, newsletters and, if necessary, training sessions. In parallel with the continuous, cross-divisional exchange of reputation-related information, NORD/LB has an early-warning system comprising several indicators that 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.

Economic Report

General Economic and Industry-Specific Environment

Global Economic Environment

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

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

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

The rising pace of the global upturn was also seen on the capital markets. Germany's DAX stock exchange briefly climbed over the 13,500 mark at the beginning of November and then again a good two months later, an all-time high. This performance was bolstered by the very accommodative monetary policy of major central banks. However, the Federal Reserve raised interest rates another 25 basis points three times in 2017, and it also gradually began reducing its balance sheet. In the eurozone, the European Central Bank (ECB) maintained its very expansive monetary policy. However, the ECB eased its foot off the accelerator somewhat around the turn of the year by halving the pace of net purchases of bonds as part of its expanded asset purchase programme (EAPP) to € 30 billion per month. Net purchases will continue through at least September 2018. In addition, bonds in the programme that mature will be reinvested well beyond this date. Key rates remained at historic lows, and even the forward guidance has only been adjusted marginally over the past year. However, the decisions by the ECB continue to be characterised by a very cautious approach aimed at avoiding excessive market reactions. European capital market rates trended slightly upward in 2017. The yield on 10-year government bonds reached a yearly high of 0.60 per cent in July. It rose again sharply at the start of the year, as did interest rates in the USA. In addition to expectations of higher interest rates in the medium term, the markets appear to have priced in the changed inflation outlook. By contrast, EUR money market rates have remained almost unchanged in negative territory. The US dollar has not benefited as much due to the increased tightening of US monetary policy. In fact, the very good economic situation in the eurozone boosted the EUR-USD exchange rate to about 1.20 during the summer and at the end of the year. This upward trend continued after the start of the new year. After contracting towards the end of the first quarter of 2017, EUR/USD basis-swap spreads remained more or less unchanged within a range of -35 basis points across all maturities at year-end.

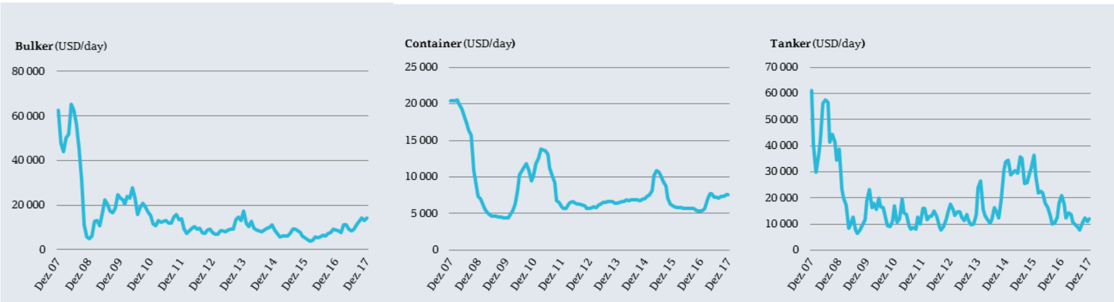
Aircraft

According to the calculations of the International Air Transport Association (IATA), global passenger numbers (RPK, revenue passenger kilometres) increased by 7.6 per cent year-on-year in 2017. The growth rates were 7.9 per cent for international traffic and 7.0 per cent for domestic traffic. Once again, there were clear geographical differences in these transport trends. The increase in passenger

traffic in the Asia/Pacific region was above average (+10.1 per cent), while the growth in traffic in the North America region was less strong (+4.2 per cent). In overall terms, growth was driven by the upturn in the global economy.
The number of freight tonne kilometres (FTK) sold grew by 9.0 per cent year-on-year in 2017. Measured in terms of market share, European air freight companies were the growth drivers, gaining 11.8 per cent year-on-year. This growth was due to the improved state of the global economy and strong demand for express air freight as a result of the boom in e-commerce.

Shipping

Development of the Charter Rates [1)]



[1)] Source: Clarkson Research Services Limited 2017; ClarkSea Index: Weighted average of major types of vessels

Shipping markets continued to recover in 2017. However, growth in the three core sectors was not uniform, as the Clarkson data make clear. Apart from the oil tanker segment, however, the sectors are now past their low points.
The charter market in the container sector was in much better shape last year. The market profited initially from the new alliances of the major shipping lines. Better than expected development of the global economy boosted demand for container ships during the peak season. The New ConTex charter rate index maintained by VHSS (Vereinigung Hamburger Schiffsmakler und Schiffsagenten e.V.) started at 294 points in January and closed the year at 404 points (+37.4 per cent). The positive change in demand was due in part to the continued reduction in the number of semi-trailers. While 6.9 per cent of the global container fleet was idle at the beginning of the year, the share of semi-trailers at the end of December 2017 was just 2 per cent, a decline of around 1 million TEU (twenty-foot equivalent units).
Despite some setbacks during the year, overall the upward trend in the dry bulk sector continued in 2017. The Baltic Dry Index reached a new record, rising to more than 1,700 points in the fourth quarter of 2017, a level it last achieved in 2014. The reluctance to place new orders in 2015 and 2016 had a positive impact on offers. The bulker fleet grew by around just 3.1 per cent. This fleet growth contrasted with a rise in global seaborne bulk goods transports of around 4.2 per cent. In addition to continued demand from China for iron ore and coal, the sector also benefited from the recovery of the global economy, which also boosted demand for other raw materials, such as bauxite.
By contrast, in the tanker sector fleet growth outpaced the increase in demand in 2017 for both crude oil and product tankers. The number of new orders placed in 2015, especially for crude oil, led to a sharp rise in deliveries in 2017. As a result, rates came under pressure over the course of the year.
The charter market for crude oil tankers, which has a longer-term focus, saw no improvement in 2017. Despite production cuts by OPEC, the global supply of oil remained nearly unchanged and as a result offered no support.

Real Estate

The positive macroeconomic framework conditions continued to support robust development of global investments in 2017, with market activity shaped by political events. There was uncertainty on the European real-estate market, particularly as a result of the ongoing Brexit negotiations and the heightened political conflict in Spain in the fourth quarter of 2017 as a result of Catalonia's independence efforts.

The global transaction volume increased by 6 per cent in 2017, to about USD 698 billion (previous year: USD 661 billion). In the EMEA region (Europe, Middle East, Africa), the transaction volume increased by 22 per cent to around USD 300 billion (previous year: USD 245 billion). By contrast, the transaction volume in America fell 12 per cent to around USD 249 billion (previous year: USD 285 billion).

In view of the good economic situation the positive development of the German investment market for commercial properties continued in 2017. Low interest rates kept investor interest in properties high, and as a result demand was well above supply. For the third time in a row, the volume of commercial transactions climbed over the € 50 billion mark, rising by 7 per cent to € 56.8 billion year-on-year and setting a new record that exceeded expectations. The transaction volume of office properties continued to hover near € 25 billion (previous year: € 23.8 billion) and with a 44 per cent share it is the most popular asset class. The Big 7 (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart) accounted for about € 31.1 billion of the total commercial transaction volume (previous year: € 29.6 billion), a share of almost 55 per cent.

Finance Sector

The European banking sector has faced deep cuts in recent years, and it will continue to see major challenges in the future as well (especially low interest rates, digitalisation and increased regulatory requirements). As a result, the number of institutions and branches in Europe has fallen. This trend will continue in future as a result of mergers and liquidations. However, the size of the banking market as a whole has only decreased slightly. While the amount of new lending has increased over the last year, the volume of credit in the eurozone has not risen in the last five years. This is due in part to the sharp decline in risk-weighted assets (RWA). In order to achieve a sustained and healthy increase in the volume of credit, European credit institutions will need strong growth momentum and an end to the process of cleaning up their loan books. In addition to restrained market development, the banking business will continue to be affected by the interest rate trend in the eurozone.

Although a 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 shows that there is and will continue to be considerable pressure on European banks, particularly on the cost side.

One of the driving factors here are ongoing restructuring costs as a result of the financial crisis. Regulatory requirements are also putting pressure on costs. Another issue that poses an existential challenge is digitalisation, which will affect the entire banking market in the short to medium term. On the whole, however, profitability rose. This was due to improved trading and commission income. However, the sharp decline in NPLs (non-performing loans) and the reduction in risk costs were a significant factor behind the improvement. This development was supported by the improved economic environment. Capital ratios rose as well. This increase was due to the reduction of RWA as well as various capital increases (some of which were carried out with state aid).

As the senior 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 capital (equity and debt instruments) will continue to increase.

Significant Events in the Financial Year

Regulatory Requirements regarding Minimum Capital

According to EU Regulation No. 575/2013 on Regulatory Requirements for Banks and Securities Firms (CRR), NORD/LB must comply in principle at both individual institution and Group levels with legally prescribed minimum equity ratios for the three supervisory capital ratios (Common Equity Tier 1 capital, Tier 1 capital and own funds) and it must have a gradually increasing capital buffer by 2019. The ratios are comprised of a numerator, which represents the relevant equity ratio, and a denominator, which is the relevant total risk exposure amount according to Art. 92 para. 3 CRR.

In the 2017 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 the third quarter of 2017, the European Central Bank (ECB), as the competent supervisory authority, approved NORD/LB's request for a capital waiver for parent companies (known as a "parent waiver") in accordance with § 2a para. 1 and 2 KWG in conjunction with Art. 7 para. 3 CRR. This provided regulatory relief at the level of individual institutions. Among other things, NORD/LB is only required to comply with minimum equity ratios in force since the date of the approval at Group level.

In addition to the statutory minimum equity ratio, the ECB imposes an individual minimum ratio on NORD/LB at Group level as part of the Supervisory review and Evaluation Process (SREP). In 2017, this requirement applied to the total capital ratio and was 10.25 per cent. This requirement was comprised of the statutory minimum total capital ratio of 8.0 per cent and an additional 2.25 per cent consisting entirely of Common Equity Tier 1 capital (the so-called "Pillar 2 Requirement", or P2R).

In addition, in 2017 the Bank was required to maintain a combined capital buffer of 1.59 per cent, comprised of the statutory capital buffer of 1.25 per cent, an institution-specific anti-cyclical buffer weighted for all lending of around 0.01 per cent and – because it is a systemically important bank – a capital buffer for other systemically important institutions of 0.33 per cent. Consequently, the outcome in 2017 was an overall total capital ratio requirement of 11.84 per cent.

Because both the P2R requirement and the two capital buffers have to be covered by Common Equity Tier 1 capital, in 2017 the Bank had to maintain a Common Equity Tier 1 capital ratio of 8.34 per cent (= minimum capital ratio pursuant to CRR of 4.5 per cent + additional requirement of 2.25 per cent + combined capital buffer requirement of 1.59 per cent).

The following table shows an overview of the NORD/LB Group's supervisory capital requirements in 2017:

(in %)	Common equity tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Regulatory requirement (in accordance with Article 92 (1) CRR)	4.50%	6.00%	8.00%
Additional requirement according to SREP (P2R in accordance to Article 16 (2) litera a regulation (EU) nr. 1024/2013)	2.25%	2.25%	2.25%
Capital conservation Buffer (§ 10c KWG)	1.25%	1.25%	1.25%
Countercyclical capital buffer (§ 10d KWG)	0.01%	0.01%	0.01%
Capital buffer for otherwise system relevance (§ 10d KWG)	0.33%	0.33%	0.33%
Total requirement	**8.34%**	**9.84%**	**11.84%**
31 Dec.2017	**12.15%**	**13.06%**	**17.81%**

Starting in 2018, the P2R requirement will increase to 2.5 per cent, the capital conservation buffer to 1.875 per cent and the capital buffer for other systemically important institutions to 0.66 per cent. As a result, the total required Common Equity Tier 1 capital ratio will increase to around 9.55 per cent and the total capital ratio to around 13.05 per cent.

Capital Measures

In financial year 2017, NORD/LB once again met the statutory minimum equity ratios at both Group and individual institution level as well as the individual minimum ratios imposed by the ECB at all times.

The level of regulatory equity ratio increased in 2017 compared to the end of 2016. This was mainly due to a reduction in the total risk exposure amount, primarily as a result of declines in the operational customer business as well as the restructuring of existing securitisation transactions and implementation of new ones. First, NORD/LB received a first loss tranche guarantee for one of the Bank's loan portfolios, which was securitised in 2014, from the same private guarantor that originally guaranteed the portfolio's mezzanine tranche. Second, the volume of a loan portfolio that was securitised in 2016 and which received a first loss tranche guarantee from a private guarantor when it was held by former subsidiary Bremer Landesbank, which was merged into NORD/LB in 2017, was topped up. Third, another of the Bank's loan portfolios was securitised and a guarantee for the mezzanine tranche secured from a private guarantor. Combined, these three transactions resulted in a reduction in the total risk exposure amount of around € 4.6 billion in 2017.

In addition, the Tier 1 capital and total capital ratios at Group level also improved in 2017 because – as a result of the merger of NORD/LB and Bremer Landesbank in 2017 – the additional Tier 1 and Tier 2 capital instruments issued by Bremer Landesbank and held by third parties can be fully used to offset the statutory equity requirement at NORD/LB Group level. Until the date of the merger, these capital instruments could only be used as equity to offset these requirements up to certain maximum amounts in accordance with CRR.

In 2016, NORD/LB posted negative earnings after taxes at individual institution level in accordance with the German Commercial Code (deutsches Handelsgesetzbuch – HGB) and a net loss as at 31 December 2016 in accordance with HGB. As a result, no interest was paid on silent participations in 2016, and the silent participations participated in the net loss in proportion to the relative share they represented of the overall liable equity at the time.

By resolution of the NORD/LB Owners' Meeting, the net loss in 2016 was covered in full by a transfer from retained earnings.

In 2017, the Bank once again reported a net profit after taxes in accordance with HGB and, as at the balance sheet date, a balance sheet profit in accordance with HGB in the same amount. As a result of the net profit and the balance sheet profit, the balance sheet values of all silent participations have been fully restored to their respective nominal values. In addition, all silent participations will receive the contractually stipulated interest for 2017.

Utilisation of Regulatory Relief

On 31 March 2017, the competent supervisory authority approved a request for a waiver in accordance with § 2a paras. 1 and 2 KWG in conjunction with Art. 7 para.1 CRR for Bremer Landesbank which still existed at that time. As a result, NORD/LB, as the parent company, is solely responsible for compliance with banking supervision regulations regarding capital adequacy requirements at institution level, the requirements for reporting large loans as well as the calculation and safeguarding of risk-bearing capacity, the determination of strategies and the establishment of processes to identify, assess, manage, monitor and communicate risks (§ 25a para. 1 sentence 3 No. 1 KWG) even before the merger is completed.

As described above, the ECB also approved a capital waiver for NORD/LB at the individual institution level in the third quarter of 2017. This made the Group's risk management even more uniform. By utilising the available regulatory relief, the Bank also hopes to improve the transparency of its reporting and make its processes more efficient.

Reduction of Ship Loan Portfolio

The new Shipping Portfolio Optimisation (SPO) unit was set up on 1 July 2017 for the purpose of taking targeted action to counter the ongoing impact of the shipping crisis in the future. This unit will be responsible for activities aimed at stabilising, managing, restructuring and reducing about three quarters of the Group's entire shipping loan portfolio. The lower end of the targeted portfolio size for 2018 was achieved in 2017. This was mainly the result of sales, repayments and currency effects.

As part of the implementation of the ECB guidelines for distressed loans, which went into effect when it was published in March 2017, NORD/LB Group developed an NPL strategy in 2017. Under this strategy, portfolios with a significant NPL volume are monitored. Currently, this only applies to the shipping portfolio. The strategic priority for the shipping portfolio that is non-performing is to reduce the volume while preserving value through the following measures: restructuring, supporting ship sales and re-marketing. The NPL strategy will be reviewed on an annual basis to ensure that it is up to date.

"One Bank"

NORD/LB launched the Group-wide "One Bank" transformation programme in the first quarter of 2017. This involves a seamless business model which should focus more closely than before on the Group's core business segments. In this context, the aim is to expand the Corporate and Private Customers, Markets and Project Financing business segments. One Bank also includes extending the already strong market position in financing for future business segments such as infrastructure or renewables. At the same time, selective redimensioning of the shipping loan portfolio will be driven ahead. An operational model adapted to these objectives aims to optimise processes and IT applications on a cross-departmental basis, with the focus on value-enhancing activities. Overall responsibility for the transformation programme is assigned to the Bank Management & Transformation department. This unit also groups together competencies for the management of general bank KPIs by Finance and Cost Controlling.

Ways of simplifying the Group's structure are also being examined, and all units in the Group are under scrutiny. One of the first decisions involved the investment in Deutsche Hypo; NORD/LB will keep its investment in the real estate lender and maintain its investment exposure. With respect to NORD/LB Asset Management Holding, on 19 December 2017 the Group decided to sell its majority stake of around 75 per cent. The goal of the transaction is to find a strategic partner while maintaining a minority stake. The share purchase and transfer agreement was signed in the first quarter of 2018.

In future, additional reorganisation measures will be specified and implemented on the basis of the project plan now in place for the One Bank programme.

In addition to the full integration of Bremer Landesbank into NORD/LB, the "One Bank" transformation programme also aims to implement long-term cost savings of up to € 200 million and eliminate as many as 1,250 jobs at NORD/LB Group by the end of 2020. As far as possible, staff reductions are to be implemented on a socially responsible basis. During the year under review, NORD/LB concluded a future safeguarding agreement with the staff representative body regarding the measures under consideration for this purpose, which include early retirement arrangements as well as severance packages.

Before the planned savings effects from the "One Bank" transformation programme can be achieved, the Group is expected to incur additional reorganisation expenses. Such expenses will be taken into account by forming additional reorganisation provisions once the measures have been adequately defined.

Integration of Bremer Landesbank

On 7 November 2016, NORD/LB acquired all shares in Bremer Landesbank (BLB) held by the Free Hanseatic City of Bremen and the Savings

Banks Association of Lower Saxony, with legal effect from 1 January 2017.

As at 31 August 2017, BLB was legally merged with NORD/LB upon its entry in the commercial register with retroactive effect from 1 January 2017, on the basis of resolutions to this effect by the owners' meetings of the two companies. All rights and obligations of BLB existing as at 1 January 2017 were thereby transferred to NORD/LB. As a result of the merger, BLB lost its legal independence and operates henceforth as a branch of NORD/LB. The full technical, staff and procedural integration of BLB into NORD/LB is being implemented gradually by means of an internal transformation process.

In connection with the restructuring, material costs are to be reduced and staffing measures will be utilised to leverage synergy effects. The measures to reduce staff costs were defined over the course of 2017. In this context, NORD/LB decided on the restructuring plan for the integration of Bremer Landesbank on 26 September 2017, and it staged several events to inform the workforce about the upcoming restructuring. A provision for reorganisation measures in the amount of € 118 million was formed (with about € 37 million of that in the previous year) to cover the expected expenses for measures to reduce headcount through severance packages and early retirement measures. The active phase of increasing staff-related synergies began on 1 December 2017. By the end of the year, the first voluntary severance agreements had been concluded on the basis of the future safeguarding agreement. The full synergy effects are expected to be achieved following the conclusion of the technical merger.

External Rating

Following the rating downgrade in April 2017, the Moody's Investors Service rating agency reduced NORD/LB's long-term issuer rating to Baa3 on 30 June. The reason for this move was the deterioration of the financial strength rating (Baseline Credit Assessment). The outlook was set to negative.

In its report of 19 July 2017, Moody's cited the weakness of the shipping loan portfolio's credit quality and the susceptibility of the capital ratios to risk as the reasons for this change. The Bank's funding and liquidity situation were rated as solid. NORD/LB has already introduced a series of measures in order to reduce the shipping loan portfolio, improve profitability in the medium term and sustainably strengthen the capital ratio against future strains. The initial successes of these efforts can be seen in the portfolio reduction and the capital ratios, which rose over the course of the year. Together with the positive annual results, the aim of these measures is to stabilise or improve the Bank's rating.

NORD/LB continues to have adequate liquidity at its disposal, with no changes in this regard. For funding purposes, NORD/LB is currently increasing its use of collateralised funding. The baseline rating is taken into account when planning new business and funding.

Ruling by the Federal Supreme Court

On 4 July 2017, the Federal Supreme Court ruled in two cases that processing fees not linked to specific maturities in loan agreements concluded between banks and entrepreneurs are ineffective. The same ruling was already handed down in 2014 regarding processing fees charged for loan agreements between banks and consumers. Provisions have been formed as appropriate to repay the processing fees that were charged.

Report on the Earnings, Assets and Financial Position

(In the following text the previous year's figures for the reporting year 2016 are shown and those from 31 December 2016 are shown in brackets.)

Earnings Position

During the reporting year, NORD/LB Group posted positive earnings before taxes of € 195 million following a loss of € 1,865 million in the previous year. The NORD/LB Group's earnings continue to be affected substantially by the challenging developments on the shipping markets. However, at € 986 million, the loan loss provisions in the credit business are well below the previous year's figure of € 2,956 million.

The income statement figures can be summarised as follows:

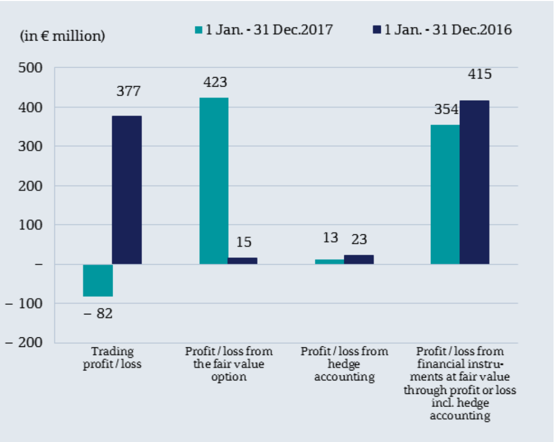
	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Net interest income	1 417	1 735	– 18
Loan loss provisions	986	2 956	– 67
Net commission income	112	219	– 49
Profit / loss from financial instruments at fair value through profit or loss including hedge accounting	354	415	– 15
Profit / loss from financial assets	147	49	> 100
Profit / loss from investments accounted for using the equity method	38	– 2	> 100
Administrative expenses	1 185	1 113	6
Other operating profit / loss	383	– 173	> 100
Earnings before reorganisation	**280**	**– 1 826**	**> 100**
Reorganisation expenses	85	39	> 100
Earnings before income taxes	**195**	**– 1 865**	**> 100**
Income taxes	60	94	– 36
Consolidated profit	**135**	**– 1 959**	**> 100**

Due to persistently low interest rates on the money and capital markets as well as a decline in average holdings (loans and advances to customers), **net interest income** declined by € 318 million to € 1,417 million year-on-year. The decline in interest income was reinforced by the sale during the reporting period of holdings of promissory notes with higher interest rates. The decrease in interest income of € 637 million has a greater impact on earnings than the reduction in interest expenses in the amount of € 319 million. On the earnings side, the decrease was especially pronounced in interest income from lending and money market transactions (-€ 304 million) and from financial instruments at fair value (€ 145 million). Interest income from the amortisation of hedge accounting derivatives as well as the adjustment items for underlying transactions fell by € 134 million year-on-year. In particular, the expense side saw a decline in interest expenses in the lending and money market business (€ 120 million) as well as a reduction in interest expenses for securitised liabilities (€ 95 million). There was also a decline in interest expenses of € 135 million in financial instruments measured at fair value. However, interest expenses for subordinated liabilities rose by € 11 million.

Expenses from **loan loss provisions** fell substantially, decreasing by € 1,970 million year-on-year to € 986 million. This effect was primarily due to the € 2,011 million decrease in net allocations and reversals of specific valuation allowances compared to the same period in the prior year, especially in ship finance.

Net commission income fell significantly year-on-year. The decrease in commission income of € 77 million is reflected in the results to a greater extent than the increase in commission income of € 30 million. Income of € 36 million from the transfer of the custody business to another landesbank (federal state bank) was included as a special effect in the prior year. In addition, guarantee premiums paid for securitisation transactions rose by € 101 million (previous year: € 74 million), resulting in higher expenses.

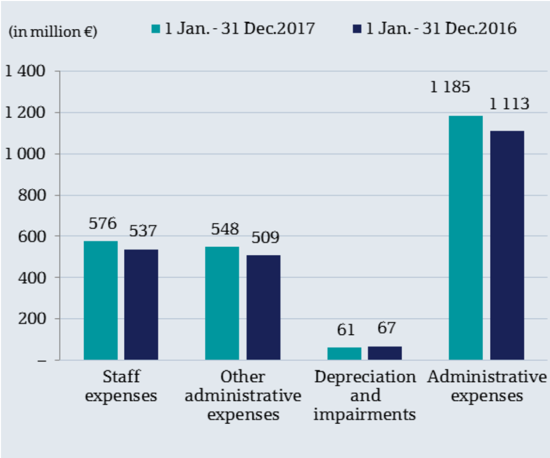
At € 354 million, **profit/loss from financial instruments at fair value through profit or loss including hedge accounting** fell is € 61 million lower than the previous year's figure. The trading result was € 459 million down year-on-year, but this was largely offset by the higher contribution to profit from the fair value option. The trading loss of -€ 82 million (€ 377 million) was impacted by the negative realised and valuation results from debentures and promissory notes as well as the negative result from interest rate derivatives due to the rise in EUR interest rates compared with the previous year. The result from currency derivatives, which was also negative, was largely due to the narrowing of the EUR/USD basis spread; the positive foreign exchange result more than offsets the negative result from currency derivatives. The positive trend on the equity markets since the start of 2017 led to a smaller positive trading result from equity derivatives. The positive result from fair value option holdings of € 423 million (€ 15 million) is largely due to interest effects, which primarily involve liability-side holdings (structured issues).



The **profit/loss from financial assets** amounted to € 147 million, an increase of € 98 million year-on-year. This result is mainly comprised of the profit from the sale of available-for-sale (AfS) financial assets amounting to € 105 million and from the sale of investments amounting to € 47 million. The profit/loss from financial assets also includes a write-down on the value of an investment of -€ 6 million.

The **profit/loss from investments accounted for using the equity method** was weighed down substantially by unplanned amortisation and depreciation in the prior year. The positive result for the reporting year of € 38 million (-€ 2 million) is due to the € 14 million from the disposal of associates accounted for using the equity method, with the rest coming from the proportionate profit/loss from investments accounted for using the equity method.

Administrative expenses rose by € 72 million to € 1,185 million compared to the prior-year period. Other administrative expenses rose compared to the prior-year period by € 39 million. This development was due in particular to the increase of € 28 million in appraiser and consulting expenses and the increase of € 9 million in service expenditure for IT in connection, particularly in connection with the ongoing development of the IT roadmap. At € 37 million (€ 36 million), expenses for levies and contributions are at about the same level as the previous year. Staff expenses rose by € 39 million to € 576 million, particularly as a result of new hires and wage increases.



Other operating profit/loss rose by € 556 million year on year and amounted to € 383 million. Other operating income increased by € 371 million, while other operating expenses fell by € 185 million. This earnings performance was bolstered by the disposal of receivables from the sale of promissory notes, which had a positive effect of € 461 million. The negative effect from the repurchase of issued liabilities was reduced by € 128 million year-on-year to € 96 million. Other operating profit/loss includes expenses in connection with the EU banking levy of € 52 million.

Reorganisation expenses relate to measures to reduce staff, with the aim of securing NORD/LB Group's long-term future and maintaining its competitiveness. The reorganisation requirements are connected with the merger of Bremer Landesbank and NORD/LB. The result of € 85 million includes expenses from the allocation to reorganisation provisions and also includes staff costs.

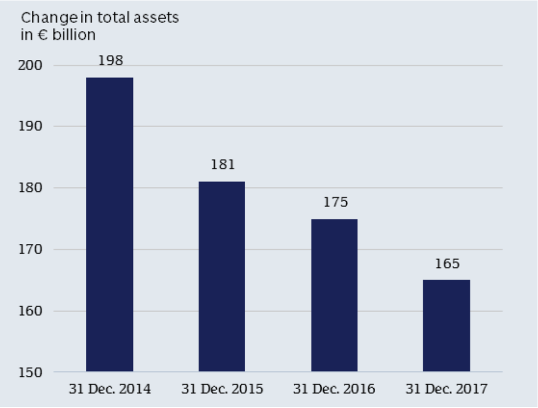
The **expense on income taxes** of € 60 million corresponds to anticipated tax expenditure, taking account of the annual profit/loss.

Assets and Financial Position

	31 Dec. 2017 (in € million)	31 Dec. 2016[1] (in € million)	Change (in %)
Loans and advances to banks	29 202	21 747	34
Loans and advances to customers	95 115	105 640	– 10
Risk provisioning	– 3 508	– 3 797	– 8
Financial assets at fair value through profit or loss	10 983	12 461	– 12
Positive fair values from hedge accounting derivatives	1 385	2 327	– 40
Financial assets	27 183	31 574	– 14
Investments accounted for using the equity method	200	285	– 30
Other assets	4 819	4 495	7
Total assets	**165 379**	**174 732**	– 5
Liabilities to banks	46 710	49 241	– 5
Liabilities to customers	56 466	57 301	– 1
Securitised liabilities	33 607	35 815	– 6
Financial liabilities at fair value through profit or loss	12 971	15 056	– 14
Negative fair values from hedge accounting derivatives	1 990	2 945	– 32
Provisions	2 731	2 753	– 1
Other liabilities	1 105	1 661	– 33
Subordinated capital	3 606	3 984	– 9
Reported equity including non-controling interests	6 193	5 976	4
Total liabilities and equity	**165 379**	**174 732**	**– 5**

[1] The previous year´s figures have been adjusted for individual positions; for more information see Note (2) Restatement of previous year´s figures..

Total assets continue to trend downwards.



Loans and advances to banks rose by € 7,455 million year-on-year to € 29,202 million. This change was due in particular to the increase in current receivables from money market transactions involving German banks, including scheduled overnight deposits with the Deutsche Bundesbank. With respect to other loans and advances, the reduction of promissory notes was offset somewhat by the increase in loans and advances due on demand. There was a decline in cash provided as collateral of € 1,088 million to € 1,260 million.

At 58 per cent (60 per cent), **loans and advances to customers** continued to be the most significant balance sheet item. This item fell by € 10,525 year-on-year. This is largely due to the decline in ship financing and receivables from public-sector promissory notes.

Taking account of assets held for sale recognised in the balance sheet in accordance with IFRS 5 (€ 0 million; previous year: € 711 million), **loan loss provisions** fell from € 4,508 million to € 3,508 million. Net allocations to specific valuation allowances amounted to € 691 million (€ 2,702 million). The decline in specific valuation allowances was caused by the gradual reduction of the shipping portfolio. In the shipping portfolio, the “Loan loss provisions / NPL exposure” coverage ratio, which indicates the ratio of loan loss provisions to exposure in default, fell from 48 per cent as at 31 December 2016 to 40 per cent as at 31 December 2017. The lower ratio is an indicator of an improvement in the loan-to-value situation for the remaining portfolio in default. For NORD/LB, the most important ratio for measuring risk coverage is core risk coverage. This is the ratio of loan loss provisions to shipping market value and it improved over the course of the year, from 84 per cent to 88 per cent.

At € 10,983 million, **financial assets at fair value through profit or loss**, which include trading assets and financial assets designated at fair value, are down by € 1,478 million year-on-year. In particular, this decline was due to valuation and volume effects, which had a corresponding impact on the liabilities side.

As part of the reduction of total risk exposure, final maturities and repayments for loans and receivables (LaR) and **financial assets** held for sale (AfS) fell year-on-year by € 4,391 million and now amount to € 27,183 million.

The rise in **other assets** of € 324 million was caused in large part by the increase in the cash reserve of € 989 million due to the reporting date. Intangible assets includes the cost to purchase the whole credit management system (LoanIQ), with the data migration to this system completed in August 2017. Assets held for sale fell by € 401 million to € 20 million (€ 421 million) due to sale or a decision not to dispose of the assets in question. This item is now comprised almost solely of the assets of NORD/LB Asset Management Holding.

Liabilities to banks fell by € 2,531 billion year-on-year to € 46,710 billion. The reduction in the refinancing requirement corresponding to the decline in assets was especially apparent in the decrease of € 6.545 million in liabilities resulting from money market transactions. However, deposits from other banks and other liabilities including cash provided as collateral increased.

Liabilities to customers decreased slightly year-on-year. This decline was mainly the result of a smaller number of money market transactions. A slight increase in other liabilities as at the balance sheet date is due to the rise in liabilities due on demand and a simultaneous decline in liabilities with a fixed term.

With respect to **securitised liabilities**, new issues of Pfandbriefe and municipal debentures (€ 5 billion in nominal terms) were more than offset by repayments, with an overall decline of € 2,208 million posted.

Financial liabilities at fair value through profit or loss consist of trading liabilities and financial liabilities designated at fair value. There was a year-on-year decline of € 2,085 million, with a similar development on the asset side due to valuation and volume effects.

The total amount of **provisions** fell by € 22 million year-on-year. Provisions for defined benefit pension plans fell by € 76 million, in particular due to the increase in the actuarial interest rate. The increase in other provisions by € 54 million is due to the allocation of additional reorganisation provisions in connection with the complete integration of Bremer Landesbank into NORD/LB (€ 85 million).

The decline in **other liabilities** by € 556 million is due to the decline in balancing items for financial instruments hedged in the fair value hedge portfolio (€ 304 million).

Subordinated capital fell by € 378 million to € 3,606 million. In addition to repayments of € 246 million, in particular, there were exchange-rate effects on the USD-denominated capital of € 103 million.

The increase in **reported equity** of € 217 million to € 6,193 million was mainly due to the consolidated profit and changes in the revaluation of the net liability from defined benefit pension plans. The retained earnings from the previous year were adjusted by € 65 million (see Note (2)).

During the reporting year under review, **contingent liabilities and other obligations** decreased by € 1.4 billion and amount to € 13.1 billion as at the balance sheet date.

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Development of the Business Segments

The NORD/LB Group is active in the following business segments:

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

Overall Bank

31 Dec.2017 (in € million)	Overall bank	Trend	Development
Earnings before taxes (EBT)	195	↑	-Earnings before taxes are once again positive and therefore substantially higher than the prior year. - Net interest income was down substantially as a result of a reduction in the volume of the shipping loan portfolio, significantly lower amortisation effects from derivatives, lower profits from the deposit business and equity investments due to interest rates and as a result of the resumption of the servicing of silent participations. - Risk provisioning fell sharply despite higher valuation allowances on the ship financing portfolio. - Net commission income significantly lower as a result of expenditures for capital-relief securitisation measures. - Profit/loss from financial instruments at fair value through profit or loss moderately lower as a result of the measurement of currency derivatives; sales profits in the customer business stable. - Profit/loss from hedge accounting down sharply at a low level. - Profit/loss from financial assets substantially higher as a result of profits from the sale of securities and investments. - Profit/loss from at-equity investments much better than the prior year, as measurement corrections are no longer applied on investments. - Administrative expenses for both staff and other administrative expenses rose moderately. Higher staff expenses as a result of the increase in headcount, wage increases and allocations to pension provisions; increase in other administrative expenses, in particular due to the "One Bank" transformation programme. - Other operating profit/loss positive as a result of realisation effects from promissory notes and thus much higher than the prior year. - Much higher reorganisation expenses in connection with the integration of Bremer Landesbank.
Cost-Income-Ratio (CIR)	51.4%	→	- CIR at the prior-year level. - Moderately higher earnings and administrative expenses.
Return-on-Equity (RoE)	3.4%	↑	- RoE once again positive and thus considerably better than the prior year. - Very positive other operating profit/loss due to, in particular, risk provisioning for the ship financing portfolio that, while still high, is much lower than the prior year and due also to realisation effects from promissory notes.

Private and Commercial Customers

31 Dec.2017 (in € million)	Private and Commercial Customers	Trend	Development
Earnings before taxes (EBT)	50	↗	- Operating result much higher than the prior year. - In net interest income, much lower earnings from the deposit business and investment profits from committed equity as a result of low interest rates as well as a slight decline in earnings from the lending business. - Fewer new loan loss provisions formed. As in the previous year, there were on balance more reversals. Total risk provisioning moderately better than in the prior year. - Much lower net commission income due to the loss of commission income from NORD/LB Vermögensmanagement Luxemburg (sold); there were also operational increases in all key types of profits. - 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) and is at the same level as the prior year. - The sale of NORD/LB Vermögensmanagement Luxemburg as well as lower general expenses in the operational business resulted in much lower administrative expenses. - Other operating profit/loss well below the prior year as a result of higher provisions for legal expenses.
Cost-Income-Ratio (CIR)	78.8%	→	- CIR marginally better than in the prior year. - Lower operating costs are a key factor.
Return-on-Risk-adjusted-Capital (RoRaC)	10.1%	↓	- Much lower than in the prior year. - This is because the increase in committed capital was not fully offset by the improved operating result.

Digitalisation is a major factor that shaped the business activities of BLSK in 2017. This topic received special strategic and operational focus thanks to the establishment of a Chief Digital Officer and a digital management board. This led to the key tasks of developing a target vision for digitalisation and a digital roadmap. The investment in S-Innovation-Hub and the establishment of fintech partnerships with SMACC GmbH, Kleinmachnow and Credi2 GmbH, Vienna, show that the focus is on actively advancing innovations in the interest of customers.

With its BLSK.direkt customer service centre, BLSK is meeting the modern need for quick and reliable service in various communication channels. The unit is seeing dynamic growth in a broad array of areas, from order service to the new business service centre for commercial customers. Its constantly expanding service offering has been received positively by customers. Incoming phone calls increased by 12 per cent in 2017 compared to the previous year. Orders placed online nearly doubled during this period. Communication by text and chat is now a standard service offering at savings banks.

In the area of real-estate brokerage, the positive trend from the previous year continued and revenues rose substantially.

Persistently low interest rates continue to motivate customers with respect to private pension provision. BLSK has tailored its advisory offering accordingly and rounded it out by expanding its insurance check.

NORD/LB Bürgerstiftungsfonds, which was launched in 2013, scored a top spot in the rankings of business magazine Wirtschaftswoche. Its sister product – the Stiftungspartnerfonds – which is managed from Braunschweig, had a return of 4.5 per cent p.a., putting it ahead of institutions such as Flossbach von Storch, Berenberg, DWS and Bethmann Bank.

The private banking business of the former Bremer Landesbank (BLB) had a stable customer base and increased the volume of new financing compared to the previous year. The exposure of the BLB Global Opportunities Fund was further expanded, with the fund posting excellent performance. Asset management, which is a core competence, saw its volume increase by € 100 million, once again confirming it as a top name in private banking. The annual "Elite Report" awarded BLB the coveted title of "Excellent asset manager" for the 14th year in a row. The jury cited the quality for private customers, which is developed and continuously improved over the course of many years and which leads to excellent results.

Following the successful foundation forum in 2015, Private Banking repeated the format in 2017. The event revolved around presentations by well-known speakers as well as workshops and foundation work. It enabled Private Banking to further enhance its reputation as a well-known provider of foundation management services.

Corporate Customers

31 Dec.2017 (in € million)	Corporate Customers	Trend	Development
Earnings before taxes (EBT)	243	↑	- Result much higher than the prior year. - Net interest income slightly above the prior-year level as a result of the business expansion and the new community real estate segment. - Considerably lower allocations to risk provisioning. - Net commission income moderately under prior-year level, primarily because of lower one-off commissions. - Trading profit/loss much stronger than prior year because of the improved development of counterparty-specific default risk for derivatives. - Administrative expenses much higher due to increased overhead costs. - Other operating profit/loss for this segment has little relevance for earnings.
Cost-Income-Ratio (CIR)	38.3%	↗	- CIR somewhat worse than the prior year. - The key reason for this are much higher overhead costs against only slightly higher earnings.
Return-on-Risk-adjusted-Capital (RoRaC)	14.3%	↘	- RoRaC significantly lower. - This is mainly due to much higher committed capital (higher committed capital factor).

Despite the difficult market environment characterised by increased competition, volatile markets and margin pressure, the NORD/LB Group expanded its corporate customer business further in 2017, strengthening its position as a core bank. In particular, growth was based on the consistent strategic realignment of the corporate customer business over the past several years.

For example, NORD/LB assisted with the "buy and build" strategies of acquisition financing. Here, it worked together with investors to develop tailored financing options with the aim of creating business units that are as large as possible, which would then, in the best case scenario, be sold as market leaders. For example, NORD/LB financed the growth strategy of investment firm AUCTUS Capital Partners AG with its customer PharmaLex. By purchasing a total of 11 companies, revenues were increased sixfold within three years. The financial support it provided to investment firm Ufenau Capital Partners with the IRSH Group was likewise successful. Here, the focus of the growth strategy was and remains on the purchase of additional companies in order to optimise the value chain over the long term, thus generating a competitive advantage.

The NORD/LB Group also collaborated with Corporate Finance to successfully position itself with its customers, for example, by issuing debt instruments. For example, Flughafen Hamburg GmbH issued a début promissory note and a début registered bond worth a total of € 40 million. The investor funds raised will be used to renovate and expand current infrastructure in order to meet the rising number of passengers and flights in future as well. The instruments were primarily placed with investors in the savings bank and cooperative bank sectors. NORD/LB served as the sole arranger for the transaction.

The Bank established itself as a specialist in financing residential properties throughout Germany. Because of the increasing growth of cities, new construction of residential properties plays an important role in meeting the rising demand for additional and contemporary housing. For example, a large residential property company in Sachsen-Anhalt, Wohnungsbaugesellschaft Magdeburg, has invested more than € 70 million in the new "Cathedral Quarter" being built near the city's cathedral. NORD/LB worked with Stadtsparkasse Magdeburg to arrange a promissory note to finance this substantial investment, which was successfully placed on the market, primarily with network savings banks. As a result, the customer's capital needs were structured in a flexible manner through the use of capital market products.

Markets

31 Dec.2017 (in € million)	Markets	Trend	Development
Earnings before taxes (EBT)	181	↘	- Earnings before taxes fell somewhat. - Compared to the previous year, significant rise in net interest income from securities due to marginally higher interest rates. - The risk provisioning in this segment is not significant. - The almost total loss of the special effect from the sale of custodian bank activities is the main reason for much lower net commission income. - The trading profit/loss almost matched the very good earnings level of the prior year. - Slight reduction in operating costs, particularly as a result of reduced material costs (IT) and slightly lower staff costs. - Other operating profit/loss only has minor relevance for the results in this segment.
Cost-Income-Ratio (CIR)	43.4%	↗	- Noticeable rise in CIR compared to the prior year. - The main reason for this is the sale of the custodian bank function, which reduced earnings.
Return-on-Risk-adjusted-Capital (RoRaC)	31.2%	↓	- RoRaC much lower compared to prior year. - Substantial reduction of the special effect from the sale of custodian bank activities and, at the same time, higher committed capital from security positions.

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 2017. As part of the strategic expansion of the Debt Capital Markets (DCM) business segment for financial institutions, government issuers and quasi-government issuers, a significant number of new issuers were once again acquired for lead mandates in 2017. Because of the primary focus of its 2017 business activities on the euro covered bond market, NORD/LB was once again in the top 15 of the Global League Tables for covered bonds, and it thus remains one of the most successful issuers of covered bonds in the world. It won a good number of mandates in other fixed income markets as well. In particular, NORD/LB won a number of important lead mandates in Germany and the Netherlands in the area of green bonds for the first time.

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 in the euro covered bond benchmarks segment, especially in Northern Europe. Among the covered bond joint lead mandates received for the first time in 2017 for NORD/LB were Sweden’s SCBC, Norway’s SR-Boligkreditt, Finland’s OP Mortgage Bank and France’s La Banque Postale.

In June 2017, NORD/LB was given a leading role in a mandate by BNP Paribas for a senior non-preferred (SNP) benchmark with a focus on German investors. In the area of public budgets, NORD/LB acted as the lead manager on major public transactions for promissory notes for municipalities in Germany. Among Germany’s federal states, NORD/LB was once again among the top five in the Global League Tables for the first time since 2015, ending the year in fourth place as the most successful regional bank in this segment.

As part of its own refinancing activities, NORD/LB placed both a 10-year and a 7-year Pfandbrief benchmark issue, in addition to several private placements, in what was a challenging market environment. Shortly after the initial issue, NORD/LB successfully topped up the 10-year Pfandbrief.

The network savings banks were involved in the special and project financing business through syndication activities.

Energy and Infrastructure Customers

31 Dec.2017 (in € million)	Energy and Infra-structure Customers	Trend	Development
Earnings before taxes (EBT)	134	↓	- Earnings before taxes fell down sharply compared to the prior year. - Net interest income was somewhat lower than the prior-year level, with slightly lower profits from the lending business and lower investment profits from committed equity capital. - Risk provisioning position rose slightly due to allocation to specific loan loss provisions. - Commission income well below the prior year’s very high level due to weaker new business. - Profit/loss from financial instruments at fair value through profit or loss rose sharply, in particular as a result of the measurement of derivatives. - Administrative expenses rose moderately as a result of higher internal company cost allocations. - Other operating profit/loss for this segment has little relevance for earnings.
Cost-Income-Ratio (CIR)	38.6%	↑	- Substantial rise in CIR as a result of a clear decline in earnings and moderately higher administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	13.0%	↓	- Sharp decline in RoRaC. - This comes against a background of lower earnings before taxes and a higher capital commitment factor.

Despite growing competition, NORD/LB maintained its market position in the Energy and Infrastructure Customers segment as one of the leading financiers of renewable energy in its core

European markets of Germany, France, the UK and Ireland.

One highlight of 2017 was the financing for Europe's largest wind farm, located in northern Sweden, for which NORD/LB played a lead role as ECA advisor and mandated lead arranger. With a total of 179 wind turbines, the wind farm produces 650 megawatts of energy. This represents a milestone for NORD/LB, with a number of innovative aspects and a unique combination of very different sources of financing. The project also won the "Wind Deal of the Year" award from PFI (Project Finance International) magazine.

In addition, the segment tapped a new market for NORD/LB – Australia – in the energy and infrastructure sector. Working with the Credit Asset Management unit, it had a successful market launch with the financing of a 113 megawatt wind farm in New South Wales.

NORD/LB successfully maintained its position as a book runner on the US market, involving additional lenders in its structures. This was demonstrated by, among other things, the hybrid financing for a 414-kilometre gas pipeline in Mexico.

The renewable energies platform was strengthened in terms of customer network and product range thanks to the integration of the former Bremer Landesbank business segment.

The infrastructure financing segment was also developed successfully in 2017. A financing project in Austria is worth noting. This project involved a school in Vienna that will have space for 1,100 pupils in future. The refinancing was provided via a lettre de gage publique.

As part of the 2017 Partnership Awards, NORD/LB won the "Gold Award" in the category "Debt Provider of the Year" in the infrastructure sector.

Ship Customers

31 Dec.2017 (in € million)	Ship Customers	Trend	Development
Earnings before taxes (EBT)	– 740	↑	- Earnings before taxes continue to be very negative, but they improved over the prior year thanks to a decline in risk provisioning. - Net interest income showing clearly negative tendency due to the portfolio reduction. - Allocations to risk provisioning remain at a high level as a result of the ongoing ship crisis, but they fell substantially. - Net commission income reduced sharply as a result of constraints on new business. - Profit/loss from financial instruments at fair value through profit or loss rose significantly as a result of the positive development of counterparty-specific default risk for derivatives. - Administrative expenses rose slightly as a result of higher staff and material costs. - Other operating profit/loss for this segment has little relevance for earnings.
Cost-Income-Ratio (CIR)	36.3%	↑	- Significant deterioration of the CIR. - Significantly lower earnings due to the portfolio reduction and slightly higher administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	-54.7%	↑	- RoRaC significantly better, but still negative.

In the Ship Customers segment, the NORD/LB Group continued to focus mainly on reducing the portfolio. Thus, the current Group volume is to be pared down to between € 12 and € 14 billion by the end of 2018. To this end, NORD/LB established a separate unit in mid-2017 to process non-performing loans and to intensively handle problem loans. The lower end of the targeted portfolio size for 2018 was achieved in 2017. This was mainly the result of sales, repayments and currency effects.

At the same time, the NORD/LB Group proceeded with the systematic realignment and diversification of the portfolio, primarily in terms of regions, customers and asset classes. The Group-wide focus here is on a reduction of the commercial shipping portfolio and a reduction in activities in the special tonnage segment and the cruise ship and ferry segment.

One example is the initial financing of a river cruise portfolio for a large Asian tourism company. This transaction stands out because of its comprehensive collateral structure and good risk-return ratio.

Another example of the successful diversification strategy is the initial financing in the special container box segment for one of the world's largest container shipping lines. This transaction also benefited from NORD/LB's expertise in operating leases with Japanese investors.

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. In 2017, new business opportunities also arose as a result of the merger of NORD/LB AöR and Bremer Landesbank. As a result, the financing expertise of NORD/LB has also benefited former business partners of BLB since the merger. For example, a large Bremen-based shipping line, which was a long-term customer of Bremer Landesbank, has been gained as a customer of NORD/LB for multiple new transactions. This shows that, despite the merger, former customers of BLB have come to trust NORD/LB as an expert financing partner.

Aircraft Customers

31 Dec.2017 (in € million)	Aircraft Customers	Trend	Development
Earnings before taxes (EBT)	80	↓	- Earnings before taxes fell down sharply compared to the prior year. - Net interest income remains nearly unchanged despite a decline in average holdings because of lower new business thanks to one-off placement earnings. - Risk provisioning remains at a low level. - Sharp decline in net commission income because of new business below plan. - Profit/loss from financial instruments at fair value through profit or loss fell due to a lack of demand for interest derivatives. - Administrative expenses rose sharply as a result of higher internal company cost allocations. - Other operating profit/loss for this segment has little relevance for earnings.
Cost-Income-Ratio (CIR)	28.7%	↑	- Significant rise in the CIR as a result of moderately lower earnings and much higher administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	14.6%	↓	- Sharp decline in RoRaC. - This comes against a background of lower earnings before taxes and a higher capital commitment factor.

Competitive pressure in the Aircraft Customers segment remains high. NORD/LB has responded to this development by acting as a responsible organiser of large-volume loan facilities and tailored financing structures in addition to its function as a lender. Consequently, commission-based advisory and structuring services play a significant role in NORD/LB's aircraft financing. One example of this is NORD/LB's investment in a freight aircraft fund with a total volume of USD 150 million for the fast growing e-commerce industry. The fund is used to structure various airlines, different types of aircraft and a number of repayment and maturity structures in a comprehensive portfolio transaction.

In 2017, NORD/LB successfully used its global positioning to further expand its direct support for target customers and investors in the Europe / Middle East, North/South America and Asia/ Pacific regions. For example, it conducted its first operating lease transactions with Japanese investors.

Operating leases continued to be focus of NORD/LB's aircraft financing in 2017 as well. A number of larger portfolio transactions were structured and implemented successfully on behalf of customers. A highlight in this regard was the placement of an especially large portfolio transaction with the support of the Credit Asset Management unit with institutional investors, which, in addition to the profits from the underlying credit transaction, also generated substantial additional earnings for the Bank.

Real Estate Customers

31 Dec.2017 (in € million)	Real Estate Banking Customers	Trend	Development
Earnings before taxes (EBT)	153	↘	- Noticeable decline in earnings compared to the prior year, which occurred in particular because the Domestic Social Housing segment has been allocated to the Corporate Customers segment rather than the Real Estate Customers segment since the merger of NORD/LB AöR with Bremer Landesbank. - Noticeable decline in interest income due to the absence of the Domestic Social Housing segment. However, interest income in the remaining business segment was stable. - Slight net reversal of risk provisioning similar to the prior year reflect the very low level of this risk position. - Net commission income fell as a result of the lack of fees from the Domestic Social Housing segment. - The sharp decrease in the trading profit/loss was mainly due to lower derivative income with customers. - Administrative expenses fell slightly due to the lack of administrative expenses for the Domestic Social Housing segment. - Other operating profit/loss for this segment has little relevance for earnings.
Cost-Income-Ratio (CIR)	29.8%	↗	- The CIR is slightly above the prior-year level. - The relative decline in earnings exceeds the relative decline in administrative expenses.
Return-on-Risk-adjusted-Capital (RoRaC)	19.6%	↓	- Sharp reduction in the RoRaC. - Substantial decline caused by the decrease in the operating result and a higher committed capital factor.

Deutsche Hypo saw significant competition in commercial real estate financing and continued relatively high demand for real estate in financial year 2017. In this challenging environment, Deutsche Hypo continued to attract new business at a high level. In doing so, the bank continues to adhere to a conservative risk policy and it remains committed to strict quality requirements for new business. This enabled it to conclude a number of attractive new business transactions again in 2017. There are three exemplary projects.

In January 2017, Deutsche Hypo financed a real estate portfolio in France for shopping centre specialist Eurocommercial Properties France SAS that was comprised of two shopping galleries, a shopping and retail centre and a residential and commercial building complex. The financing volume totalled € 84 million and was provided with a term of 15 years. The properties are located in the cities of Hyères, Glisy, Chasse-sur-Rhône and Grenoble.

The “Phoenixhof” business park in Hamburg was financed by Deutsche Hypo for the Essen Group in November 2017. The financing volume totalled € 44 million. Phoenixhof is located in Hamburg’s Ottensen neighbourhood and includes office space, mixed-use buildings with offices, retail and restaurants and a television studio. In addition to the financing of the existing portfolio, two further office properties in the business park will be built as part of the project. By expanding the development, the amount of leasable space will increase by nearly 6,000 square meters to a total of 20,275 square meters.

Also in November 2017, Deutsche Hypo provided financing for property company Shopping-Center Galeria Baltycka GmbH und Co. KG sp.K in Danzig. The volume of financing for the “Galeria Baltycka” shopping centre amounted to nearly € 81 million, of which 50 per cent will remain with Deutsche Hypo over the long term. The shopping centre, which opened in 2007 and is part of the Deutsche EuroShop AG portfolio, has five floors, including two floors with more than 1,000 parking spaces. The centre has some 200 shops, with an attractive mix of industries and tenants comprised of international and national retailers.

Group Management / Others

31 Dec.2017 (in € million)	Group Management/ Others	Trend	Development
Earnings before taxes (EBT)	133	↑	- Sharp increase in profit/loss from other operating profit/loss and profit/loss from financial assets, particularly as a result of the sale of securities, investments and promissory notes. - The contribution to net interest income from this segment fell sharply, in particular due to lower amortisation effects from derivatives and because of the resumption of servicing of 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 expenses for capital-relief securitisation measures substantially higher. - Significantly lower trading profit/loss, especially from valuation effects for currency derivatives. - Sharply reduced profit/loss from hedge accounting. - Profit/loss from financial assets considerably higher as a result of realisation profits from securities and the sale of investments. - Profit/loss from at-equity investments much better than the prior year, as measurement corrections are no longer applied on investments. - Slightly higher administrative expenses. - Other operating profit/loss positive as a result of realisation effects from promissory notes and thus much higher than the prior year. - Significant reorganisation expenses in connection with the completed takeover of Bremer Landesbank.

Target v Actual Comparison

31 Dec.2017 (in € million)	Planned amount	Actual amount	Accoun-ting variance	Statement
Earnings before taxes (EBT)	↑	195	↑	- Target earnings before taxes exceeded significantly, especially as a result of the sale of promissory notes. - Earnings (including other operating profit/loss) appreciably above target. - Net interest income down as expected, but by much stronger than planned. In particular, the results of interest rate and liquidity risk management and the decline in amortisation effects from derivatives contributed to the plan deviation. Interest income from the lending and deposit business within expectations. - Risk provisioning again significantly exceeded the target for the shipping loan portfolio. - Net commission income well below target as a result of lower fees in nearly all segments; Markets and Real Estate Customers were the only segments with service fee income above target. In addition, there were higher expenses for the capital-relief securitisation measures. - Profit/loss from financial instruments at fair value through profit or loss exceeded the target by around 60 per cent, in particular due to positive valuation effects. - Profit/loss from hedge accounting is well below target. - Profit/loss from financial assets substantially above plan as a result of profits from the sale of securities and investments. - Profit/loss from at-equity investments exceeded the target following their sale by more than double. - Administrative expenses were slightly below the target level, as there were expenses for the One Bank transformation programme and planned cost reductions were not fully implemented. - Other operating profit/loss substantially better than the negative target, mainly due to the sale of promissory notes. - Reorganisation expense in connection with the integration of Bremer Landesbank much higher than planned.
Cost-Income-Ratio (CIR)	↗	51.4%	↘	- CIR appreciably better than planned. - Earnings from other operating income and financial instruments at fair value through profit or loss exceed the target. - Administrative expenses slightly above target.
Return-on-Equity (RoE)	↑	3.4%	↑	- RoE substantially above target. - Earnings before taxes exceeded the target significantly as a result of realised gains, despite high risk provisioning.

The NORD/LB Group exceeded its goals substantially in 2017. This development was due in large part to the change in other operating income, which exceeded the target appreciably. This offset the effect of the risk provisioning, which was once again high.

The performance of the NORD/LB Group segments varied: While contributions to earnings before taxes from the Ship Customers segment missed their target substantially as a result of risk provisioning that was once again unexpectedly high and above plan and Aircraft Customers and Energy and Infrastructure Customers were appreciably off target due to commission income, all of the Bank's other business segments exceeded their target contributions to earnings significantly (Corporate Customers, Markets, Real Estate Customers, Private and Commercial Customers).

Target achievement with regard to key figures is as follows for the segments: Thanks to the combination of the development of earnings and administrative expenses that were either stable or lower than the target, the CIR is almost at the target level in nearly all business segments (Corporate Customers, Private and Commercial Customers, Energy and Infrastructure Customers, Real Estate Customers) or better than the target

(Markets). The CIR only exceeds the target substantially in the Aircraft Customers and Ship Customers segments. The actual RoRaC for 2017 is below target due to the development of earnings before taxes and the total risk exposure amount in the Ship, Aircraft and Energy and Infrastructure Customers segments; it is well above the target in the other segments (Private and Commercial Customers, Corporate Customers, Markets, Real Estate Customers).

At € 47 billion, the total risk exposure amount of the NORD/LB Group is well below target. This development is due to defaults and the reduction in the volume of the ship financing portfolio as well as the volume of new business in the Corporate Customers, Real Estate Customers, Energy and Infrastructure Customers, and Markets segments, which was below target. Because of the relief provided by the change in the USD/EUR exchange rate, this development was bolstered further.

Overall Assessment

The NORD/LB Group's net assets, financial position and earnings were satisfactory in financial year 2017, despite a market environment that remains challenging. Earnings continue to be affected by the challenging developments on the shipping markets. While loan loss provisions in the credit business are well below the prior-year level of € 2,956 million, they are still high at € 986 million. For this reason, the Group generated additional earnings, especially from the sale of promissory notes and investments. Overall, NORD/LB Group posted positive earnings before taxes of € 195 million during the reporting year, following a loss of € 1,865 million in the previous year.

Forecast, Opportunities and Risk Report

General Economic Development

Global Economic Outlook

The global upturn will likely accelerate somewhat this year. The US economy is performing somewhat better than in the previous year due in part to the tax reform passed there. For the year 2018 as a whole, real gross domestic product is expected to increase by 2.5 per cent. In the eurozone, the economic upturn will continue over the next several quarters. Accordingly, unemployment will continue to decline, while inflation rates in the single-currency area will likely remain around 1.5 per cent this year and next, which is below the inflation target set by the European Central Bank (ECB).

Economic Forecast for Germany and the Eurozone

The German economy will continue its strong upswing this year. After posting strong GDP growth in both the first and second half of 2017, the economy appears to be off to a strong start in 2018 as well, with growth rates above potential. In view of the high level of incoming orders, industrial production is likely to continue its clear upward trend. Sentiment among German enterprises has also continued to be upbeat. The Ifo business climate index has climbed to a record 117.6 points. Given the high level of overall economic capacity utilisation, investments will remain strong. The wage agreement reached in the metal and electrical industry points to strong wage hikes this year and next. Together with persistently high consumer confidence and very positive labour market development, this will help bolster private consumption as a key element of growth. In its economic forecast, NORD/LB anticipates growth this year of 2.6 per cent.

The overall economic outlook for the eurozone remains excellent. The very positive figures posted recently by survey-based sentiment indicators point to a continuation of the strong upswing, especially as the economic situation in France and Italy and other economic factors have stabilised. The decline in unemployment will continue throughout 2018. For the year as a whole, NORD/LB anticipates real economic growth of 2.5 per cent year-on-year, followed by around 2 per cent next year. Monetary policy will remain highly accommodative for the time being, making a favourable monetary environment. The main downside risks for the forecast are geopolitical conflicts, the negotiations regarding the UK's departure from the European Union (Brexit) and the elections in Italy in the spring; in addition, the ongoing turbulence on the financial markets and a sharp appreciation of the euro could also mute the upturn.

Financial Market Development and Interest Rate Forecast

The Federal Reserve will continue its moderate policy of increasing interest rates this year, gradually reducing its balance sheet volume. By contrast, the ECB will continue its very expansive monetary policy, likely only halting its net purchases as part of the EAPP at the end of 2018. If the economic data are still good at that point, it will likely begin increasing rates by mid-2019, with the first hikes probably in the area of deposit facilities. Capital market rates will likely rise in this environment. The yield on government bonds with a 10-year residual term will probably rise to 1.20 per cent by the beginning of 2019. With regard to the USD exchange rate, NORD/LB forecasts a rate of USD 1.18 per EUR based on a 12-month horizon. In the short to medium term, NORD/LB expects EUR/USD basis-swap spreads to remain at around 35 basis points. The econometric forecasting models indicate that the yield curve should remain flat.

Finance Sector

The positive macroeconomic developments with the eurozone and around the world will lead to an improvement of credit portfolios. However, the volume of NPL remains at a high level in the European banking market, especially in the so-called PIIGS countries (Portugal, Italy, Ireland, Greece and Spain), meaning there will be further balance sheet adjustments and, possibly, capital measures in order to achieve a lasting improvement.

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

Shipping

The IMF increased its forecast for the growth of the global economy again at the beginning of the year by 0.2 percentage points, with greater optimism prevailing since October of last year. It now expects global GDP to grow by 3.9 per cent in 2018. The substantial improvement in the outlook is based on increased momentum in the US as well as in Europe and Asia, which are increasingly broadening the basis of economic growth. As a result, the environment for shipping remains favourable.

The container sector got off to a quick start in the new year, with charter rates picking up before the Chinese New Year, which occurred in mid-February 2018. This unusual development has bolstered the ongoing positive sentiment in the sector. However, the sector must also absorb new tonnage of around 1.5 million TEU. Nearly 80 per cent of this amount is comprised of large container ships with a load volume of 10,000 TEU or more. This will have an impact on smaller segments, as liner shipping companies will have to gradually upgrade their services. Thus, rising demand comes just in time to mitigate the likely cascade effects that will affect NOOs (non-operating owners) in particular.

The dry bulk sector saw a substantial correction at the beginning of the first quarter. In the run-up to the Chinese New Year holiday, however, this seasonal effect is not surprising. On the whole, the upward trend, which has been under way for two years, does not seem in jeopardy. This view is supported, on the one hand, by the fact that orders for new ships have fallen, with the ratio of the order book to the fleet declining to less than 10 per cent. On the other hand, demand is expected to remain stable. The latter is dependent in large part on China’s development. However, there is little cause for concern. The IMF recently boosted its growth forecast for China slightly.

By contrast, the outlook for the tanker market remains restrained. The fleet of crude oil tankers will see 3.5 per cent less growth year-on-year, although this decrease was expected. Demand will benefit in 2018 from improving economic conditions and follow on the previous year’s economic growth. However, there will be no momentum from the Middle East as a result of the production restrictions imposed by OPEC. The fleet of product tankers will also see weaker growth in 2017. Based on rising US exports, an improvement on the demand side also appears to be in the offing. However, the tanker market will continue to see supply overhangs on both the product and the crude oil side for the time being, despite an increase in scrapping activities.

Aircraft

For 2018, IATA (the International Air Transport Association) expects growth in global passenger traffic (RPK) of 6.0 per cent, which is above the average growth over the past ten years of 5.5 per cent, although it is lower than the rate of increase seen in 2017. It is also forecasting that global airlines will post higher net profits of USD 38.4 billion in 2018 (2017E: USD 34.5 billion). IATA is basing its expectations of higher profits despite the higher cost basis (in part because of fuel and staff expenses) on a growth in air traffic and a rise in the yield (2018F): +3 per cent). The highest growth in traffic (RPK) is predicted for the Asia/Pacific region (10.0 per cent).

In view of a growing global economy and a thriving e-commerce, IATA expects air cargo volume (FTK) demand to increase by 4.5 per cent.

Real Estate

The transaction volume for global commercial real estate should see solid growth in 2018. However, because of the increasing scarcity of supply the transaction volume is expected to be below the 2017 figure of about USD 650 billion. Overall, the market environment remains challenging in view of geopolitical and macroeconomic uncertainties. In Germany, good fundamental conditions should continue to have a positive impact on the real estate market in 2018. Low interest rates should keep demand for real estate investments high. However, the volume of commercial real estate transactions will be limited by the lack of suitable properties, with the volume in 2018 expected to be about the same as in 2017.

Group Forecast with Opportunities and Risk Report

Key Planning Assumptions

As in previous years, the NORD/LB Group conducted its planning for 2018 on the basis of its current diversified business model. This can be seen in the financing of various asset classes in the individual business segments in different economic cycles. This year's planning is also based on the 2018 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 the NORD/LB Group's planning. Interest rates in 2018 are expected to remain at around the previous year's level. In addition, an average exchange rate of USD/EUR 1.13 is assumed in the planning. NORD/LB Research anticipates GDP growth of 1.8 per cent and a rise in consumer prices of +1.4 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.

Because of the volatility in the shipping markets there continues to be significant uncertainty about future specific 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 2018 considers the relevant equity requirements derived from EU Regulation No. 575/2013 on regulatory requirements for credit institutions and investment firms (CRR) including transitional arrangements arising from legal requirements as well as other binding individual banking supervisory requirements related to regulatory equity.

The NORD/LB Group – Planning for 2018

For financial year 2018, the reduction in the shipping portfolio and implementation of the "One Bank" project represent major challenges for the NORD/LB Group. On the earnings side, substantially lower earnings are expected in 2018 compared to the prior year. The anticipated slight increase in net interest income and profit/loss from hedge accounting will be overshadowed by a significant decline in profit/loss from financial instruments at fair value through profit or loss and investments accounted for using the equity method, as the positive special effects through profit and loss from the previous year, such as the sale of securities and investments, are not expected to affect valuation gains or losses in 2018. Commission income is expected to remain as the prior-year level.

Risk provisioning will once again be primarily influenced by the ship financing portfolio and overall remains high in the 2018 plan, although it is expected to be well below that of the 2017 level. In the other segments, risk provisioning planned for 2018 is set at the amount of expected covering required. Under the plan, starting in 2018 risk provisioning will take account of both risk provisioning for loans reported at amortised cost as well as for the fair value changes of loans measured at fair value through profit or loss in accordance with the provisions of IFRS 9. Profit/loss from financial assets will be notably smaller in the plan for 2018 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 2018 plan, administrative expenses are expected to be moderately lower than the previous year. Investments in selected business cases and the impact of the "One Bank" project will result in staff expenses that are at the previous year's level on the whole, while other administrative expenses will be noticeably lower.

Under the plan, other operating profit/loss will be considerably lower than the prior-year level because the plan does not include the positive effects from the sale of promissory notes.

The NORD/LB Group expects earnings before taxes to be positive, but substantially lower in 2018 overall on the expectation of lower earnings and a decline in risk provisioning.

The projected CIR for 2018 is much higher than the previous year due to noticeably lower earnings and moderately lower administrative expenses; the RoE is expected to be considerably lower.

Overall, the total risk exposure amount for NORD/LB in 2018 is expected to be moderately higher, especially due to new operational business and a lower positive impact from existing securitisation transactions.

In the NORD/LB Group's plan for 2018, the regulatory requirements and binding standards concerning regulatory equity are met in full. A fundamental component of regulatory equity capital is Common Equity Tier 1 capital in accordance with the CRR. With respect to the total risk exposure amount in accordance with Art. 92 para. 3 of the CRR, Common Equity Tier 1 capital is included in the Common Equity Tier 1 capital ratio, which is one of key management indicators for NORD/LB. For 2018, the Bank expects the Common Equity Tier 1 capital ratio to fall somewhat from year-end 2017 to year-end 2018, but that it will remain above all statutory requirements and other individual bank supervisory standards in 2018. The planned reduction in the Common Equity Tier 1 capital ratio is due in large part to the expected increase in the total risk exposure amount. Further details about the securitisation transactions can be found under "Significant events in the financial year" in the management report. The amount of Common Equity Tier 1 capital as at year-end 2018 is expected to remain largely stable in comparison to year-end 2017. While Common Equity Tier 1 capital is expected to decline in the first quarter of 2018, mainly due to the start of the final stage of the transition provisions in accordance with the CRR, the plan calls for it to gradually rise to the year-end 2017 level over the rest of 2018 by offsetting current profits and due to positive valuation effects.

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

In the Corporate Customers segment, the operating result is expected to improve substantially in 2018. This is due to noticeably higher interest income as a result of targeted business growth. The CIR will fall noticeably in 2018. Rising earnings and slightly lower administrative expenses are the main factors for this. RoRaC will improve substantially due to the higher planned result.

The Energy and Infrastructure Customers segment is expecting a slightly higher contribution to earnings before taxes for 2018 as a result of improved commission income and lower risk provisioning. The CIR will climb slightly due in particular to the reduction in earnings. The RoRaC will rise substantially due to the higher planned result and lower committed capital.

The successful reduction of the ship financing portfolio and stabilising shipping markets will result in a lower need for specific valuation allowance in this financial year. As a result, there is expected to be a significant increase in the earnings before taxes, which will nevertheless still be negative, while interest income is expected to be considerably lower than it was in 2017. Another consequence of the lower amount of valuation allowances is that the RoRaC will recover significantly, while the CIR will rise noticeably.

The NORD/LB Group expects a moderately higher contribution to earnings before taxes in the Aircraft Customers segment in 2018 than in 2017, mainly due to improved new business and higher interest and commission income. The CIR will fall noticeably due to the increase in earnings and nearly unchanged administrative expenses. The RoRaC will climb significantly due to the higher planned result.

Opportunities and Risks

There are general risks and opportunities 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. A strengthening of the USD exchange rate in the direction of 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 with respect to a rating upgrade or downgrade of NORD/LB, high expenses for deposit guarantee schemes, the absence of the joint liability scheme, the write-up or write-down of investments and the implementation of full bank projects related to IT costs and internal bank processes.

There are risks to earnings before taxes and the equity ratio of the NORD/LB Group related to regulatory requirements, such as the results of stress tests, other equity capital requirements (e.g. NPL guidelines, Basel IV), the need to reduce the market-price risk limit as a consequence of regulatory changes to the method for calculating risk-bearing capacity (RBC) and the amount of the bank levy.

There are also risks to earnings in 2018 as a result of persistently low interest rates, the possible end of the unrestricted availability of long-term unsecured funding, planned capital measures that cannot be placed or can only be placed at prices that are higher than planned, the unpredictability of market disruptions as a result of political or economic developments, 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.

If the planned measures on the earnings and cost side cannot be implemented or can only be implemented to a lesser extent, there may be negative consequences for earnings before taxes and the NORD/LB Group's equity capital situation.

In today's low-interest environment, there are also 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 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 earnings before taxes.

In addition to general opportunities and risks, NORD/LB also sees the following segment-specific opportunities and risks that may have an impact on the NORD/LB Group's management indicators:

Risks may arise for the Private and Commercial Customers segment of NORD/LB as a result of low interest rates. The search for alternative sources of income, e.g. from securities or life insurance, may lead to a sharp shift in market share to competitors, among other things. Ongoing digitalisation is also leading to profound changes in banking. Changing customer behaviour in favour of online offerings is resulting in risks to NORD/LB's current high market share in the private customer business and opportunities to attract new customers or expand market share.

With respect to Corporate Customers, there are opportunities as a result of the expansion of the segment's good market position with a stable customer base and broad risk diversification as well as the good positioning of the special agricultural banking and housing areas. There will also be challenges in 2018 as a result of persistently low interest rates, the resulting pressure on margins, the volatility on the markets and the unpredictability of market disruptions.

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.

The utilisation of long-term expertise, the good market position and enhancement of NORD/LB customer relationships offer potential in the Energy and Infrastructure Customers segment. Based on this, there is also an opportunity to further diversify the business segment's risk strategy. In addition, efforts to attract more institutional investors will be enhanced by, among other things, developing new products in order to improve NORD/LB's competitive position. The major challenges in future will come from increasing competition in a constantly evolving market environment, especially in the renewables segment.

The earnings performance in the Ship Customers segment will continue to be affected by the shipping crisis, including the high level of non-performing ship loans. 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 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 reduction 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. The inclusion of defaults in the rating tool for ship financing has a corresponding impact on the equity ratio as a result of the variables total risk exposure amount and IRB valuation allowance requirement. 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 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 NORD/LB with the opportunity for greater exposure through credit syndication or by issuing special funds and thus generating additional earnings. The aircraft financing specialist teams in Hanover, New York and Singapore ensure extensive and comprehensive support for target customers and investors in the Europe/Middle East, North/South America and Asia/Pacific regions, which provides additional business opportunities. There is a risk that new or enhanced aircraft models will put pressure on the residual values of models with older technology after achieving corresponding market penetration. In addition, 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. The structure of the UK's departure from the EU entails uncertainty. Among other things, new lending in that country may be muted, at least temporarily.

Extended Risk Report

Risk-Bearing Capacity

The risk-bearing capacity of NORD/LB has been calculated on the basis of the enhanced model approach (Risk Appetite Control Engine, or RACE) since the first quarter of 2017. The 31 December 2016 reference date was adjusted retrospectively.

Risk-bearing capacity is achieved if all material risks pertaining to the Bank's overall risk profile are covered by the available capital on an ongoing basis.

With respect to the presentation of results, the risk potential from the material risk types will be compared with the available risk capital in the primary management approach (business case), taking account of a confidence level of 99.9 per cent.

Regulatory equity provides the starting point for determining the risk capital. At NORD/LB, the available risk capital is calculated in the context of the enhanced model approach subject to the condition that regulatory capital requirements as well as internal requirements will be met, if the risk limit is fully utilised by the economic risk potential.

The utilisation of the available risk capital by the risk potential in the business case improved considerably compared to the reference date and amounted to 59 per cent as at the reporting date (70 per cent). This is mainly due to the decrease in risk potential from counterparty risks. The decrease in counterparty risk is mainly due to defaults and the reduction of the portfolio in the Ship Customers segment.

Risk-Bearing Capacity (in € million)	31 Dec.2017		31 Dec.2016[1]	
Risk capital	**5 127**	**100%**	**5 712**	**100%**
Credit risk	1 567	31%	2 567	45%
Market-price risk	925	18%	914	16%
Liquidity risk	213	4%	234	4%
Operational risk	313	6%	275	5%
Total risk potential	**3 019**	–	**3 990**	–
Risk capital utilisation	–	**59%**	–	**70%**

[1] The previous year´s figures were adjusted retrospectively to the new RACE model.

In all cases, the requirements of the Group risk strategy for maximum permissible limit utilisation at the level of material risk types were also met as at the current reporting date. Of the various material risk types (credit, market-price, liquidity and operational risks), credit risks continued to account for the largest share of total risk potential.

Credit Risk – Development in 2017

The maximum amount of default risk exposure for on-balance sheet and off-balance sheet financial instruments stood at € 174 billion on the reporting date and fell by 6 per cent in the reporting year. The declines were mainly reported for Loans and advances to customers, Financial instruments at fair value through profit or loss and Financial assets.

Risk-Bearing Financial Instruments (in € million)	Maximum default risk 31 Dec.2017	Maximum default risk[1)] 31 Dec.2016
Loans and advances to banks	29 202	21 747
Loans and advances to customers	91 607	101 843
Adjustment item for financial instruments hedged in the fair value hedge portfolio	65	130
Financial assets at fair value through profit or loss	10 983	12 461
Positive fair values from hedge accounting derivatives	1 385	2 327
Financial assets	27 183	31 574
Sub-total	**160 425**	**170 082**
Liabilities from guarantees, other indemnity agreements and irrevocable credit commitments as well as loan provisions	13 148	14 579
Total	**173 573**	**184 661**

[1)]The previous year's figures were adjusted for individual items, see Note (2) Adjustment of previous year's figures.

In contrast to the following tables on total exposure, which are based on internal data provided to management, the maximum default risk exposure in the table above is reported at carrying amounts. The 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 2017, the NORD/LB Group's total exposure is € 187 billion and is thus slightly lower than at the end of the prior year (€ 195 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" (Initiative for Germany as a Financial Center). 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)] (in € million)	Loans 31 Dec.2017	Securities[3)] 31 Dec.2017	Derivates[4)] 31 Dec.2017	Other[5)] 31 Dec.2017	Total exposure 31 Dec.2017	Total exposure[6)] 31 Dec.2016
very good to good	96 545	26 621	7 360	17 241	147 767	147 600
good / satisfactory	12 828	747	347	1 595	15 516	16 583
reasonable / satisfactory	5 267	168	87	1 501	7 023	8 740
increased risk	3 724	113	76	436	4 350	5 319
high risk	1 325	26	8	192	1 552	1 754
very high risk	2 243	3	14	83	2 342	4 104
default (=NPL)	8 704	–	44	43	8 792	10 700
Total	**130 636**	**27 676**	**7 937**	**21 092**	**187 341**	**194 801**

1) The ratings are assigned on the basis of the initiative for Germany as a financial center (IFD) rating classes.
2) Differences in totals are rounding differences.
3) Includes the securities holdings of third-party issues (only banking book).
4) Includes derivative financial instruments such as finance swaps, options, futures, forward rate agreements and currency transactions.
5) Includes other products such as pass-through and administered loans.
6) The previous year's figures were adjusted by € 96 million, which were not included in the previous publication.

The items rated in the “very good to good” rating class rose slightly by € 167 in the reporting year. Total exposure ranked in the best rating category (very good to good) rose slightly and was very high at 79 per cent (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.

The exposure in the rating classes “good/satisfactory” to high risk” fell during the reporting year. The success in reducing the ship financing portfolio is reflected in the rating categories with very high risk and in the non-performing loans (NPL). These risk classes were reduced by a substantial 25 per cent thanks to restructuring and sales.

The breakdown of total exposure by industry shows that business conducted with generally relatively low-risk financing institutions and with public authorities accounts for 52 per cent (adjusted prior-year value: 50 per cent) and still constitutes a significant share of the total exposure.

Industries[1)2)] (in € million)	Loans 31 Dec.2017	Securities[3)] 31 Dec.2017	Derivates[4)] 31 Dec.2017	Other[5)] 31 Dec.2017	Total exposure 31 Dec.2017	Total exposure[6)] 31 Dec.2016
Financing institutes / insurance companies	39 910	13 572	3 524	9 369	66 374	58 888
Service industries / other	52 678	12 583	1 544	2 520	69 325	75 817
Of which: Land, housing	18 330	4	422	502	19 257	19 489
Of which: Public administration	17 400	12 354	479	782	31 016	37 574
Transport / communications	15 923	399	650	364	17 336	24 173
Of which: Shipping	11 452	–	42	103	11 597	16 703
Of which: Aviation	1 920	–	5	–	1 924	2 986
Manufacturing industry	5 652	488	951	412	7 503	8 263
Energy, water and mining	10 266	549	809	6 727	18 352	19 014
Trade, maintenance and repairs	3 899	42	337	279	4 556	4 773
Agriculture, forestry and fishing	756	–	5	1 359	2 120	2 111
Construction	1 496	42	118	43	1 698	1 762
Total	**130 636**	**27 676**	**7 937**	**21 092**	**187 341**	**194 801**

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 continues to account for a substantial 80 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 66 per cent (64 per cent).

Regions[1)2)] (in € million)	Loans 31 Dec.2017	Securities[3)] 31 Dec.2017	Derivates[4)] 31 Dec.2017	Other[5)] 31 Dec.2017	Total exposure 31 Dec.2017	Total exposure[6)] 31 Dec.2016
Euro countries	103 356	21 753	4 214	20 891	150 214	155 711
Of which: Germany	86 770	14 584	2 797	20 047	124 198	125 575
Other Europe	12 679	2 458	2 728	130	17 996	16 703
North America	6 710	2 669	440	16	9 835	11 575
Middle and South America	2 307	24	25	–	2 357	3 229
Middle East / Africa	679	7	4	34	724	1 094
Asia / Australia	4 909	764	525	1	6 199	6 489
Total	**130 636**	**27 676**	**7 937**	**21 092**	**187 341**	**194 801**

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

Exposure in Greece, Ireland, Italy, Portugal and Spain is € 5 billion (€ 7 billion). Their share of the total exposure is 3 per cent (4 per cent). The amount of receivables owed by the respective countries, regional governments and municipalities fell to € 1.1 billion (€ 1.8 billion), but it continues to account for 1 per cent of the total exposure.

31 Dec. 2017 **Exposure in selected European countries**[1)2)] (in € million)	Greece	Ireland	Italy	Portugal	Spain	Total
Sovereign Exposure	–	20	805	87	190	1 103
Of which: CDS	–	–	–	–	–	–
Financing institutes / insurance companies	–	406	86	–	550	1 043
Corporates / Other	5	2 327	389	70	284	3 076
Total	**6**	**2 753**	**1 280**	**158**	**1 024**	**5 221**

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.

31 Dec. 2016 **Exposure in selected European countries**[1)2)] (in € million)	Greece	Ireland	Italy	Portugal	Spain	Total
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.

The NORD/LB Group has an exposure of € 917 million in Cyprus in the Corporates/other category. This primarily concerns ship exposures 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 Poland, the NORD/LB Group has an exposure of € 548 million (€ 368 million Corporates/other, € 108 million Sovereign exposure, € 72 million financing institutions and insurance companies), in Malta € 526 million (nearly all of it in Corporates/other) and in South Korea € 258 million in the Corporates/other category. NORD/LB is also closely monitoring and analysing significant developments in other countries. However, the Bank does not consider it necessary to make any further valuation allowances at this stage. Further details can be found in the Notes to the consolidated financial statements in Note (66) – Disclosures concerning selected countries.

31 Dec. 2017 **Sovereign Exposure in selected European countries by maturity[1)2)]** (in € million)	Greece	Ireland	Italy	Portugal	Spain	Total
up to 1 year	–	–	215	87	159	462
more than 1 up to 5 years	–	20	144	–	31	196
more than 5 years	–	–	445	–	–	445
Total	**–**	**20**	**805**	**87**	**190**	**1 103**

[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.

31 Dec. 2016 **Sovereign Exposure in selected European countries by maturity[1)2)]** (in € million)	Greece	Ireland	Italy	Portugal	Spain	Total
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.

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) pursuant to the German Commercial Code (HGB), and the credit equivalent 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 (NPL)

For acute counterparty risks related to the on-balance-sheet lending business, the NORD/LB Group forms specific loan loss provisions and lumpsum loan loss provisions if there is objective evidence of long-term impairments. The determination of loan loss provisions 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 loan loss provisions is formed is taken into account at the NORD/LB Group by forming general loan loss provisons for impairments that have already occurred, but were not known as of the balance sheet date.

Receivables of up to € 10,000 for which there are no loan loss provisions are written off directly. Payments for written-off receivables are recognised in profit and loss.

The measures to reduce the ship financing portfolio resulted in a decline in exposures and risk provisioning in 2017. The NORD/LB Group's portfolio of specific loan loss provisions, lumpsum loan loss provisions and provisions in the lending business fell, mainly as a result of the utilisation of valuation allowances for the ship loan portfolio of NORD/LB and the former 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 specific loan loss provisions, lumpsum loan loss provisions and provisions in the lending business to the maximum default risk from on-balance-sheet and off-balance-sheet financial instruments decreased from 2.62 per cent to 2.04 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, 50 per cent (54 per cent) of the gross carrying amount of the NPLs requiring loan loss provisions 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 decreased during the reporting period and as at 31 December 2017 amounted to 4.7 per cent (5.5 per cent). The impaired exposure in the amount of € 7.3 billion (€ 9.3 billion) declined sharply and amounts to 3.9 per cent (4.8 per cent) of the total exposure.

Industries[1)2)]	Total exposure of impaired receivables[3)]		Specific loan loss provisions, lumpsum loan loss provisions, provisions for lending business	
(in € 000)	31 Dec.2017	31 Dec.2016	31 Dec.2017	31 Dec.2016
Financing institutes / insurance companies	23 892	77 660	12 172	60 398
Service industries / other	525 283	497 080	298 826	227 649
Transport / communications	6 427 332	8 298 890	3 058 337	4 326 039
Manufacturing industry	66 073	190 625	41 320	72 041
Energy, water and mining	122 999	172 074	59 495	83 800
Trade, maintenance and repairs	55 161	19 823	33 540	13 036
Agriculture, forestry and fishing	46 031	54 695	13 923	25 880
Construction	22 887	29 729	18 626	26 399
Total	**7 289 659**	**9 340 577**	**3 536 238**	**4 835 243**

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 € 7 007 million (€ 8 991 milllion).

31 Dec. 2017	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 provisions
Financing institutes / insurance companies	31 683	23 644	5 320	31 651	92 298	3 760
Service industries / other	317 902	6 347	927	9 111	334 288	50 962
Transport / communications	409 223	132 452	34 887	196 261	772 823	128 405
Manufacturing industry	19 633	132	6 189	4 709	30 663	9 821
Energy, water and mining	85 069	17 365	–	2 019	104 454	15 424
Trade, maintenance and repairs	13 767	2 268	47	2 293	18 375	5 535
Agriculture, forestry and fishing	36 496	15 005	6	830	52 337	6 306
Construction	19 718	176	56	354	20 304	2 954
Total	**933 492**	**197 390**	**47 432**	**247 228**	**1 425 542**	**223 169**

[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					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 provisions
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**	**1 293 275**	**228 404**

[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.

Regions[1)2)] (in € 000)	Total exposure of impaired receivables 31 Dec. 2017	Total exposure of impaired receivables 31 Dec. 2016	Specific loan loss provisions, lumpsum loan loss provisions, provisions for lending business 31 Dec. 2017	Specific loan loss provisions, lumpsum loan loss provisions, provisions for lending business 31 Dec. 2016
Euro countries	6 504 102	8 003 417	3 212 870	4 323 548
Other Europe	146 675	146 692	63 061	64 077
North America	38 175	36 054	14 409	–
Middle and South America	–	11 250	–	7 980
Middle East / Africa	115 081	438 435	67 085	186 213
Asia / Australia	485 625	704 729	178 812	253 425
Total	**7 289 659**	**9 340 577**	**3 536 238**	**4 835 243**

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. 2017	Total exposure of overdue, unimpaired receivables					General
Regions[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 provisions
Euro countries	742 425	121 143	21 849	223 568	1 108 985	173 566
Other Europe	1 427	–	–	460	1 887	5 827
North America	100 641	–	–	–	100 641	5 561
Middle and South America	61 325	22 869	25 583	–	109 776	7 233
Middle East / Africa	8 334	–	–	23 201	31 535	5 428
Asia / Australia	19 340	53 377	–	–	72 718	25 552
Total	**933 492**	**197 390**	**47 432**	**247 228**	**1 425 542**	**223 169**

1) As with internal reporting, impairments are allocated on the basis of economic criteria.
2) Differences in totals are rounding differences.

31 Dec. 2016	Total exposure of overdue, unimpaired receivables					General
Regions[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 provisions
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) As with internal reporting, impairments are allocated on the basis of economic criteria.
2) Differences in totals are rounding differences.

Overall, exposure to overdue, unimpaired receivables rose substantially, mainly due to the increase in the time period “1 to 3 months”. The portfolio of overdue, unimpaired receivables is comprised of 21 per cent (19 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 65 per cent (74 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 lumpsum loan loss provisions on off-balance-sheet liabilities from the values presented in Note (35) Risk Provisioning. The amounts can be reconciled with the help of the Reconciliations table.

Reconciliations[1]	Specific loan loss provisions, lumpsum loan loss provisions, provisions for lending business		General loan loss provisions	
(in € million)	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Risk Report	**3 536**	**4 835**	**223**	**228**
Differing basis of consolidation	– 1 190	– 516	– 1	8
Assets held for sale	988	– 711	–	–
General loan loss provisions on off-balance sheet obligations	20	23	– 20	– 23
Consolidated financial statements	**3 354**	**3 631**	**203**	**213**

[1] Differences in totals are rounding differences.

Material Group companies directly wrote off bad debts on loans of € 348 million (€ 500 million) in the reporting year. The additions to receivables written off amounted to € 28 million (€ 22 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 material Group companies as at 31 December 2017 fell by € 19 billion (€ 14 billion), which corresponds to a share of 35 per cent (23 per cent) of the total risk exposure before risk reduction. This mainly involved financial collateral as well as sureties and guarantees from countries, banks, companies 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 2018. The NORD/LB Group will continue to monitor developments closely and, if necessary, continue measures to reduce its risks.

Measures to further optimise the models for quantifying and managing credit risks are planned for 2018; in particular, the integrated risk model for credit and investment risks will be optimised further in 2018.

Investment Risk – Development in 2017

In order to increase earnings and reduce the capital commitment and potential risks from investments, the NORD/LB Group has divested itself of several investments since 2005 by conducting a critical assessment of its investment portfolio. This strategy was continued during the reporting year. One significant event was the merger with Bremer Landesbank as at

1 September of the reporting year, upon which all rights and obligations of BLB were transferred to NORD/LB retroactive to 1 January 2017 by way of universal succession. In addition, several smaller investments were also sold or liquidated.

The investment risk was calculated for the entire reporting year by using the model for counterparty risks, which views credit and investment risks on a consolidated basis. 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 for the year under review totalled € 71 million (€ 48 million for unexpected loss and € 23 million for expected loss). Comparable values as at the last reporting date cannot be provided because of the change to the model. Based on a qualitative assessment, the risk of the investment portfolio is moderately higher than in the previous year.

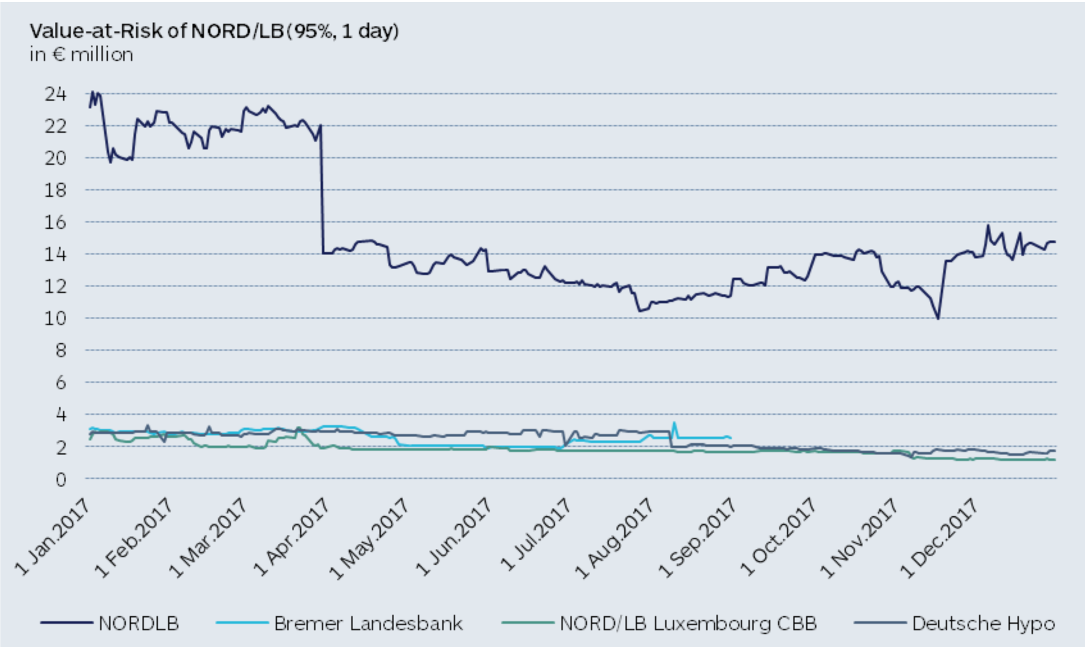
NORD/LB's investment classification concept was enhanced as at 1 January 2017 so that there is no longer a distinction between quantitatively and qualitatively significant investments. An overview of the two significant investments in Deutsche Hypo and NORD/LB Luxembourg is provided. The NORD/LB Asset Management Holding investment, which was considered to be a material investment last year, is now deemed to be a significant investment.

Outlook

The objectives in 2018 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 2017

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. The markets were relatively stable during the reporting year. The ECB's asset purchase programme contributed significantly to the stabilisation of eurozone markets.



NORD/LB's annual average utilisation rate of the market-price risk limit at the overall bank level was 45 per cent (56 per cent), with a maximum utilisation of 69 per cent (70 per cent) and a minimum utilisation of 30 per cent (44 per cent).

The VaR, which is calculated daily as an overall total of value-at-risk figures from the material companies (confidence level of 95 per cent and holding period of one day), fluctuated between € 13 million and € 33 million over the course of the year, with an average value of € 21 million. As at 31 December 2017, the NORD/LB Group's VaR had fallen to € 10 million (€ 18 million) from the prior year. The final figures are reported taking into account correlation effects. The historical simulation method was used throughout the Group. The reduction in risk is largely due to the change in the modelling of pension commitments since the end of the first quarter. Previously, these commitments were largely modelled on a sliding scale over ten years; now, they are modelled using actuarial cash flows.

The VaR calculated on the basis of regulatory parameters (confidence level of 99 per cent and holding period of ten days) amounted to € 54 million in the NORD/LB Group as at 31 December 2017 (€ 95 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)	1 Jan.-31 Dec. 2017	1 Jan.-31 Dec. 2016	1 Jan.-31 Dec. 2017	1 Jan.-31 Dec. 2016	1 Jan.-31 Dec. 2017	1 Jan.-31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Interest-rate risk (VaR 95 %, 1day)	33 088	36 291	20 622	28 215	13 563	21 870	10 550	20 118
Currency risk (VaR 95 %, 1day)	4 435	2 224	3 454	1 345	2 011	841	2 121	1 600
Share-price and fund-price risk (VaR 95 %, 1day)	2 687	3 450	1 097	2 767	293	1 429	293	1 998
Volatility risk (VaR 95 %, 1day)	4 318	4 231	1 950	2 412	160	1 635	115	3 309
Other add-ons	893	132	303	87	55	58	48	56
Total	**32 902**	**32 269**	**21 149**	**26 398**	**13 027**	**21 313**	**10 453**	**18 264**

[1] The maximum, average and minimum are calculated from the VaR totals of the major subsidiaries for risk reporting; the final values are calculated in a correlated manner and can therefore be below the stated minimum.

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 business case view. Over the course of the year, targeted new investments in corporate bonds and corporate credit default swaps were made in the liquidity reserve as part of portfolio management. At the same time, NORD/LB's affected credit investment positions and targeted acquisitions were reduced further.

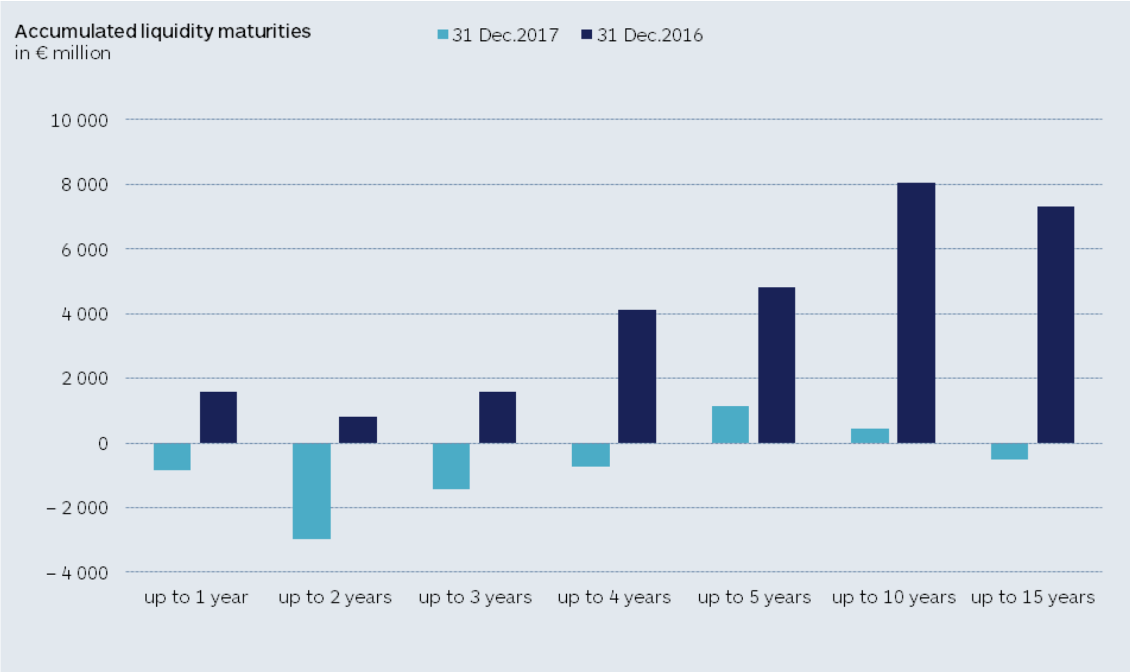
Outlook

The NORD/LB Group will continue to monitor market developments for all relevant asset classes in 2018. 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, e.g. as a result of an easing of the ECB's monetary policy.

Liquidity Risk – Development in 2017

The liquidity situation on the markets eased further during the reporting period, in particular as a result of measures implemented by the European Central Bank. For NORD/LB, the ongoing shipping crisis remains a focus and has long been included in its stress scenarios. NORD/LB continues to have adequate liquidity at its disposal, with no changes in this regard. Following the rating downgrade in April, the Moody's Investors Service rating agency reduced NORD/LB's long-term issuer rating to Baa3 on 30 June 2017. For funding purposes, NORD/LB is currently increasing its use of collateralised funding.

The internal liquidity stress scenario that is relevant for management purposes was directly aggravated by the downgrade. In the fourth quarter, the scenario for the NORD/LB Group was controlled in the green phase and as of the reporting data the liquidation situation was satisfactory. The liquidity buffers were maintained for one week and one month, in accordance with the Minimum Requirements for Risk Management (MaRisk). As of the reporting date, the cumulative liquidity maturity balance sheet of the NORD/LB Group has liquidity gaps of up to four years and in the range of 10 to 15 years, as shown by the sampling points. This is largely due to the change in the presentation of equity in the liquidity maturity balance sheet. The outflow is no longer modelled as a held-to-maturity position in the last maturity band, but rather as a rolling position in accordance with the structural refinancing needs of the NORD/LB Group. The liquidity gaps are all within the limits derived from the risk-bearing capacity model. At NORD/LB Group level, the limits were respected as at the reporting date, both when taking all currencies into account and when taking the key individual currencies into account.



The NORD/LB Group's funding is mainly comprised of liabilities to banks, at 28 per cent (28 per cent), to customers, at 34 per cent (33 per cent) and securitised liabilities, at 20 per cent (20 per cent). 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 mortgage bonds. There is a total of € 38 billion (€ 39 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 material companies of the NORD/LB Group hold securities worth € 34 billion (€ 39 billion), of which 86 per cent (82 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.2017	31 Dec.2016
NORD/LB	2.56[2]	1.91
Bremer Landesbank	–	2.65
Deutsche Hypo	1.82	1.98

[1] There are no legal requirements that oblige NORD/LB Luxembourg to calculate a comparable key figure.
[2] At the reporting date the value of NORD/LB includes cash and cash equivalents and obligations of the Bremer Landesbank due to the fusion.

The Liquidity Coverage Ratio (LCR) amounted to 204.9 per cent as at 31 December 2017 (previous year: 110.3 per cent).

Outlook

In 2018, liquidity controlling will face growing challenges, with an ongoing shipping crisis in a difficult environment for ratings and profitability (negative interest rates), of managing liquidity and using liquidity surpluses in a targeted manner.
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 2018.

Operational Risk – Development in 2017

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 2017 amounted to € 442 million.
The NORD/LB Group saw a loss of € 15.9 million in 2017, which is lower than the prior year (€ 22.4 million). The losses were mainly caused by "External influences". Adherence to the principles for preventing the financing of terrorists is 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 2017. The total risk exposure amount for the NORD/LB Group was € 46,884 million (equity requirements corresponding to € 3,751 million), with equity totalling € 8,349 million as at 31 December 2017. Likewise, the requirements regarding large exposure limits in line with Art. 387 to 403 CRR and Luxembourg law were also met in full. The NORD/LB Group believes there are currently no risks that jeopardise its status as a going concern. Once the merger of Norddeutsche Landesbank - Girozentrale - (NORD/LB) with Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale - (BLB) became effective, all rights and obligations of BLB were transferred to NORD/LB by way of universal succession.

For financial year 2018, the reduction in the ship financing portfolio and implementation of the “One Bank” project represent major challenges for the NORD/LB Group. The Bank expects the Common Equity Tier 1 capital ratio to be somewhat lower from year-end 2017 to year-end 2018, as a result of an expected increase in the total risk exposure amount and a lower positive impact from existing securitisation transactions, but that it will remain above all statutory requirements and other individual bank supervisory standards in 2018.

There are general risks and opportunities as a result of deviations from planning assumptions, such as yield curves and exchange rate forecasts as well as a rating downgrade or upgrade of NORD/LB.

Opportunities may arise as a result of an improvement in the economy, the end or a weakening of the ship crisis, a long-term easing of the government debt crisis, the withdrawal of competitors from the market, lower external credit spreads and quicker implementation of the “One Bank” measures.

There are risks related to regulatory requirements, such as the results of stress tests, other equity capital requirements (e.g. NPL guidelines, Basel IV), the possible need to reduce the market-price risk limit as a consequence of regulatory changes to the method for calculating risk-bearing capacity (RBC) and the amount of the bank levy.

There are also risks to earnings in 2018 as a result of persistently low interest rates, the possible end of the unrestricted availability of long-term uncovered funding, planned capital measures that cannot be placed or can only be placed at prices that are higher than planned, the unpredictability of market disruptions as a result of political or economic developments, terrorist attacks and geopolitical tensions. There will also be future challenges as a result of increasing competition.

If the planned measures on the earnings and cost side cannot be implemented or can only be implemented to a lesser extent, there may be negative consequences for earnings before taxes and the NORD/LB Group’s equity capital situation. However, in the current environment of low interest rates there are also promising opportunities to boost the Group’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 potentially foreseeable effects of these influences as manageable and will continue to monitor and analyse developments closely and take appropriate measures where necessary.

Notes to the Financial Statement of NORD/LB (Bank)

Report on the Earnings, Assets and Financial Position

To enhance comparability, all earnings figures for 2016 and 2017 also include Bremer Landesbank information.

Earnings Position

NORD/LB's earnings in 2017 continued to be influenced by the ongoing shipping crisis as well as the merger with Bremer Landesbank.

The following overview provides details of the composition of the annual net profit (previous year: accumulated net loss):

	1 Jan.- 31 Dec. 2017 (in € million)	1 Jan.- 31 Dec. 2016 (in € million)	Change (in %)
Net interest income	1 511	1 733	– 13
Net commission income	101	209	– 52
Earnings from financial transactions in the trading portfolio	121	128	– 5
Administrative expenses	1 032	961	7
Depreciation and impairment of intangible assets and property and equipment	46	42	10
Other operating profit / loss	– 58	– 294	– 80
Operating result before risk provisioning / valuation	**597**	**773**	**– 23**
Earnings from financial transactions in the trading portfolio	– 779	– 3 393	– 77
Assumption of investment losses	39	5	> 100
Allocation to funds for general banking risks	–	2	– 100
Operating result after risk provisioning / valuation	**– 221**	**– 2 627**	**– 92**
Extraordinary earnings	317	328	– 3
Partial profit transfer	24	–	–
Tax expense	– 13	51	> 100
Income from release of the fund for general banking risks	–	1 442	– 100
Income from loss assumptions	–	33	– 100
Annual net profit before approriation of profits (net loss for the previous year)	**85**	**– 875**	**> 100**

In the 2017 reporting year, the operating result before risk provisioning/valuation result fell by € 176 million. Two influencing factors in particular were responsible for this development. First, net interest income fell by € 222 million due to a decline in interest income from credit and money market transactions as well as fixed-income securities. Second, in the loan business commission income fell and commission expenses rose by € 108 million.

In addition, other administrative expenses for consulting services and expert reports rose. This was offset by the € 236 million increase in other operating profit/loss, which was primarily due to much lower allocations to provisions for impending losses.

Because of the effects of the shipping crisis, risk is, overall, much higher in the 2017 reporting year, although it is lower than the previous year. Overall, net risk provisions for liabilities and the valuation result for securities and investments, including the assumption of losses, fell substantially to € 818 million (€ 3,398 million). The net risk provisions largely comprise the difference between allocations and reversals of valuation allowances. Unlike the 2016 reporting period, in 2017 there were no offsetting earnings from the reversal of the funds for general bank risks pursuant to § 340g HGB. Including the specified

positions, the **Operating result after risk provisioning/ valuation** rose to € 221 million (€ 2,627 million).
After accounting for the extraordinary profit/loss and the tax expenditure, there is an accumulated net profit (prior year: loss) for the year before appropriation of earnings of € 85 million (€ 875 million).

The following overview provides details of the composition of the net interest income:

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Interest income			
Interest income from lending and money market transactions	2 586	2 910	– 11
Interest income from fixed-interest securities and debt register claims	314	356	– 12
Interest income from trading portfolio	1 433	1 216	18
Negative interest income from lending and money market transactions	– 56	– 15	> 100
Income from investments	114	165	– 31
	4 391	**4 632**	**– 5**
Inteterest expenses			
Interest expenses from lending and money market transactions	1 014	1 162	– 13
Interest expenses from securitised liabilities	352	393	– 10
Interest expenses from subordinated capital	143	149	– 4
Interest expenses from trading portfolio	1 431	1 226	17
Positive interest income from lending and money market transactions	– 60	– 31	94
	2 880	**2 899**	**–**
Net interest income	**1 511**	**1 733**	**– 13**

Due to persistently low interest rates on the money and capital markets and the reduction of receivables compared to the prior-year period, **net interest income** fell by € 222 million to € 1,511 million year-on-year. This was mainly due to lower earnings with expenses remaining at the prior-year level. On the earnings side, interest income from transaction with municipalities and customers in particular fell by € 316 million. Among other measures, in 2017 securities holdings with high coupons were sold and risk-weighted assets reduced. This was offset by an increase in earnings from external interest rate swaps, which was a primary reason for the change in the portfolio compared to the prior-year period. The resulting reduction in interest income due to the lower traded fixed and variable interest rates on incoming transactions were more than offset by the increase in portfolio volume.

The contribution from interest-rate conditions on the assets side was impacted by the decrease in credit exposure, mainly as a result of the reduction of the shipping loan portfolio. Margins in the loan business are largely stable. Furthermore, because of low interest rates the contribution from interest-rate conditions on the liabilities side (due to reduced base rate advantages) and income from equity investments both fell. In addition, profits from interest rate change risk management were lower.
Investment income fell by € 51 million and, in addition to current income from investments in the amount of € 47 million, primarily includes the profit transferred from Deutsche Hypotheken-bank for 2017 in the amount of € 56 million (€ 102 million). The decline in investment earnings is due, in particular, to the reduction in profits transferred from Deutsche

Hypothekenbank and the sale of Bremische Grundstücks-GmbH (€ 6 million) following the acquisition of the shares of Bremer Landesbank in 2017.

At € 101 million, **net commission income** is € 108 million below last year's result. In the 2017 reporting year, commission income fell by € 77 million, from € 337 million to € 260 million, while commission expenses rose by € 31 million, from € 128 million to € 159 million. With respect to commission income, there was a sharp decline in the loan business in fees for services provided in connection with loans, primarily as a result of a reduction in the amount of new business. In addition, the adjustment of NORD/LB Luxembourg's margin sharing model resulted in a decline in guarantee commissions. Transferring custodian activities to another regional bank only resulted in subsequent fee increases.

Commission expenses rose, particularly because of the guarantee fees for securitisation transactions. Detailed information can be found in the Group economic report.

Net earnings from financial transactions in the trading portfolio fell by € 7 million from € 128 million to € 121 million. This result is mainly due to margins obtained in the trading business in the amount of € 81 million, which help to manage market-price risk. In addition, the net earnings from financial transactions in the trading portfolio were influenced by the positive effects of counterparty-specific default risks in the derivative business as well as the inclusion of a funding valuation adjustment for material unsecured OTC derivatives (€ 35 million).

Administrative expenses increased by € 71 million in 2017 to € 1,032 million (€ 961 million). New staff and wage hikes led to an increase in payments for current wages. As a result of the increase in the aid rate, the funding requirements for aid provisions rose. Various projects connected with "One Bank" resulted in an increased need for consulting services.

The **other operating profit/loss** improved by € 236 million in 2017 to € 58 million (€ 294 million). This was due, in particular, to the much lower allocations to provisions for impending losses (€ 190 million) as well as a decline in price losses from the repurchase of promissory notes (€ 137 million). However, this increase was offset by a decline in earnings from hedge derivatives (€ 57 million). Earnings were also affected by the reversal of provisions (€ 21 million). Furthermore, there was also a decline in interest income from pension provisions (€ 6 million) in addition to lower earnings from the resale of hardware/software.

As in previous years, the **valuation result of receivables, securities and investments** during the reporting year under review was affected substantially by the ongoing shipping crisis. Accordingly, there was a negative valuation result in the amount of € 779 million (€ 3,393 million), largely as a result of net provisions for loans and advances in the amount of € 1,072 million (€ 3,194 million).

In addition to the profit from the merger with Bremer Landesbank in the amount of € 393 million, the **extraordinary result** also includes expenses from the allocation to provisions for planned reorganisation measures in the amount of € 75 million.

The **tax revenue** in the amount of € 13 million is the result of the income for income taxes in the amount of € 10 million and the income for other taxes in the amount of € 3 million. Income for income taxes is comprised of a tax expenditure for current income taxes in foreign units as well as tax revenue for previous years in Germany as a result of the reversal of tax provisions.

Net Assets and Financial Position

The following overview shows a condensed view of the balance sheet items as at 31 December 2017 and the corresponding figures for the prior year. To enhance comparability, all asset and financial figures for 2016 and 2017 also include Bremer Landesbank information.

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	31 Dec. 2017 (in € million)	31 Dec. 2016 (in € million)	Change (in %)
Assets			
Loans and advances to banks	30 685	26 138	17
Loans and advances to customers	65 886	76 392	– 14
Securities	21 608	25 072	– 14
Trading portfolio	10 555	12 374	– 15
Participations and shares in companies	1 579	1 693	– 7
Other assets	8 085	8 581	– 6
Total assets	**138 398**	**150 250**	**– 8**
Liabilities			
Liabilities to banks	41 784	45 146	– 7
Liabilities to customers	49 697	51 001	– 3
Securitised liabilities	25 547	28 754	– 11
Trading portfolio	5 459	6 185	– 12
Provisions	1 173	1 127	4
Profit participation capital and subordinated liabilities	2 805	3 236	– 13
Liable funds	6 008	6 283	– 4
Other liabilities	5 925	8 518	– 30
Total liabilities	**138 398**	**150 250**	**– 8**
Balance sheet note			
Contingent liabilities	9 582	9 207	4
Other obligations	7 538	8 349	– 10
Business volume	**155 518**	**167 806**	**– 7**

The balance sheet total decreased compared to the prior-year balance sheet date.

Loans and advances to banks increased by 17 per cent to € 31 billion year-on-year. The increase in overnight deposits by € 8,786 million is offset by the decline in promissory notes by about € 1,013 million, time deposits of about € 1,054 million as well as cash provided as collateral by about € 855 million.

Loans and advances to customers are the most significant balance sheet item at 48 per cent. The 14 per cent year-on-year reduction is due, among other things, to the decline in promissory notes by about € 1,498 as well as aircraft mortgage loans of about € 1,250 million.

Within the **Securities** position, holdings of bonds and debt securities as well as money market instruments were reduced by a total of € 3.5 billion. The development of the portfolio as of the reference date shows that, as in the previous year, the following effects continue to have an impact, but that this impact is declining as a result of persistently low interest rates. Accordingly, in the area of strategic investments higher yielding bonds from issuers with higher credit spreads were reduced either by selling them or holding them until maturity in an attempt to reduce risk. As part of the collateral management process, the resulting funds were invested in low-yield bonds from issuers with a lower credit spread (with the share of investments in fixed-rate securities higher than the share in variable-rate securities) or used to reduce risk-weighted assets.

The change in the **trading portfolio** was primarily the result of the valuation of interest-rate derivatives at fair value. Because of the focus of interest-rate derivatives the decrease in interest rates resulted in an increase in the value of these financial Instruments and thus a decrease in the corresponding balance sheet positions. The trading portfolio position largely includes financial Instruments that serve to manage market-price risk.

The **investment portfolio and shares in affiliated companies** fell during the 2017 reporting period by € 114 million, from € 1.7 billion to € 1.6 billion. This decrease is largely due to changes in the area of affiliated companies.

Significant positions in **Other assets** include cash reserves, fiduciary assets, deferred income, public-sector debt securities, bills of exchange approved for refinancing at central banks and other types of assets.

Liabilities to banks fell by € 3.4 billion year-on-year to € 41.8 billion. The decline is mainly due to liabilities from time deposits.

Liabilities to customers fell by about € 1.3 billion year-on-year to about € 49.7 billion. The decline is primarily the result of the decrease in liabilities from business checking accounts of about € 415 million, liabilities from repo transactions of about € 211 million and liabilities from cash provided as collateral of about € 121 million.

The reduction in **securitised liabilities** to € 25.5 billion (€ 28.8 billion) reflects a reduction in the portfolio through a decrease of own issues in the Bremen branch of about € 2 billion, liabilities in the Hanover branch of € 500 million for aircraft Pfandbriefe and about € 650 million for other bearer debentures.

Provisions rose by € 46 million year-on-year. The increase in provisions is mainly due to the following causes: Increase in the provisions for reorganisation measures that were formed in the previous year at BLB. Rise in pension provisions and aid provisions as a result of the ongoing decline in interest rates as well as the increase in the aid rate. At the same time, however, tax and credit provisions fell.

The **Other liabilities** position includes fiduciary obligations, other liabilities, deferred income and the fund for general banking risks. The decline in this position is due, in particular, to the reduction in foreign exchange balancing items, which fell by € 1.9 billion.

As at the reporting date, **equity** includes the full value of silent participations written down in the prior year up to the amount of the respective nominal values. Further details on this point can be found in the section “Significant events in the financial year”. The **equity ratio** was 4.3 per cent on the reporting date (prior year: 4.2 per cent).

The increase in **contingent liabilities** to € 10 billion (€ 9 billion) is the result of higher liabilities from guarantees and indemnity agreements.

The reduction in **other liabilities** is due solely to the decrease in the volume of irrevocable credit commitments of about € 811 million. Addition details regarding funding and liquidity can be found in the risk report.

Further Regulatory Publications

Disclosures in Accordance with § 315b HGB

With the entry into force of the German Act to Strengthen the Non-Financial Reporting of Companies in their Management Reports and Consolidated Management Reports (CSR Directive Transposition Act), the NORD/LB Group is obligated to provide reporting on environmental, employee and social matters as well as measures to combat corruption and bribery and to respect human rights if these are fundamental to the conception of its business and the impact of its own corporate activities. In order to meet this requirement, the NORD/LB Group provides reporting in a "Separate Combined Non-Financial Report for the NORD/LB Group and NORD/LB for the financial year from 1 January to 31 December 2017" in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, or HGB) § 315b para. (1) and (3) as well as § 315c in conjunction with § 289b para. (3).

The "Separate Combined Non-Financial Report for the NORD/LB Group and NORD/LB for the financial year from 1 January to 31 December 2017" is published in accordance with § 315b para. (3) clause 2a HGB in the electronic German Federal Gazette and is also available online at www.nordlb.de/reports.

In addition, NORD/LB also provides reporting about its other social, environmental and social activities in its Group Sustainability Report. The Group Sustainability Report is prepared in accordance with the applicable requirements of the Global Reporting Initiative (GRI) and also contains a progress report on the commitment to the ten principles in the UN Global Compact (UNGC).

Comments to Corporate Governance Report

The German Corporate Governance Code contains important provisions for running and monitoring German exchange-listed companies. It includes nationally and internationally recognised standards of good and trustworthy corporate management, especially with respect to the management and organisation of a company, control mechanisms and the collaboration between the Managing Board and the Supervisory Board. The aim of the Code is to promote confidence among investors, customers, employees and the public in a company's management and supervision.

Because it applies for exchange-listed stock corporations, the Code is not legally binding for NORD/LB, which is a public-law credit institution. However, it is important to NORD/LB, which is active nationally and internationally, to position itself in the market as a reliable and trustworthy partner. Transparent corporate management is an important aspect of this aspiration for us. For this reason, the Bank views it as a voluntary obligation to adhere to the recommendations and proposals set out in the Code to the extent that this is possible and appropriate in the framework of the Bank's legal form and ownership structure.

The detailed Corporate Governance Report can be accessed online at www.nordlb.com/legal-information/legal-notices/corporate-governance/.

Consolidated Financial Statements

Income Statement

	Notes	1 Jan. - 31 Dec.2017 (in € million)	1 Jan. - 31 Dec.2016 (in € million)	Change (in %)
Interest income from assets		6 593	7 265	– 9
Interest expenses from assets		64	19	> 100
Interest expenses from liabilities		5 191	5 555	– 7
Interest income from liabilities		79	44	80
Net interest income	**21**	**1 417**	**1 735**	**– 18**
Loan loss provisions	22	986	2 956	– 67
Commission income		268	345	– 22
Commission expenses		156	126	24
Net commission income	**23**	**112**	**219**	**– 49**
Trading profit / loss		– 82	377	> 100
Profit / loss from the fair value option		423	15	> 100
Profit / loss from financial instruments at fair value through profit or loss	**24**	**341**	**392**	**– 13**
Profit / loss from hedge accounting	25	13	23	– 43
Profit / loss from financial assets	26	147	49	> 100
Profit / loss from investments accounted for using the equity method	27	38	– 2	> 100
Administrative expenses	28	1 185	1 113	6
Other operating profit / loss	29	383	– 173	> 100
Earnings before reorganisation and taxes		**280**	**– 1 826**	**> 100**
Reorganisation expenses	30	85	39	> 100
Earnings before taxes		**195**	**– 1 865**	**> 100**
Income taxes	31	60	94	– 36
Consolidated profit		**135**	**– 1 959**	**> 100**
of which: attributable to the owners of NORD/LB		79	– 1 648	
of which: attributable to non-controlling interests		56	– 311	

Statement of Comprehensive Income

The statement of comprehensive income for NORD/LB Group is comprised of the income and expenses recognised in the income statement and in other comprehensive income (OCI).

	1 Jan.-31 Dec. 2017 (in € million)	1 Jan.-31 Dec. 2016 (in € million)	Change (in %)
Consolidated profit	**135**	**– 1 959**	**> 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	126	– 262	> 100
Investments accounted for using the equity method –Share of other operating profit / loss	4	–	–
Deferred taxes	– 40	83	> 100
	90	**– 179**	**> 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	– 133	– 68	96
Transfer due to realisation profit / loss	81	44	84
Translation differences of foreign business units			
Unrealised profit / losses	– 1	– 90	– 99
Investments accounted for using the equity method –Share of other operating profit / loss	– 22	15	> 100
Deferred taxes	30	46	– 35
	– 45	**– 53**	**– 15**
Other profit / loss	**45**	**– 232**	**> 100**
Comprehensive income for the period under review	**180**	**– 2 191**	**> 100**
of which: attributable to the owners of NORD/LB	121	– 1 862	> 100
of which: attributable to non-controlling interests	59	– 329	> 100

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.2017 (in € million)	31 Dec.2016[1] (in € million)	Change (in %)
Cash reserve	32	2 436	1 447	68
Loans and advances to banks	33	29 202	21 747	34
Loans and advances to customers	34	95 115	105 640	– 10
Risk provisioning	35	– 3 508	– 3 797	– 8
Balancing items for financial instruments hedged in the fair value hedge portfolio	36	65	130	– 50
Financial assets at fair value through profit or loss	37	10 983	12 461	– 12
Positive fair values from hedge accounting derivatives	38	1 385	2 327	– 40
Financial assets	39	27 183	31 574	– 14
Investments accounted for using the equity method		200	285	– 30
Property and equipment	40	482	420	15
Investment property	41	87	84	4
Intangible assets	42	137	154	– 11
Assets held for sale	43	20	421	– 95
Current income tax assets	44	31	42	– 26
Deferred income taxes	44	713	786	– 9
Other assets	45	848	1 011	– 16
Total assets		**165 379**	**174 732**	**– 5**

[2] The previous year's figures were adjusted for individual items, see Note (2) Adjustment of previous year's figures.

Liabilities	Notes	31 Dec.2017 (in € million)	31 Dec.2016[1] (in € million)	Change (in %)
Liabilities to banks	46	46 710	49 241	– 5
Liabilities to customers	47	56 466	57 301	– 1
Securitised liabilities	48	33 607	35 815	– 6
Balancing items for financial instruments	49	729	1 033	– 29
Financial liabilities at fair value through profit or loss	50	12 971	15 056	– 14
Negative fair values from hedge accounting derivatives	51	1 990	2 945	– 32
Provisions	52	2 731	2 753	– 1
Liabilities held for sale	53	7	19	– 63
Current income tax liabilities	54	71	107	– 34
Deferred income taxes	54	55	126	– 56
Other liabilities	55	243	376	– 35
Subordinated capital	56	3 606	3 984	– 9
Equity	**57**			
Issued capital		1 607	1 607	–
Capital reserves		3 332	3 332	–
Retained earnings		1 019	874	17
Revaluation reserve		316	375	– 16
Currency translation reserve		– 10	– 6	67
Equity capital attributable to the owners of NORD/LB		**6 264**	**6 182**	**1**
Additional equity		50	50	–
Equity capital attributable to non-controlling interests		– 121	– 256	– 53
		6 193	**5 976**	**4**
Total liabilities and equity		**165 379**	**174 732**	**– 5**

[1] The previous year's figures were adjusted for individual items, see Note (2) Adjustment of previous year's figures.

Statement of Changes in Equity

The individual components of equity as well as the development of these components in 2016 and 2017 can be seen in the following Statement of Changes in Equity:

(in € million)	Issued capital	Capital reserves	Retained earnings[1]	Revaluation reserve	Currency translation reserve	Equity attributable to the owners of NORD/LB[1]	Additional equity components	Equity attributable to non-controlling interests	Consolidated equity[1]
Equityas at 1 Jan.2016	**1 607**	**3 332**	**2 493**	**454**	**– 9**	**7 877**	**50**	**586**	**8 513**
Adjustments according to IAS 8	–	–	– 65	–	–	– 65	–	–	– 65
Adjusted equity as at 1 Jan. 2016	1 607	3 332	2 428	454	– 9	7 812	50	586	8 448
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
Consolidation effects	–	–	234	–	–	234	–	– 536	– 302
Other changes in capital	–	–	– 2	–	–	– 2	–	– 10	– 12
Equity as at 31 Dec. 2016	**1 607**	**3 332**	**874**	**375**	**– 6**	**6 182**	**50**	**– 256**	**5 976**

[1] The previous year's figures were adjusted for individual items, see Note (2) Adjustment of previous year's figures.

(in € million)	Issued capital	Capital reserves	Retained earnings	Revalua-tion reserve	Currency transla-tion reserve	Equity attri-butable to the owners of NORD/LB	Additio-nal equity compone nts	Equity attri-butable to non-control-ling interests	Consoli-dated equity
Equity as at 1 Jan. 2017	**1 607**	**3 332**	**874**	**375**	**– 6**	**6 182**	**50**	**– 256**	**5 976**
Consolidated profit	–	–	79	–	–	79	–	56	135
Increase / decrease from available for sale (AfS) financial instruments	–	–	–	– 52	–	– 52	–	–	– 52
Changes in the value of investments for using the equity method	–	–	– 18	–	–	– 18	–	–	– 18
Translation differences of foreign business units	–	–	–	–	– 4	– 4	–	3	– 1
Revaluation of the net liability from defined benefit pension plans	–	–	126	–	–	126	–	–	126
Deferred taxes	–	–	– 40	30	–	– 10	–	–	– 10
Other comprehensive income	**–**	**–**	**68**	**– 22**	**– 4**	**42**	**–**	**3**	**45**
Adjusted comprehensive income for the period under preview	**–**	**–**	**147**	**– 22**	**– 4**	**121**	**–**	**59**	**180**
Changes in the basis of consolidation	–	–	– 7	– 37	–	– 44	–	76	32
Other changes in capital	–	–	5	–	–	5	–	–	5
Equity as at 31 Dec. 2017	**1 607**	**3 332**	**1 019**	**316**	**– 10**	**6 264**	**50**	**– 121**	**6 193**

For a more detailed explanation, please see Note (57) Equity.

Cash Flow Statement

	1 Jan.-31 Dec. 2017 (in € million)	1 Jan.-31 Dec. 2016 (in € million)	Change (in %)
Consolidated profit for the period	**135**	**– 1 959**	**> 100**
Adjustment for non-cash items			
Depreciation, impairment and write-ups of property and equipment and financial assets	– 241	– 19	> 100
Increase / decrease in provisions	200	151	32
Gains / losses from the disposal of property and equipment and financial assets	– 74	– 27	> 100
Increase / decrease in other non-cash items	1 058	2 896	– 63
Other adjustments net	– 3 397	– 1 661	> 100
Sub-total	**– 2 319**	**– 619**	**> 100**
Increase / decrease in assets and liabilities from operating activities after adjustment for non-cash items			
Loans and advances to banks and customers	1 443	– 339	> 100
Trading assets	– 755	491	> 100
Other assets from operating activities	4 297	2 863	50
Liabilities to banks and customers	– 2 802	– 3 083	– 9
Securitised liabilities	– 245	– 28	> 100
Other liabilities from operating activities	– 228	4	> 100
Interest received	6 280	6 662	– 6
Dividends received	15	9	67
Interest paid	– 4 559	– 4 818	– 5
Income taxes paid	– 34	– 62	– 45
Cash flow from operating activities	**1 093**	**1 080**	**1**

	1 Jan.-31 Dec. 2017 (in € million)	1 Jan.-31 Dec. 2016 (in € million)	Change (in %)
Cash receipts from the disposal of			
financial assets	67	6	> 100
property and equipment	–	3	– 100
Payments for acquisition of			
financial assets	–	– 7	– 100
property and equipment	– 56	– 93	– 40
Cash receipts from the disposal of consolidated companies and other business units	78	71	10
Payments for acquisition of consolidated companies and other business units	–	– 2	– 100
Net increase / decrease in funds from other investing activities	288	3	–
Cash flow from investing activities	**377**	**– 19**	**> 100**
Net proceeds from issued additional equity components	–	–	
Increase in funds from subordinated capital	–	361	– 100
Decrease in funds from subordinated capital	– 246	– 669	– 63
Dividends paid	–	–	–
Interest expenses on additional equity components	– 2	– 4	– 50
Interest expenses on subordinated capital	– 183	– 196	– 7
Cash flow from financing activities	**– 431**	**– 508**	**– 15**
Cash and cash equivalents as at 1 January	**1 447**	**872**	**66**
Cash flow from operating activities	1 093	1 080	1
Cash flow from investing activities	377	– 19	> 100
Cash flow from financing activities	– 431	– 508	– 15
Total cash flow	**1 039**	**553**	**88**
Effects of changes in exchange rates	– 50	22	> 100
Cash and cash equivalents as at 31 December	**2 436**	**1 447**	**68**

With respect to the cash and cash equivalents as at 31 December, please see Note (32) Cash Reserve.

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 2017 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. National requirements contained in § 315e of the German Commercial Code (Handelsgesetzbuch) were also met. NORD/LB, as a group established 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 presented within the Notes, in Note (19) Segment Reporting by Business Segment and Note (20) Segment Reporting by geographical Segment. The reporting on the type and scope of the risks arising from financial instruments pursuant to IFRS 7 is primarily carried out in the framework of the risk report, which is a component 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 to carry out the accounting pursuant to IFRS are based on assumptions and parameters that were made with the proper exercise of discretion by management. 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 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 determining the underlying parameters (Note (15) Provisions for Pensions and similar Obligations in conjunction with Note (52) Provisions), measurement of loan loss provisions in respect of future cash flows (Note (9) Risk Provisioning in conjunction with Note (35) Risk Provisioning), determination of deferred tax assets in respect of the impairment of unused tax losses (Note (17) Income taxes. in conjunction with Note (31) Income taxes, Note (44) Current income tax assets and Note (54) Current 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 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 categorising 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 (Note (15) Provisions for Pensions and similar Obligations and (16) Other Provions in conjunction with Note (52) provisions), the presence of certain assets held for sale (Note (14) Asstes Held for Sale in conjunction with Note (43) Assets Held for Sale) and the assessment of control of 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 Statements is Euro. All amounts are reported rounded in euro millions (€ million) unless indicated otherwise. The figures for the previous year are indicated in brackets below. These Consolidated Financial Statements were signed by the Managing Board on 20 March 2018 and approved for forwarding to the Supervisory Board.

(2) Restatement of previous year's figures

In these Consolidated Financial Statements the previous year's figures were adjusted in the following points based on IAS 8.42:

The justification for a Group accounting entry within the framework of the adoption of IFRS, relating to the correction of the fair value of a swap portfolio to hedge currency risks amounting to roughly € 65 million, was lost before the 2016 financial year following the disposal of the swap portfolio. The Group accounting entry should have been cancelled thereafter. This did not happen. The previous year's figures in these Consolidated Financial Statements have been restated accordingly, resulting in a decrease in the balance sheet item Financial assets at fair value through profit or loss and a decrease in equity on the balance sheet as at 31 December 2016 amounting to € 65 million.

Restatement of balance sheet figures as at 1 January 2016:

1 Jan. 2016 (in € million)	Prior to adjustment	Adjustment	After adjustment
Assets			
Financial assets at Fair Value through profit or loss	14 035	– 65	13 970
Total assets	**180 998**	**– 65**	**180 933**
Liabilities			
Equity			
Retained earnings	2 493	– 65	2 428
Equity capital attributable to the owners of NORD/LB	**7 877**	**– 65**	**7 812**
Total liabilities	**180 998**	**– 65**	**180 933**

Restatement of balance sheet figures as at 31 December 2016:

31 Dec.2016 (in € million)	Prior to adjustment	Adjustment	Adjustment	After adjustment
Assets				
Financial asstes at Fair Value through profit or loss	12 526	– 65	–	12 461
Total assets	**174 797**	**– 65**	**–**	**174 732**
Liabilities				
Equity				
Retained earnings	939	– 65	–	874
Equity capital attributable to the owners of NORD/LB	**6 247**	**– 65**	**–**	**6 182**
Total liabilities	**174 797**	**– 65**	**–**	**174 732**

The respective restatements were also taken into account in the following notes: (37) Financial assets at fair value through profit or loss, (58) Fair Value Hierarchy, (19) Segment Reporting by Business Segment,(57) Equity.

Following a regular validation process, the funding spreads included in the measurement parameter for own issues designated for fair value measurement were adjusted at the start of 2017. For one particular maturity band, the given restatement was not carried out during the year. This only took place in December 2017. This means the interim financial statements of the NORD/LB Group as at 31 March, 30 June and 30 September 2017 must be corrected as follows with the restatement not made during the year.

Restatement of balance sheet figures:

(in € million)	31.03.2017 Prior to adjust-ment	Adjust-ment Fun-ding-spreads	After Adjust-ment	30.06.2017 Prior to adjust-ment	Adjust-ment Fun-ding-spreads	After Adjust-ment	30.09.2017 Prior to adjust-ment	Adjust-ment Fun-ding-spreads	After Adjust-ment
Assets									
Deferred income taxes	751	– 6	745	607	– 11	596	653	– 6	647
Total assets	**175 511**	**– 6**	**175 505**	**169 175**	**– 11**	**169 164**	**165 220**	**– 6**	**165 214**
Liabilities									
Liabilities to Customers	14 331	– 40	14 291	13 494	– 42	13 452	13 208	– 43	13 165
Equity									
Retained earnings	1 226	34	1 260	1 197	31	1 228	1 197	37	1 234
Equity capital attributable to the owners of NORD/LB	**6 493**	**34**	**6 527**	**6 445**	**31**	**6 476**	**6 398**	**37**	**6 435**
Total liabilities	**175 511**	**– 6**	**175 505**	**169 175**	**– 11**	**169 164**	**165 220**	**– 6**	**165 214**

Adjustment of consolidated profit for the period and the comprehensive income for the period:

1 Jan. - 31 Dec.2016 (in € million)	1.1. - 31.03.2017 Prior to adjust-ment	Adjust-ment Fun-ding-spreads	After Adjust-ment	1.1. - 30.06.2017 Prior to adjust-ment	Adjust-ment Fun-ding-spreads	After Adjust-ment	1.1. - 30.09.2017 Prior to adjust-ment	Adjust-ment Fun-ding-spreads	After Adjust-ment
Profit / loss from the fair value option	228	40	268	330	42	372	404	43	447
Earings before reorganisation and taxes	**258**	**40**	**298**	**413**	**42**	**455**	**375**	**43**	**418**
Earnings before taxes	**255**	**40**	**295**	**409**	**42**	**451**	**326**	**43**	**369**
Income taxes	41	6	47	138	11	149	98	6	104
Consolidated profit	**214**	**34**	**248**	**271**	**31**	**302**	**228**	**37**	**265**
of which: equity capital attributable to the owners of NORD/LB	231	34	265	233	31	264	183	37	220
Comprehensive income for the period under review	**221**	**34**	**255**	**284**	**31**	**315**	**257**	**37**	**294**
of which: equity capital attributable to the owners of NORD/LB	238	34	272	243	31	274	207	37	244

The previous year's figure was also restated within the verbal explanations for Note (37) Financial assets at fair value through profit or loss. Please refer to the corresponding note for further information.

(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 2017 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 as at 1 January 2017:

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

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

The application of these changes to IAS 7 has resulted in additional disclosure obligations for the Consolidated Financial Statements of NORD/LB, which are provided in the Notes to the cash flow statement.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments to IAS 12 aim to clarify how certain regulations should be applied in connection with the recognition of deferred tax assets arising from acquired debt instruments measured at fair value. In addition, it was clarified that as a rule, all deductible temporary differences should be taken together and assessed as a whole in order to determine whether sufficient taxable profit will be available for their use in the future.

Deferred taxes are already recognised in the NORD/LB Consolidated Financial Statements in accordance with the amendments, so the amendments to IAS 12 will have no effect.

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

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

This clarification does not have an effect on NORD/LB's Consolidated Financial Statements.

As permitted, the Bank has waived early application of the following standards and amendments to standards, which have been accepted into European law and are to be implemented for the NORD/LB Consolidated Financial Statements only after 31 December 2017.

IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments is retrospectively applicable as a mandatory requirement for financial years starting on or after 1 January 2018. The adoption of IFRS 9 has a substantial impact on the accounting, measurement and presentation of future consolidated financial statements. The NORD/LB Group has set up a programme of projects based on the phases of IFRS 9 in order to manage its specialist, technical and procedural implementation. The following information refers to the status of the implementation of IFRS 9 as at the financial reporting date of 31 December 2017.

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

Classification and Evaluation of Financial Assets

While classification under IAS 39 is based primarily on the type of financial asset, classification under IFRS 9 focuses on the company's business purpose for the financial asset with regard to the recognition of contractual cash flows (business model) and the structure of the financial instrument (cash flow criterion). IFRS 9 provides for three possible business models for financial instruments: "Hold", "Hold and sell", and "Do not hold". The NORD/LB Group allocates financial instruments to the three possible business models at a defined portfolio level. One reason for this is that the NORD/LB Group manages its business at this level and uses it as the primary driver of its performance measurement and internal reporting. The facts and circumstances existing on the day of first application were the basis for this. A financial instrument is also classified by what is known as the cash flow criterion; this is used to examine the individual financial instrument to determine whether the contractual cash flows relate solely to principal and interest payments. Financial assets are classified and measured based on the combination of the business model and the characteristics of the cash flows.

In general, IFRS 9 provides a measurement of all financial assets at fair value. Subsequent recognition at amortised cost is permitted only if securities with debt characteristics or loans were assigned to a portfolio with the "Hold" business model, and if their cash flows represent solely interest and principal payments on the outstanding capital of the financial instrument at contractually defined points in time. Subsequent recognition at fair value with the fair value changes carried in other comprehensive income (OCI) is permitted only if securities with debt characteristics or loans were assigned to a portfolio with the "Hold and sell" business model, and if its cash flows represent solely interest and principal payments on the outstanding capital of the financial instrument at contractually defined points in time. If the cash flows do not meet this requirement, the asset must be measured at fair value through profit and loss. Under certain circumstances, despite fulfilment of the cash flow criterion, financial instruments can, at the time of initial recognition, be irrevocably designated to measurement at fair value through profit or loss (fair value option).

Securities with equity characteristics should fundamentally be measured at fair value through profit and loss because the cash flow criterion is not met. The option of fair value measurement directly in equity with fair value changes carried in other comprehensive income (OCI) can only be exercised if there is no intention to sell or trade the assets.

Derivatives should be recognised at fair value through profit and loss.

Measurement methods do not change under IFRS 9.

Financial assets – loans

The NORD/LB Group mainly follows the "Hold" business model in its credit business. The application of the "Hold and sell" business model in the lending business is only envisaged for a narrowly defined range of products, principally promissory notes. The "Do not hold" business model is applied for syndication or asset trading portfolios. The portfolios not allocated to the "Hold" business model are small in volume compared to the total loan portfolio.

As the first step of the IFRS 9 programme, a general review was carried out on applicable loan contract elements and loan side agreements within the NORD/LB Group lending business. This identified features resulting in cash flows that are not exclusively interest and principal payments in accordance with IFRS 9 requirements.

With respect to the NORD/LB loan portfolio as at 31 December 2017, the aim of the review is to identify components or ancillary agreements of relevance for the classification of instruments as subject to "mandatory measurement at fair value through profit and loss". The components of the contract elements and loan side agreements that contradict the

cash flow criterion are technically recorded in the NORD/LB Group together with the other contractual clauses, which are relevant to the valuation. In addition, the NORD/LB Group uses a rule-based process to check for the existence of new or amended contract clauses, which are germane to the cash flow criterion. For the purpose of ongoing fair-value measurements of affected lending transactions, NORD/LB has rolled out an automated measurement application that calculates fair values at the level of individual financial instruments based on relevant cash flow and contractual data.
A comparison with the NORD/LB Group’s IAS 39 classification shows that the new IFRS 9 classification model continues to measure most of the lending business at amortised cost. Especially in the area of ship financing, loans that were previously measured at amortised cost under IAS 39 will be subject to fair value measurement under IFRS 9.
The evaluation of the effects of the initial application of the classification provisions of IFRS 9 (see para: Evaluation of the effect of the first-time application of IFRS 9 in accordance with IAS 8.30) involves an element of uncertainty because quality assurance work in connection with the preparation of the opening balance sheet as at 1 January 2018 has not yet been fully completed.

Financial assets – securities
At the time of initial application, all of the three types of IFRS 9 business model are relevant for the NORD/LB Group’s portfolios of assets with debt characteristics. The portfolios with a long-term investment horizon are allocated to the “Hold” business model. In the case of portfolios used for short and/or medium-term liquidity management, the Bank assigns them to the “Hold and sell” business model because they are actively managed on a fair value basis and there is generally no intention to hold the securities to maturity. Portfolios intended for trading will continue to be allocated as before to the “Do not hold” business model.
Under the classification and measurement requirements of IFRS 9, most of the securities that were previously measured at fair value directly in equity in accordance with IAS 39, continue to be measured at fair value directly in equity because they have been allocated to the "Hold and sell" business model, and they satisfy the cash flow criterion. Part of the NORD/LB Group securities portfolio is now allocated to the "Hold" business model and recognised at amortised cost.
In order to assess the fulfilment of the cash flow criterion, the NORD/LB Group generally uses information from external providers, which is supplemented with internal information as required. The external information is also checked regularly. The securities portfolio business area only contains a relatively small number of cases that are required to be measured at fair value through profit or loss due to the non-fulfilment of the cash flow criterion. The Group intends to continue using the option of fair value measurement as provided for under IFRS 9. In addition, the NORD/LB Group has decided to value all equity instruments at fair value through profit or loss and thus not exercise its option to recognise fair value directly in equity.
The evaluation of the effects of the initial application of the classification provisions of IFRS 9 (see para: Evaluation of the effect of the first-time application of IFRS 9 in accordance with IAS 8.30) involves an element of uncertainty because quality assurance work in connection with the preparation of the opening balance sheet as at 1 January 2018 has not yet been fully completed.

Financial liabilities
The main change to the existing requirements concerns recognition of profit/loss from instruments in the fair value option. As a general rule, IFRS 9 stipulates that changes to the measurement of financial liabilities induced by credit ratings must be recognised directly in equity within other comprehensive income (OCI); the remaining part of the change in value will continue to be recognised in the income statement. 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 comprehensive income (OCI). In the context of the initial application of IFRS 9, the IFRS 9.7.2.10 (c) option to withdraw the fair value designation has been used for a proportion of the financial liabilities. Consequently, these are valued as at the time of initial application rather than at fair value using the amortised cost.

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

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

At the NORD/LB Group, risk provisioning is calculated using an instrument-by-instrument approach. A parameter-based determination of risk provisions is made for all Stage 1 and 2 financial instruments as well as for non-significant Stage 3 financial instruments. An expert-based approach based on multiple scenarios is used for significant Stage 3 financial instruments.

The parameter-based calculation is carried out on the basis of default probabilities, loss rates and the amount of the exposure on default. For the impairment calculation under the expert-based approach, risk-based weightings are attached to possible positive or negative scenarios taking into account the particular circumstances of each market segment (e.g. historical averages) as well as the individual case (e.g. market and present value of the financed property). The number of scenarios to be applied depends on the significance of the risk attaching to the individual asset. Specialised financing, such as ship mortgage loans or commercial real estate financing, is generally based on a larger number of scenarios to take account of the specific risks inherent in these cases. In addition, risk is further differentiated, based on the individual probability of continuation.

The design of the methodology for using forward-looking information in the context of scenarios as well as the implementation of a multi-scenario analysis for the determination of risk provisions are completed at NORD/LB Group level. An initial validation has been carried out on the parameter-based calculation of risk provisions in Stages 1 and 2, as well on transfers made between Stages. Based on this, the NORD/LB Group has developed a standard process for the long-term validation of the calculation of risk provisions in Stages 1 and 2 in order to be able to identify and carry out further necessary steps in the future to adjust the calculation parameters further. With regard to the specialist and IT processes introduced, minor adjustments and improvements will be made in the first half of 2018.

Because of the new IFRS 9 classification requirements with regard to business model and assessment of the cash flow criterion, the range of all financial instruments used for the impairment will also change in future. The evaluation of the effects of the initial application of the impairment provisions of IFRS 9 (see para: Evaluation of the effect of the first-time application of IFRS 9 in accordance with IAS 8.30) involves an element of uncertainty because quality assurance work in connection with the preparation of the opening balance sheet as at 1 January 2018 has not yet been fully completed.

Hedging relationships

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 addressed by the IASB as a standalone project.

Until the new regulations regarding macro hedge accounting are published, the regulations of IAS 39 regarding portfolio fair-value hedges for interest risks will remain in effect. There is an option to apply the standard on general hedge accounting as from 1 January 2018, or to continue with the IAS 39 regulations. The NORD/LB Group will continue to apply the current provisions of IAS 39 with respect to hedge accounting. Due to the continuation of the provision in IAS 39, no first-time application effects for the NORD/LB Group arose from hedge accounting.

As a result of the changed classification requirements under IFRS 9, the composition of the underlying transactions in the fair-value-hedge portfolio for interest rate risks will also, however, change.

Evaluation of the effect of the first-time application of IFRS 9 in accordance with IAS 8.30

On the basis of its knowledge as at 31 December 2017, the NORD/LB Group expects a first-time application effect of approx. € – 210 million in relation to the implementation of IFRS 9. This will appear in retained earnings or other comprehensive income (OCI) in the opening balance sheet as at 1 January 2018. The estimated effect comprises approx. € - 30 million from the changed classification and measurement of financial assets and liabilities compared with IAS 39, and approx. € –180 million from the new impairment regulations.

This is expected to result in a positive impact of 0.39 percentage points on the Group's regulatory Common Equity Tier 1 ratio in accordance with EU Regulation No 575/2013 on prudential requirements for credit institutions and investment firms (CRR), without taking into account the transitional arrangements provided for therein. This positive effect was mainly attributable to the absence of the deduction item from allowances for write-downs.

Since the opening balance sheet had not already been completely prepared at the time of the initial IFRS 9 impact assessment, the effect of first-time adoption of IFRS 9 is subject to uncertainties and may change over time.

Recognition

In accordance with the IFRS 9 classification and measurement requirements, the NORD/LB Group will gear its future financial instrument reporting more towards measurement categories. In principle, IFRS 9 figures will be compared with corresponding prior year comparative figures. As permitted, retrospective application of IFRS 9 for reporting of prior year figures will be waived for 2018. This means that the IFRS 9 values for 2018 will be compared to prior-year values determined for 2017 according to IAS 39 requirements.

IFRS 15 – Revenue from Contracts with Customers

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

Application of the standard is mandatory for reporting periods beginning on or after 1 January 2018. The standard is fundamentally applicable for all contracts with customers of the NORD/LB Group, but in many cases it is not relevant for the Group because large parts of the income in the statement of comprehensive income are subject to the provisions of other standards. IFRS 15 is mainly applicable to the accounting of commission income (cf. Note (23)Net Commission Income), i.e. to the Group’s service business. The NORD/LB Group completed the implementation project, which refined or supplemented the existing instructions on revenue recognition, in the second quarter of 2017. At the time of initial application the NORD/LB Group will apply IFRS 15 on a modified retrospective basis. The introduction of the standard will not have any impact on the presentation of the financial position, assets and earnings of the NORD/LB Group.

Amendments to IAS 40 – Transfers of Investment Property

In December 2016, the IASB published amendments to IAS 40 in order to clarify the guidelines for transfers to or from investment property holdings. It was 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.

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

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

The afore-mentioned clarifications will not have any effect on the Consolidated Financial Statements of NORD/LB.

IFRS 16 – Leasing

In January 2016, the IASB issued the new standard IFRS 16 on the recognition of lease agreements, which replaces the previous standard IAS 17 in conjunction with interpretations IFRIC 4, SIC-15 and SIC-27. It was implemented in European law in November 2017. In principle, the scope of application covers all contracts for which the right to use or control an asset is transferred for an agreed period against remuneration.

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

In particular, the new standard affects the Group’s accounting as a lessee. IFRS 16 will ensure a uniform accounting model for lessees in the future, under which right-of-use assets and leasing liabilities for leases will be recorded – with certain exceptions for short-term and low-value leases. Effects on the financial position, assets and earnings of the

NORD/LB Group are caused in particular by an increase in total assets recognised in the balance sheet as a result of the recognition requirement for usage rights and liabilities for leases that are currently recorded under IAS 17 as operating leases and therefore not recorded in the balance sheet. Moreover, breaking down expenses into a depreciation component and an interest component using the effective interest method results in the degressive development of expense and the earlier recognition of expenses in the earlier periods of the term of a lease agreement.
A detailed analysis and quantification of the effects is currently being carried out within the scope of a project on the implementation of IFRS 16. The potential to exercise the options granted pursuant to IFRS 16 is primarily seen for lease agreements relating to operating and business equipment as well as short-term residential rental properties. In addition, the NORD/LB Group will exercise the option not to record leasing arrangements for other intangible assets in accordance with IFRS 16. It is planned to disclose the cumulative effect in equity of the initial application of IFRS 16 on a modified retrospective basis.

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:

Amendments to IFRS 9 – Prepayment Features with Negative Compensation
In October 2017 the IASB published narrow-scope amendments to IFRS 9 that are to be applied from 1 January 2019, and which clarify or adjust existing rules in IFRS 9.B4.1.10 and B4.1.11(b) regarding the classification of financial assets. This was prompted by the ambiguous application of these rules in the case of financial instruments that include symmetric termination and compensation clauses, where compensation could theoretically be paid by the borrower to the lender and by the lender to the borrower. The amendment clarifies that under certain conditions such contractual clauses do not contradict the fulfilment of the cash flow criterion - regardless whether the compensation is paid by the borrower or the lender.
The NORD/LB Group will take the clarification into account from the initial application of the amendment as part of the assessment of the cash flow criterion. Potential impacts are currently being analysed.

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

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

Furthermore, the following amendments to and interpretations of standards have not yet been adopted in European law:
- IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration
- IFRIC Interpretation 23 – Uncertainty over income tax treatments

- Improvements to IFRS (cycle 2015 - 2017) under the IASB’s annual improvements process

These changes are currently expected to have no impact, or no material impact, on NORD/LB's Consolidated Financial Statements.

First implementation of the amendments to the standards described above is planned for the date of initial 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 means 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 a subsidiary is a partnership, the non-controlling interests are essentially 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 Group 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 parent company NORD/LB, the consolidated financial statements include 34 (31 December 2016: 42) subsidiaries for which NORD/LB holds or otherwise exercises control of more than 50 per cent of the voting rights directly or indirectly. They also include one (31 December 2016: two) joint ventures and nine (31 December 2016: 11) associates. The joint venture and the associates are accounted for using the equity method.

The following changes to the basis of consolidation have occurred since 31 December 2016:

With its purchase of 45.17 per cent of shares of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – , Bremen (Bremer Landesbank) NORD/LB obtained legal control of 100 per cent of the shares with effect from 1 January 2017. The acquisition of equity capital hitherto attributable to non-controlling interests had already been anticipated in the Consolidated Financial Statements as at 31 December 2016 (see Note (57) Equity). As a result of the merger between NORD/LB and Bremer Landesbank on 31 August 2017 – with economic effect retroactive to 1 January 2017 – Bremer Landesbank was fully integrated into NORD/LB and is no longer a subsidiary subject to (full) consolidation. Since the assets and liabilities of Bremer Landesbank are still included in full in the Consolidated Financial Statements on account of the merger, this has no impact on the Consolidated Financial Statements of NORD/LB.

Six previously fully consolidated shipping companies and their assets, which were recognised in the balance sheet item Assets held for sale as at 31 December 2016, were sold in the first and fourth quarters of 2017 and have therefore been deconsolidated. These are Nordic Buxtehude Schifffahrtsgesellschaft mbH & Co. KG, Nordic Stade Schifffahrtsgesellschaft mbH & Co. KG, both Hamburg, Proud Parents Investments Co. and Nordic Stralsund Ltd., both Majuro/Marshall Islands, as well as OLYMPIA Beteiligungsgesellschaft mbH & Co. KG, Elsfleth, and MT "NORDIC STAR" Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg. The resulting deconsolidation effect totals just under € 13 million and is included in Other operating profit/loss.

In addition, the sale of NORD/LB Vermögensmanagement Luxembourg S.A., Luxembourg-Findel/Luxembourg, which had been fully consolidated as at 31 December 2016 and held for sale, took place in January 2017.

The NORD/LB AM ARB EUROPE fund, which was previously fully consolidated and whose assets as at 31 March 2017 were recognised under Assets held for sale, was sold in the second quarter of 2017 and thus deconsolidated effective 24 April 2017.

The major assets of Beteiligungs-Kommanditgesellschaft MS “Buxmelody” Verwaltungs- und Bereederungs GmbH & Co., Buxtehude, and MT “NORDIC SCORPIUS” Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg, were sold in April and May 2017. The assets were transferred, respectively, to Callisto Beteiligungsgesellschaft mbH & Co. KG and Hyperion Tankschifffahrtsgesellschaft mbH & Co. KG, both based in Hamburg, as part of a Group-internal transaction. As a result, the two former companies, which had been fully consolidated, were deconsolidated with effect from 26 April and 12 May 2017, respectively, and the latter two – acquiring – companies were included in the Consolidated Financial Statements as fully consolidated companies for the first time as at the same reporting dates.

At the beginning of October, MS "Hedda Schulte" Shipping GmbH & Co. KG, Hamburg filed for insolvency. The company thus no longer had to be consolidated, and was deconsolidated from 5 October 2017.

Additionally, the shares in SALEG Sachsen-Anhaltinische-Landes-entwicklungsgesellschaft mbH, Magdeburg, previously recognised as an associated company under IFRS 5, were sold, and the company was deconsolidated on 16 January 2017.

In connection with the takeover of Bremer Landesbank, the sub-participation held by a third party in BREBAU GmbH became effective as at 22 May 2017, as a result of which BREBAU GmbH, which had been consolidated as an associated company was deconsolidated. There was a deconsolidation effect of € 14 million, which is included in the Profit/loss from shares in companies accounted for using the equity method.

Also in connection with the takeover of Bremer Landesbank, Bremische Grundstücks-GmbH, Bremen, which had been fully consolidated, was transferred to the purchaser after the spin-off was registered on 30 August 2017. Consequently, the stake in Bremische Wohnungsbaubeteiligungsgesellschaft mbH, Bremen, which had hitherto been accounted for as a joint venture using the equity method and included in the Consolidated Financial Statements, was disposed of. Both companies were deconsolidated with effect from the aforementioned reporting date. Simultaneously, the acquiring subsidiary company involved in the spin-off, GBH Beteiligungs-GmbH, Bremen, was included in the Consolidated Financial Statements for the first time as at the same reporting date.

Both of the credit commitments (one-ship companies) North Wind Shipping Corporation, Majuro/Marshall Islands, and South Wind Shipping Corporation, Majuro/Marshall Islands, were included in the Consolidated Financial Statements for the first time as at 1 October 2017 as fully-consolidated subsidiaries. Following the restructuring the owner is no longer the principal from an economic perspective. The process is largely controlled by the NORD/LB Group which, therefore, has a decisive influence on the company's significant business activities due to its capacity as creditor. The loan relationships with both companies ended after the business combination. The end to the loan relationship at fair value produced a profit of € 2 million. The loan receivables in the sum of € 12 million were derecognised as consideration for the business combination. There was no cash flow in this transaction. The main assets of the one-ship companies are two ships with a total market value of € 14 million, recognised under Property and Equipment.

The effects resulting from the change in the basis of consolidation did not have a material influence on the financial position, assets and earnings 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 to be consolidated 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 under Interest income or Interest expense.

In the case of impairments of interest-bearing assets, the interest income is determined on the basis of the interest rate used to calculate the impairment (unwinding).

Cash flows stemming from interest anomalies with derivatives are recognised overall under either Interest income or Interest expense - by analogy with the netting of cash flows per derivative that takes place under normal interest conditions.

Dividend income is recognised under Interest income when the legal right to the dividend arises.

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 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).

a) 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. The reacquisition of own debt instruments is also covered by the 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 is created with the 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.
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.

b) Categorisation and measurement
Financial assets and financial liabilities are initially recognised at fair value. For financial instruments in the categories of Loans and Receivables (LaR), Held to Maturity (HtM), Available for Sale (AfS) and Other Liabilities (OL), transaction costs are included in the cost of acquisition insofar as they are directly attributable. They are recognised at 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)
Non-derivative financial assets with fixed or determinable payments, which are not quoted on an active market, are allocated to this category if they are not classified as Financial Assets at Fair Value through Profit or Loss (AFV) or Available for Sale (AfS). The 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 applying the effective interest method. On every balance sheet date and in case of indications of potential impairment, Loans and Receivables

(LaR) are impairment-tested and valuation allowances are implemented as appropriate (see Notes (9) Risk Provisioning, (22) Loan loss Provisions 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)
Non-derivative financial assets with fixed or determinable payments and a fixed maturity can be allocated to this category if it is intended and possible to hold them to maturity. 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 applying 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 dividends are recorded under Interest income and Interest expenses. Effects due to changes 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 inconsistencies arising from different measurement methods for financial assets and liabilities (e.g. by presenting economic hedging transactions of own issues and asset-side 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 on the type and scope of applying the fair value option in the Group are presented 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 dividends are recorded under Interest income and Interest expenses. Profits/losses from the fair value measurement and the commission income are recognised in Profit/loss from the fair value option.

bd) Available for Sale (AfS – financial assets available for sale)
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 under Interest income, and commissions are recognised under Commission income.

A valuation allowance (impairment) is made in the case of an impairment in value due to credit ratings. The presence of impairment 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 the 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 applying 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 the category HfT (Trading assets) to the categories LaR, HtM and AfS are permitted under certain circumstances, as are reclassifications from the category AfS to the categories LaR and HtM. No use is made of these reclassification options in the NORD/LB Group.

d) Determination of fair value

As a general rule, the unit on which the appraisal of financial instruments is based (the unit of account) is determined by IAS 39. For the NORD/LB Group the measurement takes place at the level of the individual financial instrument, provided there are no exceptions stated by IFRS 13.

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. Alongside IFRS 13, the specific regulations of HFA 47 are used for the assessment of the financial instruments at the various levels.

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 resultant fair value of the respective financial instrument is assigned to the lowest level at which the input data has a significant influence on the fair value measurement.

Level 1

The fair value hierarchy 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 publicly listed market prices or prices actually traded on the OTC market are not available, generally executable prices from traders and brokers will be used to determine the value used for the measurement. Quotes from other banks or market makers are applied whenever observable sources of prices other than exchanges are used. Instruments are allocated to Level 1 if there is an active market for these broker quotes, i.e. the bid-ask spread is low and there are multiple price suppliers with very little difference in their 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. Likewise, (mixed) prices calculated by price service agencies on the basis of reported prices are to be assigned to Level 2.

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, assets held for sale, and other assets and 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, measurement methods are used that are widely recognised on the market under normal market conditions (e.g. the discounted cash flow method and the Hull & White and Black-Scholes models for options) with calculations that are fundamentally based on inputs available on an active market. One requirement here is that variables which market participants would have taken into account in the pricing are included in the measurement process. Wherever possible, the respective inputs are taken from the market on which the instruments are issued or acquired.

Measurement models are used primarily for OTC derivatives and securities listed on inactive markets. The models include a range of inputs such as market prices and other market quotations, risk-free interest rate curves, risk premiums, exchange rates and volatilities. A standard market approach is always selected for necessary model parameterisations.

In the case of asset-side securities for which there is no active market and for which market prices can no longer be used for measurement, the fair value for measurement purposes is determined on the basis of discounted cash flows. With the discounted cash flow method, all payments are discounted using the risk-free interest rate curve adjusted by the credit spread. Spreads are determined on the basis of comparable financial instruments (for example, taking account of the respective market segment and the issuer's credit rating).

The financial instruments at NORD/LB Group to be measured in this manner are identified on the basis of individual securities and a subsequent separation into active and inactive markets. Changes in market assessments are consistently included in the measurement. Several divisions within the Group identify, analyse and value financial instruments in inactive markets. This approach makes it possible to assess inactivity in the most objective manner possible. The measurement model for financial instruments for which there are no quoted prices on active markets is based on term-specific interest rates, the credit rating of the respective issuer and, where applicable, other components, such as foreign currency premiums.

Level 2 financial instruments include trading assets and liabilities, hedge accounting derivatives, financial instruments designated at fair value and financial assets recognised at fair value.

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, among other things, assumptions about cash flows, loss estimates and the discount rate, and are determined as far as possible on a near-market basis.

Level-3 procedures are sometimes used for portfolios of interest-bearing securities and derivatives for which the market has been classified as inactive. In addition, loans designated for syndication and the associated derivatives are assigned to Level 3. Equity-linked structures whose measurement includes historical volatility are also categorised in Level 3. 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.

Fair value calculation

All measurement models applied in the Group are reviewed periodically. The fair values are subject to internal controls and processes at the NORD/LB Group. These controls and 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 fair value. These factors include the bid-ask spread, counterparty risk and business-typical discounting factors. In the context of the bid-ask spread, the measurement is generally carried out using the average price or average quote. The financial instruments particularly impacted by this include securities or liabilities whose fair values are based on prices listed on active markets as well as financial instruments, such as OTC derivatives, whose fair values are determined using a measurement method and for which the average quote is an observable input in the measurement method.

There are generally no quoted prices available for OTC market derivatives, so the fair value must be calculated using other measurement methods. The measurement is first carried out using cash flow models without taking account of the credit default risk.

The valuation adjustment as a result of 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 calculation is based on simulated future market values and, if available, market-implied input data.
The NORD/LB Group primarily measures secured OTC derivatives in accordance with the current market standard of overnight index swap discounting (OIS discounting). This means that secured derivatives are now discounted using the OIS interest rate curve rather than the term-specific interest rate. Unsecured derivatives continue to be discounted in accordance with the term-specific interest rate to establish their fair value.
The measurement of unsecured derivative positions also takes account of a funding valuation adjustment (FVA), which represents the market-implied funding costs.

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 the Note (58) Fair-Value-Hierarchy.

e) Measurement of investments not falling under IFRS 10, IFRS 11 or IAS 28
Investments not falling under IFRS 10, IFRS 11 or IAS 28 are measured at fair value. If the fair value cannot be reliably determined for financial investments in equity instruments for which no quoted price is available on an active market, measurement is at cost.
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.

When valuing investments where there is no planning or which largely contain tangible assets, fair value is determined using the net asset value procedure. The assets of the company are not recognised at their carrying amount but at the possibly different fair value; they are then added up and adjusted with the value of the company's liabilities.

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.

The NORD/LB Group concludes 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 agreement is not leveraged in relation to the host contract and is 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 hedging transactions. Here, hedges are created between underlying transactions and hedging investments. 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. 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. Only fair value is currently hedged against interest-rate risk. Changes to fair values arising from the assets or liabilities are hedged in euros and US dollars in single-currency portfolios. Interest-rate swaps or cross-currency interest-rate swaps are used to hedge this risk.

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 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 Hypothekenbank (Actien-Gesellschaft), Hanover, 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 under Profit/loss from hedge accounting.

When employing hedge accounting for financial instruments in the AfS category, the portion of any change in value relating to the hedged risks is recognised through profit or loss under Profit/loss from hedge accounting, while the portion 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; for underlying transactions in effective hedges, see Note (67).

h) Securities lending and repotransactions

In genuine securities repurchase (repo) transactions, the transfer of a security sold under a repurchase agreement ("repoed") does not result in a derecognition, since the transferring 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 under Interest expenses 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. The 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 Interest income according to maturity.
No non-genuine repo transactions were concluded in the NORD/LB Group.
The policies for the 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 lendings and repo 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 asset, 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 loan loss provisions, lump-sum specific loan loss provisions and general loan loss provisions 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 recording of specific valuation allowances. Recording 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 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 impairment generally include the deferral of interest and/or principal payments, concessions (including, in particular, the granting of restructuring loans to support the borrower's liquidity or individual ships) and the risk of insolvency.

The specific loan loss provision 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 loan loss provision is recorded in the amount of the difference. An estimation of the level of loan loss provisions required 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 is connected to estimating 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 impairment 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 lump-sum specific loan loss provisions as appropriate. The calculation is based on historic probabilities of default and loss rates.

A general loan loss provision is recorded 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.

The calculation of lump-sum specific loan loss provision and general loan loss provision is derived from the procedure to estimate expected and unexpected losses.

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 the off-balance-sheet business (guarantees, endorsement liabilities and loan commitments) are taken into account by recording a provision for risks from the credit business.

Uncollectable receivables for which no specific loan loss provisions are in place are written off directly. Cash inflows for written-off receivables are recognised through profit and loss.

If there are reasons for impairment, 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 the subsequent measurement, less straight-line depreciation according to its useful life. Impairments are applied at the amount at which the carrying amount exceeds the higher amount of fair value less the costs 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. Depreciations are recognised under Administrative expenses, while impairments as well as reversals of impairment losses are recognised under Other operating profit/loss.

Property and equipment is depreciated over the following periods:

	Useful life in years
Land and buildings	5-50
Operating and office equipment	3-25
Ships	25
Other property and equipment	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 or liabilities directly in equity. The interest component is recognised/booked through profit and loss as interest income or interest expense.

Operating Lease

If the Group is 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.

If the Group is the lessor, the item leased is capitalised in the balance sheet at the start of the lease agreement; initial direct costs are recorded with the leased item. The leased item is measured as an asset at amortised cost. The leasing payments received are recognised as leasing income under Other operating income. The interest expense from the financing of the leased item is recognised under Other operating expenses. Depreciations are recognised under Administrative expenses, and impairments as well as reversals of impairment losses are recognised under Other operating profit/loss.

Finance lease agreements are written down over a period of 20 years. Operating lease agreements are written down over a period of 25 years.

(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 straight-line depreciation. Impairments are applied at the amount at which the carrying amount exceeds the higher amount of fair value less the costs 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. Depreciations are recognised under Administrative expenses, while impairments as well as reversals of impairment losses are recognised under Other operating profit/loss.

Investment properties are depreciated over a period of 1 to 99 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 the 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, straight-line depreciation is taken into account according to their useful 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 the costs 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. Depreciations are recognised under Administrative expenses, while impairments as well as reversals of impairment losses are recognised under Other operating profit/loss.

Intangible assets with a finite useful life are amortised over a period of 4 to 15 years.

(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 “held for sale” within one year of 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 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 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 entire business segments were discontinued in 2017 or 2016

(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 returns on plan assets result in a 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 interest expenses. 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 (discount rate) determined according to the Mercer Yield Curve Approach (MYC) 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. Determining the defined benefit obligation is based on the following actuarial assumptions:

(in %)	31 Dec.2017	31 Dec.2016
Domestic		
Actuarial interest rate	2.15	1.95
Increase in salaries	2.00	2.00
Increase in pensions (contingent on the occupational pension scheme)	1,00/2,0/2,75	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 mor- tality tables 2005 G	Based on Heubeck mor- tality tables 2005 G
Abroad (weighted parameters)		
Actuarial interest rate	2.53	2.69
Increase in salaries	2.69	2.71
Increase in pensions	3.34	3.26
Mortality, invalidity, etc.	GB S2PMA Light/S2PFA 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	3.26	3.31

(16) Other Provisions

Further provisions are recorded 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 range 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 recognition 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 areincluded under equity. From a regulatory perspective in accordance with the CRR, these are largely recognised 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 interest expenses in the Income Statement. Deferred interest not yet due is allocated directly to the corresponding items in Subordinated capital.

Segment Reporting

Segment reporting provides information about the Group's operational fields of activity. The segment reporting below is based on IFRS 8, Operating Segments, in accordance with the management approach. The segment information is presented in IFRS on the basis of internal reporting the way it is regularly reported internally for performance assessment and for decisions on the allocation of resources to the segments. The total risk exposure amount is now recognised uniformly for the business segments and the Group, with the RWA shown pursuant to CRR/CRD IV as at the end of the reporting period. The previous year's figures have been adjusted.

Segment reporting by business segment

The segments are defined as customer or product groups which reflect the organisational structures and thus the internal control of the Group. The internal calculations of the Group companies serve as the basis of calculation. The internal control focuses on the earnings before taxes of the operational units.

The key criterion for forming segments is the greatest possible homogeneity of the customers aggregated there with respect to financing and investment needs as well as the requested range of products. There are no discernible dependencies on individual customers. The product ranges offered in the individual segments are described in the following notes and the earnings generated by them are presented in the overview. The product ranges that are offered comprise traditional credit and syndicate business, savings and checking products, securities, foreign exchange 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 trading, brokerage activities, documentary business, credit processing, sureties, guarantees and advisory services for asset management.

Net interest income generated by the individual segments is calculated based on the market interest rate method. In doing so, the contribution from interest terms for each customer transaction is determined by comparing the customer terms with the structurally congruent market rate for a notional offsetting transaction applicable at the time they were concluded. This market interest rate is also used as the cost rate for the balancing provision in Treasury. As a result there is no gross recognition of interest income and interest expenses. The financing income from committed equity is distributed across market segments.

Within the Bank, every interest-bearing customer transaction is applied to the balancing provision held by the Treasury as the central cash management unit. There are no direct business relationships among market divisions within the Bank. For this reason, no inter-segment earnings are recognised in the internal reporting.

Segment expenses comprise primary expenses and expenses allocated on the basis of cost and service charging as well as distributed overhead costs. The risk provisioning as a result of individual and portfolio valuation allowances is allocated to the segments on the basis of actual costs.

Overall bank revenue, such as profit/loss from hedge accounting and financial assets, are not allocated to the Bank's operational business fields, but rather to the "Group Controlling/Others" segment.

In addition to the profit and loss account figures, the attributable total risk exposure amount, segment assets and liabilities, committed capital and the key figures of cost-income ratio (CIR), Return on Risk adjusted Capital (RoRaC) and Return-on-Equity (RoE) are also presented in the segment report. The total risk exposure amount indicates the attributable RWA pursuant to CRR/CRD IV as at the end of the reporting period. The cost-income ratio is defined as the ratio of administrative expenses to the sum of the following 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 and other operating profit/loss.

The calculation of the RoRaC in the segments relates to the earnings contribution before taxes to committed capital (in this case, 10 per cent of the RWA limit or utilisation, whichever is greater).

Committed capital in the segments is calculated on the basis of average annual values. The amount of the reconciliation between the committed capital recognised in the segments and the long-term equity under commercial law at the company level is included in the reconciliation segment. A transfer from long-term equity under commercial law to balance sheet equity is presented separately at the end of the segment overview.

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

Private- and Commercial Customers

n addition to business involving private, individual, commercial and small-business customers, this segment also includes small and medium-sized corporate customers in the Braunschweig region. The product range for the private and commercial customers segment is based on the savings bank financial concept and comprises all of the standard banking services and products for the account and lending business, the savings and investment business as well as 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 for small and medium-sized corporate customers also includes investment loans and business start-up consulting.

Corporate Customers

In addition to the entire corporate customer business of NORD/LB in the core regions (excluding the old Duchy of Braunschweig) as well as in the adjacent regions, this segment also includes, in particular, the areas of agricultural banking and the housing sector.

Banking products and banking services are offered by the Bank as a full-service provider. The services range from traditional transaction management to individual corporate financing to management of interest rate and currency risks to occupational pension solutions. Comprehensive solutions for complex corporate financing and the strategic positioning of corporate customers are also developed in this segment. Professional liquidity and risk management, the structuring of equity capital measures and innovative financing instruments round off the product range.

Markets

The Markets segment includes the financial market activities conducted on behalf of customers in Germany, at foreign branches and within Group companies. Business with associated banks comprises transactions with public-sector institutions, institutional business with associated savings banks as well as syndicated transactions processed with associated savings banks.

It offers alternative and non-mass market products, including derivatives, such as, in particular, special types of debt securities that are not standardised in terms of their interest rate and repayments, but instead offer alternatives to income generation, the type of repayment or the timing of repayment (structured securities). Within the secondary business, it conducts the sale or trade of all types of securities. Individual solutions for institutional customers, such as the structuring of special funds, pool fund solutions as well as portfolio management mandates and institutional mutual funds, are also offered.

In addition, it also offers private banking products, investment products in the form of, for example, open or closed-end funds (real estate, aircraft) and products for individual asset management or estate or foundation management for savings banks, which these banks request either as direct customers for their own trading business or to round off their product range in their business with private or corporate customers.

The Energy and Infrastructure Customers, Ship Customers, Aircraft Customers and Real Estate Customers segments offer traditional lending products, innovative products and financial engineering, usually irrespective of the specific industry. This mainly involves restricted financing.

Energy-and Infrastructure Customers

The remit covers global business relations with customers of NORD/LB in various sectors: infrastructure, energy (including renewables in particular) and leasing. It primarily offers project financing for a specific project or object and is tailored to meet the individual customer's needs. The structure of this financing is developed with a view to the respective political and economic risks, legal and tax factors, social determinants as well as optimal equity structures. The goal is to tailor the project requirements and cash flow processes to the respective customer.

Ship- Customers

The ship financing activities of NORD/LB in Germany and abroad are recognised in this segment. Customers in the Ship Customers segment are offered short and long-term financing, such as advance and interim financing as well as short and medium-term construction period financing and final financing (long-term) for their projects. The provision of loans and guarantees allows for the asset-based financing of ships generally secured by an asset. Products such as swap, options, futures and forward transactions round off the range.

Aircraft Customers

The aircraft financing activities of NORD/LB in Germany and abroad are recognised in this segment. The focus of aircraft financing is on the asset-based financing of commercial aircraft from well-known manufacturers. The target customers are airlines and leasing companies, which are offered individual financing solutions in addition to the NORD/LB Group's high level of expertise in core products. In addition, it also carries out the covered export business.

Real Estate Customers

The national and international commercial real estate financing provided by NORD/LB and Deutsche Hypo are consolidated here. This generally involves structured financing for large volume commercial real estate projects and portfolios in Germany and abroad. Both interim financing for new construction projects and long-term loans for current properties are offered.

Group Controlling/Others

This segment covers all other performance indicators directly related to business activity, such as: Group companies that are not recognised in the segments; performance components at overall institutional level that are not attributed to the segments; results from financial instruments (in particular, from central measurement effects), financial assets and hedge accounting that are not included in the economic performance of the business segments; overall Bank projects; consolidation items; earnings from interest rate change risk management, balancing provision, liquidity management and self-induced assets (in particular, Treasury and bank asset allocation) and alternative investment products (credit asset management). Among other things, the bank levy is recognised under Other operating profit/loss.

Reconciliations

The reconciliation items from internal accounting to the consolidated overall figures for the Income Statement are shown here as well as reclassifications of profit and loss items, which are recognised differently in the internal management system than in the external statement.

(19) Segment Reporting by Business Segement

1 Jan. - 31 Dec. 2017 (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	173	361	194	195	293	103	203	– 74	– 32	1 417
Loan loss provisions	– 3	30	– 1	36	946	2	– 4	3	– 21	986
Net interest income after loan loss provisions	**177**	**331**	**195**	**160**	**– 653**	**101**	**207**	**– 76**	**– 10**	**431**
Net commission income	54	57	50	45	15	9	2	– 88	– 32	112
Profit / loss from financial instruments at fair value through profit or loss	3	27	73	33	15	2	7	161	21	341
Profit / loss from hedge accounting	–	–	–	–	–	–	–	13	–	13
Profit / loss from financial assets	–	–	–	–	–	–	–	147	–	147
Profit / loss from investments accounted for using equity method	2	–	–	–	–	–	–	27	9	38
Administrative expenses	174	170	138	107	117	33	63	371	13	1 185
Other operating profit / loss	– 12	– 3	2	3	–	–	1	407	– 15	383
Profit / Loss before reorganisation and taxes	**50**	**243**	**181**	**134**	**– 740**	**80**	**153**	**219**	**– 39**	**280**
Reorganisation expenses	–	–	–	–	–	–	–	– 85	–	– 85
Earnings before taxes (EBT)	**50**	**243**	**181**	**134**	**– 740**	**80**	**153**	**133**	**– 39**	**195**
Taxes	–	–	–	–	–	–	–	–	60	60
Consolidated profit	**50**	**243**	**181**	**134**	**– 740**	**80**	**153**	**133**	**– 99**	**135**
Segment assets	6 821	24 140	34 815	16 422	12 184	5 894	13 129	56 471	– 4 495	165 379
of which: investments at equity	44	–	–	–	–	–	–	156	–	200
Segment liabilities	6 970	5 171	42 619	2 942	1 299	357	231	99 717	6 073	165 379
Total risk exposure amount	3 822	13 384	3 828	7 109	5 935	4 503	4 970	839	2 493	46 884
Capital employed[1]	412	1 357	364	720	1 009	525	595	878	– 119	5 741
CIR	78.8%	38.3%	43.4%	38.6%	36.3%	28.7%	29.8%			51.4%
RoRaC/RoE[2]	10.1%	14.3%	31.2%	13.0%	-54.7%	14.6%	19.6%			3.4%

1 Jan. - 31 Dec.2016 (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	49 486	– 2 743	174 731
of which: investments at equity	44	–	–	–	–	–	–	240	–	285
Segment liabilities	7 049	8 451	50 988	3 429	2 911	778	400	100 516	209	174 731
Total risk exposure amount	4 007	12 961	3 877	7 405	11 639	5 356	6 099	6 322	2 229	59 896
Capital employed[1]	377	1 150	389	706	1 843	456	522	1 217	898	7 558
CIR	81.2%	34.4%	40.8%	31.0%	28.6%	20.7%	27.6%			50.7%
RoRaC/RoE[2]	11.9%	16.1%	44.0%	22.8%	-114.7%	22.8%	23.5%			-24.7%

(in € million)	31 Dec.2017	31 Dec.2016 [3]
Long-term equity under commercial law	5 741	7 558
Revaluation reserve	316	376
Silent participations in reported equity	135	– 1 959
Reported equity	**6 193**	**5 975**

[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 (10 % of the higher value of the RWA limit or utilisation). In 2016, a factor of 9 % was used of the higher value from RWA limit or 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.
[3] For individual items, the previous year's figures have been adjusted, see Note (2) Adjustment of previous year's figures.

(20) Segment Reporting by geographical Segment

1 Jan. - 31 Dec.2017 (in € million)	Federal Republic of Germany	Europe excluding Germany	America	Asia	Consolidation	NORD/LB Group
Earnings before risk provisioning[1]	2 255	75	104	70	– 200	2 305
Earnings before taxes (EBT)	215	– 10	50	31	– 90	195
Segment assets	162 402	17 334	5 944	2 943	– 23 244	165 379
Segment liabilities	164 106	15 629	5 944	2 943	– 23 244	165 379
Total risk exposure amount	41 998	7 043	1 357	830	– 4 344	46 884
Capital employed	4 648	716	203	175	–	5 741
CIR	49.9%	109.2%	51.2%	51.2%		51.4%
RoRaC/RoE[2]	4.6%	-1.4%	24.5%	17.5%		3.4%

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	172 363	19 485	6 910	3 335	– 27 361	174 731
Segment liabilities	174 051	17 797	6 910	3 335	– 27 361	174 731
Total risk exposure amount	53 325	7 493	2 287	1 520	– 4 731	59 896
Capital employed	6 548	578	244	189	–	7 558
CIR	57.0%	35.6%	39.5%	27.7%		50.7%
RoRaC/RoE[2]	-40.3%	31.8%	23.8%	19.5%		-24.7%

[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
(10 % of the the higher value of the RWA limit and the utilisation)
In 2016, a factor of 9 % was used of the higher value from RWA limit or 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

The interest income and interest expenses items include paid and received interest, accrued interest and pro rata reversals of premiums and discounts on financial instruments. Due to the fact that silent participations are to be classified as debt under IAS 32 under certain circumstances, payments to silent partners are recognised in interest expenses.

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Interest income from assets			
Interest income from lending and money market transactions	3 000	3 304	– 9
Interest income from debt securities and other fixed-interest securities	439	529	– 17
Interest income from financial instruments at fair value			
Interest income from trading profit / loss and hedge accounting derivatives	2 524	2 661	– 5
Interest income from fair value option	27	35	– 23
Current income			
from shares and other non fixed-interest securities	4	3	33
from investments	12	9	33
Interest income from other amortisations	576	710	– 19
Other interest income and similar income	11	14	– 21
	6 593	**7 265**	**– 9**
Interest expenses from assets	**64**	**19**	**> 100**
Interest expenses from liabilities			
Interest expenses from lending and money market transactions	1 270	1 390	– 9
Interest expenses from securitised liabilities	363	458	– 21
Interest expenses from financial instruments at fair value			
Interest expenses from trading profit / loss and hedge accounting derivatives	2 463	2 590	– 5
Interest expenses from fair value option	247	255	– 3
Interest expenses from subordinated capital	183	172	6
Interest expenses from other amortisations	614	628	– 2
Interest expenses from provisions and liabilities	46	56	– 18
Other interest expenses and similar expenses	5	6	– 17
	5 191	**5 555**	**– 7**
Interest income from liabilities	**79**	**44**	**80**
Total	**1 417**	**1 735**	**– 18**

Interest income from lending and money market transactions includes interest income relating to impaired loans (unwinding) amounting to € 100 Mio € (77 Mio €).

Interest income includes income from financial instruments at € 3,952 million (€ 4,524 million), which is not measured at fair value through profit and loss. € 2,350 million of the interest expenses (€ 2,604 million) pertains to financial instruments not measured at fair value through profit and loss. Interest expenses on assets and interest income from liabilities relate to the Group's lending and money market business.

(22) Loan loss Provisions

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Income from provisions for lending business			
Reversal of specific valuation allowances	1 152	417	> 100
Reversal of lumpsum specific loan loss provisions	4	3	33
Reversal of general loan loss provisions	135	283	– 52
Reversal of loan loss provisions	22	32	– 31
Additions to receivables written off	27	22	23
	1 340	**757**	**77**
Expenses for provisions for lending business			
Allocation to specific valuation allowances	1 843	3 119	– 41
Allocation to lumpsum specific loan loss provisions	3	3	–
Allocation to general loan loss provisions	126	66	91
Allocation to loan loss provisions	26	25	4
Direct write-offs of bad debts	328	500	– 34
	2 326	**3 713**	**– 37**
Total	**986**	**2 956**	**– 67**

(23) Net Commission Income

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Commission income			
Lending and guarantee business	118	140	– 16
Account management and payment transactions	43	42	2
Trust activities	1	4	– 75
Security transactions and custody service	37	38	– 3
Brokerage business	21	40	– 48
Other commission income	48	81	– 41
	268	**345**	**– 22**
Commission expense			
Lending and guarantee business	119	94	27
Account management and payment transactions	3	3	–
Security transactions and custody service	19	20	– 5
Brokerage business	8	5	60
Other commission expenses	7	4	75
	156	**126**	**24**
Total	**112**	**219**	**– 49**

Commission income includes income from financial instruments not measured at fair value through profit and loss and amounting to € 198 million (€ 220 million). Commission expenses include expenses from financial instruments not measured at fair value through profit and loss and amounting to € 141 million (€ 117 million). Furthermore, commission expenses also include guarantee premiums totalling € 101 million (€ 74 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. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Trading profit / loss			
Profit / loss from debt securities and other fixed-interest securities	3	60	– 95
Profit / loss from shares and other non fixed-interest securities	– 5	– 3	67
Profit / loss from derivatives			
Interest-rate risks	– 71	140	> 100
Currency risks	– 84	73	> 100
Share-price and other price risks	5	– 5	> 100
Credit derivatives	35	27	30
Profit / loss from receivables held for trading	– 57	55	> 100
	– 174	**347**	**> 100**
Foreign exchange result	97	31	> 100
Other income	– 5	– 1	> 100
	– 82	**377**	**> 100**
Profit / loss from the fair value option			
Profit / loss from receivables to customers and banks	– 8	4	> 100
Profit / loss from debt securities and other fixed-interest securities	33	8	> 100
Profit / loss from liabilties to banks and customers	351	– 30	> 100
Profit / loss from securitised liabilties	47	33	42
	423	**15**	**> 100**
Total	**341**	**392**	**– 13**

Net commission income from trading activities totalling € - 5 million (€ -1 million) is recognised under other comprehensive income.

(25) Profit/Loss from Hedge Accounting

The profit/loss from hedge accounting includes netted changes in fair value relating to the hedged risk on the underlying transactions and netted changes in fair value to hedging instruments in effective fair value hedges.

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Profit / loss from micro fair value hedges			
from hedged underlying transactions	– 232	28	> 100
from derivatives employed as hedging instruments	227	– 21	> 100
	– 5	**7**	**> 100**
Profit / loss from portfolio fair value hedges			
from hedged underlying transactions	4	– 113	> 100
from derivatives employed as hedging instruments	14	129	– 89
	18	**16**	**13**
Total	**13**	**23**	**– 43**

(26) Profit/Loss from Financial Assets

The profit/loss from investments includes disposal gains/losses and valuation results through profit and loss from securities and company shares of financial assets.

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Profit / loss from financial assets classified as LaR	**2**	**7**	**– 71**
Profit / loss from financial assets classified as AfS (excluding investments)			
Profit/ loss from the disposal of			
debt securities and other fixed-interest securities	86	– 6	> 100
shares and other non fixed-interest securities	19	2	> 100
Profit / loss from allowances for losses on			
debt securities and other fixed-interest securities	–	62	– 100
shares and other non fixed-interest securities	– 1	– 4	– 75
Other financial assets classified as AfS	– 6	– 14	– 57
	98	**40**	**> 100**
Profit / loss from shares in companies (not consolidated)	**47**	**2**	**> 100**
Total	**147**	**49**	**> 100**

(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. This contains the contributions to earnings from joint ventures and associates through profit and loss, measured using the equity method.

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Shares in joint ventures			
Earnings	2	1	100
	2	**1**	**100**
Shares in associated companies			
Earnings	37	42	– 12
Expenses	1	45	– 98
	36	**– 3**	**> 100**
Total	**38**	**– 2**	**> 100**

(28) Administrative Expenses

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Staff expenses			
Wages and salaries	442	418	6
Social insurance contributions	66	62	6
Expenditure on pension schemes and other benefits	61	52	17
Other staff expenses	7	5	40
	576	**537**	**7**
Other administrative expenses			
Costs for IT and communications	259	250	4
Building occupancy costs	47	42	12
Expenses for marketing, communications and entertainment	19	21	– 10
Personnel-related material expenses	24	23	4
Costs for legal, auditing, appraisal and consulting services	123	95	29
Levies and contributions	37	36	3
Expenses for operating and office equipment	7	5	40
Other services	2	2	–
Other administrative expenses	30	35	– 14
	548	**509**	**8**
Other administrative expenses			
Property and equipment	35	32	9
Intangible assets	24	32	– 25
Investment properties	1	2	– 50
Sonstige planmäßige Abschreibungen	1	1	–
	61	**67**	**– 9**
Total	**1 185**	**1 113**	**6**

Staff expenses include expenses for defined contribution plans amounting to € 4 million (€ 2 million).

(29) Other operating Profit/Loss

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Other operating income			
from the reversal of provisions	22	4	> 100
from other business	653	300	> 100
	675	**304**	**> 100**
Other operating expenses			
from allocation to provisions	12	1	> 100
from other business	280	476	– 41
	292	**477**	**– 39**
Total	**383**	**– 173**	**> 100**

Income from other business includes income from the derecognition of receivables (€ 461 million (€ 167 million)) and write-ups (€ 49 million (€ 0 million)). These are the result of changes to measurements because of ships that are no longer recognised as for sale.
They also include income from the chartering of ships in connection with the restructuring commitment in the lending business (€ 31 million (€ 40 million)) and cost reimbursements (€ 25 million (€ 10 million)).
The income also includes rental income from investment properties (€ 11 million (€ 10 million)), and income from buying back own debt securities (€ 10 million (€ 1 million)).

Expenses from other business primarily include expenses from the disposal of liabilities to banks and customers (€ 60 million (€ 164 million)) as well as the bank levy (€ 52 million (€ 55 million)).
Expenses from other business also include the buying back of own debt securities (€ 36 million (€ 59 million)), unplanned amortisation and depreciation of € 33 million (€ 96 million) and expenses from impairment on Property and equipment, Intangible assets and Investment property (€ 30 million (€ 5 million)). Additionally, expenses from other business comprise expenditure related to generating charter revenues from ships (€ 25 million (€ 33 million)) as well as disposals of receivables (€ 21 million (€ 8 million)).

(30) Restructuring expenses

This item involves measures aimed at securing the long-term future and maintaining the competitiveness of the NORD/LB Group; non-staff and staff expenses are recognised separately due to their significance. The reorganisation requirements are related to the merger of Bremer Landesbank and NORD/LB. The figure amounting to a total of € 85 million (€ 39 million) comprises expenses from the allocation to provisions for reorganisation measures, and relates to staff costs. In the previous year this restructuring totalled € 34 million and a further € 5 million for a reorganisation programme launched in 2011 (refer to note (52) provisions).
The items included in reorganisation expenses are non-recurring and are not attributed to the NORD/LB Group's normal business activities.

(31) Income Taxes

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Current taxes on income and earnings			
Tax expenses/ income for the current year	47	46	2
Tax expenses/ income for previous years	– 40	3	> 100
	7	**49**	**– 86**
Deferred taxes			
Deferred taxes due to the accrual / reversal of temporary differences and tax losses/ tax credits not previously considered	77	35	> 100
Deferred taxes due to changes in tax legislation/ tax rates	– 5	– 4	25
Deferred taxes due to temporary differences in previous periods not previously considered	– 19	14	> 100
	53	**45**	**18**
Total	**60**	**94**	**– 36**

The current tax expense for the reporting year was reduced by € 0 million (€ 3 million) due to the utilisation of tax losses previously not taken into account. 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. 2017	1 Jan. - 31 Dec. 2016
IFRS earnings before taxes	**195**	**– 1 865**
Anticipated income tax expenditure	62	– 597
Effects of reconciliation:		
Effects of differing tax rates	– 3	– 4
Taxes from previous years reported in the reporting period	– 59	17
Effects of changes in tax rates	– 5	– 4
Non-creditable income taxes	4	5
Non-deductible operational expenditure	15	68
Effects of tax-free earnings	– 46	– 15
Effect of permanent accounting-related effects	1	– 3
Effects of write-ups / write-downs / recognition adjustments	82	628
Other effects	9	– 1
Reported income tax expenses	**60**	**94**

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 2017. The income tax rate for Germany is therefore 32.0 per cent (32.0 per cent).

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 per cent).

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 / recognition adjustments 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):

(in € million)	1 Jan. - 31 Dec.2017 Amount before taxes	Income tax effect	Amount after taxes	1 Jan. - 31 Dec.2016 Amount before taxes	Income tax effect	Amount after taxes
Revaluation of the net liability from defined benefit pension plans	126	– 40	86	– 262	83	– 179
Changes in value for investments accounted for using the equity method recognised directly in equity	– 18	–	– 18	15	–	15
Increase / decrease from available for sale (AfS) financial instruments	– 52	30	– 22	– 24	46	22
Translation differences of foreign business units	– 1	–	– 1	– 90	–	– 90
Other	**55**	**– 10**	**45**	**– 361**	**129**	**– 232**

Notes to the Balance Sheet

(32) Cash Reserve

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Cash on hand	134	59	> 100
Balances with central banks	2 302	1 388	66
Total	**2 436**	**1 447**	**68**

Balances with the Deutsche Bundesbank account for 728 Mio € (615 Mio €) of the balances with central banks.

(33) Loans and Advences to Banks

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Loans and advances resulting from money market transactions			
German banks	11 140	3 859	> 100
Foreign banks	2 634	2 934	– 10
	13 774	**6 793**	**> 100**
Other loans and advances			
German banks			
Due on demand	2 319	1 137	> 100
With a fixed term or period of notice	10 705	11 282	– 5
Foreign Banks			
Due on demand	2 048	1 949	5
With a fixed term or period of notice	356	586	– 39
	15 428	**14 954**	**3**
Total	**29 202**	**21 747**	**34**

3)

(34) Loans and Advances to Customers

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Loans and advances resulting from money market transactions			
Domestic customers	642	1 080	– 41
Customers abroad	819	1 050	– 22
	1 461	**2 130**	**– 31**
Other loans and advances			
Domestic customers			
Due on demand	2 758	2 036	35
With a fixed term or period of notice	63 187	68 861	– 8
Customers abroad			
Due on demand	842	906	– 7
With a fixed term or period of notice	26 867	31 707	– 15
	93 654	**103 510**	**– 10**
Total	**95 115**	**105 640**	**– 10**

(35) Risk Provisioning

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Specific valuation allowance			
Domestic customers	2 618	3 027	– 14
Customers abroad	681	550	24
	3 299	**3 577**	**– 8**
Lumpsum specific loan loss provisions			
Domestic customers	6	7	– 14
	6	**7**	**– 14**
General loan loss provisions			
Foreign banks	–	1	– 100
Domestic customers	123	171	– 28
Customers abroad	80	41	95
	203	**213**	**– 5**
Total	**3 508**	**3 797**	**– 8**

The risk provisioning reported under assets and loan loss provisions changed as follows:

	Specific valuation allowances		Lumpsum specific loan loss provisions		General loan loss provisions		Loan loss provisions		Total	
(in € million)	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
1 January	**3 577**	**2 482**	**7**	**7**	**213**	**430**	**47**	**55**	**3 844**	**2 974**
Allocations	1 843	3 119	3	3	126	66	26	25	1 998	3 213
Reversals	1 152	417	4	3	135	283	22	32	1 313	735
Utilisation	1 595	862	–	–	–	–	1	–	1 596	862
Unwinding	– 100	– 77	–	–	–	–	–	– 1	– 100	– 78
Effects of changes of foreign exchange rates and other changes	726	– 668	–	–	– 1	–	– 1	–	724	– 668
31 December	**3 299**	**3 577**	**6**	**7**	**203**	**213**	**49**	**47**	**3 557**	**3 844**

The changes from foreign exchange rates and specific valuation allowances include reclassifications under IFRS 5 amounting to € -988 million (€ 711 million).

Furthermore, the procedure for estimating expected cash flows from ship financing was improved in the financial year 2017. To strengthen the objectivity of the estimates even more, the charter rate expectations implied in the market values of the ships will in future be taken into account as additional estimation components.

(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.2017 (in € million)	31 Dec.2016[1] (in € million)	Change (in %)
Trading assets			
Debt securities and other fixed-interest securities			
Money market instruments			
issued by public-sector borrowers	–	140	– 100
issued by other borrowers	166	–	–
Bonds and debt securities			
issued by public-sector borrowers	605	588	3
issued by other borrowers	2 048	1 629	26
	2 819	**2 357**	**20**
Shares and other non fixed-interest securities			
Shares	2	1	100
	2	**1**	**100**
Positive fair values from derivatives			
Interest-rate risks	4 105	4 963	– 17
Currency risks	544	499	9
Share-price and other price risks	3	3	–
Credit derivatives	50	29	72
	4 702	**5 494**	**– 14**
Trading portfolio claims	2 127	3 143	– 32
	9 650	**10 995**	**– 12**
Financial assets as at fair value through profit or loss			
Loans and advances to banks and customers	195	203	– 4
Debt securities and other fixed-interest securities	1 138	1 263	– 10
	1 333	**1 466**	**– 9**
Total	**10 983**	**12 461**	**– 12**

[1] The previous year's figures were adjusted for individual items, see Note (2) Adjustment of previous year's figures.

The maximum default risk for receivables designated at fair value is € 1,068 million (€ 1,085 million)[2].

The change in fair value, which can be attributed to changes in the credit risk of receivables designated at fair value, amounted to € 4 million (€ 11 million) in the reporting period and a cumulative change of € 12 million (€ 10 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.

[2] The previous year's figure was restated since the value as per 31 December 2016 was not recorded in full. This increased the previous year's figure by € 882 million.

(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.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Micro fair value hedge derivatives	1 135	1 576	– 28
Portfolio fair value hedge derivatives	250	751	– 67
Total	**1 385**	**2 327**	**– 40**

(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 capital of other companies as well as silent participations and participatory capital with loss sharing are allocated to the category AfS.

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Financial assets classified as LaR	**1 949**	**2 755**	**– 29**
Debt securities and other fixed-interest securities			
issued by public-sector borrowers	1 187	1 474	– 19
issued by other borrowers	762	1 281	– 41
Financial assets classified as AfS	**25 234**	**28 819**	**– 12**
Debt securities and other fixed-interest securities			
issued by public-sector borrowers	11 806	14 597	– 19
issued by other borrowers	12 874	13 614	– 5
	24 680	**28 211**	**– 13**
Shares and other non fixed-interest securities			
Shares	68	76	– 11
Investment certificates	81	103	– 21
Participation certificates	3	3	–
	152	**182**	**– 16**
Shares in companies - not consolidated	348	313	11
Other financial assets classified as AfS	54	113	– 52
	402	**426**	**– 6**
Total	**27 183**	**31 574**	**– 14**

(40) Property and Equipment

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Land and buildings	325	334	– 3
Operating and office equipment	48	56	– 14
Ships	106	29	> 100
Other property and equipment	3	1	> 100
Total	**482**	**420**	**15**

The development of property and equipment is shown in Note (41) Investment Property.

(41) Investment Property

Investment property has a total carrying amount of € 87 million (€ 84 million). The corresponding fair value amounts to € 126 million (€ 120 million) and in accordance with the fair value hierarchy under IFRS 13 is split between Level 2 at € 68 million (€ 118 million) and Level 3 at € 5 million (€ 2 million).

The profit/loss from investment property is as follows:

(in € million)	1 Jan. - 31 Dec. 2017	1 Jan. - 31 Dec. 2016
Rental income	11	10
Direct operating expenses	2	3

The cost and accumulated depreciation for property 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 2016	**633**	**234**	**327**	**45**	**1 239**	**86**
Additions	–	21	–	31	**52**	–
Disposals	2	6	267	–	**275**	6
Transfers	58	2	–	– 75	**– 15**	17
Changes from currency translation	–	–	2	–	**2**	–
Totals 31 December 2016	**689**	**251**	**62**	**1**	**1 003**	**97**
Accumulated depreciation as at 1 January 2016	**350**	**189**	**127**	**–**	**666**	**9**
Depreciation	11	11	10	–	**32**	2
Impairments (non-scheduled)	–	–	92	–	**92**	2
Transfers	– 4	–	–	–	**– 4**	4
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**
Cost as at 1 January 2017	**689**	**251**	**62**	**1**	**1 003**	**97**
Additions	–	11	302	2	**315**	**1**
Disposals	–	6	71	–	**77**	–
Transfers	– 3	– 1	–	–	**– 4**	3
Changes from foreign exchange rates	–	– 1	– 6	–	**– 7**	–
Totals 31 December 2017	**686**	**254**	**287**	**3**	**1 230**	**101**
Accumulated depreciation as at 1 January 2016	**356**	**195**	**33**	**–**	**584**	**11**
Depreciation	5	17	11	–	**33**	2
Impairments (non-scheduled)	–	–	20	–	**20**	1
Write-ups	–	–	– 49	–	**– 49**	–
Transfers	–	– 1	–	–	**– 1**	1
Additions	–	–	169	–	**169**	–
Disposals	–	5	–	–	**5**	1
Changes from foreign exchange rates	–	–	– 3	–	**– 3**	–
Totals 31 December 2017	**361**	**206**	**181**	**–**	**748**	**14**
Closing balance as at 31 December 2017	**325**	**48**	**106**	**3**	**482**	**87**

€ 1 million (€ 0 million) of the additions to investment property pertains to one acquisition. The additions to ships amounting to € 119 million (€ 0 million) relate to reclassifications under IFRS 5.

(42) Intangible Assets

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Software			
Purchased	64	61	5
Internally generated	41	45	– 9
	105	**106**	**– 1**
Intangible assets under development	13	16	– 19
Leasing assets			
Leasing Property from Finance Lease	3	4	– 25
	3	**4**	**– 25**
Other intangible assets	16	28	– 43
Total	**137**	**154**	**– 11**

Intangible assets under development refer primarily to purchased software. Fully amortised software is still used. The NORD/LB Group has intangible assets with indefinite useful lives amounting to € 0 million (€ 7 million).

NORD/LB Group's main intangible assets are listed below:

	Carrying amount (in € million)		Remaining depreciation period (in years)	
	31 Dec.2017	31 Dec.2016	31 Dec.2017	31 Dec.2016
IT applications	66	49	15	12
Internally developed software	38	49	10	10
Brand name	–	4		unlimited

[1] The amounts include both completed intangible assets and intangible assets under construction.

Intangible assets changed as follows:

(in € million)	Software Purchased	Software Internally generated	Other Internally generated	Other Purchased	Other	**Total**
Cost as at 1 January 2016	**127**	**243**	**85**	**–**	**26**	**481**
Additions	14	9	7	–	8	**38**
Disposals	5	–	–	–	–	**5**
Transfers	35	36	– 76	5	–	**–**
Totals 31 December 2016	**171**	**288**	**16**	**5**	**34**	**514**
Accumulated depreciation as at 1 January 2016	**102**	**224**	**–**	**–**	**6**	**332**
Scheduled Depreciation	12	19	–	–	–	**31**
Depreciation (non-scheduled depreciation)	2	–	–	–	–	**2**
Transfers	– 1	–	–	1	–	**–**
Additions	5	–	–	–	–	**5**
Totals 31 December 2016	**110**	**243**	**–**	**1**	**6**	**360**
Closing balance as at 31 December 2016	**61**	**45**	**16**	**4**	**28**	**154**
Cost as at 1 January 2017	**171**	**288**	**16**	**5**	**34**	**514**
Additions	19	3	5	–	10	**37**
Disposals	9	–	8	–	5	**22**
Transfers	8	–	–	–	– 8	**–**
Totals 31 December 2017	**189**	**291**	**13**	**5**	**31**	**529**
Accumulated depreciation as at 1 January 2017	**110**	**243**	**–**	**1**	**6**	**360**
Depreciation	18	7	–	1	– 1	**25**
Depreciation (non-scheduled depreciation)	3	–	–	–	10	**13**
Additions	6	–	–	–	–	**6**
Totals 31 December 2017	**125**	**250**	**–**	**2**	**15**	**392**
Closing balance as at 31 December 2017	**64**	**41**	**13**	**3**	**16**	**137**

(43) Assets Held for Sale

Assets held for sale in accordance with IFRS 5 break down as follows:

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Loans and advances to banks and customers	5	1 001	– 100
Risk provisioning	–	711	– 100
Financial assets	11	10	10
Investments accounted for using the equity method	–	6	– 100
Property and equipment	1	108	– 99
Intangible assets	2	–	–
Other assets	1	7	– 86
Total	**20**	**421**	**– 95**

In the financial year 2016, the NORD/LB Group decided to reduce its ship mortgage loan portfolio. The divestment portfolio held for sale related to loans and advances to customers totalled € 1,001 million.

Since May 2017 there has no longer been any intention to dispose of a loan sub-portfolio with a receivables volume of € 333 million (risk provisioning € 237 million), as the planned securitisation transaction was not carried out. This sub-portfolio will now be recognised in its original balance sheet item, Loans and advances to customers, rather than under Assets held for sale.

Apart from one receivable disposed of only in February 2018, all other individual receivables totalling € 575 million (risk provisioning € 270 million) were removed from this balance sheet item as of 31 December 2017 as a result of a sale. Other changes of € 90 million compared to the previous year's figure occurred as a result of other measurement effects.

The planned securitisation transaction referred to above also included the assets of eleven fully consolidated subsidiaries and special purpose entities, each of which represented a separate disposal group. The companies are one-ship companies from the Group Controlling/Others segment whose main assets were the ships included in this item in the previous year under Property and equipment. Given that there is no longer any disposal intention here because of a sale and insolvency, all eleven ships are no longer recognised as Assets held for sale. As a result, the ships recognised in this item under Property and equipment fell by € 91 million. The unsold ships are presented under their original balance sheet item of Property and equipment. The decline in Assets held for sale, all of which are part of the Ship Customers segment, resulted in a positive income statement effect totalling € 131 million.

Three ships also recognised under Property and equipment held for sale at an amount of € 17 million were sold in January and March 2017 from the Ship Customers segment. This generated an Other operating profit of € 5 million.

The shares in two investments from the Group Management/Others segment, recognised under Financial assets held for sale as at 31 December 2016 were sold in January and July 2017. The resulting disposal gain of € 37 million is included in Other operating profit/loss.

In addition, shares in a company in the Group Controlling/Others segment that were previously accounted for using the equity method were removed after the sale of the shares at the beginning of 2017.

Assets held for sale from a previously fully consolidated subsidiary were removed in January 2017, as the company was sold. The previously fully consolidated subsidiary is a subsidiary in the Private Customers segment.

Since December 2017, two fully consolidated subsidiaries from the Markets segment were recognised under Assets held for sale on account of the expected sale of majority stakes in various items.

(44) Income Tax Assets

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Current income tax assets	31	42	– 26
Deferred tax assets	713	786	– 9
Total	**744**	**828**	**– 10**

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 € 184 million (€ 224 million) as at 31 December 2017.

Deferred income tax assets were established in respect of the following balance sheet items and tax losses not yet utilised:

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Assets			
Loans and advances to banks	1	6	– 83
Loans and advances to customers	57	77	– 26
Financial assets at fair value through profit or loss	100	148	– 32
Fair values from hedge accounting derivatives	737	758	– 3
Intangible assets	29	33	– 12
Property and equipment	61	67	– 9
Other assets	90	249	– 64
Liabilities			
Liabilities to Customers	332	412	– 19
Securitised Liabilities	32	63	– 49
Financial liabilities at fair value through profit or loss	135	314	– 57
Fair values from hedge accounting derivatives	525	917	– 43
Provisions	766	789	– 3
Other liabilities	44	47	– 6
Total	**2 909**	**3 880**	**– 25**
Net	2 196	3 094	– 29
Total	**713**	**786**	**– 9**

In addition to deferred taxes recognised in the income statement, netted deferred income tax assets include € 5 million (€ 2 million) from Other assets and € 179 million (€ 222 million) from Provisions, which are recognised in Other comprehensive income (OCI).

For loss carry forwards from corporate tax amounting to € 367 million (€ 632 million) and from trade tax amounting to € 311 million (€ 680 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 2017. Tax losses carried forward amounting to € 0 million (€ 2 million) lapse in the next five years. Of the remaining tax losses carried forward, € 367 million (corporate tax) and € 311 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 € 438 million (€ 1 315 million).

(45) Other Assets

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Loans and advances on interim accounts	76	150	– 49
Collection documents	4	7	– 43
refund claims to provident fund NORD/LB	463	503	– 8
Rights to reimbursement from defined benefit plans	13	15	– 13
Other assets including prepaid expenses	292	336	– 13
Total	**848**	**1 011**	**– 16**

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 196 Mio € (262 Mio €) from Other assets relates to initial margins paid.

(46) Liabilities to Banks

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Deposits from other banks			
German banks	3 135	2 798	12
Foreign banks	2 205	1 546	43
	5 340	**4 344**	**23**
Liabilities resulting from money market transactions			
German banks	6 307	9 558	– 34
Foreign banks	6 954	10 248	– 32
	13 261	**19 806**	**– 33**
Other liabilities			
German banks			
Due on demand	3 486	387	> 100
With a fixed term or period of notice	22 792	23 714	– 4
Foreign banks			
Due on demand	1 134	518	> 100
With a fixed term or period of notice	697	472	48
	28 109	**25 091**	**12**
Total	**46 710**	**49 241**	**– 5**

(47) Liabilities to Customers

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Savings deposits			
With an agreed notice period of three months			
Domestic customers	1 157	1 204	– 4
Customers abroad	12	12	–
With an agreed notice period of more than three months			
Domestic customers	17	25	– 32
Customers abroad	1	1	–
	1 187	**1 242**	**– 4**
Liabilities resulting from money market transactions			
Domestic customers	12 231	12 672	– 3
Customers abroad	2 136	2 924	– 27
	14 367	**15 596**	**– 8**
Other liabilities			
Domestic costumers			
Due on demand	14 992	13 196	14
With a fixed term or period of notice	22 705	24 295	– 7
Customers abroad			
Due on demand	1 057	1 101	– 4
With a fixed term or period of notice	2 158	1 871	15
	40 912	**40 463**	**1**
Total	**56 466**	**57 301**	**– 1**

(48) Securitised Liabilities

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Issued debt securities			
Mortgage bonds	11 354	10 806	5
Municipal debentures	8 434	9 073	– 7
Other debt securities	13 278	15 071	– 12
	33 066	**34 950**	**– 5**
Money market instruments			
Commercial paper	111	579	– 81
Certificates of deposit	430	286	50
	541	**865**	**– 37**
Total	**33 607**	**35 815**	**– 6**

Of the securitised liabilities, repurchased own debt securities in the amount of € 4 433 million (€ 5 797 million) are deducted directly.

(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.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Trading liabilities			
Negative fair values from derivatives relating to			
interest rate risks	3 053	3 863	– 21
currency risks	695	1 834	– 62
share-price and other price risks	2	2	–
credit derivatives	2	6	– 67
	3 752	**5 705**	**– 34**
Delivery obligations from short-sales	179	96	86
	3 931	**5 801**	**– 32**
Financial liabilities designated at fair value			
Liabilities to banks and customers	6 157	6 381	– 4
Securitised liabilities	2 883	2 874	0
	9 040	**9 255**	**– 2**
Total	**12 971**	**15 056**	**– 14**

The change in the liabilities designated at fair value, which is caused by changes in the credit risk, amounts to € -90 million (€ -60 million) in the reporting year and a cumulative € -91 million (€ -3 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 2017 is € 558 million (€ 749 million) higher than the corresponding repayment amount. The difference stems largely from the higher interest on liabilities compared to the current market rate.

(51) Negative Fair Values from Hedge accounting Derivates

This item comprises negative fair values of hedging instruments in effective micro and portfolio fair value hedging transactions.

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Micro fair value hedge derivatives	1 965	2 682	– 27
Portfolio fair value hedge derivatives	25	263	– 90
Total	**1 990**	**2 945**	**– 32**

(52) Provisions

Provisions are broken down as follows:

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Provisions for pensions and other obligations	**2 357**	**2 433**	**– 3**
Other provisions			
Provisions in lending business	49	47	4
Provisions for restructuring measures	127	4	> 100
Provisions for uncertain liabilities	198	269	– 26
	374	**320**	**17**
Total	**2 731**	**2 753**	**– 1**

The € 76 million decrease in Provisions for pensions and similar obligations is due to the increase in the actuarial interest rate from 1.95 per cent to 2.15 per cent on 31 December 2017, and the resulting rise in the discounting effect.

Pensionens and similar Oblgations

The net indebtedness from a defined benefit plan breaks down as follows:

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Present value of defined benefit obligations	2 544	2 629	– 3
Less fair value of plan assets	– 187	– 196	– 5
Total	**2 357**	**2 433**	**– 3**

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 Hanover/Braunschweig e. V., Hanover, 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 by law to fulfil their pension payments. As guarantor institutions for the pension obligations, NORD/LB also bears 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 (45)).

The assets of the Bremen provident fund are netted with the pension obligations 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.

Under a service agreement it has been possible since December 2016 to make a voluntary change from an existing contractual commitment as per VO 2000 or from the total pension commitment under German civil service law to the BVV pension scheme.

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 against the guarantors of the public-law institution to have their demands fulfilled. 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 2017	2016	Fair value of plan assets 2017	2016	Negative balance (net indebtness) 2017	2016	Change (in %)
Opening balance	**2 629**	**2 332**	**200**	**210**	**2 429**	**2 122**	**14**
Current service cost	51	43	–	–	51	43	19
Interest expense	51	61	– 4	– 6	55	67	– 18
Change from Consolidation	–	– 1	–	–	–	– 1	– 100
Effects from plan reduction	–	–	– 1	–	1	–	–
Effects from settlements / assignments (compensation payments)	9	–	–	–	9	–	–
Increase / decrease resulting from changes in foreign exchanges rates	– 1	– 5	– 1	– 5	–	–	–
Benefits paid	– 72	– 71	– 19	– 20	– 53	– 51	4
Employer contributions	–	–	2	2	– 2	– 2	–
	2 667	**2 359**	**185**	**193**	**2 482**	**2 166**	**15**
Revaluation							
Adjustments made on the basis of experience	6	– 63	–	–	6	– 63	> 100
Profit / losses from the change in demographic assumptions	– 5	8	–	–	– 5	8	> 100
Profit / losses from the change in financial assumptions	– 124	325	–	–	– 124	325	> 100
Without interest income	–	–	2	3	– 2	– 3	– 33
Closing balance	**2 544**	**2 629**	**187**	**196**	**2 357**	**2 433**	**– 3**

In addition to the pension commitments, the present value of the defined benefit obligation includes commitments to benefit payments of € 264 million (€ 246 million). The defined benefit obligation is divided as at the reporting date into amounts of € 2,052 million (€ 2,114 million) from defined benefit plans which are not financed through a fund, and amounts of € 492 million (€ 515 million) from defined benefit plans which are fully or partially financed from a fund.

Following the reclassification of a reinsurance policy claim from Other assets to plan assets, the opening balance rose by € 4 million on the closing balance from the previous year.

The fair value of plan assets is structured as follows:

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Equity instruments			
active market	22	20	10
	22	**20**	**10**
Debt instruments			
active market	66	44	50
	66	**44**	**50**
Other assets			
active market	20	40	– 50
inactive market	3	–	–
	23	40	**– 43**
cash equivalents	76	92	– 17
Total	**187**	**196**	**– 5**

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 € 25 million (€ 20 million).

The fair value of the reimbursement right vis-à-vis NORD/LB's provident fund changed as follows:

(in € million)	2017	2016	Change (in %)
Opening balance	**503**	**503**	**–**
Benefits paid on reimbursement	– 42	– 39	8
Capital contribution by owner companies	–	27	– 100
Capital reimbursement to owner companies	–	–	–
Calculated interest income on reimbursement	10	13	– 23
Revaluation (OCI)	– 8	– 1	> 100
Closing balance	**463**	**503**	**– 8**

The following overview shows the maturity dates of the expected undiscounted defined-benefit obligations:

	Pensions expenses 31 Dec.2017	Pensions expenses 31 Dec.2016
Less than 1 year	– 70	– 70
between 1 and 2 years	– 71	– 70
between 2 and 3 years	– 74	– 72
between 3 and 4 years	– 76	– 74
between 4 and 5 years	– 78	– 77
Total	**– 369**	**– 363**

The duration of the defined-benefit pension obligation is 21 (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 € 1 million (€ 12 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 of the liability 31 Dec.2017	Declinee of the liability 31 Dec.2017	Increasee of the liability 31 Dec.2016	Declinee of the liability 31 Dec.2016
Actuarial interest rate	263	224	279	240
Wages	26	25	31	31
Pensions	64	59	70	63
Cost increase rate for allowance payments	61	46	58	44
Mortality, invalidity, etc.	116	115	124	125

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) per cent. For the 20 to around 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 around 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 reporting year:

(in € million)	Provisions in lending business	Provisions for re-organisation	Provisions for uncertain liabilities		Total
			Provisions for liabilities to personnel	Other provisions for uncertain liabilities	
1 January	**47**	**4**	**166**	**103**	**320**
Utilisation	1	1	23	9	34
Resolutions	22	–	1	15	38
Reversals	26	87	2	27	142
Allocations	–	41	– 52	–	– 11
Changes from foreign exchange rates	– 1	– 4	–	–	– 5
31 December	**49**	**127**	**92**	**106**	**374**

The Provisions for reorganisation measures stem largely from the "One Bank" transformation programme of NORD/LB and relate to HR matters in connection with the integration of Bremer Landesbank. The NORD/LB Group expects them to be utilised in the years 2018 to 2020. The extent of this utilisation could not yet be reliably predicted on account of the variety of individual contractual agreements expected at the time the provisions were recorded.

The majority of the provisions for HR liabilities are long term. They also include provisions for reorganisation expenses amounting to € 38 million (€ 102 million). The reorganisation expenses stem from a programme launched in 2011 to boost efficiency, and do not fulfil the definition of restructuring measures in accordance with IAS 37.70 (see also (30) Restructuring expenses). The provisions due to restructuring expenses as well as the provisions owing to early retirement schemes totalling € 14 million (€ 16 million) and the provisions for anniversary payments amounting to € 4 million (€ 5 million) are heavily dependent on individual cases and thus the amounts are still uncertain. The provisions will be utilised gradually in the coming periods. The other HR provisions are of a short-term nature.

The Other provisions for uncertain liabilities include € 52 million (€ 43 million) in provisions for litigation and recourse risks. In legal proceedings there are uncertainties regarding the amount and timing of the use of these provisions owing to a lack of empirical data and the differences among the underlying situations as well as the uncertainties concerning the outcomes of potential court or arbitration proceedings.

The Other provisions are mostly long-term.

(53) Liabilities held for Sale

This item comprises Liabilities of companies held for sale amounting to € 7 million (€ 19 million).

(54) Income Tax Liabilities

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Current Income tax liabilities	71	107	– 34
Deferred tax liabilities	55	126	– 56
Total	**126**	**233**	**– 46**

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 € 25 million (€ 54 million) as at 31 December 2017. The deferred tax liabilities are related to the following balance sheet items:

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Assets			
Loans and advances to banks	16	1	> 100
Loans and advances to customers	198	298	– 34
Risk Provisioning	66	132	– 50
Financial assets at fair value through profit or loss	143	247	– 42
Fair values from hedge accounting derivatives	346	674	– 49
Financial assets	355	468	– 24
Intangible assets	13	18	– 28
Property and equipment	21	21	–
Other assets	162	166	– 2
Liabilities			
Liabilities to banks	1	6	– 83
Liabilities to customers	103	67	54
Securitised liabilities	8	10	– 20
Financial liabilities at fair value through profit or loss	738	1 081	– 32
Fair values from hedge accounting derivatives	58	–	–
Provisions	1	2	– 50
Other liabilities	22	29	– 24
Total	**2 251**	**3 220**	**– 30**
Net	2 196	3 094	– 29
Total	**55**	**126**	**– 56**

In addition to the deferred taxes recognised in the income statement, the deferred tax liabilities from financial assets include € 25 million (€ 54 million) established via Other comprehensive income. No deferred tax liabilities were recorded for taxable differences from Shares in subsidiaries amounting to € 22 million, in accordance with IAS 12.39.

(55) Other Liabilities

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Liabilities resulting from unsettled invoices	40	49	– 18
Liabilities from premiums	1	1	–
Liabilities from short-term employee remuneration	19	22	– 14
Deferred income	7	12	– 42
Liabilities from payable taxes and social insurance contributions	9	13	– 31
Liabilities from interim accounts	58	180	– 68
Other liabilities	109	99	10
Total	**243**	**376**	**– 35**

Liabilities from short-term employee remuneration are derived from 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.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Subordinated liabilities	3 124	3 385	– 8
Participatory capital	21	64	– 67
Silent participations	461	535	– 14
Total	**3 606**	**3 984**	**– 9**

Subordinated liabilities are repaid only after the claims of all senior creditors have been settled. At € 2,271 million (€ 2,558 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 € 155 million (€ 156 million).

Participatory capital consists solely of registered participatory capital. The participatory capital totalling € 0 million (€ 0 million) satisfies the conditions of Article 63 CRR for eligibility as Tier 2 capital as per Article 62 CRR as at the reporting date. The interest expense for participatory capital is € 3 million (€ 4 million).

Due to their contractual definition and their economic nature, silent participations are debt capital as per IAS 32. 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 50 per cent (60 per cent) of the sum of the regulatory carrying amounts of silent participations available as at 31 December 2012, i.e. a maximum of € 443 million (€ 532 million). Since the total amount of silent participations exceeds this maximum proportion as at the reporting date at NORD/LB Group level, all existing silent participations can only be allocated pro rata to the additional Tier 1 capital as at the reporting date in the amount of € 443 million. The interest expense for silent participations is € 25 million (€ 12 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.2017 (in € million)	31 Dec.2016[1] (in € million)	Change (in %)
Issued capital	1 607	1 607	–
Capital reserves	3 332	3 332	–
Retained Earnings	1 019	874	17
Revaluation reserve	316	375	– 16
Currency translation reserve	– 10	– 6	67
Equity capital attributable to the owners of NORD/LB	6 264	6 182	1
Additional Equity components	50	50	–
Equity capital attributable to non-controlling interests	– 121	– 256	– 53
Total	**6 193**	**5 976**	**4**

[1] The previous year's figures were adjusted for individual items, see Note (2) Adjustment of previous year's figures.

As at 31 December 2017, the owners participating in NORD/LB's issued capital are the federal states of Lower Saxony at 59.13 per cent (59.13 per cent) and Saxony-Anhalt at 5.57 per cent (5.57 per cent), the Savings Banks Association of Lower Saxony (SVN) at 26.36 per cent (26.36 per cent), the Holding Association of the Savings Banks of Saxony-Anhalt (SBV Sachsen-Anhalt) at 5.28 per cent (5.28 per cent), and the Special Purpose Holding Association of the Savings Banks of Mecklenburg-Western Pomerania (SZV Mecklenburg-Vorpommern) at 3.66 per cent (3.66 per cent).

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 € 1 million (€ 0 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 € 50 million (€ 50 million) relates to a tranche of additional Tier-1 bonds issued by the NORD/LB Group in 2015 (AT1 bonds). The AT1 bonds establish unsecured, subordinated liabilities that have no final maturity date. They confer neither voting rights nor a residual interest in the net assets of the Group. While the interest is set at 8.5 per cent in the first five years, thereafter it is variable. Under certain conditions, however, the issuer can only terminate the bonds together at any time. Creditors are not entitled to terminate them.

The repayment and nominal amount of the bonds may be reduced when a triggering event occurs. Such an event includes the reduction of the Common Equity Tier 1 capital ratio of the debtor below 5.125 per cent. After performing a write-down, the repayment amount and the nominal amount can be written up again to the full amount of the original nominal amount in each of the financial years following the reduction, as long as a corresponding annual net profit is available.

In light of the bond conditions these are equity instruments as per IAS 32. The accounting treatment of payments to AT1 bonds is based on this classification. Distributions to owners must be deducted directly from equity, and the same applies to interest payments on the AT1 bonds.

Following its purchase of 45.17 per cent of the shares, NORD/LB obtained legal control of 100 per cent of the shares in Bremer Landesbank with effect from 1 January 2017. Based on the classification as a forward purchase agreement, the acquisition was made in 2016 from an economic perspective, and was therefore anticipated in the consolidated financial statements as at 31 December 2016; the difference between the equity capital attributable to non-controlling interests and the purchase price was adjusted in the retained earnings. Bremer Landesbank was then fully merged with NORD/LB as at 31 August 2017.

No dividend was paid for 2016.

Nor is any dividend planned for 2017.

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). There are no disposal constraints with regard to cash and cash equivalents.

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 and equipment and the acquisition of subsidiaries.

The Cash flow from financing activities comprises cash flows from changes to equity and hybrid capital (subordinated capital), dividend payments to the owner of the parent company NORD/LB and interest payments on subordinated capital. In addition to the information in the cash flow statement, below we present the opening and closing balances of liabilities where the cash flows are assigned to financing activity:

2017 (in € million)	Equity	Subordinated capital
1 January	**5 976**	**3 984**
Consolidated profit	135	–
Repayment	–	– 246
No cash changes	–	–
Changes due to acquisition or loss of control of subsidiaries or other business operations	32	–
Exchange rate-related changes	–	– 103
Other changes	50	– 29
31 December	**6 193**	**3 606**

For transactions that resulted in gaining or losing control of subsidiaries in the reporting period, remuneration of € 16 million (€ 7 million) was paid or € 114 million (€ 4 million) was received. € 0 million (€ 0 million) or € 114 million (€ 4 million) of this remuneration pertained to cash and cash equivalents. The assets and liabilities of the subsidiaries over which control was gained or lost during the financial year are as follows:

Assets	Takeover of control		Loss of control	
(in € million)	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Loans and advances to banks	–	–	50	–
Loans and advances to customers	–	–	1	1
Investments accounted for using the equity method	–	–	45	–
Property and equipment	14	–	28	4
Assets held for sale	–	–	33	–
Other assets	1	–	1	1
Total	**15**	**–**	**158**	**6**

Liabilities	Takeover of control		Loss of control	
(in € million)	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Liabilities held for sale	–	–	10	–
Other liabilities	–	–	1	3
Subordinated capital	–	–	–	3
Total	**–**	**–**	**11**	**6**

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 the carrying amounts in the following table.

		31 Dec.2017[3]			31 Dec.2016	
(in € million)	Fair Value	Carrying amount	Diffe- rence	Fair Value	Carrying amount	Diffe- rence
Assets						
Cash reserve	2 436	2 436	–	1 447	1 447	–
Loans and advances to banks	29 510	29 202	308	22 270	21 747	523
Loans and advances to customers	93 396	95 115	– 1 719	104 810	105 640	– 830
Risk provisioning	–[1]	– 3 508	3 508	–[1]	– 3 797	3 797
Sub-total of loans and advances to banks/customers (net after loan loss provisions)	**122 906**	**120 809**	**2 097**	**127 080**	**123 590**	**3 490**
Balancing items for financial instruments hedged in the fair value hedge portfolio	–[2]	65	– 65	–[2]	130	– 130
Financial assets at fair value through profit or loss	10 983	10 983	–	12 461	12 461	–
Positive fair values from hedge accounting derivatives	1 385	1 385	–	2 327	2 327	–
Financial assets not reported at fair value	1 823	1 952	– 129	2 575	2 794	– 219
Financial assets reported at fair value	25 231	25 231	–	28 780	28 780	–
For sale certain financial assets not recorded at fair value	7	7	–	291	291	–
For sale certain financial assets recorded at fair value	13	13	–	130	130	–
Other assets not reported at fair value	–	–	–	26	26	–
Other assets reported at fair value	11	11	–	13	13	–
Total	**164 795**	**162 892**	**1 903**	**175 130**	**171 989**	**3 141**

[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] The previous year's figures were adjusted for individual items, see Note (2) Adjustment of previous year's figures

	31 Dec.2017 Fair Value	Carrying amount	Diffe-rence	31 Dec.2016 Fair Value	Carrying amount	Diffe-rence
Liabilities						
Liabilities to banks	46 715	46 710	5	49 869	49 241	628
Liabilities to customers	58 838	56 466	2 372	60 285	57 301	2 984
Securitised liabilities	33 895	33 607	288	36 325	35 815	510
Balancing items for financial instruments hedged in the fair value hedge portfolio	–[2]	729	– 729	–[2]	1 033	– 1 033
Financial liabilities at fair value through profit or loss	12 971	12 971	–	15 056	15 056	–
Negative fair values from hedge accounting derivatives	1 990	1 990	–	2 945	2 945	–
For sale certain financial liabilities not recorded at fair value	7	7	–	19	19	–
Other liabilities not reported at fair value	2	2	–	3	3	–
Other liabilities reported at fair value	1	1	–	1	1	–
Subordinated capital	3 897	3 606	291	4 164	3 984	180
Total	**158 316**	**156 089**	**2 227**	**168 667**	**165 398**	**3 269**

[1] 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.

A reliable fair value could not be determined for financial instruments amounting to € 3 million (€ 39 million), as there is no active market for these financial instruments and the necessary estimates are not possible within a reasonable fluctuation range and with a reasonable likelihood of occurrence. All of these financial instruments are investments. The Group intends to retain these investments.

In the reporting period, financial instruments of € 20 million, previously recognised at cost, were presented at fair value. For investments, the fair value is essentially the amortised cost.

During the reporting period, financial instruments whose fair value could not previously be determined reliably were derecognised at a carrying value of € 16 million. This resulted in a gain of € 2 million.

The following table shows the breakdown of the assets and liabilities recognised in the balance sheet at fair value, according to the fair value hierarchy:

(in € million)	Level 1 31 Dec. 2017	Level 1 31 Dec. 2016	Level 2 31 Dec. 2017	Level 2 31 Dec. 2016[1]	Level 3 31 Dec. 2017	Level 3 31 Dec. 2016	Total 31 Dec. 2017	Total 31 Dec. 2016
Assets								
Assets held for trading	1 555	1 103	8 007	9 548	88	344	9 650	10 995
Debt securities and other fixed-interest securities	1 549	1 102	1 270	1 255	–	–	2 819	2 357
Shares and other non fixed-interest securities	2	1	–	–	–	–	2	1
Positive fair values from derivatives	4	–	4 698	5 494	–	–	4 702	5 494
Interest-rate risks	2	–	4 103	4 963	–	–	4 105	4 963
Currency risks	–	–	544	499	–	–	544	499
Share-price and other price risks	2	–	1	3	–	–	3	3
Credit derivatives	–	–	50	29	–	–	50	29
Trading portfolio claims	–	–	2 039	2 799	88	344	2 127	3 143
Financial assets as at fair value through profit or loss	873	854	460	612	–	–	1 333	1 466
Loans and advances to customers	–	–	195	203	–	–	195	203
Financial assets	873	854	265	409	–	–	1 138	1 263
Debt securities and other fixed-interest securities	873	854	265	409	–	–	1 138	1 263
Positive fair values from hedge accounting derivatives	–	–	1 385	2 327	–	–	1 385	2 327
Positive fair values from employed micro fair value hedge derivatives	–	–	1 135	1 576	–	–	1 135	1 576
Interest-rate risks	–	–	1 098	1 520	–	–	1 098	1 520
Currency risks	–	–	37	56	–	–	37	56
Positive fair values from employed portfolio fair value hedge derivatives	–	–	250	751	–	–	250	751
Interest-rate risks	–	–	250	751	–	–	250	751
Financial assets at fair value	8 883	9 207	15 969	19 204	379	369	25 231	28 780
Debt securities and other fixed-interest securities	8 718	9 011	15 960	19 197	2	3	24 680	28 211
Shares and other non fixed-interest securities	152	182	–	–	–	–	152	182
Shares in companies (not consolidated)	13	14	9	7	323	253	345	274
Other financial assets classified as AfS	–	–	–	–	54	113	54	113
For Sale certain financial assets recorded at fair value	12	–	–	121	1	9	13	130
Other assets recorded at for value	11	13	–	–	–	–	11	13
Total	**11 334**	**11 177**	**25 821**	**31 812**	**468**	**722**	**37 623**	**43 711**

[1]The previous year's figures were adjusted for individual items, see Note (2) Adjustment of previous year's figures

(in € million)	Level 1 31 Dec. 2017	Level 1 31 Dec. 2016	Level 2 31 Dec. 2017	Level 2 31 Dec. 2016	Level 3 31 Dec. 2017	Level 3 31 Dec. 2016	Total 31 Dec. 2017	Total 31 Dec. 2016
Liabilities								
Trading liabilities	13	74	3 916	5 725	2	2	3 931	5 801
Negative fair values from derivatives relating to	1	2	3 749	5 701	2	2	3 752	5 705
Interest-rate risks	–	1	3 053	3 861	–	1	3 053	3 863
Currency risks	–	–	695	1 834	–	–	695	1 834
Share-price and other price risks	1	1	1	1	–	–	2	2
Credit derivatives	–	–	–	5	2	1	2	6
Delivery obligations from short-sales and other trading assets	12	72	167	24	–	–	179	96
Financial liabilities reported at fair value	499	–	8 531	9 235	10	20	9 040	9 255
Liabilities to banks	–	–	406	442	–	–	406	442
Liabilities to customers	–	–	5 751	5 939	–	–	5 751	5 939
Securitised liabilities	499	–	2 374	2 854	10	20	2 883	2 874
Negative Fair Values aus Hedge-Accounting-Derivaten	–	–	1 990	2 945	–	–	1 990	2 945
Negative fair values from employed micro fair value hedge derivatives	–	–	1 965	2 682	–	–	1 965	2 682
Interest-rate risks	–	–	1 793	2 385	–	–	1 793	2 385
Currency risks	–	–	172	297	–	–	172	297
Negative fair values from employed portfolio fair value hedge derivatives	–	–	25	263	–	–	25	263
Interest-rate risks	–	–	25	263	–	–	25	263
Other liabilities recorded at fair value	1	1	–	–	–	–	1	1
Total	**513**	**75**	**14 437**	**17 905**	**12**	**22**	**14 962**	**18 002**

The Level 3 financial assets recognised in the balance sheet at fair value are measured using the capitalised earnings value method (see Note (8) Financial instruments) .

The Level 3 trading portfolio claims recognised at fair value are measured using a model based on internal ratings. Default probabilities are derived from the rating to determine an expected cash flow which provides a theoretical price after discounting.

The designated assets held for sale at fair value are non-recurring fair value measurements (see Note (43) Assets held for Sale and Note (55) Other liabilities).

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

2017 (in € million)	from Level 1 to Level 2	from Level 1 to Level 3	from Level 2 to Level 1	from Level 2 to Level 3	from Level 3 to Level 1	from Level 3 to Level 2
Assets						
Assets held for trading	20	–	105	–	–	–
Debt securities and other fixed-interest securities	20	–	105	–	–	–
Financial assets as at fair value through profit or loss	–	–	28	–	–	–
Financial assets	–	–	28	–	–	–
Debt securities and other fixed-interest securities	–	–	28	–	–	–
Financial assets at fair value	1 100	–	2 103	–	–	–
Debt securities and other fixed-interest securities	1 100	–	2 103	–	–	–
Liabilities						
Financial liabilities reported at fair value	–	–	501	–	–	–
Securitised liabilities	–	–	501	–	–	–

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	–	–

Most level transfers as at the reporting date compared to 31 December 2016 took place between Level 1 and Level 2, which can be attributed to changed trading activity.

The date of the transfer among the individual levels is the end of the reporting period.

The change in financial assets and liabilities in Level 3 of the fair-value hierarchy is as follows:

	Trading assets	
	Loans and advances to trading and other trading assets	
(in € million)	2017	2016
1 January	**344**	**64**
Effect on the income statement[1]	– 5	5
Addition from purchase or issuance	86	338
Disposal from sale	104	57
Repayment/ exercise	233	6
31 December	**88**	**344**
For information: Effect on income statement for financial instruments held at the end of the reporting period[1]	– 4	6

[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.

(in € million)	Financial assets at fair value – Fixed-income and book entry securities 2017	2016	Shares in companies (not consolidated) 2017	2016	Other financial assets classified as AfS 2017	2016
1 January	**3**	**4**	**253**	**232**	**113**	**137**
Effect on the income statement[1]	–	–	– 1	–	– 7	– 16
Effect on the equity capital	–	–	56	11	– 1	–
Addition from purchase or issuance	–	–	36	27	–	–
Disposal from sale	–	–	20	17	–	7
Repayment / exercise	1	1	–	–	51	1
Changes in foreign exchange rates	–	–	– 1	–	–	–
31 December	**2**	**3**	**323**	**253**	**54**	**113**
For information: Effect on income statement for financial instruments held at the end of the reporting period[1]	–	–	–	–	– 6	– 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 instruments.

(in € million)	Assets held for sale reported at fair value 2017	2016
1 January	**9**	**–**
Reclassification	30	9
Disposal from sale	38	–
31 December	**1**	**9**

(in € million)	Trading liabilities – Negative fair values from derivatives relating to Currency risks 2017	2016	Negative fair values from derivative currency risk 2017	2016	Negative fair values from derivatives relating to Credit derivatives 2017	2016
1 January	**1**	**–**	**–**	**1**	**1**	**–**
Effect on the income statement[1]	–	–	–	– 1	–	–
Addition from purchase or issuance	–	1	–	–	2	1
Disposal from sale	1	–	–	–	1	–
31 December	**–**	**1**	**–**	**–**	**2**	**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 through profit or loss.

(in € million)	Designated financial liabilities reported at fair value Securitsed liabilities 2017	2016
1 January	**20**	**4**
Repayment / exercise	10	–
Addition from Level 2	–	16
31 December	**10**	**20**

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.2017	Significant non-observable input data in the fair value measurement	Spread of the used input data	Weighted average
Interest-bearing bonds (assets)	2	Fair Value	-	-
Interest-bearing bond (liabilities)	– 10	historical volatilities	5-32 %	19%
Participations	323	Discount rate	6-9 %	7%
Silent participations	84	Discount rate	9%	9%
Loans	88	Rating	Rating Class (25er DSGV-Skala) 6-13	Averaged Rating 10
Derivatives (liabilities)	– 2	Rating	Rating Class (25er DSGV-Skala) 6-8	Averaged Rating 7
For sale certain financial assets recorded at fair value	1	Fair Value		

A significant input parameter which cannot be observed on the market for the Level 3 fair value measurement of interest-bearing securities is the fair value itself because a lack of available market data requires the use of counterparty prices, which qualify as Level 3 input parameters. Sensitivity is approximated using a price change of 10 per cent and amounts to € 0.2 million (€ 0.3 million). The aforementioned amount would have a corresponding impact 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. Significant changes to the input parameter result in a significantly higher or lower fair value. As part of the sensitivity analysis, the discount rate was increased and decreased by 50 basis points respectively. This analysis showed that an imputed change in the assumed parameter would result in a change of € 16.5 million (€ 14.3 million) in the fair value of the Level 3 investments, with a corresponding effect on Other comprehensive income (OCI).

A significant input parameter which cannot be observed on the market for the fair value measurement of silent participations is the discount rate. Significant changes to the input parameter result in a significantly higher or lower fair value. As part of the sensitivity analysis, the discount rate was increased and decreased by 100 basis points respectively. Accordingly, a presumed change to the parameters based on the assumptions results in a change in the fair values of these Level 3 silent participations by € 2.7 million (€ 2.5 million) with a corresponding impact on other comprehensive income (OCI).

A significant input parameter which cannot be observed on the market for the fair value measurement of loans is the internal rating. Significant changes to this input parameter result in a significantly higher or lower fair value. As part of the sensitivity analysis, the rating was increased and decreased by one class respectively. Accordingly, a presumed change to the parameters based on the assumptions results in a change in the fair values of Level 3 loans by € 0.2 million (€ 2.1 million) with a corresponding impact on the income statement.

There are currently derivatives that have been measured as part of syndicated loans and allocated to Level 3. These are credit derivatives.

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 € 0.1 million (€ 0.2 million) in the fair value of the derivatives in Level 3, with a corresponding effect on the income statement.

The interest-bearing securities, investments and silent participations are mainly recognised under financial assets, derivatives and loans 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.

(in € million)	Level 1 31 Dec. 2017	31 Dec. 2016	Level 2 31 Dec. 2017	31 Dec. 2016	Level 3 31 Dec. 2017	31 Dec. 2016	Total 31 Dec. 2017	31 Dec. 2016
Assets								
Cash reserve	2 357	1 444	79	3	–	–	2 436	1 447
Loans and advances to banks	529	605	125	231	28 856	21 434	29 510	22 270
Mortage loans	–	–	–	–	47	52	47	52
Public-sector loans	–	–	–	–	2 596	674	2 596	674
Mortage-backed loans	–	–	–	–	26	14	26	14
Other loans	–	–	124	231	10 383	11 496	10 507	11 727
Current account and forward contracts	387	538	–	–	15 626	9 140	16 013	9 678
Other advances to banks	142	67	1	–	178	58	321	125
Loans and advances to customers	8	3	1 048	2 329	92 340	102 478	93 396	104 810
Mortage loans	–	–	–	–	18 915	18 455	18 915	18 455
Public-sector loans	–	–	13	980	23 604	27 349	23 617	28 329
Mortage-backed loans	–	–	–	–	8 862	10 039	8 862	10 039
Other loans	–	–	31	62	36 797	41 734	36 828	41 796
Current account and forward contracts	8	3	–	–	4 161	4 901	4 169	4 904
Other advances to customers	–	–	1 004	1 287	1	–	1 005	1 287
Financial assets not reported at fair value	11	12	1 809	2 563	3	–	1 823	2 575
Debt securities and other fixed-interest securities	11	12	1 809	2 525	–	–	1 820	2 537
Shares in companies (not consolidated)	–	–	–	38	3	–	3	38
For Sale certain financial assets not recorded at fair value	–	–	–	5	7	286	7	291
Other assets reported at fair value	–	–	–	–	–	26	–	26
Total	**2 905**	**2 064**	**3 061**	**5 131**	**121 206**	**124 224**	**127 172**	**131 419**

(in € million)	Level 1 31 Dec. 2017	Level 1 31 Dec. 2016	Level 2 31 Dec. 2017	Level 2 31 Dec. 2016	Level 3 31 Dec. 2017	Level 3 31 Dec. 2016	Total 31 Dec. 2017	Total 31 Dec. 2016
Liabilities								
Liabilities to banks	256	342	2 829	3 951	43 630	45 576	46 715	49 869
Liabilties to customers	183	677	10 600	9 813	48 055	49 795	58 838	60 285
Securitsed liabilities	4 095	4 444	29 800	31 881	–	–	33 895	36 325
Issued debt securities	4 095	4 444	28 733	29 466	–	–	32 828	33 910
Money market instruments	–	–	787	1 124	–	–	787	1 124
Other securitised liabilities	–	–	280	1 291	–	–	280	1 291
For sale certain financial liabilities not recorded at fair value	–	–	–	19	7	–	7	19
Other financial liabilities not reported at fair value	–	–	2	1	–	2	2	3
Subordinated capital	330	207	2 691	2 955	876	1 002	3 897	4 164
Subordinated liabilities	–	–	2 670	2 812	744	894	3 414	3 706
Participatory capital	–	–	21	64	–	–	21	64
Silent participations	330	207	–	79	132	108	462	394
Total	**4 864**	**5 670**	**45 922**	**48 620**	**92 568**	**96 375**	**143 354**	**150 665**

(59) Carrying Amounts by Measurement Category

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Assets			
Financial assets held for trading	9 650	11 060	– 13
Financial assets designated at fair value	1 333	1 466	– 9
Available for sale assets	25 245	28 828	– 12
Loans and receivables	122 764	126 636	– 3
Total	**158 992**	**167 990**	**– 5**
Liabilities			
Financial liabilities held for trading	3 931	5 801	– 32
Financial liabilities designated at fair value	9 040	9 255	– 2
Other liabilities	140 389	146 344	– 4
Total	**153 360**	**161 400**	**– 5**

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. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Financial Instruments Held for Trading	– 82	377	> 100
Financial Instruments designated at Fair Value through Profit or Loss	423	15	> 100
Available for Sale Assets	145	42	> 100
Loans and Receivables	– 549	– 2 784	– 80
Other Liabilities	– 86	– 223	– 61
Gesamt	**– 149**	**– 2 573**	**– 94**

The Financial Instruments Held for Trading category applies exclusively to trading profit/loss and the foreign exchange result, while the profit/loss 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 only 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. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)	Change (in %)
Available for Sale Assets			
Profit / loss from impairment of financial assets classified as AfS	– 7	44	> 100
Profit / loss from shares in not consilidated companies	– 1	– 3	– 67
	– 8	**41**	**> 100**
Loans and Receivables			
Profit / loss from impairment of financial assets classified as AfS	2	2	–
Profit / loss from impairment of advances	– 981	– 2 963	– 67
	– 979	**– 2 961**	**– 67**
Total	**– 987**	**– 2 920**	**– 66**

(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.2017 (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	6 524	5 200	1 324	–	–	–	1 324
Derivatives	10 206	4 217	5 989	2 747	–	829	2 413
Securities lending and repos	2 712	–	2 712	1 908	765	–	39
Liabilities							
Offsetting of current accounts	16 165	5 200	10 965	–	–	–	10 965
Derivatives	9 968	4 230	5 738	2 747	–	2 267	724
Securities lending and repos	10 718	–	10 718	1 908	8 787	3	20

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

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 the NORD/LB Group 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.2017	Full recognition of 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
Loans and advances to banks	152	501	–	–	–
Loans and advances to customers	3 636	2 660	941	–	941
Financial assets at fair value through profit or loss	355	3 438	81	2 926	– 2 845
Financial assets not reported at fair value	1 439	1 544	–	–	–
Financial assets reported at fair value	10 324	8 208	6 241	4 875	1 816
Total	**15 906**	**16 351**	**7 263**	**7 801**	**– 88**

31 Dec.2016 (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	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**

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:

(in € million)	Nominal values 31 Dec. 2017	Nominal values 31 Dec. 2016	Fair value positive 31 Dec. 2017	Fair value positive 31 Dec. 2016	Fair value negative 31 Dec. 2017	Fair value negative 31 Dec. 2016
Interest-rate risk						
Interest rate swaps	279 918	273 416	9 520	11 883	8 620	10 827
FRAs	550	6 367	–	–	–	1
Interest options						
Call	2 159	1 955	97	116	6	1
Put	5 523	5 683	44	28	364	490
Caps, floors	5 633	5 699	65	86	28	38
Stock exchange contracts	769	81	2	–	–	1
Other forward interest rate transactions	1 759	1 980	19	90	124	169
	296 311	**295 181**	**9 747**	**12 203**	**9 142**	**11 527**
Currency risk						
Forward exchange contracts	15 529	30 536	163	295	144	319
Currency swaps and interest rate / currency swaps	23 017	26 912	415	318	721	1 803
Currency options						
Call	128	361	1	3	–	4
Put	178	361	–	4	2	2
	38 852	**58 170**	**579**	**620**	**867**	**2 128**
Share price and other price risks						
Share price and other price risks	31	73	1	2	1	1
Stock options						
Call	25	47	–	–	–	–
Stock exchange contracts	126	93	2	1	1	1
	182	**213**	**3**	**3**	**2**	**2**
Credit risk						
Assignor	38	81	–	–	–	–
Assignee	2 360	2 677	50	29	2	6
	2 398	**2 758**	**50**	**29**	**2**	**6**
Total	**337 743**	**356 322**	**10 379**	**12 855**	**10 013**	**13 663**

The following table shows the residual terms of the derivative financial instruments:

Nominal values	Interest-rate risk		Currency risk		Share price and other price risk		Credit risk	
(in € million)	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Up to 3 months	15 193	17 804	12 386	24 969	116	80	3	146
More than 3 months up to 1 year	26 672	26 344	6 182	9 824	35	98	150	202
More than 1 year up to 5 years	101 182	104 560	10 026	12 624	29	35	2 245	2 410
More than 5 years	153 264	146 473	10 258	10 753	2	–	–	–
Total	**296 311**	**295 181**	**38 852**	**58 170**	**182**	**213**	**2 398**	**2 758**

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. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Banks in the OECD	132 430	147 544	4 312	5 476	5 345	8 022
Banks outside the OECD	325	273	7	2	2	3
Public institutions in the OECD	5 721	6 001	286	348	83	122
Other counterparties (including stock exchange contracts)	199 267	202 504	5 774	7 029	4 583	5 516
Total	**337 743**	**356 322**	**10 379**	**12 855**	**10 013**	**13 663**

(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 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.2017	Gross carrying amount of exposures with forbearance measures		Accumulated impairment	
(in € million)	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	**1 364**	**7 311**	**9**	**2 573**
Other financial companies	–	11	–	3
Non-financing institutes	1 275	6 862	9	2 301
Budgets	89	438	–	269
Debt instruments at amortised cost	**1 364**	**7 311**	**9**	**2 573**
Debt instruments other than held for trading	**1 364**	**7 311**	**9**	**2 573**
Loan commitments given	1	40	–	1

31 Dec.2016	Gross carrying amount of exposures with forbearance measures		Accumulated impairment	
(in € million)	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	–	–

(66) Disclosures concerning selected Countries

In contrast to the exposures in the risk report (see the management report), the following table shows 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.

	Financial instruments held for trading		Financial instru ments designated at fair value		Available for sale assets	
(in € million)	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Ireland						
Country	–	–	–	–	20	23
Financing institutes / insurance companies	2	– 13	–	–	18	33
Companies / other	30	45	–	–	3	1
	32	**32**	**–**	**–**	**41**	**57**
Italy						
Country	4	4	–	86	862	920
Financing institutes / insurance companies	22	– 2	–	–	37	86
Companies / other	4	6	–	–	58	84
	30	**8**	**–**	**86**	**957**	**1 090**
Portugal						
Country	33	– 1	–	–	87	149
Financing institutes / insurance companies	–	– 1	–	–	8	1
Companies / other	1	–	–	–	11	13
	34	**– 2**	**–**	**–**	**106**	**163**
Slowenia						
Country	–	–	–	–	–	2
	–	**–**	**–**	**–**	**–**	**2**
Spain						
Country	–	34	–	–	149	198
Financing institutes / insurance companies	53	23	–	–	591	910
Companies / other	8	8	–	–	28	41
	61	**65**	**–**	**–**	**768**	**1 149**
Hungary						
Country	–	–	–	–	80	112
	–	**–**	**–**	**–**	**80**	**112**
Cyprus						
Companies / other	5	8	–	–	–	–
	5	**8**	**–**	**–**	**–**	**–**
Total	**162**	**111**	**–**	**86**	**1 952**	**2 573**

For financial instruments categorised as available for sale with a cost totalling € 1,782 million (€ 2,330 million), the cumulative valuation result reported in equity for the selected countries totals € 197 million (€ 102 million).

	Loans and Receivables							
	Gross book value		Specific valuation allowances		General loan loss provisions		Fair value	
(in € million)	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Egypt								
Companies / other	75	44	–	–	–	–	45	45
	75	**44**	**–**	**–**	**–**	**–**	**45**	**45**
Greece								
Companies / other	5	6	–	–	–	–	6	6
	5	**6**	**–**	**–**	**–**	**–**	**6**	**6**
Ireland								
Financing institutes / insurance companies	173	126	–	–	–	–	176	127
Companies / other	1 919	2 499	1	–	1	2	2 538	2 524
	2 092	**2 625**	**1**	**–**	**1**	**2**	**2 714**	**2 651**
Italy								
Financing institutes / insurance companies	51	78	–	–	–	–	46	63
Companies / other	256	290	–	–	–	–	290	291
	307	**368**	**–**	**–**	**–**	**–**	**336**	**354**
Portugal								
Companies / other	16	21	–	–	–	–	16	21
	16	**21**	**–**	**–**	**–**	**–**	**16**	**21**
Russia								
Financing institutes / insurance companies	87	131	–	–	–	–	131	131
Companies / other	66	66	–	–	–	–	63	63
	153	**197**	**–**	**–**	**–**	**–**	**194**	**194**

(in € million)	Loans and Receivables Gross book value 31 Dec. 2017	Gross book value 31 Dec. 2016	Specific valuation allowances 31 Dec. 2017	Specific valuation allowances 31 Dec. 2016	General loan loss provisions 31 Dec. 2017	General loan loss provisions 31 Dec. 2016	Fair value 31 Dec. 2017	Fair value 31 Dec. 2016
Spain								
Country	51	51	–	–	–	–	53	53
Financing institutes / insurance companies	20	69	–	–	–	–	65	69
Companies / other	149	168	5	30	–	–	149	166
	220	**288**	**5**	**30**	**–**	**–**	**267**	**288**
Hungary								
Financing institutes / insurance companies	6	5	–	–	–	–	10	5
Companies / other	22	27	–	–	–	–	27	27
	28	**32**	**–**	**–**	**–**	**–**	**37**	**32**
Cyprus								
Companies / other	794	1 053	33	31	33	20	796	844
	794	**1 053**	**33**	**31**	**33**	**20**	**796**	**844**
Total	**3 690**	**4 634**	**39**	**61**	**34**	**22**	**4 411**	**4 435**

The nominal value of credit derivatives relating to the selected countries in the NORD/LB Group's portfolio totals € 147 million (€ 812 million). Of this, € 0 million (€ 378 million) was for states, € 20 million (€ 341 million) for financing institutes/insurance companies and € 127 million (€ million) for companies/other. The Group is both a provider and a recipient of collateral. The netted fair value of credit derivatives amounts to € 3 million (€ -1 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 (recognising a separate balance sheet item for the fair value hedge portfolio). 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.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Assets			
Loans and advances to banks	481	617	– 22
Loans and advances to customers	8 850	8 419	5
Financial assets	6 507	7 734	– 16
Total	**15 838**	**16 770**	**– 6**
Liabilities			
Liabilities to banks	850	928	– 8
Liabilties to customers	5 955	6 081	– 2
Securitsed liabilities	10 303	9 262	11
Subordinated capital	197	201	– 2
Total	**17 305**	**16 472**	**5**

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.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Assets			
Loans and advances to customers	12 700	11 999	6
Financial assets	–	1 635	– 100
Total	**12 700**	**13 634**	**– 7**
Liabilities			
Securitsed liabilities	24 026	21 830	10
Total	**24 026**	**21 830**	**10**

(68) Residual Terms of Financial Liabilities

31 Dec.2017 (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	10 744	7 907	4 853	12 274	13 802	49 580
Liabilties to customers	20 640	4 900	8 229	10 807	16 494	61 070
Securitsed liabilities	1 926	1 512	6 222	18 572	8 055	36 287
Financial liabilities at fair value through profit or loss (no derivatives)	29	136	251	2 044	10 190	12 650
Negative fair values from derivatives held for trading	295	210	848	2 925	3 536	7 814
Negative fair values from hedge accounting derivatives	63	71	324	1 239	1 465	3 162
Liabilities held for sale (financial assets only)	7	–	–	–	–	7
Other liabilities (financial assets only)	–	1	–	–	–	1
Subordinated capital	12	9	166	1 574	2 683	4 444
Financial guarantees	6 105	30	56	635	263	7 089
Irrevocable credit commitments	6 165	143	1 066	1 842	526	9 742
Total	**45 986**	**14 919**	**22 015**	**51 912**	**57 014**	**191 846**

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**

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.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Loans and advances to banks	10 971	12 668	– 13
Loans and advances to customers	39 217	33 969	15
Financial assets at fair value through profit or loss	997	822	21
Financial assets	12 486	13 075	– 5
Total	**63 671**	**60 534**	**5**

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 € 7,690 million (€ 9,373 million). They consist primarily of cash collateral and/or securities collateral.

For the following liabilities, assets were transferred as collateral in the specified amounts:

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Liabilities to banks	10 457	12 363	– 15
Liabilties to customers	6 986	6 627	5
Securitsed liabilities	18 504	17 573	5
Financial liabilities at fair value through profit or loss	5 659	7 421	– 24
Negative fair values from hedge accounting derivatives	382	487	– 22
Total	**41 988**	**44 471**	**– 6**

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 € 2,478 million (€ 2,655 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 € 1,866 million (€ 1,624 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 over-collateralisation 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 (CET1) 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 CET1 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 2017 reporting year, the minimum equity ratios pursuant to the CRR were as follows: regulatory CET1 capital 4.50 per cent, regulatory Tier 1 capital 6.00 per cent and regulatory own funds 8.00 per cent.

Additionally, as the regulatory authority the ECB imposes individual minimum capital ratios on NORD/LB at Group level as part of the Supervisory Review and Evaluation Process (SREP). In 2017, this requirement applied to the total capital ratio and was 10.25 per cent. This requirement comprises a statutory minimum total capital ratio of 8.00 per cent as per CRR, and an additional requirement of 2.25 per cent consisting entirely of CET1 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 in 2017 is an overall requirement of 11.83 per cent for the total capital ratio.

Since the P2R requirement and both of the capital buffers must be covered by CET1 capital, this resulted in a CET1 capital ratio of 8.33 per cent in 2017 (based on the minimum capital ratio as per CRR of 4.50 per cent, the additional requirement of 2.25 per cent, and the combined capital buffer requirement of 1.58 per cent).

Starting in 2018, the P2R requirement will increase to 2.50 per cent, the capital conservation buffer to 1.88 per cent and the capital buffer for other systemically important institutions to 0.66 per cent. As a result, the total required CET1 capital ratio will increase to 9.54 per cent and the total capital ratio to 13.04 per cent.

In the reporting period, 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 CET1 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 11.50 per cent applies for the CET1 capital ratio, following the logic of the CRR including transitional regulations.

The core mission of equity management in the 2017 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 the 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’s 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). Thus according to the drafts of the amendments to the CRR and Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) there will likely be a new category of capital defined in the future, which, in the event of a potential resolution of credit institutions, will primarily be oriented towards regulatory equity then towards other liabilities, and for which individual minimum requirements will be imposed by the resolution authorities in conjunction with regulatory equity. 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).

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)
Total risk exposure amount	**46 884**	**59 896**
Capital requirements for credit risk	3 008	4 145
Capital requirements for operational risks	442	409
Capital requirements for market risks	224	166
Capital requirements for loan amount adjustments	78	72
Capital requirements	**3 751**	**4 792**

Below we present the composition of regulatory equity for the Group in accordance with Article 25 et. seq. of the CRR:

(in € million)	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)
Paid-up capital including premium	4 930	4 930
Reserves	1 399	1 439
Eligible components of CET 1 capital at subsidiaries	–	207
Other components of CET 1 capital	– 158	– 68
– Deductible items	– 697	– 580
Adjustments due to transition rules	223	825
Common Equity Tier 1 capital	**5 696**	**6 752**
Paid-up instruments of AT 1 capital	50	–
Grandfathered AT1 instruments	443	451
Eligible components of AT 1 capital at subsidiaries	–	24
Adjustments due to transition rules	– 67	– 105
Additional Tier 1 capital	426	369
Tier 1 capital	**6 122**	**7 122**
Paid-up instruments of Tier 2 capital	2 682	2 568
Eligible components of Tier 2 capital at subsidiaries	–	282
Other components of Tier 2 capital	–	267
– Deductible items (from Tier 2 capital)	– 10	– 10
Adjustments due to transition rules	– 445	– 452
Tier 2 capital	**2 227**	**2 656**
Own funds	**8 349**	**9 777**

(in %)	31 Dec.2017	31 Dec.2016
Common equity tier 1 capital ratio	12.15%	11.27%
Tier 1 capital ratio	13.06%	11.89%
Total capital ratio	17.81%	16.32%

Due to the presentation, there may be slight differences in the reproduction of mathematical operations in the tables.

(72) Foreign Currency Volume

As at 31 December 2017 and 31 December 2016 the NORD/LB Group had the following financial assets and liabilities in foreign currencies:

(in € million)	USD	GBP	JPY	Other	Total 31 Dec.2017	Total 31 Dec.2016
Assets						
Loans and advances to banks	2 698	81	51	357	3 187	456
Loans and advances to customers	18 401	4 007	110	1 415	23 933	30 085
Risk provisioning	– 2 396	– 20	–	– 11	– 2 427	– 1 859
Financial assets at fair value through profit or loss	8 269	1 742	348	1 761	12 120	18 499
Financial assets	1 939	378	179	682	3 178	4 327
Other	78	114	6	458	656	1 133
Total	**28 989**	**6 302**	**694**	**4 662**	**40 647**	**52 641**
Liabilities						
Liabilities to banks	6 473	517	4	299	7 293	8 393
Liabilties to customers	2 339	155	43	145	2 682	4 052
Securitsed liabilities	1 130	56	276	642	2 104	3 651
Financial liabilities at fair value through profit or loss	19 334	4 184	362	2 324	26 204	33 342
Other	1 154	84	22	56	1 316	1 629
Total	**30 430**	**4 996**	**707**	**3 466**	**39 599**	**51 067**

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. In contrast to the presentation in the balance sheet, the market values are shown before the netting pursuant to IAS 32.42.

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Assets			
Loans and advances to banks	11 062	11 001	1
Loans and advances to customers	76 143	83 776	– 9
Balancing items for financial instruments hedged in the fair value hedge portfolio	66	62	6
Assets held for trading	7 415	8 990	– 18
Loans and advances to customers reported	191	199	– 4
Financial assets reported at fair value	246	377	– 35
Positive fair values from hedge accounting	2 735	3 488	– 22
Financial assets classified as LaR	1 822	2 614	– 30
Financial assets classified as AfS	22 106	23 714	– 7
Total	**121 786**	**134 221**	**– 9**
Liabilities			
Liabilities to banks	24 141	23 277	4
Liabilities to customers	23 384	24 950	– 6
Securitised liabilities	25 816	30 281	– 15
Balancing items for financial instruments hedged in the fair value hedge portfolio	697	237	> 100
Liabilities held for trading	6 465	8 509	– 24
Liabilities to banks reported at fair value	368	440	– 16
Liabilities to customers reported at fair value	5 641	5 829	– 3
Securitised liabilities reported at fair value	2 206	2 090	6
Negative fair values from hedge accounting derivatives	2 758	3 914	– 30
Provisions	76	79	– 4
Other liabilities	3	2	50
Subordinated capital	3 161	3 265	– 3
Total	**94 716**	**102 873**	**– 8**

(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 12 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.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Future minimum leasing lease payments up to 1 year	18	19	– 5
Future minimum leasing lease payments more than 1 year up to 5 years	53	54	– 2
Future minimum leasing lease payments more than 5 years	37	39	– 5
Total future minimum leasing lease payments	**108**	**112**	**– 4**

In the context of the operating lease agreements, minimum lease payments of € 19 million (€ 19 million) were recognised as an expense in the reporting year. No income (€ 5 million) is expected from non-terminable sub-lease agreements.

Finance lease agreements with the NORD/LB Group as the lessee were concluded to the following extent.

There is one contract for the leasing and maintenance of a standard software package (minimum lease payments € 3 million). For a contract concluded without a fixed term, termination is possible on 31 December of each calendar year.

Under operating lease agreements where the NORD/LB Group is the lessor, future minimum lease payments of € 6 million (€ 6 million) are expected within one year due to the chartering of ships.

The NORD/LB Group appears as a lessor in the context of finance lease agreements. The NORD/LB Group is mostly the lessor for vehicles and machinery. The Group 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.

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 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Present value of outstanding minimum lease payments up to 1 year	8	8	–
Present value of outstanding minimum lease payments more than 1 year up to 5 years	19	22	– 14
Present value of outstanding minimum lease payments more than 5 years	17	18	– 6
Total present value of outstanding minimum lease payments	**44**	**48**	**– 8**
Plus interest	15	17	– 12
Total minimum lease payments	**59**	**65**	**– 9**
Plus unguaranteed residual values	–	–	–
Total minimum lease payments	**59**	**65**	**– 9**
Of which: up to 1 year	8	8	–
Of which: 1 year to 5 years	20	23	– 13
Of which: more than 5 years	30	34	– 12
Less financial income not yet realised	–	1	– 100
Net investment	**59**	**64**	**– 8**

The minimum lease payments guarantee residual values of € 5 million (€ 5 million).

(75) Contingent Liabilities and Other Obligations

	31 Dec.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Contingent liabilities			
Liabilities from guarantees and other indemnity agreements	3 934	4 114	– 4
Other contingent liabilities	25	–	–
	3 959	**4 114**	**– 4**
Other obligations			
Irrevocable credit commitments	9 140	10 418	– 12
Total	**13 099**	**14 532**	**– 10**

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 (Actien-Gesellschaft), Hanover
- Nieba GmbH, Hanover, Germany
- NORD/LB Luxembourg S.A. Covered Bond Bank, Luxembourg-Findel/Luxembourg
- 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 (Aktiengesellschaft). 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 (Aktiengesellschaft).

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 (€ 55 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 € 16 million (€ 14 million) as at year end.

The NORD/LB Group securitised a portfolio of lending receivables amounting to € 11 billion 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. In the second quarter of 2017 the default risk of the first-loss tranche was also placed (amounting to an initial € 103 million). The annual guarantee premiums for the current financial year total € 66 million (€ 46 million). Expenses of € 59 million are expected for the following year.

A loan portfolio of € 10 billion was also securitised in the fourth quarter of 2017. By means of an external guarantee, the mezzanine tranche totalling an initial € 503 million was secured against default risks. Losses on the first-loss tranche are borne by the Group itself. Expenses for the guarantee received were recognised under commission expenses in the reporting year amounting to € 3 million (€ 0 million). The guarantee fees for the following year amount to an estimated € 56 million.

Furthermore, in 2015 and 2016 the Group securitised two portfolios of lending receivables from the asset classes of renewable energies, corporate customers, community properties, commercial properties and ships as well as leasing amounting to € 6.5 billion for capital relief purposes. By means of a guarantee contract, the default risk of the mezzanine tranche (amounting to an initial € 106 million) of a € 2 billion portfolio was transferred to an external third party. The losses relating to the first-loss tranche are borne by the Group itself. With regard to the other portfolio, the default risk of the first-loss tranche (amounting to an initial € 94 million) was secured by an external financial guarantee. When increasing this securitisation transaction in March 2017 by roughly € 2 billion to around € 4.5 billion, the first-loss tranche placed was also raised by € 46 million to € 140 million. The expense from the guarantee contracts of both portfolios totalled € 28 million (€ 17 million) for the reporting year. Fee payments of € 29 million are expected for the following year.

Furthermore, the NORD/LB Group securitised two portfolios of lending receivables amounting to € 1,023 million (€ 865 million) and € 505 million (€ 610 million) for regulatory capital relief purposes. The default risks from the mezzanine tranches were transferred to external third parties by means of financial guarantees and total € 62 million (€ 51 million) and € 23 million (€ 26 million) as at the reporting date. The losses relating to the first-loss tranche are borne by the Group itself. The premiums payable for the respective outstanding mezzanine tranche are recognised under Commission expenses and total € 3 million (€ 2 million) or € 1 million (€ 2 million) for the reporting year. Guarantee expenses for the following year are estimated at € 3 million and € 1 million.

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.

There is a framework contract 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 € 34 million (€ 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 obligation 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 € 19 million (€ 13 million), which is reported in Other administrative expenses in the income statement, 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.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Loans and advances to banks and customers	35	30	17
Financial assets at fair value through profit or loss	3	14	– 79
Financial assets	253	658	– 62
Total	**291**	**702**	**– 59**

(78) Trust Activitie

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.2017 (in € million)	31 Dec.2016 (in € million)	Change (in %)
Assets held in trust			
Loans and advances to customers	36	43	– 16
Other assets held in trust	123	117	5
Total	**159**	**160**	**– 1**
Liabilities held in trust			
Liabilities to banks	26	31	– 16
Liabilities to customers	10	12	– 17
Other liabilities held in trust	123	117	5
Total	**159**	**160**	**– 1**

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. 2017	Male 1 Jan. - 31 Dec. 2016	Female 1 Jan. - 31 Dec. 2017	Female 1 Jan. - 31 Dec. 2016	Total 1 Jan. - 31 Dec. 2017	Total 1 Jan. - 31 Dec. 2016
NORD/LB	2 615	1 998	2 552	1 993	5 167	3 991
Teilkonzern Bremer Landesbank	–	556	–	513	–	1 069
Teilkonzern NORD/LB Luxemburg	138	126	62	61	200	187
Deutsche Hypothekenbank	232	221	182	174	414	395
Other	167	183	196	206	363	389
Group	**3 152**	**3 084**	**2 992**	**2 947**	**6 144**	**6 031**

(80) Disclosures concerning Shares in Companies

Consolidated Subsidiaries

Of the 34 (42) subsidiaries included in the consolidated financial statements, 19 (23) are structured companies under IFRS 12. Neither at 31 December 2017 nor at 31 December 2016 was the equity capital attributable to non-controlling interests in any subsidiary significant for the NORD/LB Group based on their share in Group equity or in the consolidated profit.

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. Please refer to Note (69) The NORD/LB Group as Assignor and Assignee for information on the restrictions regarding collateral provided. 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 indicated in Note (4) Consolidation Fundamentals, 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. 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 five (16) 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 € 48 million (€ 318 million).

Associated companies and joint ventures

Among the nine (11) associated companies and one (2) joint venture company included in the consolidated financial statements, no (one) associated company and no (none) joint venture company is of significant importance to the Group due to its share in earnings and its share in overall earnings.

The following table provides summarised financial information on the non-significant associated companies viewed individually:

(in € million)	31 Dec.2017	31 Dec.2016
Carrying amount of the shares of non-significant associated companies	198	177
NORD/LB Group's share in		
Profit/loss from continuing operations	37	14
Other income	– 17	–
Comprehensive income	**20**	**14**

The following table provides summarised financial information on the non-significant joint venture companies viewed individually:

(in € million)	31 Dec.2017	31 Dec.2016
Carrying amount of the shares of non-significant joint ventures	2	47
NORD/LB Group's share in		
Profit / loss from continuing operations	1	1
Comprehensive income	**1**	**1**

Contractual (loan) or regulatory restrictions can limit an associated company or a joint venture in paying cash dividends to the Group or paying back loans received from the Group.

There were no such restrictions as at the reporting date.

As at the reporting date, contingent liabilities to associated companies amounted to € 54 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 financial statements. 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 trading 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.2017 (in € million)	Securiti-sation companies (lender)	Securiti-sation companies (lenders)	Invest-ment companies	Leasing companies	Property and project finance	Other	Total
Size of the non-con solidated structured company	–	15 459	19 576	3 899	182	6	39 122
Loans and advances to customers	–	–	–	1 635	16	21	1 672
Risk provisioning	–	–	–	– 1	– 1	– 21	– 23
Financial assets at fair value through profit or loss	–	10	–	6	–	–	16
Positive fair values from hedge accounting derivatives	–	–	–	–	–	–	–
Financial assets	–	266	66	–	–	6	338
Other assets	–	–	–	–	–	–	–
Assets reported in the balance sheet of the NORD/LB Group	**–**	**276**	**66**	**1 640**	**15**	**6**	**2 003**
Liabilities to banks	–	–	–	2	3	–	5
Liabilities reported in the balance sheet of the NORD/LB Group	**–**	**–**	**–**	**2**	**3**	**–**	5
Off-balance-sheet positions	–	–	–	45	–	–	45
Maximum risk of loss	–	275	70	1 751	15	6	2 117

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-con solidated structured company	679	23 480	35 232	1 885	487	17	61 780
Loans and advances to customers	25	3	–	724	36	20	808
Risk provisioning	–	–	–	–	–	– 20	– 20
Financial assets at fair value through profit or loss	–	106	–	–	–	–	106
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**	**724**	**36**	**6**	**1 706**
Liabilities to banks	–	–	–	–	5	–	5
Liabilities reported in the balance sheet of the NORD/LB Group	**–**	**–**	**–**	**–**	**5**	**–**	5
Off-balance-sheet positions	–	1	–	–	–	1	2
Maximum risk of loss	25	800	125	724	36	7	1 717

The NORD/LB Group is considered 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 the reporting year 2012 the NORD/LB Group has sponsored a securitisation vehicle, to which default risks from credit receivables were transferred via a financial guarantee amounting to € 2 million (€ 32 million) in the financial year 2017.

Additionally, another securitisation vehicle has been sponsored since 2016, and the Group was involved in setting it up. Credit default risks totalling € 46 million (€ 94 million) were transferred in the reporting year to a structured unit by means of a financial guarantee (see Note (76) Other financial obligations).

Two further securitisation vehicles have been sponsored since 2014 and 2017 by the NORD/LB Group, which again was involved in setting them up. Credit default risks totalling € 103 million (€ 0 million) or € 503 million (€ 0 million) were transferred by means of a financial guarantee to the respective structured entities (see Note (76) Other financial obligations).).

(81) Related Parties

All consolidated and non-consolidated subsidiaries, joint ventures and associated companies, subsidiaries of joint ventures and associated companies 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 scope of transactions (excluding transactions eliminated as part of the consolidation) with related companies and persons can be seen in the following lists:

31 Dec.2017 (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	**–**	**–**	**–**	**86**	**–**	**64**
Of which: money market transcations	–	–	–	65	–	–
Of which: loans	–	–	–	16	–	64
Public-sector loans	–	–	–	–	–	35
Other loans	–	–	–	16	–	29
Loans and advances to customers	**1 954**	**4**	**–**	**312**	**1**	**403**
Of which: loans	1 916	4	–	312	1	403
Public-sector loans	1 916	–	–	12	–	371
Mortage-backed loans	–	–	–	87	1	3
Other loans	–	4	–	213	–	29
Financial assets at fair value through profit or loss	**681**	**–**	**–**	**44**	**–**	**1**
of which: Debt securities and other fixed-interest securities	379	–	–	–	–	–
Of which: Positive fair values from derivatives	85	–	–	44	–	1
Of which: Trading portfolio claims	217	–	–	–	–	–
Positive fair values from hedge accounting derivatives	**76**	**–**	**–**	**–**	**–**	**–**
Financial assets	**1 761**	**–**	**–**	**16**	**–**	**–**
Of which: Debt securities and other fixed-interest securities	1 761	–	–	–	–	–
Of which: Shares and other non fixed-interest securities	–	–	–	16	–	–
Other assets	**84**	**–**	**–**	**–**	**–**	**–**
Total	**4 556**	**4**	**–**	**458**	**1**	**468**

31 Dec.2017 (in € million)	Compa-Companies with significant influence	Subsi-daries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Liabilities						
Liabilities to banks	**–**	**–**	**–**	**260**	**–**	**149**
Of which: money market transcations	–	–	–	–	–	5
Of which: deposits from other banks	–	–	–	–	–	30
Liabilities to customers	**762**	**29**	**3**	**258**	**2**	**714**
Of which: money market transcations	347	1	–	33	–	43
Securitised liabilities	**–**	**–**	**–**	**–**	**–**	**1**
Financial liabilities at fair value through profit or loss	**80**	**–**	**–**	**4**	**–**	**229**
Of which: negative fair values from derivatives	35	–	–	4	–	–
Subordinated capital	**1**	**50**	**–**	**–**	**–**	**15**
Total	**843**	**79**	**3**	**522**	**2**	**1 108**
Guarantees / sureties received	226	–	–	–	–	–
Guarantees / sureties granted	–	–	–	36	–	8

1 Jan. - 31 Dec.2017 (in € million)	Compa-Companies with significant influence	Subsi-daries	Joint Ventures	Associated companies	Persons in key positions	Other related parties
Interest expenses	45	6	–	20	–	15
Interest income	119	–	–	12	–	16
Commission income	2	–	–	–	–	–
Other income and expenses	13	1	–	–	– 6	21
Total	**89**	**– 5**	**–**	**– 8**	**– 6**	**22**

31 Dec.2016 (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	**–**	**–**	**–**	**249**	**–**	**59**
Of which: money market transcations	–	–	–	87	–	–
Of which: loans	–	–	–	155	–	59
Public-sector loans	–	–	–	–	–	–
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)	Compa-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)	Compa-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**

As a-t the reporting date there are impairments for loans and advances to associated companies amounting to € 24 million (€ 2 million). The following table shows the maximum balances for NORD/LB Group transactions with related parties.

	2017 (in € million)	2016 (in € million)
Assets		
Loans and advances to banks	301	457
Loans and advances to customers	2 924	3 362
Other unsettled assets	2 663	2 481
Total	**5 888**	**6 300**
Liabilities		
Liabilities to banks	487	484
Liabilties to customers	1 848	2 832
Other unsettled assets	951	554
Total	**3 286**	**3 870**
Guarantees and sureties received	252	410
Guarantees and sureties granted	44	38

Key personnel are remunerated as follows:

	2017 (in € million)	2016 (in € million)
Employment-related payments due in the short term	7	5
Post-employment payments	1	1
Benefits arising from the termination of employment	1	–
Total remuneration	**9**	**6**

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 Govering Bodies

	1 Jan. - 31 Dec. 2017 (in € million)	1 Jan. - 31 Dec. 2016 (in € million)
Total emoluments paid to active members of governing bodies		
Managing Board	6	5
Total emoluments paid to former members of governing bodies and their dependants		
Managing Board	7	4

Total remuneration to active members of the Supervisory Board was € 472 thousand (€ 479 thousand). In the reporting year, remuneration of € 176 thousand (€ 488 thousand) was granted which was dependent on the occurrence or discontinuation of future conditions, and for which the commitment was issued in the years 2014 – 2016. In 2017, commitments were made 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 € 245 thousand (€ 324 thousand) and € 60 thousand (€ 95 thousand), respectively. Of the loans and advance payments granted to the members of the Managing Board and the Supervisory Board, € 157 thousand (€ 25 thousand) was paid back in the reporting year.

There are pension obligations of € 110 million (€ 64 million) to former members of the Managing Board and their surviving dependants.

(83) Group Auditor's Fees

(in € 000)	1 Jan. - 31 Dec. 2017[1]	1 Jan. - 31 Dec. 2016
Group Auditor's Fees for		
The statutory audit	13 347	14 854
Other audit-related services	450	1 017
Tax advisory services	19	44
Other services	728	1 007

[1] The figures for 2017 include fees of € 486.9 thousand attributable to 2016.

In addition to the audit of the consolidated financial statements, the annual financial statements of Norddeutsche Landesbank – Girozentrale - as well as various audits of subsidiaries, including statutory contract expansions and key audit points agreed upon with the Supervisory Board, the auditor KPMG AG Wirtschaftsprüfungsgesellschaft provided the following significant, permitted services in the financial year 2017:

- Voluntary annual audits, reviews of annual reports and quarterly reports, audits in accordance with IDW PS 480 and 490 of the "Institut der Wirtschaftsprüfer" (Institute of Public Auditors in Germany)
- Assurance services under § 36 WpHG (German Securities Trading Act)
- Audit services in connection with the UmwG (German Transformation Act)
- Project quality assurance with a direct link to the audit. This includes projects connected to IT Compliance, AnaCredit. OneBank and the introduction of IFRS 9
- Assurance services based on statutory or contractual obligations. Among other things, this includes assurance services for savings bank organisations, assurance services connected to the bank levy, assurance services as per FinDAG, assurance services related to reporting duties under the Volcker Rule, assurance services connected to applying for an exemption under § 2a KWG and further assurance services with the regulatory authorities.
- Assurance services related to the issue of comfort letters
- Services related to securitisation transactions
- Advisory services under an enforcement procedure
- Further assurance and advisory services connected to regulatory requirements

(84) Equity Holdings

The list of shareholdings shows all companies included in the consolidated financial statements, the non-consolidated subsidiaries, joint ventures and associated companies, 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 (%) indirect	Shares (%) direct
a) Companies included in the consolidated financial statements		
aa) Subsidiaries included in the consolidated financial statements		
BGG Bremen GmbH & Co. KG, Bremen	100.00	–
BGG Marktcarré GmbH & Co. KG, Bremen	100.00	–
BLB Immobilien GmbH, Bremen [2)]	–	100.00
BLB Leasing GmbH, Oldenburg [2)]	–	100.00
Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover [2)]	–	100.00
GBH Beteiligungs-GmbH, Bremen		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 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	90.00	10.00
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		
Callisto Beteiligungsgesellschaft mbH & Co. KG, Hamburg	–	–
DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Pullach im Isartal	–	–
Fürstenberg Capital Erste GmbH, Fürstenberg/Weser	–	–
Fürstenberg Capital II. GmbH, Fürstenberg/Weser	–	–
Ganymede Beteiligungsgesellschaft mbH & Co. KG, Hamburg	–	–
GEBAB Ocean Shipping III GmbH & Co. KG, Hamburg	–	–
Hannover Funding Company LLC, Dover / USA	–	–
Hyperion Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
KMU Shipping Invest GmbH, Hamburg	–	–
MT "BALTIC CHAMPION" Tankschiffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
NORD/LB Objekt Magdeburg GmbH & Co. KG, Pullach im Isartal	–	–
North Wind Shipping Corporation, Majuro (Marshallinseln)	–	–
"PANDORA" Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
"PRIMAVERA" Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
"QUADRIGA" Beteiligungsgesellschaft mbH & Co. KG, Elsfleth	–	–
Rhea Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
South Wind Shipping Corporation, Majuro (Marshallinseln)	–	–
Titan Tankschifffahrtsgesellschaft mbH & Co. KG, Hamburg	–	–
ac) Investment funds included in the consolidated financial statements		
NORD/LB AM ALCO	–	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
Associated companies		
Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	–	32.26
GSG Oldenburg Bau- und Wohngesellschaft mit beschränkter Haftung, Oldenburg	–	22.22
LBS Norddeutsche Landesbausparkasse Berlin-Hannover, Hannover	–	44.00
LINOVO Productions GmbH & Co. KG, Pöcking	–	45.17
NORD KB Beteiligungsgesellschaft mit beschränkter Haftung, Hannover	–	28.66
Öffentliche Lebensversicherung Braunschweig, Braunschweig [7]	–	75.00
Öffentliche Sachversicherung Braunschweig, Braunschweig [7]	–	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 Asset Management AG, Hannover	100.00	–
NORD/LB Asset Management Holding GmbH, Hannover	–	100.00

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 [10]	100.00	9 750	742
Braunschweig Gesellschaft mit beschränkter Haftung, Braunschweig [2] [10]	100.00	9 061	–
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen [10]	100.00	1 858	887
LBT Holding Corporation Inc., Wilmington / USA [6]	100.00	7 071	411
NBN Grundstücks- und Verwaltungs-GmbH, Hannover [6]	100.00	1 762	45
NBN Norddeutsche Beteiligungsgesellschaft für Immobilien in Niedersachsen mbH, Hannover [6]	90.00	2 698	131
NORD/LB RP Investments LLC, Wilmington / USA [6]	100.00	7 141	– 531
Porzellanmanufaktur FÜRSTENBERG GmbH, Fürstenberg/Weser [2] [10]	98.00	3 088	–
SGK Servicegesellschaft Kreditmanagement mbH, Frankfurt am Main [6]	100.00	1 001	49
Skandifinanz AG, Zürich / Schweiz [10]	100.00	11 451	–
Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen [6] [8]	100.00	156 375	852
Vermögensverwaltungsgesellschaft Thiede mit beschränkter Haftung, Braunschweig [2] [10]	100.00	1 278	–
c) Capital share of greater 20 % in companies with an equity capital of greater or equal +/– € 1 million			
Joint Ventures/ associated companies / other			
Adler Funding LLC, Dover / USA [6]	21.88	10 866	2 036
BREBAU GmbH, Bremen	48.84	81 536	9 399
Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen [6]	49.00	2 052	1 033
Brocken Verwaltungs- und Vermietungs-GmbH & Co. KG, Wernigerode [6]	50.00	3 200	413
Bürgschaftsbank Mecklenburg-Vorpommern GmbH, Schwerin [6]	20.89	16 350	201
Bürgschaftsbank Sachsen-Anhalt GmbH, Magdeburg [6]	20.44	15 158	209
FinTech Fonds GmbH & Co. KG, Köln [6]	39.60	4 413	– 472
Gewobau Gesellschaft für Wohnungsbau, Vechta, mbH, Vechta [5]	20.46	12 011	571
Immobilien Development und Beteiligungsgesellschaft Niedersachsen mit beschränkter Haftung IDB & Co. - Objekt Zietenterrassen - KG, Göttingen [6]	50.00	6 631	– 296
INI International Neuroscience Institute Hannover GmbH, Hannover [6]	22.70	– 6 114	2 526
LUNI Productions GmbH & Co. KG, Pöcking [6] [9]	24.29	– 115 700	– 141
Medicis Nexus GmbH & Co. KG, Icking [4] [5]	66.01	7 631	261
Mittelständische Beteiligungsgesellschaft Mecklenburg-Vorpommern mbH, Schwerin [6]	26.00	14 141	655
Mittelständische Beteiligungsgesellschaft Niedersachsen (MBG) mit beschränkter Haftung, Hannover [6]	39.82	13 131	895
NBV Beteiligungs-GmbH, Hannover [6]	42.66	15 032	1 048
Öffentliche Versicherung Bremen, Bremen [6]	20.00	6 784	877
Wohnungsbaugesellschaft Wesermarsch mit beschränkter Haftung, Brake [5]	21.72	19 403	314

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 [3]	
BLBI Beteiligungs-GmbH, Bremen	100.00
Braunschweig Grund Objektgesellschaft Driebenberg mbH & Co. KG, Braunschweig	66.67
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.à.r.l., Luxemburg-Findel, Luxemburg	100.00
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
Themis 1 Inc., Wilmington / USA	100.00
Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Objekt Celle-Altenhagen Vermietungs-KG, Hannover	100.00
Vermögensverwaltungsgesellschaft Thiede GmbH & Co. Tiefgarage Stade Vermietungs KG, Hannover	100.00

Notes:
[1] Equity as defined in §§ 266 and 272 of the German Commercial Code (deutsches Handelsgesetzbuch – HGB) less outstanding capital contributions.
[2] The company has a profit and loss transfer agreement.
[3] Information on equity capital and earnings are not disclosed in accordance with section 313 (2) no. 4 sentence 3 HGB.
[4] Due to the refutation of the Control Definition or the relevant influence, this company is classified as other Participation.
[5] Data is available as at 31 December 2015.
[6] Data is available as at 31 December 2016.
[7] This company is classified as an associate due to its structure under company law.
[8] Not subject to consolidation under IFRS 10.4 (b).
[9] The company does not have excessive debt.
[10] There are preliminary data as at 31.12.2017.

(85) Events after Reporting Date

In January 2018 the NORD/LB Group launched a benchmark issue of € 1,000 million. The mortgage bond has a term of 5 years. Furthermore, a US dollar issue was launched. The Luxembourg Pfandbrief worth USD 650 million has a term of 3 years.

Ms Ulrike Brouzi is leaving the Group’s Managing Board of her own volition as of 30 April 2018. As Board member Ms Brouzi occupies the positions of Chief Financial Officer (CFO), Chief Operating Officer (COO) and Chief Digitalization Officer (CDO) for the areas of Finance/Tax, Organisation, Group IT, Compliance/Group Security and Corporate Services.

Statement and Audit

Audit Opinion of the independent Group Auditor

Note on the Audit of the Consolidated Financial Statements and the Combined Management Report

Audit Opinions

We have audited the consolidated financial statements of Norddeutsche Landesbank - Girozentrale -, Hanover, Braunschweig and Magdeburg (NORD/LB) and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2017, the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the cash flow statement for the financial year from 1 January to 31 December 2017, as well as the notes and a summary of the significant accounting policies used. We also audited the combined management report of NORD/LB for the financial year 1 January to 31 December 2017.

In our opinion, based on our audit findings

- the accompanying consolidated financial statements comply in all material respects with the IFRS, as adopted by the EU, and the additional German statutory regulations applicable under § 315e (1) HGB, and with due consideration of these provisions they provide a true and fair view of the financial position and financial performance of the Group as at 31 December 2017 and of its earnings position for the financial year from 1 January to 31 December 2017, and
- the accompanying combined management report provides an accurate view of the Group's position. In all material respects this combined management report is consistent with the consolidated financial statements, complies with German statutory regulations and presents an accurate view of the opportunities and risks of future developments.

In accordance with § 322 (3) 1 HGB we declare that our audit raised no objections regarding the correctness of the consolidated financial statements and the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with § 317 HGB and the EU Statutory Auditor Regulation (No. 537/2014; hereinafter "EU Auditor Regulation") with due consideration of the generally accepted standards of auditing laid down by the Institute of Public Auditors in Germany (IDW). Our responsibility in accordance with these rules and principles is described in the section of our opinion entitled "Responsibility of the auditor for the audit of the consolidated financial statements and the Group management report". We are independent of the Group companies in accordance with European law as well as German commercial and ethical rules, and have fulfilled our other ethical responsibilities in Germany under those ethical requirements. We also confirm that as per Article 10 (2) f) of the EU Auditor Regulation we performed no prohibited non-audit services in accordance with Article 5 (1) of the EU Auditor Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statements and the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the financial year 1 January to 31 December 2017.

These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of specific valuation allowances on loans and advances to customers from merchant ship financing

Please refer to note 9 in the Notes for the accounting and measurement methods applied to specific valuation allowances. For an explanation of the forecasting uncertainties with loan loss provisions please refer to the section entitled Group forecast with opportunities and risk report in the combined management report.

RISK FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Group recognises loans and advances to customers amounting to € 95,115 million. The specific valuation allowances for loans and advances to customers as at 31 December 2017 amount to € 3,299 million, including receivables from ship financing. Owing to the persistently difficult market environment, the reporting year saw additional allocations to specific valuation allowances for receivables from ship financing, which had significant impacts on the earnings position and the capital base.

The estimate of expected future cash flows to be carried out as part of the measurement of receivables from ship financing under IAS 39 is discretionary. This particularly affects the assessment of borrowers' sustainable ability to restructure and continue as a going concern, and the future development of charter revenues from financed ships. Against this background, the risk for the financial statements is that the specific valuation allowances for impairment are not appropriate.

Since these estimation uncertainties exert a significant influence on the size of any specific valuation allowances required, it was important during our audit that the factors helping to determine specific valuation allowances for receivables from ship financing were derived properly and in accordance with applicable accounting regulations.

OUR AUDIT APPROACH

By following a risk-based audit approach we based our opinion on control-based audit procedures as well as on substantive audit procedures. Consequently, we carried out the following audit procedures among others, with the involvement of our credit risk specialists:

In light of the requirements laid down by the audit standards we conducted a structural audit of the relevant internal control system. On the strength of our control risk assessment, our audit result was based on substantive audit procedures. The question about a sustainable ability to restructure or continue as a going concern was a focal point of our separate loan reviews. Such an assessment is carried out regularly and substantively as part of the loan monitoring process. The assessment criteria are laid down in the documentation of internal regulations. The subject of our audit procedures in particular was a critical review of the evidence presented regarding the sustainable ability of selected borrowers to restructure or continue as a going concern. Our audit procedures with regard to the future development of charter revenues comprised among other things a structural audit to assess the appropriateness of the implemented processes. We also checked the procedure and the assumptions made for estimating future charter revenues. Here we focused particularly on taking appropriate account of alternative market expectations and the consistency of the assumptions made. Furthermore, we compared the expectations regarding global and regional developments with the expectations of independent market participants.

OUR CONCLUSIONS

The assumptions and parameters underlying the calculation of specific valuation allowances for receivables from ship financing were selected appropriately and in accordance with the accounting standards applicable for the assessment of specific valuation allowances.

Calculation of fair values for financial instruments using valuation models

Please refer to notes 8 and 58 in the Notes for the accounting and measurement methods applied.

THE RISK FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements contain assets and liabilities measured at fair value under IFRS 13 for which there are no observable market prices. This relates to the financial assets (€ 8,555 million) and liabilities (€ 12,459 million) recognised under assets and liabilities measured at fair value through profit and loss, as well as other fixed-interest securities recognised under AfS financial assets (€ 15,962 million). The fair values of these financial instruments are determined based on recognised valuation models. The selection of the valuation models and their parameters are discretionary to some extent. It was therefore important for our audit that when determining fair value we used appropriate valuation models and valuation parameters, while the profit/loss from financial instruments at fair value through profit or loss as well as the profit/loss from AfS financial assets were calculated in accordance with the accounting principles in this respect.

OUR AUDIT APPROACH

On the strength of our risk assessment and estimate of risk errors, we based our opinion on control-based audit procedures as well as substantive audit procedures. Consequently, we carried out the following audit procedures among others:

In a first step we conducted surveys, inspected internal calculation methodologies and carried out evaluations to gain a comprehensive understanding of the development of financial instruments and the associated discretion exercised in measuring financial instruments.

We also gained assurance that the Group had implemented effective controls, designed to ensure proper valuations in accordance with the documentation of internal regulations on model-based fair value measurements. To assess the appropriateness and effectiveness of the internal control system with regard to the valuation of financial instruments for which no market prices are observable, we used internal measurement specialists to conduct surveys and gain insight into relevant documents. In particular, the audit looked at whether models were validated independently of commercial aspects both when introduced and on a regular basis, or ad-hoc. The model validation comprises a review of the conceptional coherence of the valuation models, all valuation risk factors as well as the availability and reliability of the market data required. We also checked the observable and non-observable valuation parameters for their commercial/trading independence. In particular, we checked whether the validations were carried out appropriately and were documented, and whether the implemented model with its assumptions is suitable for the given product. We also carried out spot checks to see whether the review independent of commercial aspects was carried out properly and documented. With the involvement of our valuation specialists we carried out a revaluation for a select group of products based on materiality and risk aspects, and compared the results with the figures determined by the Group. The parameters chosen for the revaluation were derived from internal and external sources.

OUR CONCLUSIONS

The assets (€ 8,555 million) and liabilities (€ 12,459 million) measured at fair value through profit and loss, as well as other fixed-interest securities recognised under AfS financial assets, for which there are no observable prices on the market, are measured using appropriate models and parameters in accordance with the accounting standards.

Complete and proper migration of wholesale loans during the introduction of a new inventory-managing credit system

For this matter please refer to the Report on earnings, assets and financial position in the combined management report.

RISK FOR THE CONSOLIDATED FINANCIAL STATEMENTS

In August 2017 NORD/LB completed the data migration for the new inventory-managing credit system for the wholesale lending business. As at 31 December 2017, NORD/LB's wholesale credit portfolio as well as part of the wholesale credit portfolio of the former Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale -, Bremen, merged on 31 August 2017 but retrospectively to 1 January 2017, were included in the new inventory-managing credit system.

The migration during the year of the relevant loan portfolios poses a risk for the financial and consolidated financial statements that the lending data required for regular bookkeeping was not transferred correctly and in full, and the loans and advances to banks as well as the loans and advances to customers coupled with the related net interest and commission income are not valued and recognised completely and properly as at year end. This is why it was particularly important for our audit procedures that there was an appropriate IT organisation with appropriate IT controls, there were no failings in the data migration process or any that did arise were properly dealt with, and the relevant accounting data and parameters were migrated fully and correctly into the new credit system.

OUR AUDIT APPROACH

On the strength of our risk assessment and estimated risks of errors, we based our opinion on control-based audit procedures as well as substantive audit procedures, with the involvement of IT specialists. Consequently, we carried out the following audit procedures among others:

In a first step we inspected project documents and conducted surveys to gain an overview of the approval procedure for selecting software, the IT organisation, project management, as well as the professional and IT concepts relevant for accounting to introduce the new inventory-managing credit system. We also gained assurance that NORD/LB had taken suitable organisational measures to ensure appropriate testing and approval procedures.

In the second stage we subjected the NORD/LB migration concept to a critical review with regard to the appropriateness of the IT controls defined by NORD/LB to ensure the complete and proper integration of the data and parameters into the new core banking system. For the actual migration we checked the functionality of the IT controls of NORD/LB using the documentation presented to us, and thereby checked the functionality of the IT controls on a test basis. By means of a targeted selection of individual transactions based on materiality and risk aspects we examined whether the significant accounting errors identified had been properly corrected by NORD/LB.

We also checked on a randomly selected range of loans whether the data and parameters relevant for accounting had been migrated fully and accurately into the new credit system.

OUR CONCLUSIONS

The IT controls and measures implemented by NORD/LB were appropriate and effective to ensure the data and parameters relevant for accounting were migrated fully and properly into the inventory-managing credit system.

There were no indications in our audit procedures that the data and parameters were migrated to the new credit system incompletely or incorrectly.

Other Information

On the strength of our risk assessment and estimated risks of errors, we based our opinion on control-based audit procedures as well as substantive audit procedures, with the involvement of IT specialists. Consequently, we carried out the following audit procedures among others:

In a first step we inspected project documents and conducted surveys to gain an overview of the approval procedure for selecting software, the IT organisation, project management, as well as the professional and IT concepts relevant for accounting to introduce the new inventory-managing credit system. We also gained assurance that NORD/LB had taken suitable organisational measures to ensure appropriate testing and approval procedures.

In the second stage we subjected the NORD/LB migration concept to a critical review with regard to the appropriateness of the IT controls defined by NORD/LB to ensure the complete and proper integration of the data and parameters into the new core banking system. For the actual migration we checked the functionality of the IT controls of NORD/LB using the documentation presented to us, and thereby checked the functionality of the IT controls on a test basis. By means of a targeted selection of individual transactions based on materiality and risk aspects we examined whether the significant accounting errors identified had been properly corrected by NORD/LB.

We also checked on a randomly selected range of loans whether the data and parameters relevant for accounting had been migrated fully and accurately into the new credit system.

OUR CONCLUSIONS

The IT controls and measures implemented by NORD/LB were appropriate and effective to ensure the data and parameters relevant for accounting were migrated fully and properly into the inventory-managing credit system.

There were no indications in our audit procedures that the data and parameters were migrated to the new credit system incompletely or incorrectly.

Responsibility of the Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of the consolidated financial statements complying in all material respects with IFRS, as adopted by the European Union, and with the additional German statutory requirements pursuant to § 315a (1) of the German Commercial Code (HGB), and for ensuring the consolidated financial statements provide a true and fair view of the financial position and financial performance of the Group in accordance with these requirements.

Furthermore, management is responsible for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the Group's ability to continue as a going concern. They must disclose, as applicable, matters related to going concern and use the going concern basis of accounting unless the management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Management is also responsible for preparing the combined management report, which provides an accurate view of the position of the Group, is consistent in all material respects with the consolidated financial statements, complies with German statutory regulations and provides an accurate view of the opportunities and risks of future developments. Moreover, management is responsible for the provisions and measures (systems) they deem necessary to ensure the preparation of a combined management report that is compliant with German statutory rules and to provide sufficient evidence to support the disclosures in the combined management report.

The Supervisory Board is responsible for overseeing the accounting processes at the Group to prepare the consolidated financial statements and the combined management report.

Responsibility of the Auditor for the Audit of the Consolidated Financial Statements and the Combined Management Report

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report provides an accurate view overall of the Group's position, and is consistent in all material respects with the consolidated financial statements and the audit findings, complies with German statutory rules and provides an accurate view of the opportunities and risks of future developments; also, to issue an auditor's report that includes our opinion on the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Auditor Regulation with due consideration of the generally accepted standards of auditing laid down by the Institute of Public Auditors in Germany (IDW) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the combined management report. We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements, and of provisions and measures relevant for the audit of the combined management report, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements in accordance with IFRS, as adopted by the European Union, and the additional German statutory requirements pursuant to § 315e (1) HGB provide a true and fair view of the financial position and financial performance of the Group.
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements and the combined management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.
- we assess the consistency of the combined management report with the consolidated financial statements, its legal compliance, and

the view it provides of the position of the Group.
- we conduct audit procedures on the forward-looking information presented by management in the combined management report. Based on sufficient and appropriate audit evidence we review in particular the key assumptions underlying the forward-looking information presented by management, and assess whether this forward-looking information was accurately derived from these assumptions. We do not express a separate opinion on the forward-looking information and the underlying assumptions. There is a significant unavoidable risk that future events may deviate substantially from the forward-looking information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the reporting period and are therefore the key audit matters.

We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Other statutory and other legal requirements

Other information in accordance with Article 10 of the EU Auditor Regulation

We were appointed as auditor of the consolidated financial statements by the Supervisory Board on 3 April 2017. We were engaged by the Supervisory Board on 1 August 2017. Since the financial year 2012
we have been the auditor of the consolidated financial statements of NORD/LB. We hereby declare that the opinions in this audit report are consistent with the Additional Report to the Audit Committee in accordance with Article 11 of the EU Auditor Regulation (Audit Report).

Auditor

The auditor in charge of the audit is Mr Volker Bormann.

Hannover, den 26. März 2018
KPMG AG
Wirtschaftsprüfungsgesellschaft

gez. Leitz
Auditor

gez. Bormann
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, den 20. März 2018
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 2017

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. 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 pro-fits and losses (in € million)	Received public aids
Germany	5 695	2 543	161	-41	–
China	18	5	1	1	–
Great Britain	76	28	-7	-5	–
Luxembourg	200	29	-22	7	–
Singapore	79	71	30	-5	–
USA	76	106	51	-21	–

	Type of activity	Country	Location
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
Callisto Beteiligungsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
DEMURO Grundstücks-Verwaltungsgesellschaft mbH & Co. KG	Other company	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
GBH Beteiligungs-GmbH	Other company	Germany	Oldenburg
GEBAB Ocean Shipping III GmbH & Co. KG	Other company	Germany	Hamburg
Hannover Funding Company LLC	Finance company	USA	Dover (Delaware)
Hyperion Tankschifffahrtsgesellschaft mbH & Co.KG	Other company	Germany	Hamburg
KMU Shipping Invest GmbH	Other company	Germany	Hamburg
KreditServices Nord GmbH	Provider of financial services	Germany	Braunschweig
MT "BALTIC CHAMPION" Tankschiffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
Nieba GmbH	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
Norddeutsche Landesbank Luxembourg S.A. Covered Bond Bank	Bank	Luxembourg	Luxemburg-Findel
NORD/FM Norddeutsche Facility Management GmbH	Other company	Germany	Hanover
NORD/LB AM ALCO	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 Objekt Magdeburg GmbH & Co. KG	Provider of ancillary service	Germany	Pullach i. Isartal
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG	Other company	Germany	Bremen
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG	Other company	Germany	Bremen
North Wind Shipping Corporation	Other company	Marshallislands	Majuro
"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
Rhea Tankschifffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg

	Type of activity	Country	Location
South Wind Shipping Corporation	Other company	Marshallislan ds	Majuro
Titan Tankschifffahrtsgesellschaft mbH & Co. KG	Other company	Germany	Hamburg
TLN Beteiligung Anstalt des öffentlichen Rechts & Co KG	Finance company	Germany	Hannover

The average return on capital is 0.10 per cent. This is calculated from the earnings after tax and the total assets in the IFRS consolidated financial statements as at 31 December 2017.

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, the development of financial markets and changes in interest rates and market prices. Actual results and developments may therefore differ considerably from the assumptions made in the report. NORD/LB accepts no responsibility for the forward-looking statements and also does not intend to update or correct them if developments materialise that are different than those expected.

Facts and Figures

(As at 31 December 2017)

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 14 August 2017. These Statutes entered into force on 1 September 2017.

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)
Dr Hinrich Holm (Deputy Chairman)
Ulrike Brouzi
Christoph Dieng
Christoph Schulz
Günter Tallner

General Representatives

Carsten Hünken
Dr Ulf Meier
Christoph Trestler

Registered Office of the Bank

Hanover (head office)
Friedrichswall 10
30159 Hannover

Brunswick
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 Hannover

Bremen Branch
Domhof 26
28195 Bremen

Duesseldorf 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
Maximiliansplatz 14
80333 München

Oldenburg Branch
Markt 12
26122 Oldenburg

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
Great Britain

NORD/LB New York
1114, Avenue of the Americas
20th Floor
New York, NY 10036
USA

NORD/LB Shanghai
37/F Jinmao Tower
88 Century Avenue
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/aboutus/locations

Branches of Braunschweigische Landessparkasse

www.blsk.de

Investments

https://www.nordlb.com/nordlb/about-us/investments/

BLB Immobilien GmbH
Kleine Waagestraße 3
28195 Bremen

BLB Leasing GmbH
Markt 12
26122 Oldenburg

caplantic GmbH
Waldstraße 1
30163 Hannover

Deutsche Hypothekenbank (Actiengesellschaft)
Osterstraße 31
30159 Hannover

KreditServices Nord GmbH
Friedrich-Wilhelm-Platz
38100 Braunschweig

Nieba GmbH*
Friedrichswall 10
30159 Hannover

* with investment holding
DekaBank Dt. Girozentrale
Mainzer Landstraße 16
60325 Frankfurt am Main

NORD/FM Norddeutsche Facility Management GmbH
Breite Str. 10
30159 Hannover

NORD/LB Asset Management Holding GmbH*
Prinzenstraße 12
30159 Hannover

* with subsidiary
NORD/LB Asset Management AG
Prinzenstraße 12
30159 Hannover

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 Hannover

Öffentliche Sachversicherung Braunschweig
Öffentliche Lebensversicherung Braunschweig
Theodor-Heuss-Straße 10
38122 Braunschweig

Toto Lotto Niedersachsen GmbH
Am TÜV 2+4
30519 Hannover

Supervisory Board of Norddeutsche Landesbank

(The current status of the members of the Supervisory Board is provided on the homepage of the NORD/LB: www.nordlb.com/nordlb/investor-relations/committees-and-executive-bodies/)

Chairman
Reinhold Hilbers
Minister
Ministry of Finance Lower Saxony

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

Ulrich Mädge
Mayor of the Hanseatic City of Lüneburg

Ulrich Markurth
Mayor of Brunswick

Ludwig Momann
Chairman of the Managing Board
Sparkasse Emsland

Antje Niewisch-Lennartz

Frank Oppermann
Bank employee
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
Inteb-M GmbH

Owners' Meeting

Chairman
Thomas Mang
President
Sparkassenverband, Lower Saxony

1st Deputy Chairman
Frank Berg
Chairman of the Managing Board
OstseeSparkasse Rostock

2nd Deputy Chairman
Frank Bannert
District Administrator
Saalekreis District

State of Lower Saxony
Ulrich Böckmann
Deputy Assistant Under-Secretary
Ministry of Finance Lower Saxony

Doris Nordmann
State Secretary
Ministry of Finance Lower Saxony

State of Saxony-Anhalt
Dr Ingolf Lange
Deputy Assistant Under-Secretary
Ministry of Finance Saxony-Anhalt

Michael Richter
State Secretary
Ministry of Finance Saxony-Anhalt

Saxony-Anhalt Savings Banks Holding Association
Norbert Dierkes
Chairman of the Managing Board
Sparkasse Jerichower Land

Special Purpose Holding Association of the Mecklenburg-Western Pomerania Savings Banks
Rolf Christiansen
District Administrator
Ludwigslust-Parchim District

Lower Saxony Savings Banks and Giro Association
Silke Korthals
Chairwoman of the Board
Sparkasse Verden

Economic Council

Chairman
Norbert Dierkes
Chairman of the Managing Board
Sparkasse Jerichower Land

Deputy Chairman
Frank Berg
Chairman of the Managing Board
OstseeSparkasse Rostock

Members
Jürgen Abromeit
Chairman of the Managing Board
INDUS Holding AG

Peter Ahlgrim
Chairman of the Managing Board
ÖSA Öffentliche Versicherungen Sachsen-Anhalt

Horst Baier
Member of the Managing Board – Finance
Tui AG

Caspar Baumgart
Member of the Managing Board
WEMAG AG

Dr Heinz-Jürgen Bertram
Chairman of the Managing Board
Symrise AG

Dr Jörg Boche
General Representative
Volkswagen AG

Richard Borek jun.
Managing Director
Richard Borek GmbH + Co. KG

Paolo Dell‘ Antonio
Member of the Managing Board
Wilh. Werhahn KG

Michael Doering
Chairman of the Managing Board
Öffentliche Versicherung Braunschweig

Michael Eggenschwiler
Chairman of the Board
Flughafen Hamburg GmbH

Achim Fahrenkamp
Managing Director
Porta Service & Beratungs GmbH + Co. KG

Dr Heiner Feldhaus
Chairman of the Managing Board
Concordia Versicherungen

Peter M. Feldmann
Managing Director
ABG Projektentwicklungs GmbH

Thomas Flemming
Chairman of the Boards
Mecklenburgische Versicherungsgruppe

Prof Dr-Ing Heinz Jörg Fuhrmann
Chairman of the Managing Board
Salzgitter AG

Hans-Christoph Gallenkamp
Executive Vice President,
Chief Operating Officer (COO)
Felix Schoeller Holding GmbH + Co. KG

Dr Karl Gerhold
Managing Director
Getec Energie Holding GmbH

Prof Dr Werner Görg
Chairman of the Supervisory Boards at Gothaer Group
Gothaer Versicherungsbank VVaG

Dr Bernard große Broermann
Sole Shareholder
Asklepios-Kliniken GmbH

Dr Christof Günther
Managing Director
InfraLeuna GmbH

Herbert K. Haas
Chairman of the Managing Board
Talanx AG

Karin Hardekopf
Member of the Managing Board
GP Günter Papenburg AG

Alfred Hartmann
Chairman of the Supervisory Board
Hartmann AG

Helmut Bernhard Herdt
Management Spokesperson
Städtische Werke Magdeburg GmbH u. Co. KG

Matthias Herter
Managing Director
meravis Wohnungsbau- und Immobillien GmbH

Reinhold Hilbers
Minister
Ministry of Finance Lower Saxony

Ingo Kailuweit

Hermann Kasten
Chairman of the Managing Board
VGH Versicherungsgruppe Hannover

Martin Kind
KIND Hörgeräte GmbH + Co. KG

Dr Dieter Köster
Managing Director
HomeStead GmbH + Co. KG

Dr Joachim Kreuzburg
Chairman of the Managing Board
Sartorius AG

Thomas Mang
President
Sparkassenverband, Lower Saxony

Dirk Meinecke
Managing Director
H. Butting GmbH + Co. KG

Graduate Engineer Bernard Meyer
Managing Director
MEYER WERFT GmbH

Dr Michael Noth
Member of the Managing Board
Nordzucker AG

Dr Jürgen Peter
Chairman of the Managing Board
AOK – Die Gesundheitskasse für Niedersachsen

Uwe H. Reuter
Chairman of the Managing Board
VHV Holding AG

Bernd Rosemeyer
Spokesperson of the Managing Board
ISR Information Products AG

Wolfgang Schäfer
Member of the Managing Board
Continental AG

Jens Aurel Scharner
Managing Director
ROSTOCK PORT GmbH

Andreas Schober

André Schröder
Minister
Ministry of Finance Saxony-Anhalt

Tim Alexander Schwencke
Member of the Managing Board
SARIA SE + Co. KG

Rudolf Sonnemann

Berend van der Velde
Stand-alone entity
Berend van der Velde Agriculture Company

Dr Wolfram von Fritsch

Lorenz von Schröder
Chairman of the Managing Board
Dr. Schmidt-Gruppe

Graduate in Business, MGM, Georg Weber
Managing Director
MKN Maschinenfabrik Kurt Neubauer GmbH + Co. KG

Graduate in Economics Klaus-Peter Wennemann
Business Consultant

Dr Susanna Zapreva-Hennerbichler
Chairwoman of the Managing Board
Stadtwerke Hannover AG

Marc Zeimetz
Managing Director
Madsack Mediengruppe

Savings Banks Advisory Board

Chairman
Thomas Mang
President
Sparkassenverband, Lower Saxony

Deputy Chairman
Reinhold Hilbers
Minister
Ministry of Finance Lower Saxony

Members
Frank Berg
Chairman of the Managing Board
OstseeSparkasse Rostock

Dr Matthias Bergmann
Chairman of the Managing Board
Kreissparkasse Soltau

Stefan Beumer
Chairman of the Managing Board
Sparkasse Einbeck

Ulrich Böther
Chairman of the Managing Board
Sparkasse Altmarkt-West

Norbert Dierkes
Chairman of the Managing Board
Sparkasse Jerichower Land

Dr Michael Ermrich
Executive Chairman
Ostdeutscher Sparkassenverband

Dr Jürgen Fox
Chairman of the Managing Board
Saalesparkasse

Bernd Heinemann
Chairman of the Managing Board
Kreissparkasse Bersenbrück

Stefan Kalt
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Sparkasse Rotenburg-Bremervörde

Kai Lorenzen
Chairman of the Managing Board
Sparkasse Mecklenburg-Schwerin

Heinz Lüers
Chairman of the Managing Board
Sparkasse Harburg-Buxtehude

Heiko Menz
Chairman of the Managing Board
Sparkasse Wunstorf

Thomas Scheffler
Chairman of the Managing Board
Kreis- und Stadtsparkasse Münden

André Schröder
Minister
Ministry of Finance Saxony-Anhalt

Hans-Michael Strube
Chairman of the Managing Board
Salzlandsparkasse

Thomas Toebe
Chairman of the Managing Board
Sparkasse Osterode am Harz

Wolfgang Wilke
Chairman of the Managing Board
Sparkasse Nienburg

Hubert Winter
Chairman of the Managing Board
Kreissparkasse Grafschaft Bentheim zu Nordhorn

Ulrich Wolff
Chairman of the Managing Board
Sparkasse Vorpommern

Annett Zahn
Chairwoman of the Managing Board
Sparkasse Uecker-Randow

Advisory Board for Public Affairs and Administration

Chairman
Norbert Dierkes
Chairman of the Managing Board
Sparkasse Jerichower Land

Deputy Chairman
Frank Berg
Chairman of the Managing Board
OstseeSparkasse Rostock

Members
Dr Gabriele Andretta
President of Parliament of Lower Saxony
SPD Parliamentary Party in Parliament of Lower Saxony

Rolf-Dieter Backhauß
1st Deputy District Administrator
Helmstedt District

Markus Brinkmann
Member of Parliament
SPD Parliamentary Party in Parliament of Lower Saxony

Bernd Busemann
Vice-President of Parliament of Lower Saxony

Frank Doods
State Secretary
Ministry of Environment, Energy and Climate Protection Lower Saxony

Renate Geuter

Christian Grascha
Member of Parliament
FDP Parliamentary Party in Parliament of Lower Saxony

Reinhold Hilbers
Minister
Ministry of Finance Lower Saxony

Dr Gert Hoffmann
Former Mayor

Manfred Hugo
Former District Administrator

Hauke Jagau
Regional President
Hanover Region

Peter Kuras
Mayor of Dessau-Roßlau

Thomas Mang
President
Sparkassenverband, Lower Saxony

Prof Dr Hubert Meyer
Executive Member
District Association of Lower Saxony

Dr Jörg Mielke
State Secretary
Head of State Chancellery
State Chancellery Lower Saxony

Wolfgang Nolte
Mayor of Duderstadt

Doris Nordmann
State Secretary
Ministry of Finance Lower Saxony

Anja Piel
Chairwoman
Bündnis 90/Die Grünen Parliamentary Party

Heinz Rolfes
Member of the State Parliament

Thomas Schneider
Under Secretary
Lower Saxony Ministry of Finance

Heiger Scholz
State Secretary
Ministry of Social Affairs, Health and Gender Equality Lower Saxony

André Schröder
Minister
Ministry of Finance Saxony-Anhalt

Angela Schürzeberg
District Administrator
Holzminden District

Hartmut Tölle
District Chairman
German Federation of Trade Unions
Lower Saxony-Bremen-Saxony-Anhalt

Dr Marco Trips
President
Lower Saxony Association of Cities and Municipalities

Matthias Wunderling-Weilbier
State Representative for Regional Development
Office of Regional Development, Braunschweig

Michael Ziche
District Administrator
Altmarkkreis Salzwedel District

Advisory Board for Agricultural Lending

Chairman
Christian Meyer

Deputy Chairman
Dr Ralf-Peter Weber
State Secretary
Ministry for Environment, Agriculture and Energy Saxony-Anhalt

Members
Dr Jürgen Buchwald
State secretary
Mecklenburg-Western Pomerania Ministry for Agriculture, Environment

Gerhard Döpkens
Chairman of the Managing Board
Sparkasse Gifhorn-Wolfsburg

Olaf Feuerborn
President
Bauernverband Sachsen-Anhalt e.V.

Frank Finkmann
Chairman of the Managing Board
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.

Graduate in Economics Leif Raszat

Alexander Rothe
Managing Partner
Getreide AG

Graduate Engineer agr Doris Schröder
Managing Director
Lower Saxony Agrifood Competence Centre

Gerhard Schwetje
President
Chamber of Agriculture Lower Saxony

Annett Zahn
Chairwoman of the Managing Board
Sparkasse Uecker-Randow

Regional Advisory Board of Saxony-Anhalt

Chairman
Frank Bannert
District Administrator
Saalekreis District

Deputy Chairman
Michael Richter
State Secretary
Ministry of Finance Saxony-Anhalt

Members
Siegfried Borgwardt
Group Chairman
CDU Parliamentary Party in Saxony-Anhalt
Parliament

Ulrich Böther
Chairman of the Managing Board
Sparkasse Altmarkt-West

Norbert Dierkes
Chairman of the Managing Board
Sparkasse Jerichower Land

Lydia Funke
Member of Parliament
AFD Parliamentary Party in Saxony-Anhalt
Parliament

Helmut Bernhard Herdt
Management Spokesperson
Städtische Werke Magdeburg GmbH u. Co. KG

Holger Hövelmann
Member of Parliament
SPD Parliamentary Party in Saxony-Anhalt
Parliament

Mario Kerner
Chaiman of the Managing Board
Sparkasse Burgenlandkreis

Dr Angelika Klein
District Administrator
Mansfeld-Südharz District

Jürgen Leindecker
Regional Managing Director
Saxony-Anhalt Association of Cities and
Municipalities (SGSA)

Olaf Meister
Member of Parliament
BÜNDNIS 90/DIE GRÜNEN Parliamentary Party in
Saxony-Anhalt Parliament

Peter Schmidt
Managing Director
Industriebau Wernigerode GmbH

Heinz-Lothar Theel
Executive Member
District Association of Saxony-Anhalt

Eva von Angern
Member of Parliament
Die Linke, Parliamentary Party in Saxony-Anhalt Parliament

Dr Ralf-Peter Weber
State Secretary
Saxony-Anhalt Ministry for Environment, Agriculture and Energy

Prof Dr Armin Willingmann
Minister
Ministry of Environment, Agriculture and Energy in Saxony-Anhalt

Regional Advisory Board of Mecklenburg-Western Pomerania

Chairman
Rolf Christiansen
District Administrator
Ludwigslust-Parchim District

Deputy Chairman
Dr Peter Zeggel
Managing Director
Avella GmbH

Members
Dr-Ing Alexander Badrow
Mayor
Hansestadt Stralsund

Frank Berg
Chairman of the Managing Board
OstseeSparkasse Rostock

Dr Reinhard Dettmann
Mayor of Teterow

Dipl-Ing Christian Koos

Matthias Köpp
Executive Board Member
District Association of Mecklenburg-Vorpommern e.V.

Kai Lorenzen
Chairman of the Managing Board
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
Chairwoman of the Managing Board
Sparkasse Uecker-Randow

Administrative Board of BraunschweigischeLandessparkasse

Chairman
Ulrich Markurth
Mayor of Braunschweig

1st Deputy Chairperson
Angela Schürzeberg
District Administrator
Holzminden District

2nd Deputy Chairman
Thomas Mang
President
Sparkassenverband, Lower Saxony

Members
Rolf-Dieter Backhauß
1st Deputy District Administrator
Helmstedt District

Edda Döpke
Bank employee
NORD/LB Norddeutsche Landesbank Girozentrale

Gerald Heere
Bündnis 90/Die Grünen Lower Saxony

Frank Hildebrandt
Bank employee
NORD/LB Norddeutsche Landesbank Girozentrale

Frank Klingebiel
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.

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 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

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) nonderivative 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.

Hedging 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, 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.

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.

Report of 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 were discussed in detail at several meetings. The Supervisory Board also looked at the status of the collateral system of the Savings Banks Finance Group as well as the financial markets trading strategy for NORD/LB AöR and the NORD/LB Group.

The annual report and the consolidated financial statements of NORD/LB for the 2017 reporting 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 13 April 2018, 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 13 April 2018 the Supervisory Board adopted NORD/LB AöR's annual report for 2017 and approved the consolidated financial statements for 2017. The Supervisory Board also recommended to the Owners' Meeting to discharge the Managing Board.

The Chairman, former minister Peter-Jürgen Schneider left the Supervisory Board as at 21 November 2017.
The new Chairman of the Supervisory Board from 22 November 2017 is Minister Reinhold Hilbers, mdL.

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 2017.

Hannover / Braunschweig / Magdeburg
April 2018

Reinhold Hilbers
Minister of Finance
State of Lower Saxony

Report of the Owners' Meeting

In the year under review 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, in its meetings in 2017 the Owners' Meeting consulted mainly on the integration of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale.

The following left the Owners' Meeting:

as at 30 November 2017 Frank Doods

The following were appointed to the Owners' Meeting:

as at 1 January 2017 Rolf Christiansen as at 1 December 2017 Doris Nordmann

The Owners' Meeting thanks the Supervisory Board, the Managing Board and the Bank's employees for their work.

Hannover / Braunschweig / Magdeburg
April 2018

Thomas Mang
President
Sparkassenverband, Lower Saxony

Our annual and interim reports are available for download at www.nordlb.de/reports and can be ordered by sending an email to geschaeftsbericht@nordlb.de.

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Branches (including Braunschweigische Landessparkasse)

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Düsseldorf	Hamburg	Helmstedt
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Oldenburg	Salzgitter	Schwerin
Seesen	Stuttgart	Wolfenbüttel

In total, there are more than 100 branches and SB centres in the Braunschweigische Landessparkasse business region.
Details can be found at https://www.blsk.de

Foreign branches
London, New York, Singapore, Shanghai